Essays in Development Economics

The impact of investment promotion on attracting foreign direct investment in developing countries

A THESIS SUBMITTED TO THE TRINITY COLLEGE OF DUBLIN IN APPLICATION FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

BY

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Declaration

I declare that this thesis had not been submitted as and exercise for a degree at this or any other university and it is entirely my own work.

Chapter two and four are based on joint work with my supervisor Carol Newman.

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Van Thi Hai Le

Summary

The importance of foreign direct investment (FDI) in economic development is increasingly acknowledged. FDI not only brings additional capital to the host economy, but foreign-invested enterprises also play a part in the transfer of technology, creating jobs and generating positive spillover effects to domestic firms. Thus, attracting more FDI in order to boost economic development has become a crucial policy of governments throughout the world, especially in developing countries. The United Nations Conference on Trade and Development (UNCTAD, 2013b) estimates that 81 per cent of countries around the world have established a national Investment Promotion Agency (IPA) to carry out promotion tasks.

This thesis consists of three papers that explore the role of investment promotion in developing countries. The duty of IPAs might vary between countries, but investor targeting is always the most significant task, regardless of the level of development of the host countries (UNCTAD, 2001). IPAs face limited resources and therefore, need to focus their promotion efforts on targeted sectors, regions and source countries. Research so far has focussed on the sector dimension in targeting policies while the other two dimensions are wildly unexplored. This thesis contributes to the literature on understanding the effectiveness of the promotion targeting policies by focussing on regional targeting within-country and source countries. My research uses the case of Vietnam, a developing country that is undergoing a rapid transformation process from a closed economy to a market-oriented economy to analyse the effectiveness of promotion policies in developing countries.

Chapter two focuses on the regional aspect of targeting policy. The chapter examines the effectiveness of investment promotion policies aimed at attracting foreign direct investment (FDI) into particular regions within a country. Using the case of Vietnam, the paper investigates whether the spatial targeting policies of the Investment Promotion Agency over the 1998-2013 period impacted on the level of FDI inflows across districts. The chapter also considers different types of targeting policies, and in particular distinguishes between policies aimed at encouraging disadvantaged areas and those motivated by efficiency arguments such as through the establishment

of special economic zones. Using data on all registered FDI projects in Vietnam between 1998 and 2013, the findings in this chapter suggest that spatial targeting has a positive impact on registered FDI inflows. There is also evidence that these policies led to higher levels of FDI in the long term, but only in the pre-2006 period. Targeting is particularly effective in relation to industrial parks where we find higher levels of FDI as a result of targeting and that this investment grows over time.

Chapter three explores the role of targeting selected countries in attracting FDI through analysing the promotion techniques used by the IPA in the source countries. Using a panel dataset of all inward FDI projects into Vietnam for the period 1996 to 2016, the chapter shows that FDI is more likely to originate from the country where IPAs conduct at least one promotion techniques. Regarding the role of each promotion technique, the chapter highlights the importance of aftercare services, such as help desks, as a cost-effective method of attracting FDI into developing countries. The chapter also addresses the fact that the intensity of promotion activities in a targeted country could contribute to the increase in FDI inflows.

Chapter four explores the impact of barriers to investment under bilateral frameworks on inward FDI. Using the case of bilateral investment relationships between Vietnam and the US, the chapter finds that barriers imposed on US investors in service sector not only lower the level of US investment but also reduce investment from other investors. The chapter also uncovers a spillover effect of barriers on investment inflows to other nations and analyses the mechanism through which barriers on US investors could influence other investors.

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Chapter 1. Introduction

The importance of foreign direct investment (FDI) in economic development is increasingly acknowledged; attracting more FDI has become a crucial policy of governments throughout the world, especially in developing countries. The United Nations Conference on Trade and Development (UNCTAD, 2013b) estimates that 81 percent of the countries around the world have established a national Investment Promotion Agency (IPA) to compete in attracting FDI. The IPAs are involved in several different activities grouped into four functional categories: national image building, investment generation, facilitation services for potential investors, and policy advocacy (Wells and Wint, 2000b). The duty of IPAs might vary between countries but investor targeting is always the most significant task, regardless of the level of development of the host countries (UNCTAD, 2001b).

The function of IPAs varies between least developed and developed nations but the most common task of IPAs is investor targeting, particularly for economies in transition, where all IPAs ranked investor targeting as the most important task (UNCTAD, 2001b). IPAs face limited resources and therefore, need to focus their promotion efforts on some specific sectors, regions or economies. The literature so far has focussed attention on examining the sector dimension in targeting policies while the other two dimensions are wildly unexplored. This thesis contributes to the empirical literature on exploring promotion targeting policies by focussing on regional and source country targeting.

Several studies show that investment promotion is associated with higher levels of FDI (Charlton and Davis, 2007, Wells and Wint, 2000a), especially in developing and transition economies. Promotion plays a greater role in developing countries than in developed countries as it is harder for investors to acquire the necessary information on investment opportunities and the business environment in those countries (Harding and Javorcik, 2011). The importance of promotion in developing countries has been examined mainly at the cross country level. There is much less

evidence on the impact of promotion on attracting FDI in the context of a developing country.

My research uses the case of Vietnam, a developing country undergoing the transformation process from a closed economy to a market-oriented economy, to analyse the effectiveness of promotion policies in developing countries. This is an excellent case for exploring these issues. Vietnam has been transformed from a nearly closed economy to a market-oriented one with the introduction of the renovation policies known as "Doi Moi" since 1986. The Law on Foreign Investment, promulgated in 1987, paved the way for foreign investors to invest in Vietnam from 1988. After 30 years of implementing the reform, Vietnam is a destination for foreign investors from more than 110 economies throughout the world with US$ 229 billion registered capital in 22,509 ongoing projects (see Appendix 1-Appendix 4 for details) (FIA, 2017). During the transformation process, along with other economic renovation policies, FDI policies in general, and FDI promotion strategies in Vietnam in particular, have been developed through different stages which provides us with the variation needed to understand different investment promotion policies and their impact on attracting FDI.

