

IMPACTS OF FDI ON POVERTY REDUCTION IN VIETNAM

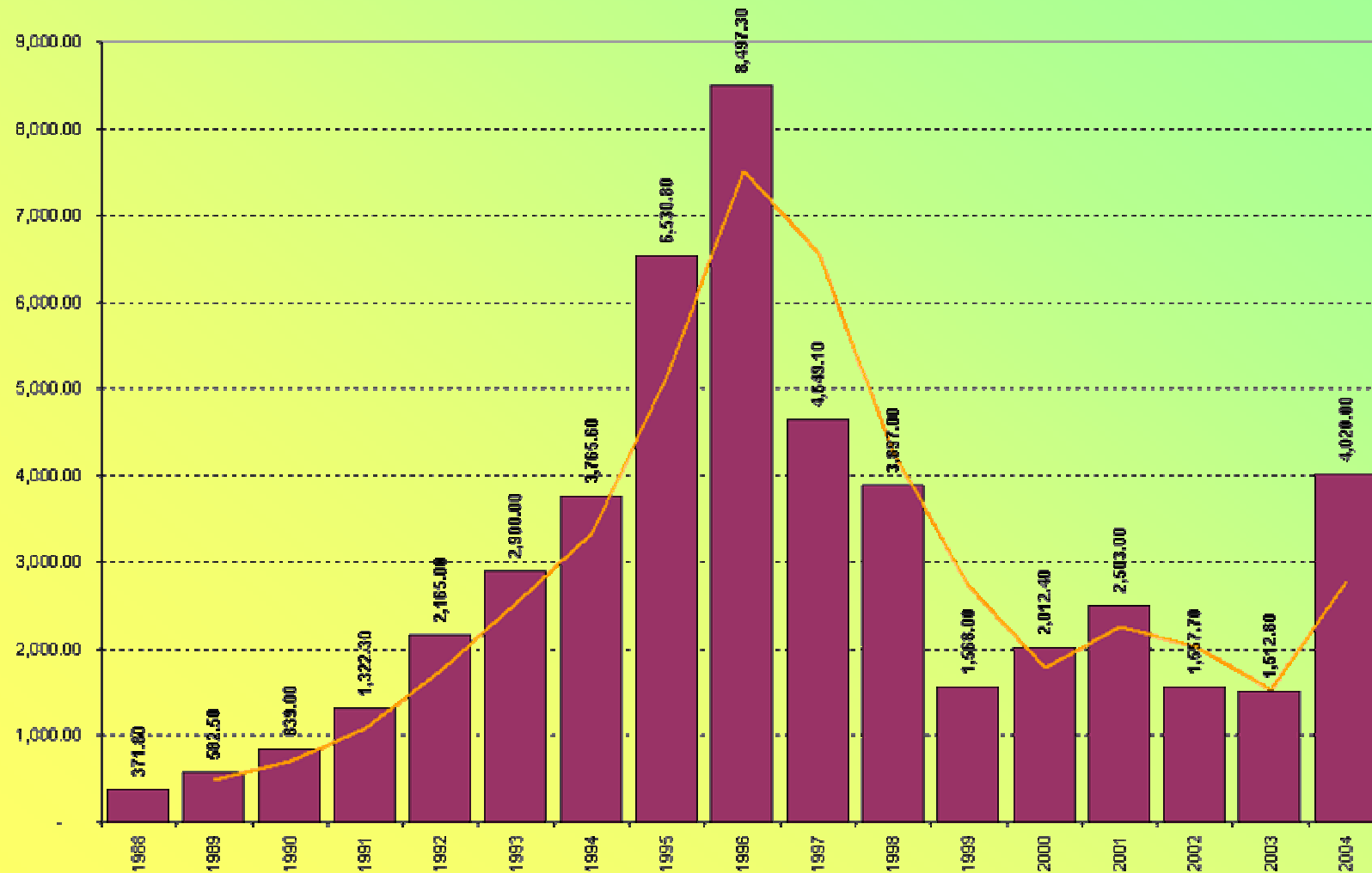
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Presentation Outline

- Introduction of the Topic
- Review of Literature
- Hypothesis
- Methodology
- Econometric Model
- Data
- Testing Result
- Conclusions

FDI Inflow *(Source: MPI 2005)*

FDI Registered Capital 1998 - 2004 (mil. \$US)



