

# MIGRATION AND FOREIGN DIRECT INVESTMENT: THE CASE OF THE SOUTHERN KEY ECONOMIC REGION OF VIETNAM

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## Article information

Received: 02/2024

Accepted: 06/2024

Available online: 06/2024

## ABSTRACT

This paper has investigated the relationship between inward foreign direct investment (FDI) and inward migration in the case of The Southern Key Economic Region (SKER) of Vietnam. The former is a proxy for the global offshoring and supply chain shifting trends which occur in the SKER, while the latter is one of the major development-specific issues of this region. The two-stage least square (2SLS) technique has been applied to the research model with the Provincial Competitiveness Index (PCI) score and rank included as the instruments. Findings have documented the positive relationship between inward foreign direct investment and inward migration in the case of the SKER. In addition, the paper has provided some policy implications which enhance the benefits of inward foreign direct investment for inward migrants in the SKER.

Bài báo nghiên cứu mối quan hệ giữa đầu tư trực tiếp nước ngoài (FDI) và di cư đến trong trường hợp của Vùng Kinh tế trọng điểm phía Nam (SKER) của Việt Nam. FDI được sử dụng như một biến đại diện cho xu hướng dịch chuyển chuỗi cung ứng và hoạt động sản xuất toàn cầu đang diễn ra ở SKER, trong khi di cư đến là một trong những vấn đề phát triển quan trọng của Vùng. Nghiên cứu đã sử dụng phương pháp bình phương nhỏ nhất hai giai đoạn (2SLS) cho mô hình nghiên cứu, với Điểm số và Xếp hạng của Chỉ số Năng lực Cạnh tranh Cấp Tỉnh (PCI) được sử dụng với vai trò biến công cụ của FDI. Kết quả nghiên cứu cho thấy mối quan hệ đồng biến giữa đầu tư trực tiếp nước ngoài và di cư đến trong trường hợp của SKER. Bên cạnh đó, bài báo cũng đưa ra một số gợi ý về chính sách nhằm tăng cường những lợi ích của thu hút FDI đối với người di cư đến SKER.

**Keywords:** Foreign direct investment (FDI); Global supply chain; Migration; Southern Key Economic Region (SKER)

## 1. INTRODUCTION

The provinces in the SKER are geographically located in the Southeast region, which includes Binh Duong, Dong Nai, Ba Ria – Vung Tau, Binh Phuoc, Tay Ninh, and Ho Chi Minh City (HCMC) and the Mekong Delta region, which includes Long An and Tien Giang. For several years, the SKER has accounted for a large percentage of inward FDI. In 2022, the SKER attracted the number of 19,978 inward FDI projects, which accounted for 54.97% of the entire nation according to the report of Vietnam's General Statistics Office. Those FDI projects are equivalent to the amount of 193.47 billion US\$ of inward FDI stock which has been accumulated up to 2022, which accounts for 43.92% of the national economy. From a regional view, FDI inflows in South-East Asian countries in 2020, 2021, and 2022 have reached the value of 119, 213, and 223 billion US\$, which accounts for 12.3%, 14.4%, and 17.2% of the world economy respectively (United Nations Conference on Trade and Development [UNCTAD], 2023). Notably, the FDI flow to Vietnam increased by 14% in 2022 (United Nations Conference on Trade and Development [UNCTAD], 2023). Figure 1 demonstrates the inward FDI of Vietnam in the 2010-2022 period. Despite extending the difference between registered and implemented FDI, Vietnam has been attracting an increasing amount of FDI inflows since 2010. This trend has emphasized the presence of global supply chain shifting in Vietnam's economy.

