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The determinants of Vietnamese outward foreign direct investment to Laos

Introduction

Vietnam and Laos are the two countries with special relation in politics, economic and investment. From 2006, Vietnamese government issued Decree 78/2006 regulating the OFDI flows, which leads to the significant increase in the number of projects OFDI registered from Vietnamese enterprises to Laos. However, in 4 recent years (2011–2014), OFDI from Vietnam into Laos decelerated sharply. Notably, in 2014, there were only 13 new licensed projects but there were up to 34 OFDI projects from Vietnam into Laos had to stop operating, most of them were in mining industry (20 projects) and processing, manufacturing industry (8 projects). This is a new phenomenon requiring updated researches about the primary factors effecting on OFDI from Vietnam into Laos. This research combines qualitative methods and the Investment Development Path model (IDP model) to assess the influence of some macroeconomic factors on OFDI from Vietnam into Laos and propose policy implications. The IDP model is widely used in research, assessing the impact of the development level of a country to that country's OFDI. IDP model is also analyzed by many other researchers and they added institutional variables.¹ IDP model with institutional variables is applied in the study of factors affecting OFDI in emerging countries as well as countries

¹ K.E. Meyer, H.V. Nguyen, *Foreign Investment Strategies and Sub-national Institutions in Emerging Markets: Evidence from Vietnam*, "Journal of Management Studies" 2005, Vol 42, No. 1, pp. 63–93; M.W. Peng, *Towards an Institution-based View of Business Strategy*, "Asia Pacific Journal of Management" 2002, Vol. 19, No. 2/3.

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followed the socialist path. The reason is that OFDI in these countries are usually depended on government's policies.²

According to the IDP model, OFDI and IFDI of a country are depended positively on the level of development of that country (usually measured by GDP *per capita*); rely on that basis, countries will decide their Investment Development Path. There are 5 stages in this path. The first phase, before the period of industrialization, the least developed countries will not be able to attract as well as create FDI because of the underdevelopment in the edge "position", such as unskilled workforce. In addition, the markets are not large enough to attract foreign investors. These countries have a zero or negative net FDI (NFDI = OFDI – IFDI). The second stage, the development of industrialization initially attracts FDI into the country, but the amount of OFDI is still insignificant, which leads to negative net FDI. The third stage, along with the improvement in technology, specialized production and growth of the domestic market, OFDI and IFDI both increase but NFDI is still negative. The fourth phase is when a country's NFDI is positive, that country possesses the technical qualifications of modern science and high living standards, becoming the capital exporting and importing. And in fifth phase, it is the developed country with the great amount of FDI moving in and out, but OFDI is still much higher than IFDI.

The countries in the stage 1–3 are usually developing countries. The countries in stage 4–5 are usually developed countries. The development of the economy is usually accompanied by the growth of OFDI, therefore, the variables related to the development can be used to explain the extent of OFDI. According to the IDP model,³ there is a positive relationship between the level of development of the economy and the OFDI. On the basis of the development of the economy, domestic companies have many advantages to expand foreign investment. However,

² C. Stoian, *Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment*, "International Business Review" 2012, IBR-965, pp. 10–20.

³ J.H. Dunning, *Incorporating Trade into The Investment Development Path: A Case Study of Korea and Taiwan*, "Oxford Development Studies" 1988, Vol. 29, No. 2, pp. 145–154.

in some transitional economies, the researchers see the possibility that these countries do not follow the IDP model.⁴ The government in the countries which had been through a socialist regime often implement policies to promote international cooperation, skipping a step in OFDI in these countries.⁵ Skipping a step in OFDI is the exception in the IDP model when IFDI and OFDI of a country go ahead the development of the economy. The notable researches are synthesized in Table 1.

Table 1
Researches applying IDP model

Researchers	Main content	Method	Data	Conclusion
1	2	3	4	5
Pantelidis and Kyrkilis (2005)	the macroeconomic determinants of OFDI from developed, transition and developing economies	IDP (institutional variables not included)	OFDI from 25 economies in the period 1976–1999	the home countries determinants of OFDI varies between developed, transition and developing economies
Liu et al. (2005)	the macroeconomic determinants of OFDI from China: export, human capital, GDP <i>per capita</i> , inward FDI	IDP (institutional variables not included)	OFDI of China from 1976 to 2002	there is no need to extend the IDP model in case of China
Andreff (2002)	the macroeconomic determinants of OFDI from transition and developing economies: GDP <i>per capita</i> , exchange rate, economy structure	IDP (institutional variables not included)	cross country analysis of total OFDI, including transition and developing countries in the period 1988–2000	economy structure, GDP <i>per capita</i> , exchange rate have effected OFDI

⁴ X. Liu, T. Buck, C. Shu, *Chinese Economic Development, The Next Stage: Outward FDI?*, “International Business Review” 2005, Vol. 14, pp. 97–115.