Trend in Poverty Reduction

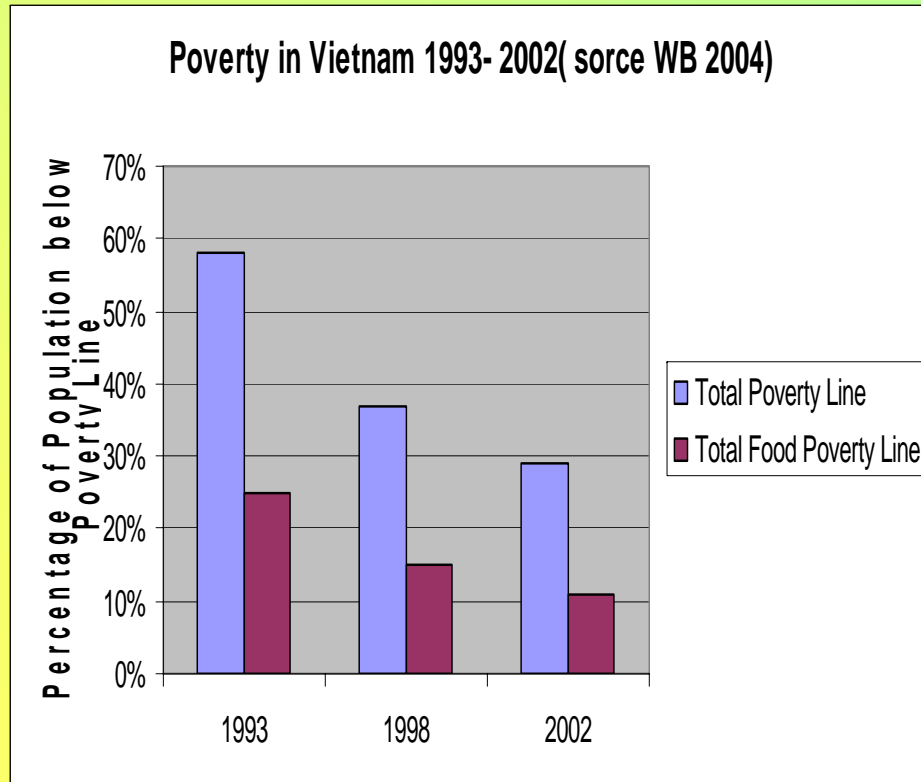
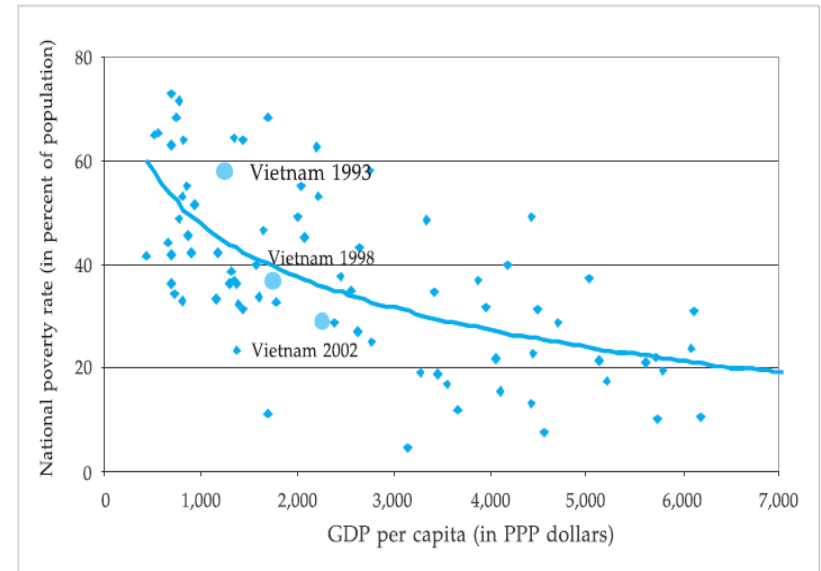


Figure 1.2: Poverty and Economic Development across Countries



Source: Constructed based on the 1993 VLSS, 1998 VLSS, 2002 VHLSS and World Bank (2003a).

II. Review of Literature

Two Impacts of FDI on Poverty Reduction

1. Indirect impact on poverty Reduction through the economic growth
2. Direct impact on Poverty Reduction

1. Indirect Impact of FDI on Poverty Reduction

- The beneficial effects for the host countries arise from the increase in capital accumulation, increase in tax revenues, and increase in labor income such as employment, and favorable externalities such as diffusion of technology and training. (Jenkins and Thomas, 2002; World Bank, 2000, Todaro and Smith, 2003).
- FDI has a positive impact on economic growth. (Borensztein et al, 1995; Bende- Nabende, 1999;)

- **FDI increases the capital stock and stimulates international technology transfer leading to the increase in growth. (Markusen, 1995)**
- **FDI stimulates economic growth through human capital and employment (Bende-Nabende, 1999)**
- **FDI may have adverse effects on the host countries' development (UNCTAD, 1999)**

Indirect Impacts of FDI (cont'd)