The thesis consists of three topics which analyse the effectiveness of investment promotion in attracting FDI in the context of a developing country. Chapter two focuses on the effectiveness of FDI targeting along the spatial dimension. Using the case of Vietnam, we examine whether the spatial targeting policies of the IPA impacted on the level of FDI inflows across districts. We also consider different types of targeting policies, and in particular distinguish between policies motivated by efficiency arguments and policies motivated by redistribution arguments. We examine their relative success in attracting and sustaining FDI inflows.

Chapter three explores the effectiveness of targeting efforts aimed at selected source countries. We aim to answer three research questions: (1) whether promotion activities focused on selected economies contribute to an increase in the level of FDI from those countries; (2) which promotion techniques are most effective in terms of attracting investment from the targeted countries; and (3) whether or not the influence of promotion activities differs by types of FDI.

Chapter four explores the special case of Bilateral Investment Treaties (BITs), and in particular the BIT between the US and Vietnam. The chapter investigates the impact of barriers under the BIT on investment flows from the US and other countries. Three research questions are addressed: (1) Did imposing FDI restrictions decrease FDI inflows from the US into the services sector in Vietnam? (2) What type of barriers influences inward US FDI inflows? (3) Did restrictions on investors from the US have spillover effects on FDI flows from other investors? and if yes, through what channel?

Chapter five summaries the findings and some policy implications.

Chapter 2. The effectiveness of regional investment targeting programmes: evidence from Vietnam

2.1. Introduction

There are many studies demonstrating that foreign direct investment (FDI) plays an important role in the economic growth of developing countries (Blomstrom et al., 1994, Borensztein et al., 1995, Iacovoiu, 2015, Iamsiraroj, 2016). Not only does it bring additional capital to the host economy, foreign invested enterprises (FIEs) also play a part in transferring technology, creating jobs and generating spillover effects to domestic firms (Javorcik, 2004, Blalock and Gertler, 2008, Newman et al., 2015, Görg and Strobl, 2001, Görg and Greenaway, 2004). Thus, attracting more FDI in order to boost economic development has become one of the focal objectives of governments in many countries, especially in developing and emerging economies.

Significant resources are invested by nations into attracting foreign direct investment. Foreign firms, however, face asymmetric information problems when making the decision to invest in a particular country. They may, for example, find it difficult to understand local conditions and bureaucratic processes. Investment Promotion Agencies (IPAs) exist to reduce transactions costs thus facilitating FDI inflows. For developing countries, investment promotion is particularly important in attracting FDI given that there is arguably greater potential than in high-income countries for such information asymmetries.

In 2013, about 81 per cent of countries around the world had a national IPA (UNCTAD, 2013a). Their functions generally include national image building, investment generation, facilitation services for potential investors, and policy advocacy (Wells and Wint, 2000b). Essentially, IPAs aim to 'market' their economy as a destination for FDI. Indeed, a number of empirical studies have found a positive association between investment promotion through IPAs and inward FDI. For example, Morisset (2003) finds that the annual expenditure on investment promotion by national IPAs is positively associated with higher FDI inflows. Lim (2008) finds that promotion performance, measured by the years of operation by the national IPA

and the number of IPA staff in host and home countries, plays an important role as an intermediation between the host countries and foreign investors.

A key role for IPAs is targeting investors (UNCTAD, 2001b). This function of the IPA essentially involves facilitating the matching of foreign investors to the host country environment. IPAs often target particular countries for investors and specific sectors. Many studies have shown the positive impact of this type of investment targeting on the level of FDI inflows. For example, Wells and Wint (1990) show that the presence of a promotion representative in a home country is associated with a significant increase in FDI inflows from that country into the host countries, especially in developing countries. Harding and Jovorcik (2007) find that promotion efforts focused on targeted sectors could lead to more than double the FDI inflows compared to non-targeted sectors. Targeting has also been found to be even more effective in developing countries than developed countries. Charlton and David (2007), for example, find that targeted industries received 41 per cent more FDI inflows post-targeting period while Harding and Javorcik (2011) find that for developing economies, FDI inflows to targeted sectors increased by 55 per cent in the aftermath of the introduction of targeting policies.

A much less explored dimension of investment targeting relates to the matching of foreign investors to specific locations within countries.[1] While Woodward (1992) finds that investment promotion influenced the site selection of foreign investors, the effectiveness of spatial targeting policies within countries has to our knowledge not been explored to date. In designing spatial policies governments have two objectives in mind: i) the desire to increase economic efficiency; and ii) the desire to equitably distribute resources within the country. Spatial policies aimed at attracting FDI often attempt to satisfy both of these objectives. Depending on which is the policy focus the outcome for the extent and success of FDI inflows may be very different. For example, if the government's aim is to attract FDI to the locations where it will be most productive it is likely that FDI into that location will take place without the need for significant incentives (once transactions costs are accounted for). In contrast, if the government's aim is to attract FDI to disadvantaged areas as part of an equitable spatial distribution policy it is likely that it will lead to more FDI into

[1] Loewendahl (2001) highlights the role that targeting of locations within countries plays determining FDI inflows.

that location than would otherwise have been made, but possibly with less success or longevity. A key question for policy makers is which strategy is the most cost effective and makes the most sense from an economic development point of view. In the case of the former, providing incentives to foreign investors in the form of tax breaks or subsidies, may actually lead to less income if these investors would have invested anyway in the absence of such incentives. In the case of the latter, the resources and the level of incentives or tax breaks required to attract FDI to disadvantaged areas may be significant making it less likely to be cost effective if unsuccessful in sustaining the level of FDI investment over the longer term. In this case, alternative policies for achieving an equitable redistribution may be more effective.

