Are Determinants Of Fdi Inflows Subject To Political And Pandemic Issues? Empirical Evidence From Vietnam

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Abstract

Foreign direct investment (FDI) plays an important role in economic growth and social innovation in developing countries, which are always thirsty for investment capital. Its role is expressed through promoting transformation, restructuring the economy, developing human resources, providing new production technology and improving quality of life. Therefore, FDI is always considered a top concern of governments of developing countries. The impact of FDI capital flows is unstable and changes depending on influencing factors such as macroeconomic factors, socio-political factors... Previously, studies based on this relationship were mostly implemented in developed economies and were considered quite little in developing countries like Vietnam. On the other hand, research results among authors are inconsistent. Our research aims to analyze the determinants of FDI flows into Vietnam in the period 1996-2021, focusing on political stability and the covid-19 epidemic, thereby drawing out applicable policies in the current post-COVID economic recovery context.

Research purpose:

This research is aimed at figuring out critical factors influencing the decision of foreign investors to pour money into Vietnam from 1996 to 2021 with a special focus on pandemic and political issuses. Based on empirical results, we aim to offer policy implications and recommendations for relevant stakeholders.

Research motivation:

Since its Doi Moi in 1986 and its integration into the world economy, FDI has always been exerting beneficial effects on the Vietnamese economy. Owing to its importance, it is necessary to figure out critical factors determining FDI inflows especially amid rising uncertainties caused by political factors and unexpected events such as the COVID-19 pandemic.

Research design, approach, and method

This paper employs regression method (specifically robust least squares) to investigate the determinants of FDI inflows into Vietnam by using annual data from World Bank's World Development Indicators (WDI) from 1996 to 2021.

Main findings

Research results show that market size, trade openness, inflation, political stability, have a positive correlation with FDI capital into Vietnam, while infrastructure, corruption and Covid - 19 have a negative impact, no binding relationship has been found between natural resources and foreign investors' willingness to provide capital.

Practical/managerial implications:

Practical implications – This study is significant in promoting Vietnam's economy through policy recommendations that if implemented can ensure attracting more capital flows into the economy.

Social implications - This research has proposed effective ways to attract FDI, thereby taking advantage of the benefits it brings, improving social security and enhancing quality of life.

Keywords: FDI, determinants, political stability, Covid-19 pandemic, RLS

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1. INTRODUCTION

According to the World Trade Organization (WTO, 1996), Foreign direct investment (FDI) happens when an investor based in one nation (the home country) purchases an asset in another country (the host country) intending to achieve long-term benefits and control over this business institution. In other words, it is a form of investment by individuals or organizations of one country in others by building business and production facilities while the investor is the one who holds the right to manage and operate the model business and production to make a profit. FDI plays an indispensable role in the context of trade liberalization and global economic integration through export activities (OECD, 2008). It brings about substantial benefits to both sides. According to the United Nations Conference on Trade and Development (UNCTAD, 2020), the host country can be helped to create momentum to promote economic development, create jobs, provide investment capital, and transfer technology and knowledge. Regarding foreign investors, FDI can help expand commerce, bring profits from business activities in the target country, and enlarge global presence. With the above benefits, FDI makes a positive contribution to the generation of budget revenue, ensuring balance of payments, supplementing important capital sources for development investment, creating a strong impact on import and export, contributing to labor productivity growth, as well as providing opportunities for extensive integration into the global economy.

Vietnam's current standing in terms of enhancing the caliber of FDI attractiveness is demonstrated by the quantitative impact of its infrastructure, policies, and resources to boost FDI in the years to come (Ngo et al., 2017). Drawing successful FDI can bring a range of benefits and is recognized as one of the "pillars" of economic growth. The specific advantages will depend on the circumstances of each case. Amirahmadi and Wu (1994) find that for developing countries, FDI assists develop human resources, creates employment opportunities, and invests in infrastructure to improve living standards. Emerging economies benefit from FDI by accessing advanced technology and enhancing production capacity, business management, and administration skills by approaching the opportunity to learn from foreign investors which can develop markets to heighten competitiveness in the world market and participate in global value chains. Developed economies can use FDI to equal out the balance of trade and expand international trade. According to Calimanu (2021), countries often have their import tariffs, which makes trading quite difficult. Many economic sectors often require the presence of international manufacturers to ensure sales and goals are achieved. FDI makes all these aspects of international trade a lot easier. It may offer excellent jobs and other chances as foreign investors build new local factories and establish new companies. With more jobs and higher wages, national income typically increases. This also leads to increasing GDP per capita and purchasing power for local people, thereby bringing about an overall boost to economic goals. FDI enables the transfer of resources and the exchange of knowledge, technology, and skills between advanced economies (Chaudhuri et al., 2014). In addition, the top goal of foreign investors is profit, they invest in production and business establishments that bring the highest efficiency to production activities. Domestic enterprises that want to survive and develop in today's fiercely competitive market must change, learn, work on management skills, and invest in technical equipment, technology, and capital... to improve the efficiency of manufacturing (Baci et al., 2022). Besides positive effects, the process of tempting and operating the FDI sector also has negative effects on the economy of the country attracting FDI. Among them, we can mention some potential adverse impacts of FDI include environmental pollution; tax evasion; transfer pricing. Therefore, countries need to have clear policies and regulations to manage FDI effectively and protect the interests of the country (OECD, 2002).

As FDI constitutes an integral part of economic growth and development in many countries, especially developing ones, its determinants may be of great and practical importance to policymakers, businesses, and ordinary people etc. In addition, fluctuations in the global economy significantly affect FDI flows in countries. From 1996 to 2021, the world economy has experienced many variations that can be predicted in advance or come unexpectedly. These fluctuations affected both developed and developing countries. Developing countries have weaker economies and are more susceptible to economic fluctuations. These fluctuations can be caused by various factors such as commodity and service prices, changes in consumer demand, currency exchange rates, changes in trade policies, and most importantly, fluctuations in FDI flows (UNCTAD, 2023). Countries need to monitor and manage these oscillations to ensure economic stability and growth. For example, during the 2008 financial crisis, many countries faced an economic recession and reduced consumer demand, leading to a decrease in the amount of FDI invested in countries. Many investment projects have been postponed or canceled, and investors have become more cautious about investing in new markets. According to a report by the OECD (2011), the amount of global FDI decreased by 21% in 2009 after the 2008 financial crisis occurred. Developed countries were hit particularly harder, witnessing a 29% decrease in FDI inflows compared to the previous year. Similarly, the COVID-19 pandemic has also caused major fluctuations in FDI globally. As the epidemic spreads worldwide, many countries have imposed travel restrictions and social distancing measures, leading to business disruptions and reduced consumer demand. This limits FDI into countries or hinders entrepreneurs' investment intentions. Developing countries saw a 14% decrease. According to a United Nations (UN) report, the amount of global FDI decreased by 42% in the first half of 2020 compared to the same period last year. Developed countries have been hit harder, with a 69% drop compared to the first half of 2019. Meanwhile, developing countries have seen a 16% drop. FDI can also help countries cope with the influence of the global economy. However, for these countries, FDI can have positive or negative impacts depending on how the government and domestic businesses manage and use FDI.

The political environment and social security are also important factors affecting the movement of FDI in a country. In the world, conflicts between countries can cause crises in many areas, pushing commodity prices up and leading to inflation and an increasingly serious debt spiral. When territorial disputes and struggle between large and small countries continue to be tense, some large countries will take advantage of the instability caused by this conflict to carry out their beneficial intentions. This may increase the risks facing businesses and investors, thus undermining business and investment confidence, and significantly affecting the global FDI development trend. The quality of government is closely related to its interference with the private sector, impacting on the performance of the private sector (Haksoon, 2010). When the political and social situation is unstable, the state is not capable of controlling all activities of foreign investors, so investment activities will not follow the strategic direction of economic and social development of the host country, affecting the effectiveness of FDI utilization. In an uneven socio-political context, foreign patrons will likely not be attracted to the locality because the risk for them is very high at this time. Although they are adventurers, they appear to be more concerned about the level of social security and safety when choosing their investment destination. (Ozturk et al., 2014). Furthermore, it is not surprising to learn that expat investors are more likely to select locations that are politically and/or socially steady, given that FDI is a long-term investment. Because of that, investors will choose localities with constancy, which must be a safe place for investment movement, and a place with higher profitability than other places, ensuring the effectiveness and stability of FDI flows. Safety here is the steadfast macro environment and is evaluated through criteria for preventing political and social crises. Therefore, to have certain advantages, and create opportunities to attract quality FDI with increasing scale, whether in developing or developed countries, the stability and solidity of the country's political and social situation is a necessary factor.