⁵ M. Svetličič, *Theoretical Context of Outward Foreign Direct Investment from Transition Economies*, in: *Facilitating Transition by Internationalization: Outward Direct Investment from European Economies in Transition*, eds. M. Svetličič, M. Rojcek, Ashgate, Aldershot 2003, pp. 10–28.

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1	2	3	4	5
Kalotay (2005)	the macroeconomic determinants of OFDI from central and Eastern Europe, including some institutional factors: EU accessions, government policies	IDP and institutional factors	cross country analysis of total OFDI	it is hypothesized that EU enlargement fosters OFDI
Kalotay (2008)	the determinants of OFDI by Russian TNCs	IDP, eclectic paradigm, and institutional theory	Russian OFDI data- both national and firm level	it is suggested the need to extend the OLI by including home institutional factors to explain Russian OFDI
Stoian (2012)	IDP added institutional factors: exchange rate policy, privatization, enterprise restructuring reforms, overall institutional reforms, competition reforms	IDP and institutional factors	data from 20 Eastern and Mid European economies.	among institutional factors, overall institutional reforms has strong effect to OFDI

Source: P. Pantelidis, D. Kyrkilis, *op. cit.*, p. 17; W. Andreff, *op. cit.*, pp. 19–22; K. Kalotay, *op. cit.*, p. 113; C. Stoian, *op. cit.*, p. 22; X. Liu, T. Buck, C. Shu, *op. cit.*, pp. 101–102.

Whether or not and to what extent the IDP model can explain the OFDI flow from Vietnamese enterprises to Laos? It can be explained further in part 3 of this article.

1. Overview of OFDI from Vietnam into Laos

Vietnam had direct investment projects into Laos from early 1990s. However, these projects were spontaneous. In the period of 1994–1998, there were only 3 registered projects with the total investment of 2.8 million USD, the average capital per project was only 0.94 million USD. The number of projects in this period was insignificant, the scale was small and these projects were conducted completely by SOEs.

In the period 1999–2005, the Decree 22/1999 regulating the OFDI was fully in force, led to the positive changes in the investment from Vietnam into Laos. In this period, there were 36 OFDI projects with the

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investment capital of up to over 466 million USD, the average capital per project was 12.94 million USD. Notably, the private enterprises in Vietnam started searching investment opportunities in Laos, which invested in 14 projects with the registered capital of 13.3 million USD, the average capital was 0.95 million USD/project. In this period, the large projects were mainly in wood processing, mining, planting industrial trees.

In the period 2006–2010, the Government issued the Decree 78/2006 regulating the OFDI of Vietnamese enterprises. Hence, OFDI from Vietnam into Laos had remarkable growth in both scale and the number of projects. In only five years, Vietnam had up to 124 projects investing into Laos, the registered capital was 2,519 billion USD, the average capital per project was 20.31 million USD. A series of large projects were licensed in this period such as the hydroelectric project Sekaman 1 with the registered capital of 441.6 million USD, the hydroelectric project Sekaman 3 with the registered capital of 273 million USD and especially, the Long Thanh-Vientiane economic zone project with the registered capital up to 1 billion USD.

Table 2

OFDI from Vietnamese enterprises into Laos by time
(only consider projects having effect as of 31.12.2014)

Year	Number of projects	Total investment capital (USD)	Charter capital (USD)
1994–1998	1	306,811	306,811
1999–2005	36	466,123,686	298,385,691
2006–2010	124	2,519,022,366	2,136,737,650
2011–2014	57	940,966,519	641,184,413
Total	218	3,926,419,382	3,076,614,565

Source: author's own work based on the data originating from Foreign Investment Agency, Ministry of Planning and Investment, <http://fia.mpi.gov.vn/Home> (accessed 26.09.2016).