This paper examines the effectiveness of FDI targeting along the spatial dimension. Using the case of Vietnam, we examine whether the spatial targeting policies of the IPA impacted on the level of FDI inflows across districts. We also consider different types of targeting policies, and in particular distinguish between policies motivated by efficiency arguments and policies motivated by redistribution arguments. We examine their relative success in attracting and sustaining FDI inflows.

Vietnam is an ideal case for exploring this issue. Vietnam began its transition from a centrally planned economy to a market-oriented economy with the introduction of a package of economic reforms known as "Doi Moi" in 1986. Part of this reform included the Law on Foreign Investment, which was first promulgated in 1987 and came into effect in 1988. This established a legal framework for the development of a new foreign invested sector in Vietnam. More than 110 economies have invested in Vietnam with total registered capital of foreign invested projects of US$282 billion by the end of 2013, of which nearly US$112 billion has been implemented (FIA, 2015). Accounting for a quarter of the total investment in the economy, the large inflows of FDI have gradually given the foreign-invested sector an important role in the development of the Vietnamese economy in terms of its contribution to GDP, value of exports and employment.

In this paper, we examine the effectiveness of spatial policies in relation to investment promotion in Vietnam during the 1998 to 2013 period. There were four different policy regimes governing investment during this period. The first targeting

policy was introduced in 1998 and lasted until 2000, the second from 2000 to 2003, the third from 2003 to 2006 and the final regime which came into effect in 2006 and has been in place since then. In the first three regimes, there was two types of targeting policy in place. Level 1 targeting offered various tax breaks and incentives for FDI to locate in preferred areas. These were largely strategic areas that were targeted on efficiency grounds. Level 2 targeting was undertaken primarily for the purpose of attracting FDI to disadvantaged areas. The level of incentives offered were much greater than those offered under Level 1. The 2006 regime saw a significant change in the government's policy toward spatial targeting and introduced for the first time the targeting of investment into special economic zones. While disadvantaged areas continued to be targeted, special efforts were made to attract investment into industrial parks, export processing zones and other economic zones. In our analysis we examine the extent to which the underlying objective of the investment promotion policy impacts on its success.

We construct a database of all FDI projects invested in Vietnam over the 1998 to 2013 period. In total, our data comprise of 15,902 projects, excluding any offshored projects. We aggregate these data to the district level to construct a measure of inflows of FDI into Vietnam into each district. We create indicator variables for districts that were targeted by the national policy for foreign investment, what regime they were targeted under and the level of targeting. We also distinguish between targeting disadvantaged areas and targeting special economic zones. We use a district fixed effects analysis to determine whether targeting, and the specific type of targeting, impacts on the level of FDI inflows into a district. We also consider the extent to which targeting leads to more sustainable FDI inflows over the longer term.

We find evidence to suggest that spatial investment targeting policies leads to higher levels of FDI into economically disadvantaged districts than would otherwise be the case. We also find evidence that this investment is sustained beyond the duration of the incentives on offer, but only in the pe-2006 period. Targeting investment into special economic zones is particularly effective in the post-2006 period. Moreover, in the case of industrial parks, this investment appears to grow over time.

We add to the empirical literature on the effectiveness of FDI targeting policies. Although empirical evidence of the effectiveness of investment promotion for

attracting foreign investment has been provided in a number of studies, they have largely been cross-country analyses which arguably average out country-specific nuances relating to investment promotion policy.[2] There is a notable dearth of empirical studies focussed specifically on the spatial targeting of FDI within countries. Understanding the effectiveness of such policies, and understanding whether they give value for money, is particularly important for developing country contexts given the often large spatial disparities within countries in terms of economic development.

The remainder of the paper is structured as follows. Section 2 provides some background to Vietnamese context. The datasets are described in section 3. Section 4 presents the empirical approach while the results are presented in Section 5. Section 6 concludes.

2.2. Vietnamese context

2.2.1. Contributions of FDI to the economy

Vietnam has been in transition from a centrally planned economy into a market-oriented economy since the introduction of economic reform known as "Doi Moi" in 1986. Among such renovation policies, the Law on Foreign Investment, which was first promulgated in 1987 and came into effect in 1988, has established a legal framework for the development of a new foreign invested sector in Vietnam. More than 110 economies have invested in Vietnam with total registered capital of foreign invested projects of US$282 billion by the end of 2013, of which nearly US$112 billion has been implemented (FIA, 2015). Accounting for a quarter of the total investment, the large inflows of FDI have gradually given the foreign invested sector an important role in the development of the Vietnamese economy in terms of its contribution to GDP, value of exports and employment.

The large contributions of FDI to the Vietnamese economy have been revealed in a number of publications. FDI has positively influenced economic growth of Vietnam

[2] Casey (2013) emphasised the necessity to analyse investment promotion policies and its impact in a certain country, particularly in a developing economy.

(Hoang et al., 2010), and economic growth at provincial levels (Anwar and Nguyen, 2010). FDI also helps to eliminate poverty (Hemmer and Phuong Hoa, 2005), technological spillover effects of FDI on domestic firms, channels and determinants of spill over effects on the productivity of domestic enterprises. There is evidence that technology transfers from FIEs to domestic firms which provide inputs (Newman et al., 2015). Despite their different approaches, researchers unanimously agree that FDI contributes significantly to the economic development of Viet Nam.