Based on the above factors, the authors decided to choose the topic "*Are determinants of FDI inflows subject to political and pandemic issues? Evidence from Vietnam*" as the research topic. The authors found that through many stages, most studies focus on the impact of FDI on different socio-economic aspects while overlooking the determinants of FDI into Vietnam. Therefore, our research aims to provide an understanding of the factors which affect FDI inflows in Vietnam. Finally, through the time series analysis research with clear research purposes, questions, the authors expect to identify and determine the determinants of FDI inflows in Vietnam. It is aimed at providing practical policy implications and recommendations that can be implemented to support Vietnam's efforts to attract foreign capital investment and enhance its capacity to recover and grow economically following the severe effects of the pandemic.

The remainder of the paper proceeds as follows: Section 2 provides an overview of the Vietnamese economy since its Doi Moi (Renovation) policy as well as developments of FDI attraction and activities in Vietnam. Section 3 focuses on data description, model specification and estimation method. Section 4 discusses the results and Section 5 concludes the paper with implications and recommendations.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. An overview of the Vietnamese economy and its FDI inflows

In the late 1980s, Vietnam initiated economic reforms known as "Doi Moi" (Renovation). These reforms aimed to implement a path of innovation, transforming from a centrally planned, subsidized economy to a multi-sector commodity economy, operating according to market mechanisms, with State management and socialist orientation (GSO, 2020), involved liberalizing markets, encouraging private enterprise, and attracting foreign investment. Vietnam's economy in the period 1976-1985 is a manifestation of a centrally planned and subsidized economy which was an enclave of economic activity kept alive by subsidized trade and aid relations. During this period, the State managed the economy mainly by administrative orders based on a system of ordinance targets imposed from top to bottom. Enterprises operate based on decisions of competent state agencies and assigned ordinance targets (GSO, 2020). The transition was also relatively painless in Vietnam because it had a labor force willing and able to join the international ladder of specialization at the bottom. The dominance of market-substitutable agricultural goods in the Vietnamese economy also smoothened the transition (McCarty and Burke, 2005). Over 30 years of integration, Vietnam has signed numerous bilateral and multilateral agreements with other countries and has participated in international and regional organizations. One significant milestone was Vietnam's accession to the Association of Southeast Asian Nations (ASEAN) in 1995. This event marked Vietnam's formal entry into the regional bloc, which has played a crucial role in promoting economic cooperation, trade facilitation, and political dialogue among member countries (Nguyen, 2007).

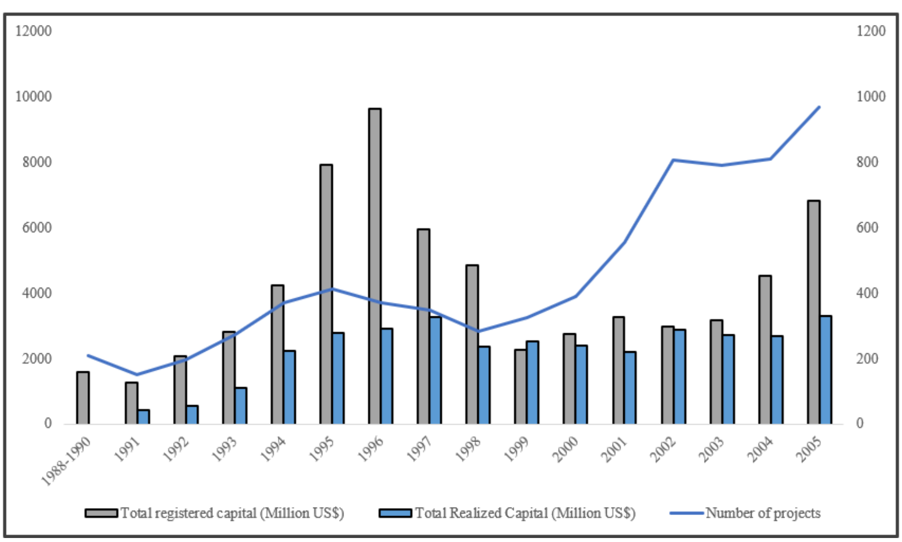

Figure 1: FDI in Viet Nam from 1988 to 2005
Source: GSO (1988-2005)

From the graph, it can be observed that immediately after joining ASEAN in 1995, Vietnam attracted a significant increase in FDI into the country. The ASEAN member countries have consistently been important partners and one of the top priorities for Vietnam, contributing to maintaining a high growth rate even during challenging periods and crises. In 2022, Singapore invested $6551.0 million, accounting for 22.4% of total FDI; Korea invested $5086.6 million, accounting for 17.4%; Japan invested $5017.3 million, accounting for 17.1%; China invested $2616.6 million, accounting for 8.9%; and the Hong Kong Special Administrative Region (China) invested $1429.6, accounting for 7.9% (GSO,2022).

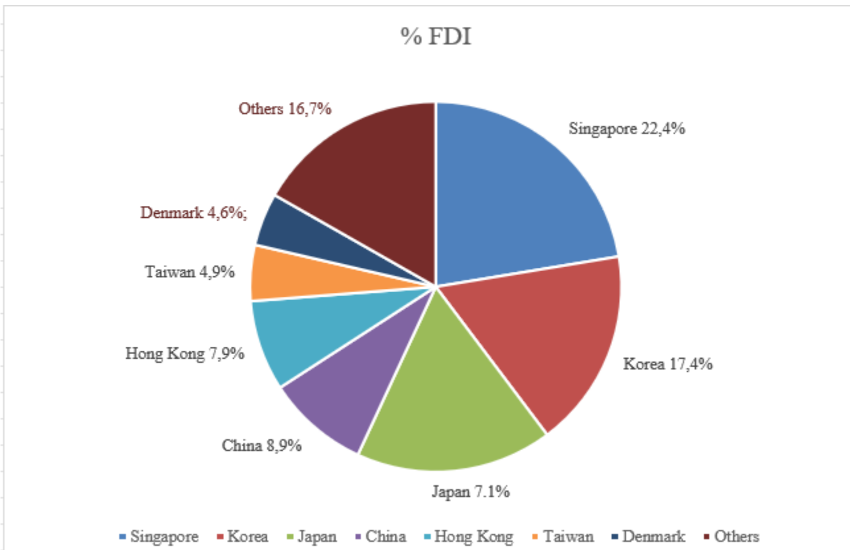

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Figure 2: FDI licensed in 2022 divided by investment partner
Source: GSO 2022

The year 2007 witnessed a significant milestone in Vietnam's efforts to attract FDI with its accession to the World Trade Organization (WTO). This event served as a breakthrough moment, opening new avenues for FDI inflows into the country. After ten years of WTO accession, FDI has played an important role for economic growth, job creation and trade balance improvement (Phung, 2018).

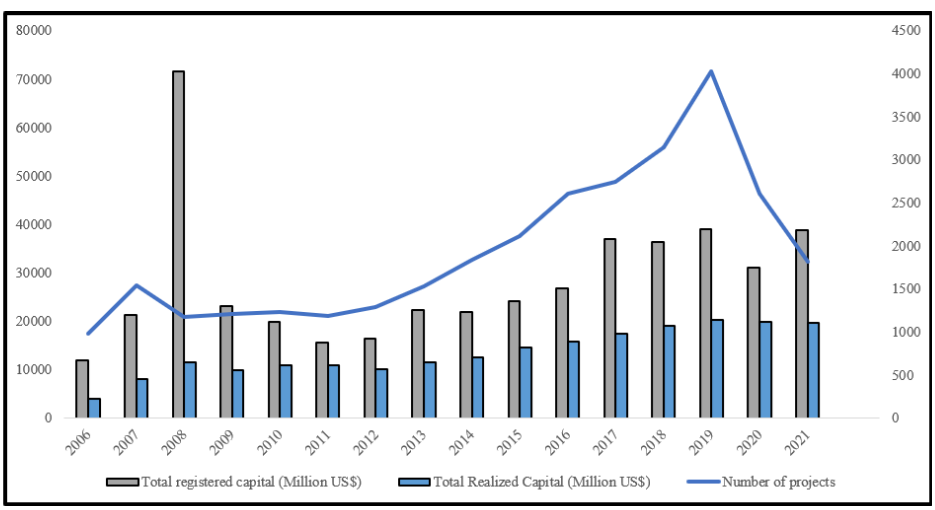

Figure 3: Foreign direct investment (FDI) in Viet Nam 2006-2021
Source: GSO (2006-2021)

It can be said that within one year of joining the WTO, Vietnam experienced a surge in FDI inflows. Additionally, the commencement of the Vietnam-EU Free Trade Agreement (EVFTA) on August 1, 2020, served as a momentous milestone in the 30-year history of cooperation and development between Vietnam and the European Union (EU). This agreement opened up a new promising phase for a comprehensive, substantial, and effective partnership between the two parties (A.N, 2021). FDI has become a major economic force that drives the economic reform of Vietnam (World Bank, 1997). FDI capital flows help create new economic dynamism, creating conditions for the private economy to continue to grow, while divesting capital from the state-owned enterprise (SOE) sector through the formation of hundreds of joint ventures with SOEs (Vuong, 2004). The industry has shifted towards industrialization and modernization, with foreign investment capital focusing on the industry-construction sector with a technological level higher than the country's average, contributing to the formation of several key industries such as telecommunications, oil and gas exploitation and processing, electronics, information technology, steel, cement. That contributed to the transformation of agricultural structure, product diversification, improving the value of exported agricultural products and absorbing several advanced technologies, especially investment projects in developing raw material sources, contributing to improving farming practices and poor infrastructure conditions. The foreign investment sector has also created a new face in the field of high-quality services. These services also contributed to creating new methods of distributing goods, consuming; stimulating domestic trade activities and increasing export turnover of goods (Chu, 2021).