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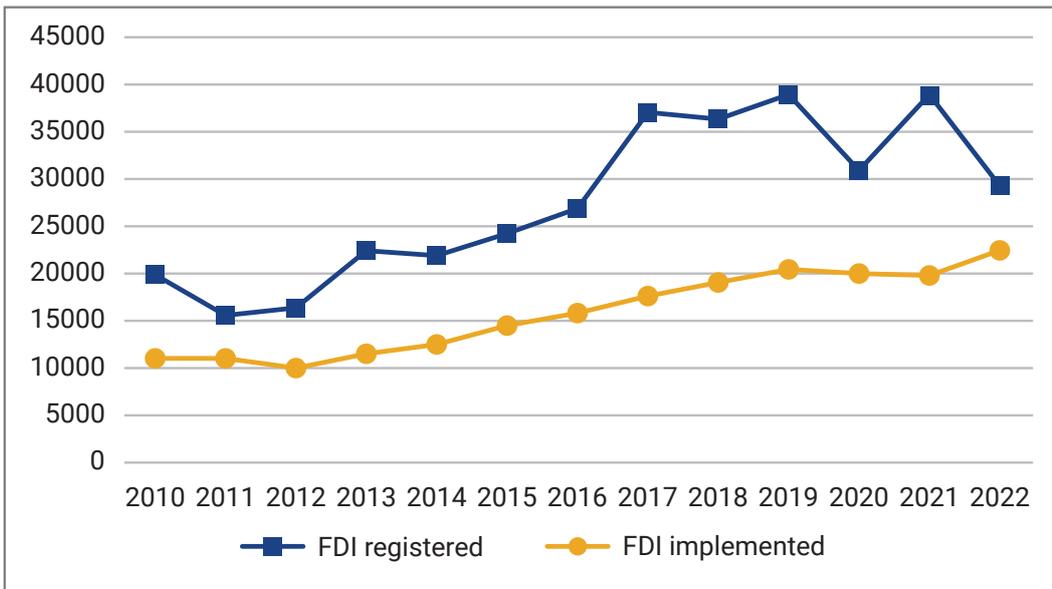


Figure 1: Registered and implemented FDI of Vietnam, 2010-2022 (US\$ million)

Source: The General Statistics Office (Vietnam), 2023.

Until more recently, Vietnam has been recognized as one of the most attractive destinations for foreign direct investment by European business managers due to favorable policies on enhancing business environment. The quarterly report of Business Confidence Index (BCI) in Quarter 2 – Year 2023, which is published by the European Chamber of Commerce in Vietnam, has highlighted that Vietnam has been expected by 48% of European managers to be the attractive destination for FDI projects (EuroCham, 2023). Approximately more than 33% of managers have ranked Vietnam among their top five destinations for FDI projects (EuroCham, 2023).

Figure 2 indicates the contributions of SKER to the FDI attraction of Vietnam in terms of the number of FDI projects and the value of FDI registered capital which have been accumulated to December 31st 2022. As could be seen in Figure 2, the SKER has contributed 55% of total FDI projects and 43.9% of total FDI registered value of Vietnamese economy. This has proven the importance of the SKER in FDI attraction and the role of this region in the prevalence of the global supply chain shifting in Vietnam.

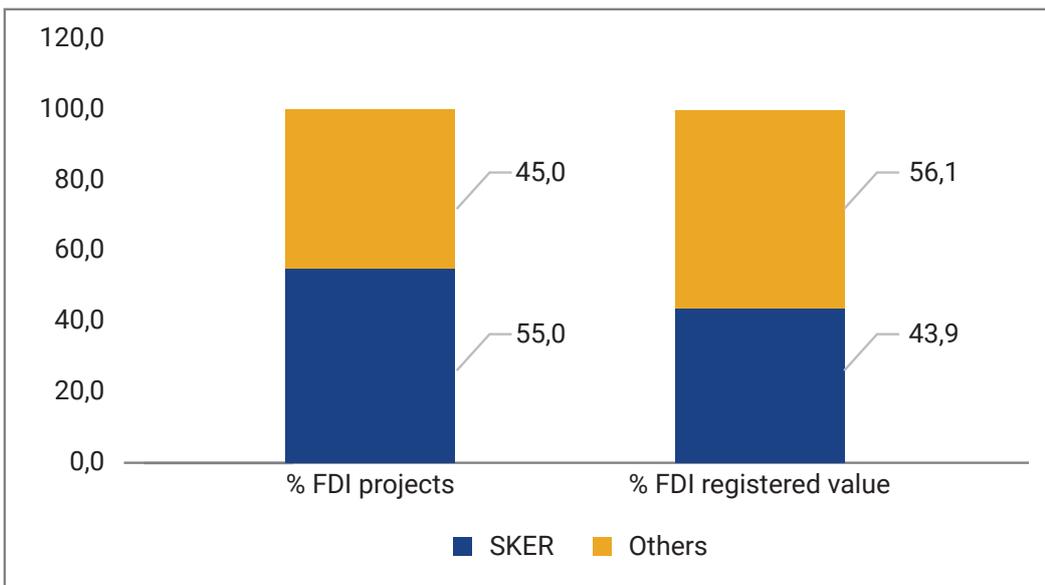


Figure 2: The percentage of total FDI projects and FDI registered value of the SKER, accumulated to December 31st 2023