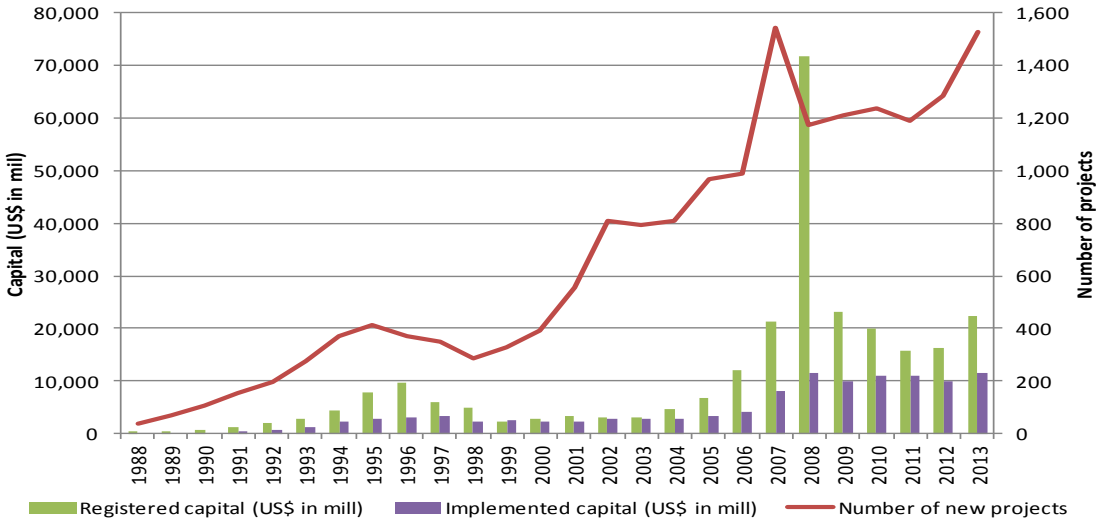
2.2.2. FDI trends

The pattern of FDI into Vietnam can be classified into four periods (see Figure 1). The first wave of increasing inward FDI last from 1988 to 1996, registered FDI[3] inflows gradually increase from US$342 million in 1988 to US$9.6 billion in 1996. Implemented FDI[4] inflows also increased moderately from US$428 million to US$2.9 billion between 1991 and 1996. The FDI legal framework changed every two years in the first five years of the period. The Law on Foreign Direct Investment was amended in 1990 and 1992 after commencing in 1988 and was replaced by the Law on Foreign Direct Investment in 1996.

The reduction stage started from 1997, as the result of the Asian crisis, and lasted for three years then followed by a levelling out until 2003. Registered FDI in the economy fell to US$5.9 billion in 1997, 38 per cent lower than the level of the previous year, continued to reduce to US$4.8 billion in 1998 and hit a low at US$2.2 billion in 1999. Investors from Asia including Taiwan, Singapore, Japan, Republic of Korea and Hong Kong accounted for more than 50 per cent of the FDI stock in Vietnam at this time. Registered FDI inflows fluctuated around the level of US$3 billion in four years from 2000 to 2003 despite the fact that the Vietnamese government continuously promulgated new legal documents to provide a clearer guidance for foreign investors about what projects were encouraged, offered more incentives and further simplified administration burdens.

[3] According to the Law on Investment in Vietnam, the total registered capital of a FDI project is the plan to invest in a project, proposed by its investors (both foreign and domestic partners) in their submitted dossiers, approved and recorded by a respective authority in an Investment License or an Investment Certificate, which are required for all types of FDI projects in Vietnam.
[4] Implemented FDI is the realization of the registered capital

Figure 1: FDI inflows in Vietnam 1988-2013



Source: The Vietnam Foreign Investment Agency, 2014

The second wave of inward inflows can be seen from 2004 to 2008. Registered inflows recovered in 2004, continuously grew at more than 50 per cent and reached the unprecedented peak of US$71.7 billion registered in 2008. Almost all of Vietnam's giant FDI projects (i.e. registered capital of more than one billion USD) were approved during this time, of which 11 licences were granted in 2008.

The second downturn in FDI inflows began in 2009 and was primarily a result of the financial crisis. Registered FDI fell to US$23 billion in 2009 and continued to reduce to US$19.8 billion in 2010, and US$15.6 billion in 2011. Investment from the US and the developed countries, however, increased during this period. In 2009, the US surpassed all traditional partners become the biggest investor in Vietnam for the first time. In 2010, The Netherlands was the third biggest investor and the US was the fifth.

2.2.3. FDI targeting policies

Like many other countries, FDI promotion policies in Vietnam fall under three development stages: welcoming, marketing and targeting (UNCTAD, 2001a). The first stage lasted from 1988, the first year commencing the Law on Foreign Direct Investment, to 2003. A lack of capital is one of the main reasons why countries welcome FDI, particularly at the beginning of the economic transformation process.

During this period, Vietnam introduced encouraged sectors and areas without any particular promotion efforts to attract FDI to those sectors or areas except for offering some privileges. In 2001, Vietnam began to focus on drawing the attention of investors from developed countries.[5]

The establishment of the Foreign Investment Agency, a government authority under the Ministry of Planning and Investment in July 2003 marked the beginning of the second stage in FDI promotion. The main functions of the FIA include licensing, monitoring and supporting inward and outward FDI, supervising the implementation of FDI policy in all provinces, FDI promotion and FDI policies at the national level. In terms of promotion, FIA covers four major categories of a typical IPA from image-building, investment generation, investor service and policy advocacy (Wells and Wint, 2000b). After the establishment of the national agency, 57 out of 64 provincial investment promotion centres (IPCs) were set up. Even though provincial IPCs are different in their legal status[6] and form of establishment[7], their main source of funds come from the provincial budget. Promotion activities in this period were mainly in the form of the national investment conferences, which focused on national image-building and introduced general investment environment and policies. Although the national conference attracted hundreds of international investors, the lack of detailed information on targeted projects or targeted sectors limited its efficiency. Provincial IPCs played a role in providing information for site selection at the national conference as well as in organising their own provincial investment seminars. The need to focus on selected investors and areas and the necessity of providing funds from the national budget for reforming promotion activities had been addressed.[8] It was not until 2007, however, that investment promotion policies changed from passively welcoming foreign investors to actively promoting foreign