In the four recent years (2011–2014), OFDI from Vietnamese enterprises into Laos slowed down notably. In this period, there were only 57 new registered projects with the investment capital from Vietnam

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of 940.96 million USD. The average scale of capital was 16.51 million USD/project. It was remarkable that the number of projects with large scale of capital declined considerably (in the whole period there were just 8 projects with the scale of capital of over 20 million USD). Especially, in this period, a series of projects had to stop operating before the deadline (34 projects just in 2014). These projects were mainly in the mining industry and the processing, manufacturing industry.

Regarding to OFDI by fields, industry is the key sector which accounts for the highest proportion of investment from Vietnam into Laos. Industry comprises up to 44.5% the investment capital and 51.8% the number of OFDI projects of Vietnamese enterprises. In which, the most notable are these projects in hydroelectric. To be more specific, Vietnamese enterprises are conducting 5 hydroelectric projects in Laos with the total capital of up to 1,267 million USD, constituting 72.4% registered capital in the industrial field and 32.3% OFDI capital from Vietnam into Laos. Besides, Vietnam also has 22 hydroelectric projects which signed Memorandum Of Understanding (MOU) with the total capacity of 3,742MW. These figures prove that hydroelectric plays an important role in investment strategy from Vietnam into Laos. Vietnam and Laos have decided to propose Asian Development Bank for technical support and investment to build electric transmission line 500kV Laos–Vietnam, which aims to improve the effective in electric trading between the two countries. In the context of high consideration to energy security in every country, the potential in hydroelectric investment from Vietnam into Laos is satisfactory.

Regarding to agricultural sector, this is the advantageous field of Vietnamese enterprises. Therefore, OFDI from Vietnam into Laos in agriculture is expanding in both scale and number of registered projects. Accumulated to the end of 2014, total investment in the agricultural sector reached 691.708 million USD, with 46 projects. The average size of each project reached 15.1 million USD. These projects are concentrated in the agroforestry; there is still no investment in the field of fisheries and aquaculture. Besides traditional projects on planting rubber, coffee etc. Vietnamese enterprises have navigated to other crops such as sugarcane,

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corn and cattle production expanded by modern technology etc. It can be concluded that potential cooperation in the field of agriculture between Vietnam and Laos is satisfactory with a wide range of investment opportunities could be promoted in the near future.

Table 3
OFDI from Vietnamese enterprises into Laos by field
(accumulation of projects having effect as of 31.12.2014)

Sector	Investment field	Number of projects	Registered capital of Vietnam (unit: USD)
Industry	Mining	45	324,670,575
	Manufacture and distribution electric, fuel	5	1,266,964,850
	Processing and manufacturing	55	101,054,147
	Construction	8	58,013,772
	Industry, total	113	1,750,707,344
Agriculture	Agriculture, forestry and aquaculture	46	691,708,424
Services	Wholesale and retail; car, motor, motorcycle repair	17	26,277,943
	Water supply, rubbish processing and management	3	9,371,204
	Other services	2	668,000
	Accommodation and dining	4	48,210,289
	Education and training	2	1,346,700
	Specialized activities, science and technology activities	4	2,990,000
	Administration activities	1	300,000
	Real estate activities	5	108,973,430
	Banking, finance and insurance	10	192,900,000
	Arts, entertainment and creation	2	1,004,500,000
	Information and communication	4	86,464,998
	Logistic	3	1,071,050
	Medicine and social aid	2	930,000
	Services, total	59	1,484,003,614
Total		218	3,926,419,382

Source: author's own work based on the data originating from Foreign Investment Agency, Ministry of Planning and Investment, <http://fia.mpi.gov.vn/Home> (accessed 26.09.2016).

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In the field of services, accumulated by the end of 2014, Vietnam had 59 investment projects in Laos, with a total investment of 1,484 million USD. The average capital scale reached 25.15 million USD/project. The average size of capital is quite high, mainly caused by “super project” with 1 billion USD registered capital of Long Thanh Corporation licensed since 2009. This “super project” is a combination of many parts, including a 5-star hotel, an international standard golf course, resorts and villas, commercial center, hospital and school in an area of 554.7 hectares. It is expected that the completion of this project will contribute to the development of Vientiane in particular and Laos in general. In addition to this “blockbuster” project of Long Thanh Corporation, there were also notable projects in banking and finance, 10 licensed projects with the average capital of 19.3 million USD/project. In the context of sharp integration of Vietnam and Laos into the ASEAN region, the participation in ASEAN Economic Community (AEC) and other free trade area such as AFTA, ACFTA, AKFTA... the probability to promote OFDI from Vietnam into Laos in the services sector is satisfactory.