Source: The General Statistics Office (Vietnam), 2023.

In 2020, the Resolution 128/NQ-CP of Vietnamese Government on obligations and solutions to accelerating the development of key economic regions has identified a handful of prioritized industries of the SKER to attract investment projects, especially either those being shifted from foreign destinations or implemented as part of the global offshoring strategy of multinational enterprises. The prioritized industries include general processing and manufacturing, and production and assembly of electrical and electronic products. As those projects are established and implemented, the SKER will become an “enormous magnet” which attracts inward flows of migration from neighboring provinces which is called labor market pooling. According to the General Statistics Office of Vietnam, HCMC and Binh Duong have the highest inward migration ratio, which are 10.89% and 26.36%, respectively, which turns Binh Duong to the “capital of inward migrants”. Nevertheless, the relationship between inward FDI and inward migration at provincial level has been under-investigated, especially in the case of Vietnam’s key economic regions. Thus, this paper aims to discover the impact of inward FDI on inward migration in the SKER, which is examined by the IV 2SLS methods. The global offshoring and supply chain shifting trends are proxied by inward FDI stock. The lagged values of PCI score and rank are used as IVs for inward FDI stock. The data sample is comprised of spatial scope of HCMC and seven provinces in the SKER and temporal scope of the 2008-2021 period. The remaining contents of this paper include four sections. Section 2 focuses on the theoretical backgrounds of the link between FDI, migration, and institutions. Section 3 describes research model and estimation methods. Section 4 demonstrates analytical results of IV 2SLS regression and post-estimation tests. Section 5 concludes the paper by summarizing key contents and providing relevant policy implications for enhancing the benefits of inward foreign direct investment for inward migrants.

## 2. LITERATURE REVIEW

### 2.1. FDI and provincial institutions

The eclectic OLI paradigm (Ownership-Location-Internalization) of Dunning (1973) and Dunning (1977) has posited that the positive location externalities of the host countries could determine destination decisions of international business enterprises when they formulate FDI and global supply chain shifting strategies. Dunning (2008) and Dunning and Lundan (2008) highlighted the role of institutions in forming locational advantages, which could influence the destination decision of global managers. Those studies have been the grounded theories, which indicate the impact of institutional quality on inward FDI at national and sub-national (provincial) levels. Until most recently, Batschauer da Cruz et al. (2022) have argued that the eclectic OLI paradigm could be applied to sub-national levels, which implies that the destination decision of FDI investors may include the consideration of provincial alternatives within a national location. Thencefore, several empirical studies have unveiled the contribution of institutional quality to more favorable business environment, which attracts a larger number of FDI and global supply chain shifting projects. Meyer and Nguyen (2005) unveiled that provincial institutions could influence location and entry mode choice of FDI investors in the case of Vietnam. Noticeably, institutional quality was measured by the land availability for industrial parks and output portion of state-owned enterprises in this research. Wang et al. (2013) confirmed that local institutions could moderate the direct impacts of FDI on multiple aspects of the local economy and society. This may imply the intertwined relationship between FDI and institutions at local level. Alon (2010) indicated institutional discrimination which provides undue benefits for state-owned enterprises at the expense of private enterprises, could be an entry barrier which increases relevant costs and risks facing FDI investors, which worsens the attractiveness of a foreign investment destination. Kang and Jiang (2012) explored that institutional attributes could determine FDI location strategy of Chinese multinationals.

Those attributes include economic freedom, political influence, and FDI restrictions. More recently, Kang (2018) discovered the moderating impact of institutional factors on the FDI-natural resources relationship.