The economic sector structure has shifted towards rearrangement and innovation. State-owned enterprises switched to holding only key areas of the national economy such as oil and gas, energy, construction materials, chemicals, mechanics...After 1995 when the process of equitization of state-owned enterprises was widely deployed, the proportion of the state economy has tended to decrease significantly. Internally, the non-state economy has changed in a positive direction, which is increasing the proportion of the private economy, gradually decreasing the proportion of the individual economy and the collective economy. The foreign investment sector always has the fastest growth rate and is able to recover from the effects of economic recession faster than other economic sectors (Ninh, 2013). In terms of labor structure, in the period 2015-2020 there is a large difference between economic sectors. Specifically, during this period there was a clear shift in the labor structure between regions: a decrease in the proportion in Zone 1 and an increase in the proportion in Zones 2 and 3. (Nguyen, 2021). The labor structure has shifted positively, consistent with the shift in industry structure, components and economic regions (Chu, 2021). Although Vietnam's transition to a market economy still has limitations, it has created a large and dynamic consumer market. MNEs are attracted to Vietnam's growing middle class and increasing purchasing power, offering opportunities for business expansion.

2.2. Empirical literature on FDI

2.2.1. FDI studies in the world

With the available variables, the research team will continue to analyze the relationship of each factor on FDI. First, the research team wants to emphasize that market size is a factor that significantly affects FDI. To draw in international monopolies, Haufler and Wootton's (1999) research employed a two-state framework in which no established local businesses with asymmetry market sizes engaged in competition with one another. This study reveals that, despite higher taxes, international monopolies favored being located in a nation with a sizable market. Using ARDL approach to cointegration and an error correction model based on ARDL to estimate relationships among FDI and variables in Pakistan period 1984 - 2008, Mugal and Akram (2011) finds that market size as the most dominating positive impact factor to attract FDI inflows in long run and thereby confirming other studies that market size tends to enhance FDI inflows into any country, whereas no influence of market size on FDI inflows in short run can be found. A large market with strong development potential will provide foreign businesses with the opportunity to expand their markets and grow sales, thereby increasing profits. Another study by Ho (2013) found that market size is significant in affecting FDI flows in China and Russia and confirmed that larger market size would attract foreign investors in their search for new markets and the host country has attracted a substantial amount of FDI in recent years. This conceded with results found by Asiedu (2006) and Asiedu and Nasir (2016).

Inflation is also considered an important determinant. In general, the inflation rate can reflect the rate of consumption in the economy. Rising spending can lead to significant levels of inflation since it increases productivity and lowers manufacturing costs through economies of scale. Sayek (2009) showed that inflation might frequently have a positive correlation with foreign direct investment inflows because it both lower costs and has a favorable impact on past consumption patterns. High rates of inflation, nevertheless, may be a sign of economic insecurity in the receiving nation and act as a deterrent to foreign investment (Yartey and Adjasi, 2007). During periods of high inflation, MNEs face uncertainty about product and input prices, which may cause them to reduce or avoid investments in those countries. Inflation has a negative effect across Europe, Central Asia, the Middle East, and North Africa, in accordance with Addison and Heshmati's 2003 study, which looked at the factors that impact foreign direct investment flows into a sample of emerging economies. They contend that uncertain macroeconomic policies have a tendency to raise inflation rates, which could have a detrimental effect on FDI inflows. Likewise utilizing data, Valli and Masih (2014) discovered a causal link between moderate inflation and expanding FDI inflows towards South Africa from 1970 - 2012.

Trade openness is also a factor affecting FDI. Countries that are open to international trade are frequently the target of foreign capital, particularly efficiency-seeking FDI (Ramasamy and Yeung 2010). Openness to trade which indicates increasing export and import activities enable foreign investors to distribute their goods not only in the domestic economy but also to neighboring markets which may not be attractive for location (Ho,2013). Prior studies indicate that trade openness helps the country access a broader market, creating resources for import and export, causing investors to expect much revenue in the host country. Therefore, trade openness greatly influences foreign direct investment (Djulius, 2017). Therefore, to attract FDI into the economy, policymakers should consider any impeding barriers that may hinder the smooth flow of FDI (Yol and Teng 2009). With the pace of trade expansion, domestic businesses will have many suitable options for FDI flows, and investors will also have a clearer view of investment opportunities in the market. The relevance of FDI and trade openness was shown clearly in the research of Asiedu (2002), despite legislative changes, he demonstrated how poorly sub-Saharan Africa (SSA) performed in luring foreign direct investment. He concludes that while trade openness encourages FDI, greater return on investment and improved infrastructure have no appreciable effect on FDI to SSA. Moreover, Wyk and Lal (2010) discovered that trade openness and other macroeconomic variables have a big impact on FDI.

Researching determinants of foreign direct investment in BRICS economies, Jadhav mentioned that Natural Resource availability had a negative effect on total inward FDI and explained that in BRICS economies FDI is not resource-seeking FDI, exactly largely market-oriented. Phung et al. (2016) mentioned that countries with more abundant natural resources are more attractive to investors. For a longer period of time, her results highlighted that natural resources and labor force were more predominant factors for attracting FDI. Asongu et al. (2018) looked at the variables influencing FDI flow to BRICS and MINT and observed that the existence of natural resources and its attraction to foreign investors are not very significant. They suggested that FDI inflow was likely to increase in BRICS and MINT countries that were less reliant on natural resources. This finding also implies that FDI flows into MINT and BRICS were not resource-oriented but market-oriented. This is in contrast to the research of Kasimov et al (2022) when exploring the determinants of FDI in Central

Asian developing countries during 2000-2020 and used total natural resources rents/GDP to represent natural resources. With Prais-Winsten regression, they confirmed a positive correlation between foreign investment and natural resource endowment. The availability and abundance of natural resources and raw materials was important inputs for many manufacturing industries, so they played an important role in attracting FDI. Asiedu (2006) researched factors affecting FDI over the period 1984–2000 in 22 countries in SSA, also affirmed that natural resource endowments promote FDI inflow. Contrary to them, when identifying the determinants of FDI in Tunisia through a gravity model, according to Yakubu and Mikhail (2019), there is no meaningful correlation between FDI influx and natural resource availability in Tunisia, despite the country's abundance of natural resources., they are not decisive in the decision of foreign investors.

In addition, there is another factor that the research team found also has a significant impact on FDI, which is political factors, especially political stability and corruption. In the opinion of Moosa (2009), political risk levels can foster a climate in the receiving country that encourages FDI inflows. The former, no investor is interested in investing in a country with war, or constant civil war, because it is too risky when businesses in that country can go bankrupt anytime. For that reason, countries with stable politics will attract more investment, typically countries in a state of peace, becoming the world's largest FDI attraction. The latter, the control of corruption will also have a significant impact, as it helps foreign investors feel more secure about their investments. There were many studies in the world about how political affect to FDI, such as: Kurecic and Kokotovic (2017) argue that political stability does not significantly affect FDI because investors take political risks for granted. Sabir et al. (2019) indicate that political stability positively affects foreign direct investment. Another factor worth mentioning is corruption. Corruption in Egypt is found to be positively associated with total FDI and non-oil FDI inflows in both the short and long run (Moustafa, 2021). However, many authors mentioned that Corruption is a threat to foreign investment for several reasons. Corruption distorts the economic and financial environment, reduces the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability. However, According to Barassi and Zhou (2012), the effect of corruption on foreign direct investment (FDI) is not uniform and is contingent upon the quantity distribution of FDI in the investment destination. The degree of corruption harms foreign direct investment (FDI) in countries with low FDI distribution. The association among FDI and corruption, however, is not essential in nations with high FDI distribution rates because increased corruption will not deter investment in a country that has been selected as a destination for it. Plus, corruption forces the political system to become inherently unstable (Mina, 2009; Asiedu and Lien, 2004).