[5] Resolution No.09/2001/NQ-CP dated on 28th August 2001 on enhancing the effectiveness of attracting and governing FDI in the period between 2006 and 2010. Vietnamese Government.
[6] It could be a sub-unit of the provincial People Committees, an independent organisation under the provincial People Committee or under a provincial department, a division of a provincial department
[7] The investment promotion could be a solely investment promotion office or a joint investment tourism and trade promotion organisation or a joint investment and trade promotion agency
[8] Directive No.13/2005/CT-TTg of the Prime Minister of Vietnam dated on 8th April 2005 on a number of solutions to creating further changes in the attraction of foreign direct investment in Vietnam

investment in selected sectors from targeted investors in line with the socio-economic development strategy of Vietnam[9].

The targeting period began with the establishment of the National Investment Promotion Fund in 2007 which provided for the first time a source of funding from the national budget for investment promotion activities. Under this scheme, investment representatives have been assigned to the economies from which Vietnam would like to attract more investment. Investment conferences were held in selected countries together with head quarter visit of targeted investors. The national scheme also allowed selected ministries to organise their promotion activities in targeted sectors.

Targeting programmes are an important part of investment policy in Vietnam. It normally includes four dimensions: time, area or location, sector and the origin of investors. According to the Vietnamese legal framework, targeting programmes have to be promulgated under a legal document including laws and government decrees or at least a Prime Minister's decision in some special cases. In other words, the central government is solely responsible for announcing the targeted investors, sectors and areas calling for foreign investors in a specific period while taking into consideration comments from ministries and provincial authorities. Since the economy opened for foreign investors in 1988, investment policies[10] have been adjusted many times. Hence, the targeting programmes cover eight episodes: 1988-1991, 1991-1993, 1993-1997, 1997-1998, 1998-2000, 2000-2003, 2003-2006 and 2006-2013 of which four periods from 1998 to 2013 fall within our research period.[11] In this dimension, the dates of enforcement are used to identify the beginning and ending of a period. The legal document regulated the targeting programmes between 1998 and 2000 is the Decree No. 10/1998/ND-CP of the Vietnamese Government dated on 23rd January 1998 and took effective on 8th February 1998. The Decree No. 10 had revoked since its replacement, the Decree No. 24/2000/ND-CP of the Vietnamese Government dated on 31st July 2000, became effective on 1st August 2000. Thus, the period from 1998 to 2000 means the period between 8th February 1998 and 1st

9 Directive No. 15/2007/CT-TTg of the Prime Minister of Vietnam dated on 22nd June 2007 on a number of major solutions to promoting foreign investment into Vietnam

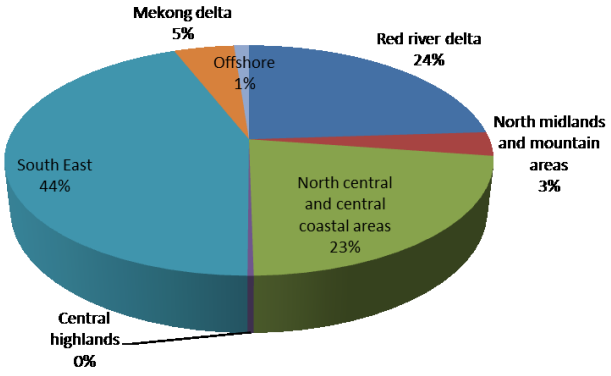
10 Laws on Foreign Direct Investment and its guidance decrees, excluding related legal documents

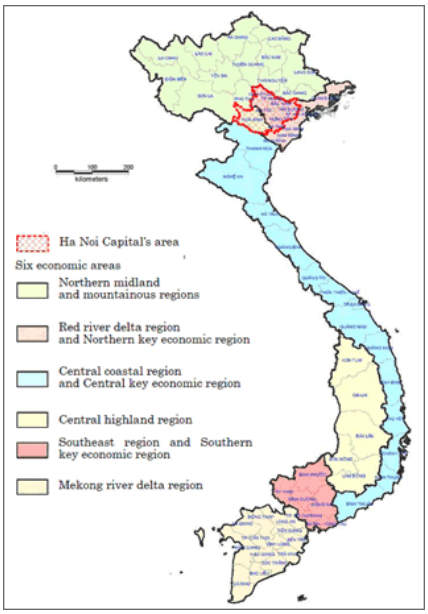
11 Targeting policies also existed before 1998 but are not well documented in terms of the precise investment regulations and so could not be included in our analysis.

August 2000, including the beginning date but excluding the end date, not the whole calendar years in the respective period. The only exception is the ending date of the last period, which is 31st December 2013 including that date, because the current decree is still effective. The period might alter between dimensions because of the coverage of legal document relating to targeted sectors, areas and countries (see Appendix 5 for the list of legal documents with full details).