In a nutshell, previous research has unveiled the influence of provincial institutions on the decision-making process relevant to FDI and global supply chain shifting. Those findings have indicated the relevance of provincial institutions to FDI and global supply chain shifting, which could be used as the instruments for inward FDI. Thus, the lagged values of PCI score and rank, which are published annually by the VCCI, have been used as IVs for inward FDI stock in this paper. From the perspective managerial decision-making process, PCI score and rank are used as the reference indicators which influence global managers when they need to shortlist a larger number of potential locations for their province-level destination decisions. Moreover, because there is always a time gap between the managerial decision in the headquarters (in home country) and actual implementation in host countries, lagged variables of PCI score and rank are used as IVs for current inward FDI stock. Because of the scoring and ranking characteristics of lagged PCI which only influence the destination choice of FDI investors, the lagged variables of PCI score and rank significantly satisfy the exogeneity condition of IVs. Thus, this paper utilizes the lagged variables of PCI score and rank as the IVs for inward FDI stock, which are thenceforth included in the estimation of inward migration. By using these instruments, the paper has hypothesized that provincial institutions are positively associated with provincial FDI, which is as follows:

H1: Provincial institutions have a positive impact on provincial FDI.

## **2.2. FDI, economic growth, and inward migration**

The driving (either direct, indirect, or moderated) role of inward FDI in boosting economic growth of host countries has been echoed by several studies (Ahmad et al., 2018; Dada & Abanikanda, 2023; Saidi et al., 2020), which

have established the FDI-led growth hypothesis. At lower levels, Berthélemy and Demurger (2000), Lheem and Guo (2004), and Zhao (2013) explored the boosting impact of inward FDI flows on provincial economies in China. Similarly, Wang et al. (2013) demonstrated the positive impact of local FDI on local economic growth, which consequently increases career and income opportunities for migrant workers. In Vietnam, Anwar and Nguyen (2010) unveiled the relationship between FDI and economic growth in 61 provinces. Consequently, FDI-led provincial economies will become the “dream land” or “promising land” for migrant workers who are pursuing brighter career and income opportunities since employment in FDI sectors could bring about higher income and education and training opportunities provided by FDI employers (Javorcik, 2015). Karlsson et al. (2009) highlighted the two-fold impact of FDI on local employment. The direct and positive impact is explained by the higher performance of FDI enterprises, while the indirect impact is the spillover effect of FDI inflows on domestic enterprises. More recently, the research of Bang, J. T., & MacDermott (2019) has supported the positive impact of FDI on immigration in the case of OECD and non-OECD countries, which is called the core-periphery model which highlights the complementary relationship between FDI and immigration at the national level. Thus, the increasing FDI-driven employment opportunities could attract a larger number of migrant workers to certain FDI-abundant localities within a country. Therefore, it has been more likely that a significant impact of inward FDI on inward migration at provincial level may exist. However, empirical research on that link has been underdeveloped in Vietnam. Therefore, this paper aims at addressing the research gap relevant to FDI-migration linkage at provincial level in the context of the SKER in Vietnam. To achieve this, the paper has hypothesized that provincial FDI has a positive impact on provincial inward migration, which is as follows:

H2: Provincial FDI has a positive impact on provincial inward migration.

### 3. RESEARCH METHOD

To test the above hypothesis, this paper has proposed the following research model which is inspired by the research of Bang and MacDermott (2019), D'agosto et al. (2013), and Phyo et al. (2019), as follows:

$$IMIG_i = \beta_0 + \beta_1 FDI_i + \sum_{k=2}^4 \beta_k \sum_{k=2}^4 Control_{k,i} + \varepsilon_i \quad (1)$$

where  $i$  represents the  $i_{th}$  observation ( $i = 1, \dots, 112$ ). In this paper, the  $i$ th observation is the compound province-year observation (seven SKER's provinces and HCMC in the 2008-2021 period).  $\beta_0$  is the vertical intercept,  $\beta_1$  is the parameter which measures the impact magnitude of  $FDI_i$  on  $IMIG_i$  and  $\varepsilon_i$  is the error term of the Equation (1). Meanwhile,  $\beta_k$  represents the parameters of three control variables, which include  $SEA_p$ ,  $RAIL_p$ , and  $DEN_p$ . Equation (2) as follows indicates the first stage least square regression of inward FDI stock and lagged variables of PCI score and rank:

$$FDI_i = \alpha_0 + \alpha_m PCI_{s_{i,t-1}} + \alpha_n PCI_{r_{i,t-1}} + \omega_i \quad (2)$$

where  $\alpha_0$  is the vertical intercept,  $\alpha_m$  is the parameter of  $PCI_{s_{i,t-1}}$ ,  $\alpha_n$  is the parameter of  $PCI_{r_{i,t-1}}$ , and  $\omega_i$  is the error term of Equation (2). In Equation (1),  $IMIG_i$  is the inward migration ratio (%) of the  $i$ th observation, which is calculated as follows:

$$IMIG = \frac{I}{P_a} \cdot 1000 \quad (3)$$

where  $I$  is the number of inward migrants from other provinces and  $P_a$  is the average number of population or the population up to the midst of the year. In the Equation (1) and (2):

1.  $FDI_i$  is the natural logarithm of accumulated inward FDI stock (million US\$);
2.  $SEA_p$  and  $RAIL_p$  are binary variables which are equal to 1 if province is coastal and railway-connected respectively, otherwise they are equal to 0;
3.  $DEN_p$  is the population density (number of people per square kilometer).
4.  $PCI_{s_{i,t-1}}$  is the natural logarithm of lagged value PCI score of province  $i$  in year  $t - 1$  ( $t = 2008, \dots, 2021$ ). The PCI score ranges from 0 to 100, where higher values indicate higher provincial competitiveness or higher provincial institutional quality; and
5.  $PCI_{r_{i,t-1}}$  is the lagged value of PCI rank of the province  $i$  in year  $t - 1$ , where lower values indicate higher provincial competitiveness or lower provincial institutional quality.

Data sample is comprised of spatial scope of HCMC and seven provinces in the SKER and temporal scope of the 2008-2021 period. The data sources include the Statistical Yearbook of the General Statistics Office (Vietnam) and the annual PCI reports of the VCCI. The Pooled OLS IV 2SLS estimation is exploited to investigate the link between inward FDI and inward migration. Equation (2) demonstrates the first stage least square regression of inward FDI stock and its IVs. Equation (1) represents the second stage least square regression of inward FDI and inward migration, where estimated values of the former from Equation (2) are included in the estimation of Equation (1). The 2SLS estimation is used to tackle the endogeneity relevant to inward FDI stock due to the correlation with the error term because of omitted variables and the possible simultaneity caused by the feedback effect of inward migration on inward FDI in Equation (1). Equation (2) is applied to the treatment of endogeneity which exists in the link between foreign direct investment and migration. Accordingly, instrumental variables are selected and included in the research model for estimating inward foreign direct investment, which include Provincial Competitiveness Index (PCI) score and rank, which are published annually by the VCCI. The lagged values of PCI score and rank satisfy the exogeneity and relevance requirements of valid instruments, which has been mentioned in subsection 2.1. For post-estimation examination, the tests of underidentification, weak instruments, overidentification, and endogeneity of endogenous variables are employed which confirms the validity of the selected and included variables.

4. RESULTS AND DISCUSSIONS

Figure 3 has indicated the positive correlation between inward FDI stock and inward migration, which reveals the contributing impact of the global offshoring and supply chain shifting trends to the inward migration in the case of the SKER.