The research team will point out another factor preventing FDI in the world, which is epidemics, especially COVID-19. During the epidemic, the global economy was also affected by a severe recession, leading to negative impacts on FDI. Investors were hindered by the quarantine order, which caused many companies to stop operating, and freight transport units were delayed, leaving many businesses on the brink of bankruptcy. Not only that, investors also have to withdraw capital, according to The United Nations Conference on Trade and Development (UNCTAD), in 2020, FDI decreases by 5 -10%, and this affects the costs for healthcare, economy, infrastructure, to restore the country after the pandemic. So it can be seen that the epidemic in general and Covid -19 in particular will be a major barrier to global FDI. Besides, the pandemic's devastating consequences on the direction of FDI flows differ for poor and industrialized countries. Chaudhary et al. (2020) demonstrated that the COVID-19 pandemic had reduced FDI funds in Nepal. It is expected that FDI flows to developing countries would drop even more than the developed countries since the primary and manufacturing sectors are severely affected by the crisis, which accounts for a major share of FDI inflows in the developing countries (OECD, 2020). FDI inflows have been adversely affected by COVID-19, especially when it comes to investments in global value chains (GVCs) and tourism in emerging and transitional countries. On the other hand, since 2018, new FDI inflows have gone down. This drop was sped up by the epidemic, particularly in countries where doping was prevalent. With a 65% decline in new FDI flows, Africa has been the most seriously impacted region. Asia follows in third with a 51% decline, followed by Latin America and the Caribbean in second place. The worldwide pandemic of COVID-19 has had an analogous effect on foreign direct investment flows. It was anticipated that emerging nations would be hurt greatly as a consequence of the health crisis.

Finally, it's about infrastructure. This is the thing that most clearly reflects the development of a country. When investors come to survey the market, buildings and roads will be the first things that affect their perception of the market. Besides, the condition of roads and bridges will also be a factor worth considering, because it directly affects the ability of businesses to move and transport goods. In addition, the reasonable planning of industrial parks and specialized farm areas compared to residential areas will also make management easier, thereby attracting more FDI. Analyzing the data in 6 Asean countries in 2007-2016 by multiple linear regression, in the word of Sasana and Fathoni (2019), the six members of ASEAN will be more alluring to FDI as investment targets based on the caliber of the infrastructure provided by the nation that is being invested in. Alam and Shah (2013) used Granger causality, cointegration, and VCEM approaches to estimate the determining factors of FDI in OECD member-states during 1985-2009. Their estimations indicated that infrastructure is significant and positively associated with FDI. Yakubu and Mikhail (2019) found that the infrastructure reflects their theoretical expectations and confirmed that if the infrastructure is of good quality, the transaction costs will go down, which encourages foreign investors to locate in the host country.

2.2.2. FDI studies in Vietnam

Currently, there have been a number of studies conducted in Vietnam on factors affecting FDI. First, market size is a factor that Hoang (2007); Bui (2012); Hoang (2020) assessed as a determining factor in FDI flows in host countries. Market size represents market demand in the host country. In fact, discovering new markets is the main motivation of FDI, and market-seeking FDI aims at broadening the host nation's market. Consequently, assuming all other variables stay the same, a country's market size will influence how much FDI it draws in. (Aziz and Mishra,2015). The projected income of the investment is directly impacted by the size of the market (Hoang, 2007). International businesses will have access to greater product, revenue, and profit opportunities in the broader host market. Consequently, additional FDI inflows will be pulled to a broader market (Bui, 2012). Hoang (2007) used nominal GDP to measure market size. Host countries with higher GDP per capita will provide increasingly higher opportunities for industries that promote their advantages and will therefore attract more market-seeking foreign investment flows (Chong et al (2019)). With the estimation of a cross-sectional regression model for local factors determining FDI up to 2000 among provinces in Vietnam, Nguyen at el (2002) also argues that market size calculated by provincial GDP is closely related to the flow of FDI.

Trade openness is a second economic variable that has been studied. It reflects the level of restrictions on commercial activities taking place in the host country. Many previous studies on FDI suggest that the trade "openness" of the host economy can have a significant relationship with FDI inflows (Hoang, 2007); (Hoang, 2020). Delaunay and Torrisi (2012) mentioned that openness to trade was not shown to be significant in their empirical analysis. Additionally, trade openness can be a proxy for successful economic liberalization and favorable trade policies (Delaunay and Torrisi, 2012). Hoang (2020), by applying the gravity model, found that trade openness expressed through the import value of the source country into Vietnam is highly significant and positive with the FDI flow dependent variables. This coincides with previous research by Hoang (2007). She finds that trade openness (OPEN) is statistically significant and has a positive impact in all estimates.

The inflation rate is an economic variable that is studied quite a lot in studies on FDI in

Vietnam. It shows the stability of the macroeconomy. Or, specifically, low inflation is considered a sign of economic stability in the host country. High inflation reflects the government's inability to balance the budget and the central bank's failure to implement appropriate monetary policy. After starting their economic transition with floating prices, the majority of developing countries experienced significant rates of inflation. Using the monthly statistical Consumer Price Index (logarithm form) to represent Inflation when researching factors affecting FDI flows in the period from January 2020 to October 2021, Nguyen at el (2022) commented rising inflation promotes FDI flows into Vietnam. This coincides with the research of Nguyen (2020) when studying Vietnam's FDI attraction during the period 1995-2018, affirmed that annual inflation rate has a positive sign and is significant on FDI net inflows at a 5% significance level. Tran et al (2021) analyzed the factors affecting FDI in the Northwest region of Vietnam in the context of global economic integration in the period of 2000 - 2019 and reckoned that inflation did not affect FDI capital in Vietnam. Du (2011) also reported similar results.

Another factor believed to impact FDI flows is infrastructure. Infrastructure development is the top physical condition for foreign investors to invest. The reality of attracting FDI in localities shows that this capital flow only flows to places with developed infrastructure, capable of serving the production and economic activities of investor's businesses. Nguyen and Nguyen (2007) examined factors that influence FDI inflows in Vietnam through determining the average number of telephones and the number of industrial parks in each province between 1988 and 2005.The findings corroborate the preceding claim concerning the importance of infrastructure by revealing a positive and statistically significant influence of the number of industrial parks. Improved and improved infrastructure will attract FDI to the area in the form of capital expenditures as well as project numbers. Nonetheless, it is negligible to use the average number of phones to indicate the state of infrastructural development. This contradicts the results reported by Nguyen (2002) and Bui (2012). They all believe that infrastructure and FDI flows are deeply correlated (telephone numbers per 1,000 people (TEL) are used to measure Vietnam's infrastructure index.) Their results are consistent with Dunning's theory. This means that adequate infrastructure will lead to higher FDI inflows into the locality. Foreign investors look for areas with favorable infrastructure conditions such as electricity, telecommunications, transportation, and seaports to reduce costs. (Bui, 2012). Hoang (2006) and Hoang (2020) studied factors affecting FDI in Vietnam at two different times and also confirmed that infrastructure is closely related to FDI flows.

It is easy to see that countries rich in resources will have favorable conditions for economic development. In the period from the 19th century to before World War II, natural resources owned 60% of the world's FDI capital (Mirza and Giroud, 2004). With abundant natural resources, businesses can exploit and serve their business activities without worrying about a lack of raw materials for production. Even if surplus production can be exported at high prices. Furthermore, countries with rich resources will receive strong cooperation and investment from multinational companies, especially for rare raw materials.Vietnam is regarded as one of the countries with a wide range of natural resources. Since 1986, the year economic reform began, until now, Vietnam's abundant mineral resources have been one of the main factors attracting such large FDI inflows (Mirza and Giroud, 2004). Nguyen (2020) affirmed that abundant natural resources are one of the main driving forces for Vietnam's economic development, and at the same time, he also affirmed that FDI and economic development have a deep relationship. From here, the authors questioned the existence of the relationship between the natural resources Vietnam owns and attracting FDI in Vietnam. However, unfortunately, we have not found any research related to the above issue. Du (2011) also hypothesized the correlation between FDI flows and natural resources. However, because the data on natural resources was incomplete, with more than half of the missing values, he had to remove it from the analysis.