Table 4

OFDI from Vietnamese enterprises into Laos by investment form

Investment form	Number of enterprises	Composition (%)
Joint venture enterprises	55	25.2
100% foreign capital enterprises	163	74.8
Total	218	100.0

Source: author's own work based on the data originating from Foreign Investment Agency, Ministry of Planning and Investment, <http://fia.mpi.gov.vn/Home> (accessed 26.09.2016).

Regarding to the form of investment, as of 31 December 2014, Vietnamese enterprises had 218 direct investment projects in Laos. In which, the largest share is 100% capital of Vietnam, being 163 projects, accounting for 74.8%. The number of joint venture projects is 55 projects, making up 25.2%. Thus, Vietnamese enterprises investing in Laos mainly choose the form of 100% foreign capital. This is understandable because

Laos remains under developed, and lack of capital for economic development. Therefore, the joint venture projects are limited. There was no other forms of investment such as BOT, BTO, BT, BCC etc. because Laos has no comparative advantage in both labor and technology, which means that it is not suitable for Vietnamese enterprises ‘outsourcing’ a part of the work to Laos in the form of contracts or business cooperation. Moreover, investment law in Laos regulates that foreign enterprises investing into Laos have to invest under 2 forms as enterprises with 100% foreign capital and joint venture enterprises. Therefore, other forms of investment have not been conducted.

Table 5
OFDI from Vietnamese enterprises into Laos by region
(accumulation of projects having effect as of 31.12.2014)

City/province	Number of projects	Total investment capital (unit: USD)
Ha Noi	92	1,230,579,339
Dong Nai	6	1,122,386,724
Gia Lai	11	450,735,203
Ho Chi Minh city	43	394,044,277
Nghe An	17	203,578,690
Binh Duong	5	86,206,574
Dac Lac	3	32,923,958
Da Nang	7	24,462,087
Kon Tum	7	22,291,331
Binh Dinh	3	20,792,449
Other cities/provinces	24	338,418,750
Total	218	3,926,419,382

Source: author’s own work based on the data originating from Foreign Investment Agency, Ministry of Planning and Investment, <http://fia.mpi.gov.vn/Home> (accessed 26.09.2016).

By the end of 2014, Vietnam had 32 provinces investing into 16/17 provinces of Laos (except the BoKeo province). In particular, provinces having the highest number of projects are Ha Noi (92 projects), Ho Chi Minh City (43 projects), Nghe An (17 projects) and Gia Lai (11 projects). Regarding to registered capital, Ha Noi is the leading

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province with total registered capital of up to 1.23 billion USD, followed by Dong Nai, Gia Lai, Ho Chi Minh City, Nghe An. It can be seen that besides these major cities/provinces listed above, the remaining projects are primarily conducted by the provinces having border with Laos, which has small or medium capital size. To promote investment into Laos, Vietnam and Laos clearly need to coordinate more closely with the appropriate incentives to promote investment activities in the border regions.

2. Applying the Investment Development Path model to assess macroeconomic factors affecting OFDI from Vietnamese enterprises into Laos

The development path of each country has its own characteristics.⁶ Thus, GDP *per capita* is not a complete measure of the development of the economy. Therefore, a number of other variables besides GDP *per capita* are used such as the volume of FDI inflow,⁷ the volume of trade,⁸ national institution,⁹ the scientific and technological level,¹⁰ etc. In this research, three macro variables representing the development of an economy used to assess the impact on OFDI from Vietnam into Laos (Acronym: OFDIL) are: the growth of nominal GDP *per capita* (PGDP), the state budget expenditure on science and technology (RDSB) and FDI inflow into Vietnam (IFDI).

Hypothesis 1. OFDI has a positive relationship with the development of the economy, being measured by the growth rate of nominal GDP *per capita*.

⁶ C. Bellak, *The Austrian Investment Development Path*, “Transnational Corporations” 2001, Vol. 10, No. 2, pp. 107–134.

⁷ *Ibidem*.

⁸ J.H. Dunning, *op. cit.*, pp. 145–154.

⁹ A. Bevan, S. Estrin, K. Meyer, *Foreign Investment Location and Institutional Development in Transition Economies*, “International Business Review” 2004, pp. 43–64.

¹⁰ C. Stoian, *op. cit.*, pp. 3–20.