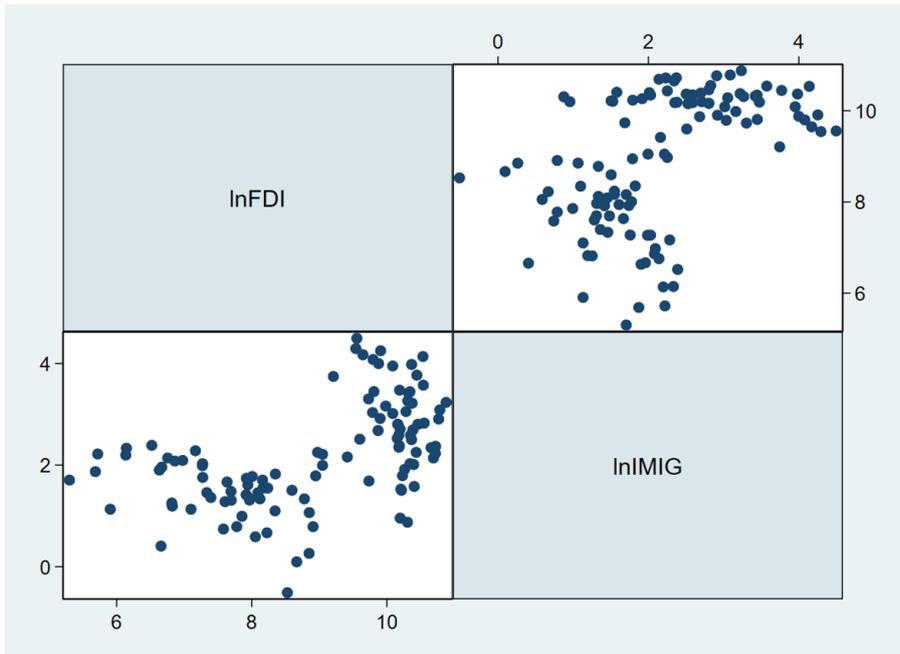


Figure 3: The correlation between inward FDI stock and inward migration

Source: The author.

Meanwhile, Figure 4 has demonstrated the negative correlation between inward FDI stock and the lagged value of PCI rank, and the positive correlation with the lagged value PCI score, which may unveil the influences of PCI on the global offshoring and supply chain shifting trends which occur in the SKER. This also implies the relevance between inward FDI stock and PCI score and rank, which indicates the validity of including PCI score and rank as instruments for inward FDI stock.

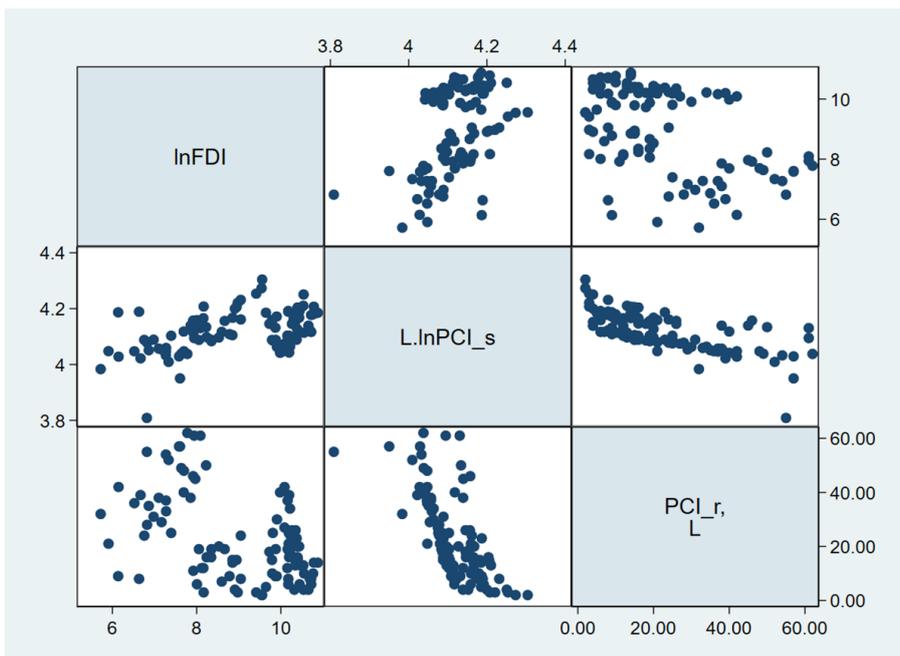


Figure 4: Correlations between inward FDI stock, PCI score, and PCI rank

Source: The author.

Table 1 and Table 2 demonstrate the descriptive statistics and correlation matrix of the data sample. Table 2 indicates the highly correlated relationship between provincial FDI and the other variables in the research model. In addition, highly correlated relationships among the other variables may pose the risk of multicollinearity, which could be handled by the use of IV 2SLS estimation.