The factors of political stability, covid epidemic and corruption have hardly been studied in previous studies on FDI flows in Vietnam. Originating from the Covid-19 epidemic may hurt attracting FDI flows to Vietnam, especially in the context that the Vietnamese Government must implement social distancing measures and economic blockade to prevent the Covid epidemic to protect people's lives and health, Nguyen et al (2022) conducted research and empirically evaluated the impact of the Covid-19 epidemic on FDI flows to Vietnam in the period from January 2020 to October 2020 using estimation methods such as instrumental variable regression and OLS regression. The article uses the number of Covid-19 cases as a proxy for the Covid-19 epidemic for empirical evaluation, and the results show that the Covid-19 epidemic reduced FDI inflows into Vietnam during the research period. In line with Mirza and Giroud's (2004) examination of transnational corporation (TNC) subsidiaries in ASEAN, Vietnam has certain distinct advantages when it comes to bringing in international investment. Based on the findings of the survey, Vietnam was chosen as an investment destination because of its advantages including political stability. The parameters making Vietnam an attractive investment destination are low political risk, decreasing level of corruption

3. *Data, Model specification and estimation method*

3.1. Source of data

To serve the research model, the authors use secondary data, specifically time series data from two different sources. The first source is the World Development Indicators (WDI: World Development Indicators) Data System of the World Bank. The World Development Index reflects the development progress of economies through economic, social, financial, natural resources, and environmental indicators. The second source is the General Statistics Office of Vietnam. For the purpose of our study, we used time series data monitored annually from 1996 to 2021 in Vietnam. For consistency, all currency-related data is expressed in US dollars. However, due to limited data updates in Vietnam, some indicators (variables in the model) are not available for certain specific years. In such cases, we employed the Eviews X10 software to estimate and adjust the data. To address missing data, we adopted a method of filling in the gaps with average values obtained from the nearest available survey year. For instance, if the data for the Political Stability Index is absent for the years 1997, 1999, and 2001, we would use the average value from the nearest available years to fill in those gaps. Similarly, we would apply a similar approach for other indicators such as Control of Corruption and Access to Electricity. While filling in average values may not be completely accurate compared to the actual data for the missing years, it helps us maintain consistency and continue analyzing the data in our research model. We have acknowledged the use of this data and the limitations associated with it when drawing conclusions and conducting analysis in our study.

3.2. Model specification

Based on the above-mentioned discussions of the literature, the following variables are included in the model:

3.2.1. Dependent variable

FDI (Y)

FDI capital flows into Vietnam in the period 1996-2021. FDI is defined as capital flows of foreign investors investing in the host country. According to the World Bank, FDI includes total equity capital, reinvestment of profits, other long-term capital sources and short-term capital as in the balance of payments. In the study, FDI is measured by total implemented capital of licensed Foreign Direct Investment (current US$)

3.2.2. Independent variables

Political stability (X1)

Political stability is a particularly important 'weapon' for international investors to place great trust in Vietnam's link in the global supply chain. It is an important variable in the macroeconomic balance and favorable business environment in a country. Instability of it is extremely worrying because of its negative impact on the country's economic development and growth process by having an unhealthy impact on resources, both material and human. Foreign investors will hesitate to carry out any project when investing in a country with internal conflicts, power struggles, and frequent riots. According to a French economic doctor, Philippe Delalande, political stability is one of the indispensable factors that helps Vietnam persevere in its economic development policy. Stable politics gives Vietnam peace and prosperity. In the research paper, the authors will use PS & Absence of Violence/Terrorism data to represent political stability and expect a positive relationship with foreign investment flows.

H1: Political stability has a positive and significant impact on FDI inflow

3.2.3. Other control variables:

Trade Openness (X2)

In addition, trade openness has a significant role in drawing in international investment. This is valid for multinational companies who frequently broaden their markets to include nearby markets. One of the conventional variables used to explain FDI movements is a location's openness, as a nation's foreign economic relations are both a result of its capital mobilization strategy and a means of attracting investors. Dunning (2002) asserts that FDI can seek more successfully in an environment where commerce is more open. Due to the higher defects associated with trade protection, multinational corporations that invest with an eye on exporting typically have their headquarters in more open economies. This is because lower costs are generally involved. Exports are related to higher transaction fees. Since 1986, Vietnam's import-to-GDP ratio has grown with time, despite the country's ongoing trade deficit. In comparison to the 1986–1990 era, the share of exports in GDP doubled between 1996 and 2000. It was estimated to have contributed more than 40% of Vietnam's GDP between 2001 and 2005 (GSC, 2005). It is anticipated that this variable will have the dual effects of lessening competitiveness between domestic and international corporate nations and luring foreign capital to the host region. The study's authors used the ratio of export plus import over GDP to represent Trade Openness and anticipated that trade openness and FDI will be positively correlated.

H2: Trade* Openness *has a positive and significant impact on FDI inflows

Market size (X3)

Market-seeking is the main motivation of investors when making foreign investments. Because FDI is always an investment with a long-term commitment, a country with a promising business environment, specifically GDP per capita representing a high, stable market size, will motivate MNCs to invest. This fits perfectly with the L-advantage in Dunning's eclectic theory. Since market size directly impacts predicted investment revenue, it beneficially impacts FDI inflows (Hoang, (2007)). Vietnam is a country in the region with the fastest-growing economy in ASEAN. According to data from the United Nations and the Census, Vietnam's population in 2021 is 98.3 million people, ranking 15th in the world and third in Southeast Asia. This proves that Vietnam is a potential market, moreover, Vietnam's GDP per capita in 2021 is 3,694.02 USD/person according to the latest data from the World Bank, GDP growth rate over the years is impressive. Therefore, GDP per capita is used in the paper to represent market size and is expected to have a positive relationship with FDI inflows.

H3: Market size has a positive and significant impact on FDI inflows

Inflation (X4)

Theoretically and practically, the economy cannot guarantee high and stable growth if the inflation index surpasses the real development requirements. This can lead to internal economic crises like the financial crisis of 2008, high inflation, and economic recession. This will have an impact on FDI capital flows' attractiveness. The impact mechanism results in a slowdown in FDI capital flows. Foreign investors will need to find alternative opportunities or relocate to other markets if the inflation index remains high and persists. Vietnam's economy has seen double-digit inflation for a number of years. For example, it was roughly 23.12% in 2008 and 13.46% in 2011. Nevertheless, the average is only roughly 6% by 2021 (GSO, 2021). Vietnam's economy is thought to be reasonably safe for foreign investors if one merely takes into account the correlation between the inflation index and FDI. The average rate of inflation is comparatively steady, and total implemented capital as well as total registered capital show increases in foreign direct investment capital flows into Vietnam. Based on our analysis, we anticipate that there will be a positive correlation between FDI and the inflation (consumer prices (annual %))

H4: Inflation has a negative and significant impact on FDI inflow

Infrastructure (X5)

Electricity, roads, ports, airports, railroads, and telecommunications systems—such as phone lines and the internet—as well as institutional development—such as accounting and legal services—are just a few of the numerous elements that make up infrastructure. An effective infrastructure plays a key role in lowering indirect production and business costs for foreign investors and enabling them to implement investment activities that, in particular, promote commerce with certain regions easier and prevent the production process from pausing, which boosts investment efficiency and encourages capital inflows from foreign direct investment. Companies typically gravitate toward nations with greater investment in infrastructure. This implies that higher levels of FDI are anticipated in nations with more established infrastructure. In the context of today's information explosion, when data regarding all market swings worldwide is regularly transmitted, the communication infrastructure is crucial. Communication breakdowns result in lost chances to draw in funding. The article measures Vietnam's infrastructure metrics using electricity Access to electricity (% of population) data. In this analysis, the authors anticipated that FDI and infrastructure will have a positive relationship.

H5: Infrastructure has a positive and significant impact on FDI inflow

Natural Resources (X6)

Natural resources are primary sources of material wealth, formed and existing in nature that humans can use to meet life's needs. Natural resources are an important element of the production process, especially in the development of processing industries, exploitation and supply of raw materials, fuel for other economic sectors. Vietnam's natural resources are rich and have much potential to exploit and use such as climate resources, land resources, mineral resources, water resources, forest resources, marine resources and biodiversity... Vietnam also has the potential to develop available renewable energy sources including small-scale hydropower, wind energy, biomass energy, biogas energy, biofuel, energy from household waste sources, solar energy, and geothermal energy. The current situation of natural resources in Vietnam is going in a negative direction, and is currently shrinking in both quantity and quality. With these advantages, the authors use natural resource rent/GDP data to estimate the correlation between FDI flows in Vietnam and available natural resources. We expect this relationship to exist.

H6: Natural Resources has a significant impact on FDI inflows

Corruption (X7)

Corruption is an investment "tax" for foreign investors. Higher corruption means that part of the profits from foreign investors' investments may be enjoyed by officials of the host country, which reflects the risk of their investment projects. Furthermore, a country with a high level of corruption demonstrates the weakness of the country's legal system and government intervention in economic activities through regulations and policies imposed on the investment, directly limiting the right to choose the optimal business plan. Corruption diverts investment capital sources, making foreign donors more hesitant when wanting to pour capital, reducing the flow of foreign investment capital into the host country. In the CPI ranking of 180 countries according to Transparency International, Vietnam ranks 77th (2022). This proves that corruption in Vietnam is still a major problem, and the impact of corruption on the ability to attract foreign investment is a negative impact that needs to be eliminated. The authors use data control of corruption to represent the variable corruption and expectations about social relations inversely with FDI flows.