Under the Vietnamese regulations, a project that locates in either an encouraged district or in one of the three special zones[12] including industrial parks (IPs), export-processing zones (EPZs) and economic zones (EZs), will be considered as a targeted project and thus, will be entitled for a privilege. There are two levels of incentives offered to foreign investors to invest in a targeted area. Any investment in an IP, EPZ or EZ is entitled to incentives regardless of their location. There are however different intensities of incentives. A project siting in the specially encouraged districts or in an EPZ or an EZ will get a higher level of incentives than those locating in the encouraging areas or in an IP. The incentives encompass a lower corporate income tax rate in certain years, tax holidays, tax exemptions, a duration free land-use and free import duties for imported fixed assets.

Figure 2: FDI by regions in Vietnam at the end of 2013





Source: FIA 2014

Source: www.mlit.go.jp

[12] Here in after, encouraging areas should be translated as both encouraged districts and/or any kind of special zones

By the end of 2013, the South East region accounted for 44% of total registered FDI in Vietnam, followed by the Red river Delta (24%) and the North Central and the Central Coastal region (23%). FDI registered in the Central Highland areas accounted for a very small proportion of total FDI. FDI by region in Vietnam in 2013 and the location of each region is shown in Figure 2.

2.3. Data

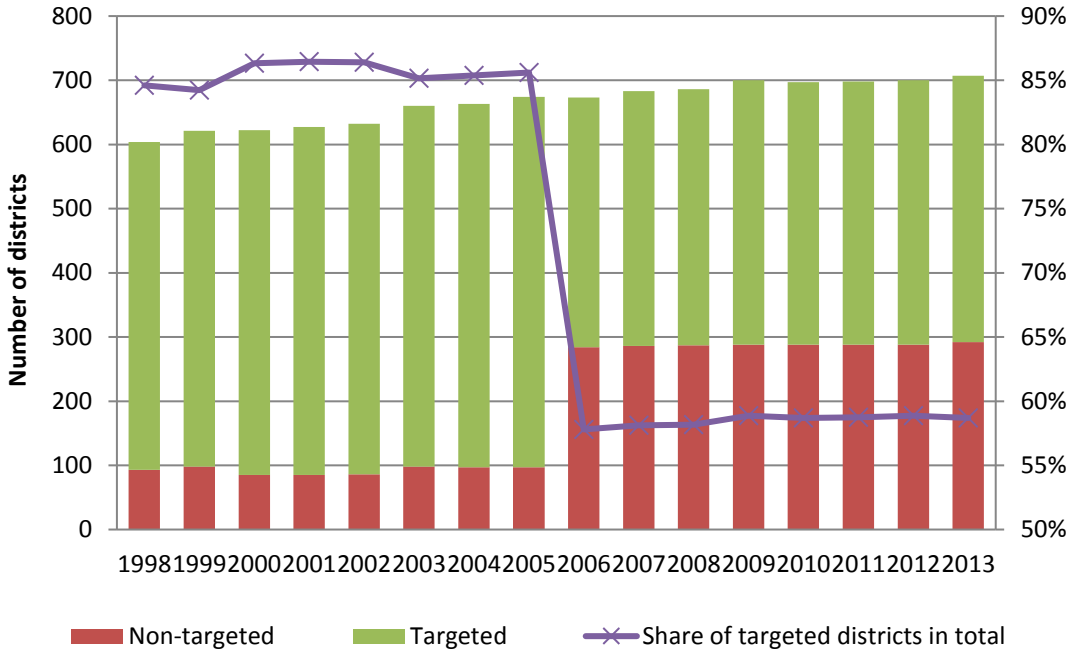
We construct a detailed database on registered FDI inflows into Vietnam to examine the impact of foreign investment promotion efforts.[13] From the investor's perspective, promotion plays an important role in the process of making the decision to invest (Brossard, 1998). In analysing the influence of targeting programmes on FDI inflows, we use the fact that an enterprise *plans* to invest in a specific region as our main indicator of targeting success. This will arguably better reflect the promotion efforts in encouraged areas; whether investors actually locate in a targeted area, or realise this investment, will depend on many other factors. Wells and Wint (1990) recommend using administrative data of this kind in examining the effectiveness of investment promotion given that there is no lag between the promotion efforts of the government and the investors' decisions.

The information on targeted and non-targeted districts are from the legal documents database on foreign direct investment in Vietnam from 1998 to 2013, available on the Ministry of Justice legal documents online database. The administrative districts were adjusted frequently over the sample period and 103 new districts were established between 1998 and 2013. As a newly split district was not mentioned in the corresponding legal documents, we classified those districts in the targeted areas or not based on the context of the legal documents. In creating the targeted district data, we assumed that the new district stayed in the targeted regions if after the split, it was not an urban region or became a town or city in a province where the whole province was an encouraged area. For example, in some provinces, where the whole

[13] Pham also used the share of foreign partners in legal capital on approval basis to analyse export performance of foreign firms in Vietnam MAI, P. H. 2001. The Export Performance of Foreign-Invested Enterprises in Vietnam. *ASEAN Economic Bulletin,* 18**,** 263-275..

province, including the urban areas and the provincial capital is in the targeted area, the new district is classified as the targeted areas. In other provinces, where the whole province, excluding the urban areas and the provincial capital is the targeted areas, the new district which is the new urban area will be classified as a non-targeted area and vice versa. An overview of targeted and non-targeted district is described in Figure 3.