**Table 1: Descriptive statistics**

Variables	Observation	Mean	Std. Dev.	Min	Max
FDI <sub>i</sub>	112	15,845.52	14,562.56	200.8	52,921.6
SEA <sub>i</sub>	112	0.625	0.486	0	1
RAIL <sub>i</sub>	112	0.375	0.486	0	1
DEN <sub>i</sub>	112	896	1,181.419	122	4,481
IMIG <sub>i</sub>	112	14.818	17.479	0.6	89.6

Source: The author.

**Table 2: Correlation matrix**

	FDI <sub>i</sub>	SEA <sub>i</sub>	RAIL <sub>i</sub>	DEN <sub>i</sub>	IMIG <sub>i</sub>
FDI <sub>i</sub>	1				
SEA <sub>i</sub>	0.330***	1			
RAIL <sub>i</sub>	0.703***	0.067	1		
DEN <sub>i</sub>	0.692***	0.335***	0.546***	1	
IMIG <sub>i</sub>	0.352***	-0.292***	0.667***	0.153	1

\*\*\*, \*\*, and \* represent the significant level of 1%, 5%, and 10%, respectively.

Source: The author.

Regression results of the Pooled OLS IV 2SLS estimation with robust option and post-estimation tests have been presented in Table 3. Table 3 demonstrates the results of Pooled IV 2SLS estimations with robust option (the second stage least square regression) and the FDI<sub>i</sub> as the endogenous variable. The impact magnitude of inward FDI stock on inward migration is 0.346 which is significant at the 5% level, which has confirmed the second hypothesis (H2) of the positive impact of provincial FDI on provincial inward migration. This implies that inward FDI increases inward migration, which is a novel contribution to the FDI-led growth hypothesis both at national (Ahmad et al., 2018; Dada & Abanikanda, 2023; Saidi et al., 2020) and subnational or provincial level (Berthélemy & Demurger, 2000; Lheem & Guo, 2004; Wang et al., 2013; Zhao, 2013). More importantly, the findings have been consistent with the research of Anwar and Nguyen (2010) which demonstrates the positive impacts of inward FDI on local economy. However, the research of Anwar and Nguyen (2010) has only explored the impact on local economic growth, while this paper has explored the local FDI-migration link in the case of the SKER. Those findings have provided solid empirical evidence of the positive impact of provincial FDI attraction on the inward migration in the case of SKER. The mechanism behind this relationship could be explained by the *pull effect* of FDI in the SKER, which triggers the *labour market pooling effect* which subsequently attracts migrant workers to settle in SKER for better employment and income prospects.

In terms of the other control variables, coastal location has significantly decreased inward migration with the magnitude of  $-0.398$  which is significant at the 10% level. This result has unveiled the fact that SKER provinces which are coastally located are not much attractive as landlocked provinces for migrant workers

to settle in. Railway-connectedness has significantly contributed to inward migration with the magnitude of 1.064 which is significant at the 1% level. These findings have implied that inter-regional transportation is the facilitator of migration in the SKER, which means that public investments in transportation which connects the SKER and the other provinces could create more employment and income opportunities for migrant workers who are seeking the “dream land” in the SKER. Population density negatively influences inward migration with the magnitude of  $-0.001$  which is significant at the 1% level. This unveils the limited absorption of inward migrants of provinces in the SKER. The increasing number of migrant workers could increase provincial population density, which in turn reduces the absorption capacity of those provinces and inhabitation opportunities for other migrants in the SKER.

In terms of IVs testing, the Kleibergen-Paap rk LM statistic value is 18.400, which is significant at the 1% level, which indicates the relevance between IVs and inward FDI stock. The Kleibergen-Paap rk Wald F statistic is 10.662 which is higher than the Stock-Yogo critical values (20%) of 8.75, which confirms that IVs are not weak. The Hansen J statistic is 0.742, which is not significant, which demonstrates that IVs are valid. Finally, the endogeneity test of endogenous regressors is 3.892, which is significant at the level of 5%, which indicates that IVs are necessary to be included in the model. Those post-estimation tests have documented that PCI score and rank are valid IVs for inward FDI stock in the research model for the case of the SKER, which has confirmed the first hypothesis (H1) of the positive impact of provincial institutions on provincial FDI.