H7: Corruption has a negative and significant impact on FDI inflow

Dummy variables (X8) **Covid 19**

COVID-19 is an infectious acute respiratory disease caused by the coronavirus SARS-CoV-2 and its variants. On March 11, 2020, the World Health Organization (WHO) confirmed that Covid-19 infection in the world had become a global pandemic. The COVID-19 pandemic has had a significant impact on the production and business activities of many businesses in Vietnam, especially businesses in the southern region. Policies to control the Covid-19 epidemic had made it difficult for foreign investors to travel to Vietnam to explore investment opportunities as well as carry out procedures for registering new investment projects, which affected the number of newly granted investment projects. The authors decided to use Covid 19 as a dummy variable and expected a negative correlation with FDI

H8: Covid 19 have a negative and significant impact on FDI inflows

3.3. Estimation method

To look into what influences FDI into Vietnam, the authors build a real-world model based on early studies mentioned in the literature review and the Robust Least Squares (RLS framework. The regression model is:

$$\ln FDI_i = \beta_0 + \beta_1 PS_i + \beta_2 TO_i + \beta_3 \ln MS_i + \beta_4 \mathrm{INF}_i + \beta_5 \mathrm{ELEC}_i + \beta_6 \mathrm{RES}_i + \beta_7 \mathrm{CC}_i + \beta_8 COVID + \varepsilon_i \quad (1)$$

Where:

$LnFDI_i$: log of total implemented capital of licensed Foreign Direct Investment (current US$)

β_0 : the intercept coefficient of the model (the value of FDI when all both other variable values are 0)

PS_i: Political Stability and Absence of Violence/Terrorism: Estimate

TO_i: The ratio of export plus import over GDP

MS_i: Log of GDP per ca pita (current US$)

INF_i: Inflation, consumer prices (annual %)

$ELEC_i$: Access to electricity (% of population)

RES_i: Total natural resources rents (% of GDP)

CC_i: Control of Corruption: Estimate

COVID: Dummy variable representing the COVID-19 pandemic event (COVID = 1: after COVID-19; COVID = 0: before COVID-19).

ε_i: Random Error Term

The empirical analysis is presented using an econometric model. To research the data, the authors used regression for all estimates. Table 1 contains a list of the pertinent variables' descriptions and data sources.

Classification	**Variable**	**Definition/Interpretation with expectations**	**Source**
Dependent variable	Foreign Direct Investment (FDI)	Logarithm of total implemented capital of licensed Foreign Direct Investment	GSO
Independent variable	Political Stability (PS)	A measure of the level of political stability and the absence of violence or terrorism within a specific country or region (+)	World Bank
Control variable	Corruption (CC)	The estimate provides a score indicating the level of control over corruption, ranging from approximately -2.5 to 2.5. (+)	World Bank
	Market size (MS)	Logarithm of gross domestic product divided by midyear population (+)	World Bank
	Inflation (INF)	The annual percentage change in consumer prices (-)	World Bank
	Trade Openness (TO)	The ratio of exports plus imports over GDP (+)	World Bank
	National resource rents (RES)	Total natural resources rents over GDP	World Bank
	Infrastructure (ELEC)	The percentage of population with access to electricity (+)	World Bank
Dummy variable	Pandemic (COVID)	COVID pandemic event (no COVID=0; COVID=1) (-)	Calculation

Table 1: Variable description and data source

Equation (1) will be estimated using Robust Least Squares method (RLS) which address the problem of outliers. For further detailed information about the benefits of RLS, see Nghiem (2020).

4. RESULTS AND DISCUSSION

4.1 Unit root test results

A. Level Form

	FDI	**CC**	**ELEC**	**MS**	**TO**	**PS**	**INF**	**RES**
PP test	-21,366	-19,966	-31,403	-11,958	-16,316	-44,677	-28,955	-17,026
Prob.	(0.5019)	(0.5749)	(0.1191)	(0.8895)	(0.7508)	(0.0082)	(0.1804)	(0.7198)
ADF test	-24,328	-21,633	-27,995	-0.4661	-16,316	-57,575	-29,449	-18,305
Prob.	(0.3536)	(0.4881)	(0.2102)	(0.9784)	(0.7508)	(0.0005)	(0.1664)	(0.6594)

B. First-difference Form

	FDI	**CC**	**ELEC**	**MS**	**TO**	**PS**	**INF**	**RES**
PP test	-36,470	-68,869	-58,813	-33,050	-35,323	-78,220	-161,631	-72,429
Prob.	(0.0467)	(0.0000)	(0.0004)	(0.0894)	(0.0584)	(0.0000)	(0.0000)	(0.0000)
ADF test	-36,296	-68,869	-51,945	-33,064	-35,955	-50,492	-60,822	-56,563
Prob.	(0.0483)	(0.0000)	(0.0023)	(0.0892)	(0.0516)	(0.0034)	(0.0003)	(0.0006)

Table 2: Unit root tests results. This table provides results of the ADF unit root test for variable included in the model; p-values are in parenthesis.

Next, Table 4 provides results of the robust least squares estimation of Equation (1)

Variable	FDI	CC	INF	ELEC	MS	PS	TO	RES
FDI	1.0000	0.3327	0.1223	0.7970	0.9698	-0.7422	0.7857	-0.4962
CC	0.3327	1.0000	0.4916	0.0435	0.3001	-0.4512	0.1346	-0.8017
INF	0.1223	-0.4916	1.0000	0.1135	0.0683	0.0276	0.0173	0.5652
ELEC	0.7970	0.0435	0.1135	1.0000	0.8930	-0.6749	0.7725	-0.2319
MS	0.9698	0.3001	0.0683	0.8930	1.0000	-0.7607	0.7937	-0.4778
PS	-0.7422	-0.4512	0.0276	-0.6749	-0.7607	1.0000	-0.7386	0.4733
TO	0.7857	0.1346	0.0173	0.7725	0.7937	-0.7386	1.0000	-0.2588
RES	-0.4962	-0.8017	0.5652	-0.2319	-0.4778	0.4733	-0.2588	1.0000

Table 3: Correlation of Variables in the study

Table 4 provides results of the robust least squares estimation of Equation (1) using RLS

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	6254151	2342889	2669418	0.0076
CC	0.485561	0.241497	2010628	0.0444
FDI(-1)	0.405463	0.179767	2255487	0.0241
ELEC	-3299746	1335031	-2471663	0.0134
MS	4241426	1408293	3011750	0.0026
TO	0.004978	0.001083	4597822	0.0000
PS	0.280308	0.136487	2053740	0.0400
INF	0.006946	0.003888	1786569	0.0740
COVID	-0.150136	0.065665	-2286405	0.0222
RES	0.002196	0.008885	0.247176	0.8048
R-squared	0.751612	AdAdjusted R-squared		0.602579

Table 4: The regression results by RLS method

4.2 Discussion

As shown in Table 4, the coefficient of Control of Corruption is positive and statistically significant at 4.44%. In other words, as the level of corruption in Vietnam increases, it tends to discourage FDI inflows. This result is consistent with the findings of Dut and Nga's (2015) study using the Hausman test. A higher degree of corruption control implies a reduced prevalence of corrupt practices within the business environment, consequently enhancing the potential for attracting FDI. This finding aligns with the conceptual notion of "sand the wheel", which metaphorically signifies the removal of corruption-related obstacles, thereby facilitating the smooth and efficient functioning of the economic machinery. By conceptualizing "sand the wheel" as the eradication of corruption barriers and the establishment of a transparent business environment, a critical determinant for FDI attraction emerges. The amelioration of the business climate through anti-corruption measures engenders a competitive advantage and fosters the confidence of foreign investors, thereby stimulating economic progress and fostering FDI inflows into Vietnam.

Similarly, FDI also has a positive relationship with past FDI inflows. The coefficient of Access to electricity produces a result contrary to expectations. Although it is statistically significant at 1%, it has a negative sign. An explanation for the negative coefficient between Access to electricity and FDI attraction in Vietnam may be related to Vietnam's predominantly non-renewable energy sources for electricity, while the global trend is shifting towards renewable energy. In practice, foreign investors are increasingly interested in investing in clean and sustainable industries, where renewable energy plays a crucial role. The use of electricity from non-renewable energy sources in production and business can cause environmental issues and generate a large carbon footprint. This may lead foreign investors to perceive that Vietnam does not meet international environmental standards and requirements for renewable and sustainable energy use. Prior to 2005, electricity production from renewable sources was almost 0%, and by 2015, it reached 12% (% total) according to the World Bank (2015). Therefore, the heavy reliance on electricity from non-renewable energy sources may impose limitations and hinder the attraction of FDI to Vietnam. Foreign investors may seek other countries with more favorable policies and business environments in terms of renewable energy use and participation in sustainable projects.