- Growth is the single most important factor affecting poverty reduction (Klein et al,)
- Growth tends to increase the incomes of the poor proportionately with the overall growth (Dollar and Kraay, 2000).
- The poor in some countries has not been benefited from the growth (World Bank, 2000)

2. Direct Impacts of FDI on Poverty Reduction

- FDI enhances revenue that could support the development of safety net in the countries and the poor as well (Klein et al, 2001).
- FDI creates domestic employment opportunities (UNCTAD, 1999)
- FDI helps to reduce adverse shocks to the poor (Klein *et al*, 2001)

III. Hypotheses

- *H1:* FDI has a positive impact on economic growth of the province
- *H2:* Number of poor people who live under the poverty line in the province is negatively correlated with the economic growth

IV. Methodology

- FDI has both direct and indirect impact on the reduction of poverty. The relationship could be written as:

$$\textit{Growth} = f(\textit{FDI}, \textit{Conditional set})$$

$$\textit{Poverty} = f(\textit{GrowthRate}, \textit{FDI}, \textit{others})$$

V. Econometric Model

- Two-Stage Testing

- Impact of FDI on Growth

$$Y = f(K, L) = AK^{\beta_1}L^{\beta_2}g(\text{FDI})$$

$$\ln \text{GDP} = \ln A + \beta_1 \ln(K) + \beta_2 \ln(L) + \beta_3 \ln(\text{KFDI})$$

$$\ln(\text{GDP}_{it}) = \alpha_{it} + \beta_1 \ln(\text{FDI}_{it}) + \beta_2 \ln(\text{GDI}_{it}) + \beta_3 \ln(\text{Pop}_{it}) + \beta_4 D1 + \beta_5 D2 + u_{it}$$

- Impact of FDI on Poverty Reduction

$$\text{Pov}_{it} = c + \delta_1 \ln \text{GDP}_{capit} + \delta_2 \ln(\text{FDI}_{it}/\text{GDP}_{it}) + \delta_3 \ln(\text{Emp}_{it}) + \delta_4 \ln(\text{Govsp}_{it}) + \delta_5 D1 + \delta_6 D2 + u_{it}$$

Econometric Model (cont'd)

- GDP : Gross Domestic Products
- FDI : Foreign Direct Investment
- GDI : Gross Domestic Investment
- Pop : Population
- GDPcap : GDP per capita
- Empl : Employment
- Govspd : Government Spending
- D1 : Dummy for Large Cities
- D2 : Dummy for the period after Asia Crisis

VI. Data

- *Secondary Data* collected from MPI, the Prime Minister Office.
- Data of 12 cities and provinces from North to South of Vietnam in the period *from 1993 to 2002* will be collected
- The *national poverty line* will be used to assess the poor

VII. Testing Result – Growth Model

| Variables | Regression 1 | | Regression 2 | |
|------------------|---------------------|---------|---------------------|---------|
| | Co-eff | p-value | Co-eff | p-value |
| FDI | 0.1044479 | 0.002 | 0.1053346 | 0.002 |
| GDI | 0.4308294 | 0.000 | 0.4433575 | 0.000 |
| Pop | 0.5363484 | 0.000 | 0.564861 | 0.000 |
| D1 | | | -0.0759556 | 0.634 |
| D2 | | | 0.0105151 | 0.908 |
| Const | 0.9031186 | 0.084 | 0.6098486 | 0.459 |
| | Number of obs | 120 | Number of obs | 120 |
| | F(5, 114) | 131.25 | F(5, 114) | 77.6 |
| | R-squared | 0.7724 | R-squared | 0.7729 |
| | Adj R-squared | 0.7666 | Adj R-squared | 0.7629 |

Testing Result-Poverty Model

| Variables | Regression | |
|------------------|-------------------|---------|
| | Co-eff | p-value |
| GDPcap | -1.670761 | 0.000 |
| FDI_GDP | -5.159303 | 0.000 |
| Empl | -1.324886 | 0.024 |
| Govspd | -1.885579 | 0.000 |
| D1 | -0.1097219 | 0.894 |
| D2 | 4.483 | 0.000 |
| Const | 160.9479 | 0.003 |
| | Number of obs | 120 |
| | F(5, 113) | 58.81 |
| | R-squared | 0.7574 |
| | Adj R-squared | 0.7446 |

VIII. Policy Implication

- **Testing result shows a strong impact of FDI on both economic growth as well as the poverty reduction. Thus, this paper highly recommends the policy to promote the inflows of FDI to provinces**

IX. Limitations of the Paper

- **There are some limitations on data collection so that this paper could not test the impact of human capital on economic growth as well as poverty reduction**
- **Although some data used in this paper could be doubtful, this is the best province-level data could be collected at this time.**

THANKS FOR YOUR LISTENING