Figure 3: Targeted districts vs none targeted districts 1998-2013



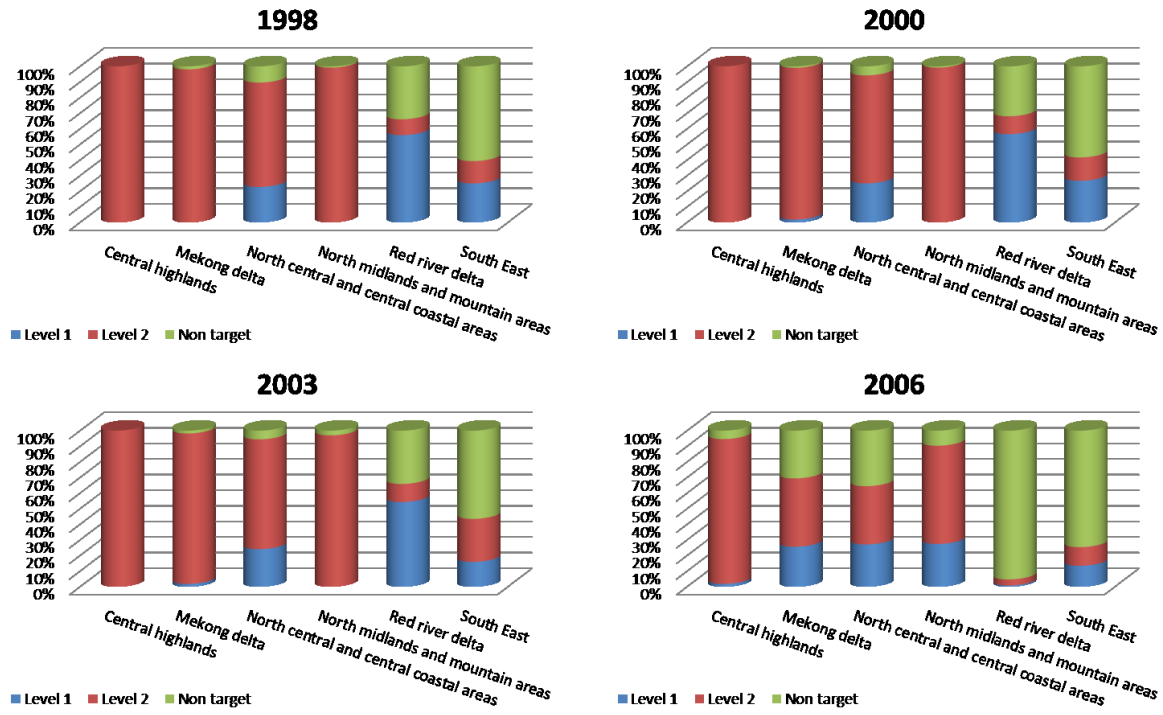
Source: Author calculations

FDI inflows are measured as the sum of total registered capital[14] of all new foreign direct investment projects at their time of approval in a district in a given year (measured in US dollars). To build this database we used the master list of new FDI projects provided by the Foreign Investment Agency (FIA) of Vietnam and combined this with the project profiles provided by provincial authorities to get details on the location of each project. We gather data on all projects between 1998 and 2013. Projects are grouped into districts based on their registered addresses. We dropped 315 projects where we could not identify the district where the project was located and 47 offshored projects so the number of projects in our final sample was

[14] According to the Law on Investment in Vietnam, the total registered capital of a FDI project is the invested capital for implementing the project proposed by its investors (both foreign and domestic partners) in their submitted dossiers, approved and recorded by a respective authority in an Investment License or an Investment Certificate, which are required for all types of FDI projects in Vietnam.

15,587 new projects. In order to define whether a project is targeted or not, we applied a two-step strategy based on two criteria applied to encouraged areas. First, projects in any IPs, EPZs and EZs are isolated and marked as targeted projects regardless of location. We also grade the intensity of the incentives; projects in an EPZ or EZ receive a higher level of incentives and so are distinguished from projects in IPs. Second, the project data are merged with information on all districts in Vietnam to get the name of the district at the time of the project approval to determine whether or not the timing of the project is associated with a targeting incentive. In total, we have the investment inflows in 708 districts in Vietnam over 16 years from 1998 to 2013. Descriptive statistics present in Table 1.

Figure 4: Targeted districts by regions and policy schemes



Source: Author calculations

We also distinguish the intensity of incentives. Projects located in areas with *extremely* difficult socio-economic conditions received more incentives (level 2) than those sited in the areas with difficult socio-economic conditions (level 1). This is determined by the regulations in place during each period. Figure 4 shows the intensity of targeted districts by region under four policy schemes from 1998 to 2013.

Table 1. Summary statistics of targeted districts

Variable	Obs	Mean	Std. Dev.	Min	Max	Notes
District_FDI	11,328	3.6523	6.6945	0	23.0054	FDI at district level (log form)
Target98a	11,328	0.1078	0.3101	0	1	Target district under 1998 scheme
Target00a	11,328	0.1655	0.3717	0	1	Target district under 2000 scheme
Target03a	11,328	0.1714	0.3769	0	1	Target district under 2003 scheme
Target06a	11,328	0.3789	0.4851	0	1	Target district under 2006 scheme
Target98a1	11,328	0.0229	0.1495	0	1	Target district level 1_1998 scheme
Target98a2	11,328	0.0849	0.2788	0	1	Target district level 2_1998 scheme
Target00a1	11,328	0.0373	0.1894	0	1	Target district level 1_2000 scheme
Target00a2	11,328	0.1283	0.3344	0	1	Target district level 2_2000 scheme
Target03a1	11,328	0.0370	0.1887	0	1	Target district level 1_2003 scheme
Target03a2	11,328	0.1344	0.3411	0	1	Target district level 2_2003 scheme
Target06a1	11,328	0.1887	0.3913	0	1	Target district level 1_2006 scheme
Target06a2	11,328	0.2157	0.4113	0	1	Target district level 2_2006 scheme
Target06a1_IP	11,328	0.1177	0.3222	0	1	Target level 1 under 2006 scheme_Industrial Parks
Target06a1_DIST	11,328	0.0939	0.2917	0	1	Target district level 1 under 2006 scheme
Target06a2_EZ	11,328	0.0200	0.1401	0	1	Target level 2 under 2006 scheme_Export Processing Zones or Economic Zones
Target06a2_DIST	11,328	0.1992	0.3994	0	1	Target district level 2 under 2006 scheme

We are also interested in whether projects that are approved in targeted districts, IPs, EPZs and EZs do better than projects in other districts to the extent that they increase the existing levels of registered capital over time. As such, we also consider the registration of extended FDI in each targeted area during the policy periods.[15]

[15] Once an Investment Licence or Investment Certificate to implement a project is obtained in Vietnam, any change in registered capital of the project must be submitted and approved by the authorities and recorded in an amended Investment Licence or amended Investment Certificate without any exceptions.