In the study, it can be observed that market size has a positive and significant impact on FDI with a coefficient of 0.2%, in contrast with the finding reported by Nguyen (2007). This reflects the importance of a large market for effectively utilizing resources and exploiting the scale of the economy, thereby positively influencing FDI inflows. This is in complete agreement with the L-advantage theory in Dunning's OLI framework. This result is because foreign investors, especially those in industries relying on economies of scale, such as manufacturing and retail, tend to choose countries with large market sizes to access a large customer base. With a large population and increasing GDP per capita over the years, Vietnam is considered a potential consumer market in the expansion and development strategies of multinational corporations. The market tends to expand rapidly in scale, people's living standards are increasingly improving, leading to an increase in demand for new goods and services, creating favorable conditions for conducting selling new products in the Vietnamese market, increasing profits for foreign investors.

Furthermore, the empirical results also show that the degree of trade openness has a positive and statistically significant impact on attracting FDI at an approximate level of 0%. This study once again confirms that economic openness contributes to a positive force in attracting FDI to a country. Using the Johansen cointegration test, Granger causality test, Le (2014) also yielded the same result: "The relationship between FDI and trade openness in Vietnam is positive (proportional) in both the short and long run". Large trade openness would be a better option to attract more FDI inflows of efficiency-seeking multinational corporations through reduced taxes and import duties, directly allowing foreign investors to take advantage of low production costs, thereby enabling them to offer competitive prices in both domestic and international markets. Furthermore, Vietnam is aiming to find efficiency in promoting trade openness. Trade openness is combined with government policy actions aimed at implementing investment-friendly policies, reducing transaction costs and eliminating quantitative restrictions on imports. This creates favorable conditions and encourages foreign MNCs to invest in Vietnam.

The regression results show that the impact of inflation on FDI flows is positive and statistically significant at 7%. This is contrary to the study of Vo (2018) but has the same results as Nguyen (2020) and Nguyen et al. (2022). To explain this, we believe that FDI invested in Southeast Asia is a type of profit-seeking FDI. These differences in results may occur because the impact of inflation on FDI varies depending on the nature of the host economy and the current level of inflation. High inflation will go along with high economic growth and high rates of return. When there is inflation, many debts may be reduced/devalued, even lower than the original loan value. Not to mention in nominal terms, if inflation increases, the nominal budget will also increase. A rise in inflation can increase savings and investment, part of this capital can be borrowed by FDI enterprises to serve the process of expanding investment and production, so in this study found that an increase in inflation promotes the attraction of FDI inflows. Nguyen (2020) believes that inflation has a good or bad effect depending on the rate it represents. Moderate inflation can benefit foreign investors by helping to boost domestic growth, resulting in lower debt to suppliers and increased export competition. Inflation rate exceeding the economy's optimal threshold will reduce FDI capital flowing into any country. Thus, the level of inflation in the period 1996-2021 is still suitable for a developed country like Vietnam.

Contrary to expectations, research results show that natural resources in Vietnam do not correlate with attracting FDI investment. This agrees with the study of Asongu et al. (2018) but is contrary to Dunning's (1977, 1988, 1993) view on the type of resource-seeking FDI. We believe that most FDI flows into Vietnam are market-seeking FDI. Furthermore, natural resources in Vietnam are at an alarming level due to the ineffective and unsustainable use of resources for economic development in the previous period. Because natural resources have been overexploited and overused, causing some types of resources to be seriously depleted, the Vietnamese government has had policies to redirect foreign investment into more developed and potential industries, so FDI investment attracting in our country does not depend on the abundance of resources, but instead depends on current policies and market orientation.

Consistent with initial expectations, COVID-19 variable has a negative and significant impact on the amount of FDI participating in Vietnam, agreeing with the research results of Nguyen et al. (2020). During the 2020-2021 period, the epidemic situation was tense with unpredictable and dangerous developments globally, and the Vietnamese government took actions to close the economy. To ensure health, the entire population must practice social distancing and the economy is almost blocked. Public health solutions require the closure of non-essential businesses and durable goods manufacturing. Covid also dealt a strong blow to businesses that depend on imports and exports as blockades and economic stagnation reduced domestic and foreign demand, disrupted input supplies, and reduced liquidity. Reduced credit availability affects access to finance, funding opportunities are narrowed, moreover, Covid 19 causes uncertainty that reduces investment. Besides the supply chain, the movement of investors is almost completely restricted, capital is affected globally, which has a negative impact, preventing the intention to carry out a new project or expand a business of foreign investors.

The results show that the coefficient of the Political stability variable has a positive sign and is statistically significant at 4%, indicating that political stability has a positive correlation with FDI flows. This supports the OLI theory of Dunning (1993), who believes that political stability is a factor determining investment location. Compared to neighboring countries and countries in the ASEAN organization, Vietnam's politics is considered relatively stable. After more than 40 years of peace and development, Vietnam has become one of the trusted investment destinations of many countries due to its political stability and consistency. With political stability, Vietnam's position and power is increasing in the international arena, there are opportunities to attract high-quality investment. Furthermore, political stability is very important for the expansion of the country's domestic and foreign investments in its future direction (Shahzad and Al-Swidi, 2013). Investment in general and

FDI in particular is a forward-looking action based on the expectation of achieving enduring profits. Investing in a country with unstable politics also means that investors have to face risks stemming from this thing. Civil war, political conflicts with other countries will reduce profits in operations in the host country because sales or exports decline, production is at risk of interruption, and facilities are damaged or destroyed. Another risk from political instability stems from the fact that it adversely affects the domestic currency, reducing the value of investment assets as well as the profits generated (Brada et al.,2006). Therefore, a country with a fairly stable political system like Vietnam will have a positive impact on the investment willingness of foreign investors.

5. CONCLUSION, RECOMMENDATIONS, LIMITATIONS AND FUTURE STUDIES

Based on the results of analyzing the effects of the above factors on attracting foreign investment, the authors propose a number of recommendations for policymakers to consider and combine with the real economic situation of Vietnam today in order to build appropriate and effective strategies for attracting foreign investment capital in the current context when Vietnam has just overcome the COVID-19 pandemic and has gradually stabilized since then contributing to economic and developing the country in the future.

First, because the legal system and enforcement process in Vietnam are not very strict, it causes hidden corners in the investment process of foreign investors, which is largely detrimental to our country, so what needs to be done is to complete and supplement the policy and legal system. Since Doi Moi, Vietnam has gone through many times promulgating and amending the Investment Law (previously including the Law on Domestic Investment Promotion and the Law on Foreign Investment). On June 17, 2020, at the 9th session of the XIV National Assembly, the Investment Law 2020 took effect from January 1, 2021, and replaced the Investment Law 2014. As analyzed in the literature review, the latest investment laws and theories have been improved, completed, and issued many incentives to attract foreign investment capital, but certain legal shortcomings still exist, we should continue to modify them to minimize inadequacies.

- Build a strict legal system, tighten the prevention of corruption, bribery to avoid taking advantage of investment incentives to ensure that FDI enterprises do not have "stains" in their business operations, and have no problems with tax evasion, transfer pricing, or trade fraud.

- The current investment law is not consistent with a number of other related laws such as the Land Law, Housing Law... this is an important point that needs to be improved for stability, consistency and synchronization by the authorities. Legal regulations need to be consistent to avoid misunderstandings that affect business plans and general trust of businesses.

Second, it is necessary to maintain political stability at home and abroad. Faced with the current volatile world situation, Vietnam needs to choose appropriate plans and implement "unchangeable adaptability" so as not to be dominated in international relations and promote relations with many stakeholders, especially with major countries, on issues of strategic interest. The year 2024 will be in a state of instability with escalating geopolitical tensions, causing upheaval globally, typically the trade tensions between the world's two largest economies, the US and China, which will have a significant impact on Vietnam. Even in the optimistic case that this tension subsides, an immediate end is completely impossible. In the short term, Vietnam can benefit from the investment shift of the US and China, the opportunity for Vietnamese goods to enter the US market is huge. In the opposite direction, due to a very large amount of goods which unable to be exported due to barriers imposed by the US, China will have to find a way to release this inventory to countries where it has a competitive advantage to consume goods. Therefore, it will cause devaluation and market distortion, greatly affecting foreign investment. Therefore, the urgent issue is that we must have appropriate policies to protect domestic political stability and security and avoid negative impacts from the external situation affecting the country in general and attracting foreign investment capital in particular.

Thirdly, the results of the study indicate existing limitations regarding access to electricity in Vietnam. Developing the renewable energy sector is crucial, not only to attract investment from businesses pursuing sustainable development but also to have positive environmental impacts. Based on this, the authors propose several policies:

- The government should promptly improve comprehensive policies on the construction and upgrading of electricity infrastructure, including transmission and distribution grids.

- To effectively mobilize resources for the development of renewable energy sources, the proposed Renewable Energy Law should be quickly enacted. This law can provide guidance and support for renewable energy activities in Vietnam, creating favorable conditions for businesses and attracting FDI to this sector.