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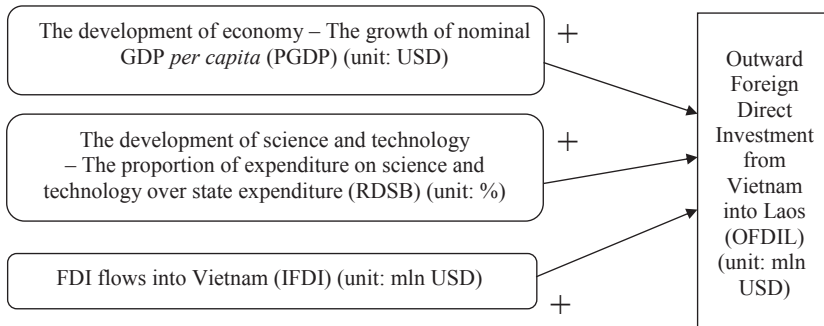


Figure 1. IDP model assessing the effect of macroeconomic factors on OFDI from Vietnamese enterprises into Laos

Source: author's own elaboration based on J.H. Dunning, *Incorporating Trade into The Investment Development Path: A Case Study of Korea and Taiwan*, "Oxford Development Studies" 1988, Vol. 29, No. 2; C. Stoian, *Extending Dunning's Investment Development Path: The role of home country institutional determinants in explaining outward foreign direct investment*, "International Business Review" 2012, IBR-965, p. 15.

IDP model also indicates the positive relationship between the development of science, technology and OFDI. Science and technology will help private companies as well as state owned companies increase labor productivity, creating a competitive advantage and scale; thereby, which leads to the increase in the amount of OFDI. Therefore, a further hypothesis is given:

Hypothesis 2. OFDI has a positive relationship with the development of scientific and technology, being measured by the proportion of the state budget investing in science and technology.

Third, the model IDP also concludes that the amount of inflow capital (IFDI) will enhance OFDI. This is explained by the spillover effect of FDI. To be more specific, when FDI flows to one country, the domestic companies will have to raise the level of management and operational efficiency, this leads to the relative advantages with other countries. This,

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thus, promotes OFDI activities. Therefore, the third hypothesis is proposed:

Hypothesis 3. OFDI has a positive relationship with the IFDI capital.

The data of the variables in the model is taken annually from 1990 to 2014. The data is in the form of time series so that it should be tested sequences to determine the stationarity for the variables, then it can be used the univariate regression to find the variables that effect on OFDI into Laos. The observations are limited, so that univariate regression will consider the variable with a maximum delay of 2 years, then put the statistically significant variables in a multiple regression model.

Table 6
Descriptive statistic

Variables	OFDIL	PGDP	IFDI	RDSB
Obs (Number of observations)	25	25	25	25
Mean	156,566.3	652.5000	10,994.78	1.123333
Median	1,909.529	426.5000	5,345.300	1.045000
Standard Deviation	316,852.8	472.7087	14,766.08	0.283099
Jacquer-Bera Test	49.37589	7.245082	139.3088	7.792312
Probability	0.000000	0.026715	0.000000	0.020320

Source: calculated in Eviews.

With descriptive statistic in Table 6, we can see that the variables OFDIL, IFDI have relatively high standard deviation, experiencing many changes over the years. Meanwhile, variables RDSB and PGDP volatile less.

3. Research result

The ADF test and PP test are used to analyze the stationarity of the variables. The first level difference of variables OFDIL, IFDI is denoted DOFDIL, DIFDI. Table 7 shows that two variables OFDIL and IFDI are not stationary, but the first differences of them are stationary. Two variables RDSB and PGDP are stationary. Therefore, the variables included

in the model are DOFDIL, DIFDI, RDSB and PGDP to consider macro-economic factors affecting OFDI from Vietnam into Laos.

Table 7
Stationarity test of variables

	ADF test	PP test
OFDIL	-2.070	-2.029
IFDI	-0.858	-2.629
PGDP	-3.508**	-3.476**
RDSB	-3.578**	-3.484**
DOFDIL	-8.006***	-7.939***
DIFDI	-3.865***	-6.350***

Note: ***, **, * – the coefficient is significant at 1%, 5% and 10% levels, respectively.

Source: calculated in Eviews.

Table 8 shows the correlation between factors, these coefficients are less than 0.7. This represents the variables do not have tight relationships with each other.

Table 8
Correlation matrix

	PGDP	RDSB	DOFDIL	DIFDI
PGDP	1.000000	–	–	–
RDSB	0.058906	1.000000	–	–
DOFDIL	-0.036567	0.674874	1.000000	–
DIFDI	0.599186	0.001197	-0.281503	1.000000

Source: calculated in Eviews.