Table 3: Results of 2SLS estimations (with robust option)

IMIG <sub>i</sub>	Pooled OLS
FDI <sub>i</sub>	0.346** (0.048)
SEA <sub>i</sub>	-0.398* (0.086)
RAIL <sub>i</sub>	1.064*** (0.004)
DEN <sub>i</sub>	-0.001** (0.042)
Constant	-0.968 (0.471)
Number of obs.	104
Kleibergen-Paap rk LM statistic	18.400***
Kleibergen-Paap rk Wald F statistic	10.662
Stock-Yogo critical values (20%)	8.75
Hansen J statistic	0.742
Endogeneity test of endogenous regressors	3.892**

\*\*\*, \*\*, and \* represent the significant level of 1%, 5%, and 10%, respectively.

Source: The author.

## 5. CONCLUSIONS

The paper has applied Pooled OLS IV 2SLS regression to investigate the contribution of the global offshoring and supply chain shifting trends to inward migration in the context of seven provinces and HCMC of the SKER (Vietnam) in the 2008-2021 period. The novelty of this paper is examining the relationship between FDI and migration at provincial level. In this paper, the global offshoring and supply chain shifting trends are proxied by the inward FDI stock value. To handle the endogeneity, the lagged variables of PCI score and rank, which are measured and published annually by Vietnam Chamber of Commerce and Industry (VCCI), are combined, and used as IVs for inward FDI stock. Findings have echoed the positive impact of inward FDI stock on inward migration, which unveils the contribution of the global offshoring and supply chain shifting trends to inward migration in the context of the SKER. Coastal location and population density are negatively associated with inward migration, while railway-connectedness could increase inward migration. From the policy-making-related perspective based on research findings, the SKER should design specific and preferential incentives to attract the larger number of FDI and global supply chain shifting projects, which creates more employment opportunities for migrant workers in the region. The incentives should focus on FDI and global supply chain shifting projects of in the fields of general processing and manufacturing, and manufacturing and assembling electrical and electronic products, which are the migrant labor-intensive industries in the SKER. However, because the supply chains of those industries are comprised of a number of component nodes and links, the SKER needs a mechanism for coordination and assignment in directing the shifting flows, which ensures appropriate geographical dispersion and avoids the overcrowded concentration in a handful of production points, which consequently results in chronic congestion and high pressure on infrastructure, especially those caused by the large number of migrant workers and their family members. In the SKER, HCMC has been playing the central and leading role in economic growth and development. Therefore, HCMC needs to be a pioneer in coordinating provincial FDI attraction policies of the region, which reduces the uneven

distribution of FDI capital flows within the SKER, which consequently forms overpopulated areas of migrant workers and their family members, which increases the burden on infrastructure and public service provision, which ultimately eliminates other benefits brought by FDI and global supply chain shifting flows. Most importantly, it is necessary for the SKER to accompany and remove difficulties for FDI enterprises to retain these enterprises in Vietnam, which reduces the reverse trend of supply chain outward-shifting, which unpredictably causes sudden unemployment for migrant workers in the region. In addition, SKER should establish training and education policies to improve skills and knowledge for migrant workers in the FDI sectors, which increases the quality and competitiveness of migrant human resources in the region. The rights and benefits of migrant workers in the FDI sector, especially those related to social insurance, must be protected by SKER authorities, especially in the situation of FDI enterprises which have been suffering from poor performance and those which are not competitive and effective in corporate social responsibility. Public investment in inter-regional transportation, especially those connected to the SKER is crucial for turning this region into a labour market pooling of migrant workers from the other provinces and regions. This increases the labour availability for FDI investors, while also facilitating the poverty eradication in rural areas as a result of remittance from migrant workers to their homeland relatives and families. The limitation of this paper is the generability of the findings as sample includes only provinces in the SKER. Therefore, future research could extend the sample for the higher generability of findings.

## ACKNOWLEDGEMENTS

The author gratefully acknowledges the precious support of the Faculty of Logistics – International Trade, Hoa Sen University, especially that of the author's colleagues in the International Business program. This has enabled the author to concentrate on the research paper. Furthermore, the author expresses the sincerest appreciation to the Faculty for granting the time and flexible working schedule in the research process.

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