- The government should incentivize businesses to invest in renewable energy development, such as wind power, solar energy, LNG, and biomass. These energy sources have the potential to reduce greenhouse gas emissions. Incentives can be provided through measures like loan support and tax reductions.

The research indicates that inflation has a negative impact on FDI, with the post-COVID-19 period leading to an increase in inflation rates. We are concerned that if this trend continues and inflation exceeds the threshold, it could have negative consequences. Based on this finding, the study proposes some policy implications related to reducing inflation in Vietnam post-pandemic:

- Central banks can maintain flexible monetary policies and reasonably adjust interest rates to control inflation and stabilize prices. This helps maintain stability in the financial system and support economic activities.

- It is necessary to regularly monitor and manage the prices of input materials for production while strengthening supply chain management. In production, due to dependence on imported input sources, it is encouraged to reduce reliance on imports and be more proactive in securing input materials to mitigate inflation risks.

- The government should enhance fiscal management, ensure national financial security, and control inflation. Additionally, efforts should be made to restructure and enhance internal capacity, self-reliance, and resilience of the economy

Research has also shown a significant and positive relationship between market size, trade openness, and FDI attractiveness. In addition to implementing policies supporting tariff and trade facilitation, globalization has led to increasingly interconnected and open markets, creating new opportunities for countries and businesses. Therefore, we propose several policies that Vietnam should implement:

- Enhance economic institutions: Continue building and improving the legal and policy framework to fully implement and align with international economic integration obligations and commitments, especially with new-generation FTAs according to the outlined roadmap.

- Comprehensive integration in cultural, social, scientific, and defense fields: Proactively participate in the construction and shaping of regional and global economic-trade structures, particularly in emerging areas of cooperation such as digital transformation, green growth, inclusive and sustainable development. Coordinate closely with ASEAN, ASEM, APEC members on policy cooperation, initiatives, and collaboration directions in the post-COVID-19 period. Actively engage in these forums to ensure continuous and effective cooperation.

- Strengthen forecasting, analysis, evaluation, and timely understanding of the situation to formulate swift, decisive, and appropriate policies and actions. Harmonize international integration with domestic innovation; maximize and combine domestic and foreign resources effectively.

Moreover, in general, most FDI projects in Vietnam focus on areas that are less environmentally friendly, have high levels of emissions, low added value, and lack fundamental industries. Therefore, attracting green FDI capital is an important solution, helping Vietnam maintain competitiveness and sustainable development, contributing to the transition from a brown economy to a green economy. Here are some important measures:

- Invest in sustainable green infrastructure such as green buildings, green public transportation, and biological waste treatment systems, to create favorable conditions for the development of green FDI.

- Encourage and support R&D activities in the fields of green technology, clean energy and production methods that have little impact on the environment through preferential policies and financial support.

- Develop programs to support SMEs in a green and sustainable direction by providing consulting, training and finance, helping them improve their competitiveness and international cooperation in the green field.

- Build localities, industrial parks, and economic zones that are prepared in terms of infrastructure, human resources, energy,... preparing input factors to meet the requirements of foreign investors in green FDI projects

In addition, reality shows that FDI in Vietnam is unevenly distributed across each region and each industry, concentrated only in socio-economically developed regions and in certain industries, which gives rise to the state of uneven development between regions, over time, has consequences for the country's development process. To improve this,

- Complete and supplement the previously issued legal framework to encourage FDI to create more favorable conditions for investment in many new industries and areas, including mountainous and undeveloped areas.

- Expand tax incentives and financial support for investment projects in less-interested areas, including corporate income tax reduction, land rent exemption or reduction, and capital support loan at preferential interest rates.

- Increase investment in transport infrastructure, communications and support services in target areas. Developing infrastructure will reduce logistics costs for businesses and increase the attractiveness of these areas for FDI.

- Focus on exploiting the strengths of each region, then invest in developing resources depending on those strengths to attract foreign investors' willingness to invest.

Vietnam currently does not meet the requirements of infrastructure, technological resources and production techniques for foreign development projects. Compared to other countries in the region, Vietnam still has low level and dilapidated infrastructure. Therefore, our country needs to invest in infrastructure to attract investors and have reasonable policies, regulations, and reciprocal negotiations. Here are some measures to fix this:

- The Government needs to continue to promote investment in transport, electricity, water and telecommunications infrastructure, improve the quality of existing infrastructure, and ensure safety in effective use.

- Strengthening public-private partnership (PPP): The new PPP Law was issued to attract private investment and reduce the burden on the public budget and to promote the policy of socializing investment in PPP projects. Support and regulate private investment to increase the scale of infrastructure upgrades. The move is aimed at attracting more private investment to reduce the burden on the country's public debt and fiscal policy.

- The medium and large development of supporting industries will help Vietnam's industry develop sustainably, while also contributing to attracting high-quality FDI in the industrial sector. Vietnam should review, amend, supplement and complete legal documents on supporting industry development, build a policy framework strong enough to promote the development of supporting industries, and create a basic foundation for industry. towards modernity and sustainability.

Furthermore, when welcoming investment, technology transfer plays an important role in improving a country's production capacity and technological innovation. However, it is necessary to be cautious and choose carefully to avoid receiving outdated technology or not suitable for the country's needs. So, Vietnam needs to pay attention to the risks associated with becoming a transfer point for outdated technologies from investors. China is a country that accounts for a large proportion of FDI into Vietnam. In 2025, they will implement the MIC Strategy, which will inevitably require technological replacement and innovation, creating pressure to push out faulty technologies. When it comes to less developed countries, especially neighboring countries like Vietnam, then our country will be at risk of becoming a "technology landfill". Vietnam needs to focus on dealing with these challenges: Legal reform is the key factor to help Vietnam avoid becoming an "industrial landfill" for investors. Extreme caution is needed with technology transfer from FDI enterprises into Vietnam; Increase authority for agencies managing foreign technology flows to invest in Vietnam right from the input stage (except for investment projects approved by the Prime Minister) to contribute to limiting import and use outdated technology and equipment.

Finally, strengthening the connection between foreign and domestic investment, along with connecting private enterprises to the supply chain of state-owned enterprises, promoting integration and trade to have more investment options, expanding cooperation plays an important role in creating opportunities for sustainable development of the economy. To achieve and maintain the criteria for this measure, we can take the following actions:

- Build a database of FDI enterprises, suppliers, connection services, and investment promotion programs to attract foreign investors with priority policies and support businesses domestically. In particular, we must create conditions and encourage businesses and corporations to establish centers and expand research and development (R&D) activities with the participation of domestic engineers.

- The Government and local authorities designing separate industrial zones for FDI investment also need to consider the connection with industrial clusters for small and medium enterprises.

- Motivate domestic enterprises to make efforts to improve their capacity in all aspects, from technology to capacity, so that they can have enough strength to link closely with FDI enterprises, and at the same time become an important link in the global value chain

- Develop and implement appropriate priority policies to strengthen connections between FDI enterprises and domestic supporting enterprises, orient supporting industries closely to regional and global production networks and value chains.

5.1. Limitations and recommendations for future studies

Although the research results have proven the hypotheses set out and contributed theoretically and practically to the topic, there are still certain limitations in the process of implementation, analysis, and evaluation of research results. Therefore, the authors propose some further directions so that other studies can continue to deepen and expand the research scope of this topic in the future.First, the authors collected data over a period of time from 1996 to 2021 and Vietnam still does not have complete data on the selected variables during this period, leading to the conclusion of the relationship between the variables and FDI are still not really objective. In order to have more certain results, future research should seek solutions if variables are still selected in the study so that this relationship can be accurately assessed.

Second, the study has not been able to build all the determinants that are believed to affect FDI in the model, so it cannot be affirmed that the test correctly and fully explains FDI capital flows. In fact, there are many factors that affect it, especially factors related to human resources such as labor's educational level, vocationally trained labor, high quality labor, and labor costs, unemployment. Due to limited data during the study period, we were unable to study the above factors. In addition, taxes, weak legal systems, government spending, R&D intensity, R&D Expense, etc. are also reasons that dominate FDI flows. Therefore, future research can consider analyzing these factors in the model to add more depth to the study.

Third, in our research, we have not shown a correlation between natural resources and FDI flows into Vietnam. This is in contrast to some previous studies around the world. We have not found a study in Vietnam testing the correlation between these two aspects. This can also be a new research direction for the next groups when participating in researching the factors that govern FDI. Furthermore, this study collects results regardless of region while the amount of FDI is distributed differently with different levels by region in Vietnam. Therefore, future studies can conduct tests in different geographical areas in Vietnam to have a more comprehensive perspective on the impact of factors in Vietnam on investment decisions of investors or businesses.

Finally, we would like to conclude the paper with a final recommendation. Factors affect FDI to different degrees and it would be interesting to test the reciprocal, not unidirectional, correlation between them and FDI flows. The authors believe that understanding this can help policymakers plan more appropriate and accurate policies in the future.

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