The independent variables are given in the regression model application with the delay from 0–2 years to find out the variables having relationship with OFDIL variable, including the delay variables of DOFDIL. Then, the variables in the regression model which have statistical significance will be given to a multiple regression model. After running the

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single regression model, the statistically significant variables included in a multiple regression model are: $DIFDI_{t-1}$, $RDSB_t$, $PGDP_{t-1}$, $OFDIL_{t-2}$ ¹¹.

Considering the multiple regression model, using BG test about the first level of correlation, it can be concluded that there is no self-correlation in the model (Table 9).

Table 9

BG Test about self-correlation first level in multiple regression model

	Coefficient	Prob.
F-statistic	1.838254	0.198241
Obs*R-squared	2.353837	0.124975

Source: calculated in Eviews.

The result in table 10 shows that, the proportion of state expenditure spending on science and technology and FDI capital into Vietnam are two factors having positive impact on OFDIL.

Table 10

Result of regression model

Independent variables	DOFDIL
C	362.6804
$OFDIL_{t-2}$	0.274270
$PGDP_{t-1}$	-6.865489
$RDSB_t$	3.324366*
$DIFDI_{t-1}$	0.011478**
Observations	25
R ²	0.720465***

Note: * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Source: calculated in Eviews.

¹¹ X_{t-i} can be understood that variable X with the late i year(s) compared with independent variable. The detailed data about regression models will be supplied if have any requirements.

It is clear that the increase of investment in the science and technology have helped Vietnam having many advanced technologies in the sectors which can be invested into Laos such as hydropower construction, processing technology, planting industrial trees, etc. This helps many Vietnamese enterprises possess high level of technology, investing robustly into Laos.



Figure 2. Composition of FDI registered into Vietnam from 2006 to 2012

Source: calculated from data of General Statistic Office of Vietnam, <https://www.gso.gov.vn> (accessed 15.10.2016).

Considering about the impact of FDI into Vietnam on the increase of Vietnam's OFDI into Laos, it can be said that the increase in FDI have transferred and spreaded the technology in Vietnam.¹² However, through the data in Table 10, it can be seen that the impact of FDI into Vietnam to DOFDIL is not significant. With the increase of 1 million USD registered FDI into Vietnam, there was only 0.011 million USD increase in OFDIL respectively. In fact, during the period 2006–2014, whereas the key investment sectors of Vietnamese enterprises into Laos are hydropower industry, plantation forestry, agriculture, etc. FDI in Vietnam focused

¹² Q.H. Le, R. Pomfret, *Technology Spillovers from Foreign Direct Investment in Vietnam: Horizontal or Vertical Spillovers?*, "Asia Pacific Economy" 2011, Vol. 16, Issue 2, pp. 183–201.

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much more on real estate (Figure 2). It leads to slow technological spread and less spillover effect on OFDI from Vietnamese enterprises to Laos.

Refer to Table 10, the coefficient of variable growth of GDP *per capita* and two-year delay OFDIL variable in a multiple regression model have no statistical significance. This indicates that the OFDI from Vietnam into Laos is not affected directly by the growth rate of GDP *per capita* and the OFDIL two periods before. The reason is that the capital from the state still plays an important role in OFDI from Vietnam into Laos. There are still many administrative barriers to non-SOEs enterprises when investing abroad. This is the reason why the growth of GDP in the country is not accompanied by the growth of OFDI into Laos.

Conclusions

Despite a wide range of fluctuations, OFDI from Vietnam into Laos had a significant growth since the Decree 78 of the Government in 2006 regulating OFDI. The increase in the government expenditure on science and technology and the IFDI of Vietnam had positive affect, promoting OFDI from Vietnam into Laos. Meanwhile, there is no impact of the growth of GDP *per capita* on Vietnam's OFDI into Laos. This leads to investment policy to promote science and technology in Vietnam, especially in key industries investing in Laos. Promoting scientific research and the transfer of science and technology in key sectors (hydropower construction, agriculture, forestry and fisheries processing, planting industrial trees) will help Vietnamese enterprises have better competitiveness when investing in Laos. Other recommendations for Vietnamese government are having policies to promote FDI into Vietnam, especially in manufacturing and processing industries; opening more international relationships; boosting the technical transfer of FDI enterprises in Vietnam.

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