We use the information in provincial year books to generate the control variables at the district level. While the range of topics covered in the year books are similar over the years,[16] they differ in the details, especially at the district level. The common district indicators that can be used as control variables are population, population density and the production of cereals. They are available for all provinces from 2005 to 2013. District population density is time variant and can proxy for the availability of the labour force in the area, which is vital for attracting investors, particularly in a developing country like Vietnam. The production of cereals is a proxy for the level of development of a district. As the provincial year books are not widely published, we received assistance from the General Statistics Office of Vietnam in gathering the district control variables for the period under study 2005 to 2013. Given that we do not have these data for the entire sample period we include them only as a robustness check on our main results.

2.4. Empirical Approach

The reduced form for estimating the impact of IPA targeting on inflows of FDI by district in Vietnam is given in equation (1).

$$\ln(FDI\_approved)_{dt} = \alpha_0 + \beta_1 Target_{dt} + \gamma_d + \gamma_t + \varepsilon_{dt} \quad (1)$$

where $\ln(FDI\_approved)_{dt}$ is the log of the level of approved FDI inflow into district *d* in time *t*, $Target_{dt}$ takes a value of 1 if the district was targeted for inward FDI investment in time *t* under the investment regulations, γ_d are district fixed effects that control for time invariant district specific factors that may confound the relationship between targeting and FDI inflows (e.g. being close to a city), γ_t are time dummies which control for common shocks impacting on the inward flow of FDI into all districts (e.g. financial crisis or change in legal framework), and ε_{dt} is a statistical noise term. The coefficient of interest is β_1, the sign on which will tell us whether FDI inflows are higher in targeted districts.

There are other district specific characteristics that could determine FDI inflow into the district. In fact, the criteria for being an encouraged district include physical

[16] There were 64 provinces in Vietnam from 1998-2008 and 63 afterward.

location, infrastructure development, social factors, endowments and living conditions. These are arguably factors that could in their own right impact on FDI inflows. To isolate the impact of targeting in our analysis we construct a number of control variables to capture such district specific characteristics.[17] The impact of targeted policy on FDI inflows considering other time varying factors are estimated using equation (2).

$$\ln(FDI\_approved)_{dt} = \alpha_0 + \beta_1 Target_{dt} + \beta_2 \mathbb{X}_{dt} + \gamma_d + \gamma_t + \varepsilon_{dt} \quad (2)$$

$\mathbb{X}_{dt}$ are time-varying district control including district population density and the production of cereals, in logarithm forms. As the district control variables are only available from 2005[18] and the sample in the equation (2) is reduced and so is used as a robustness check on the main result.

We observe many districts with no investment in many years. To deal with zero values, we add 1 before taking the logarithm for all variables. In the control variables data, the 0 value corresponds with the periods before the establishment of that districts.

The inclusion of fixed effects implies that the identification of the impact of targeting on FDI inflows comes from the within-district variation in targeting over time. The counterfactual is the level of inflows into the district before it was targeted and the level of inflows into the non-targeted districts. The inclusion of time-varying district-specific characteristics is important to control for any other changes in the level of economic activity of a district that may have impacted on both inflows and the probability that the district was targeted.

We also consider whether there are differences in the effectiveness of targeting under the different policy regimes, i.e. 1998, 2000, 2003 and 2006. As discussed in section 2, different districts in Vietnam are targeted for different reasons with some being targeted purely for economic reasons, in the form of IPs, EPZs and EZs, and others because they are disadvantaged areas. As such we disaggregate the targeting indicator to explore whether targeting was more effective in IPs, EPZs and EZs than

[17] Our econometric model includes district fixed effects (see below) which controls for all time invariant district specific characteristics such as natural advantages (e.g. being a coastal district, mountainous, etc.).
[18] The district inflows are from 1998 to 2013.

in districts that were preferred for other reasons. In addition, we consider whether the intensity of the investment incentives makes a difference.

While the dependent variable in our core model is the level of investment from approved projects in a district and so the analysis captures the impact of the targeting policy on attracting new FDI into the targeted areas, we also separately consider inflows from extended projects to capture the sustainability of that investment in the targeted areas. This could be considered a measure of success if we assume that investors will only increase or expand their current investments if the project is profitable and working well. We estimate equation (1) and (2) with the dependent variable as extended investment measured by the difference between the total approved investment at the end of 2014 and the initial registered investment.

2.5. Results

The first part of our empirical analysis examines the impact of spatial targeting policies on the approved inflows of FDI into districts. We estimate equation (1) which regresses indicators for whether or not a district is targeted in a particular time period on approved FDI into that district in that time period. We include district fixed effects which controls for all time-invariant district characteristics that could impact on both FDI inflows and the probability that a district is targeted (for example, having a port or being in a remote district). As such we are using the within-district variation in FDI inflows over time to identify the effect. Time dummies are also included to control for any factors that affect FDI inflows in all districts in the respective year, for example, adjustments in the business environment or investment regulations (a new investment law or a new government decree) which apply to all FDI projects in all districts. The results are presented in Table 2.

Table 2: The effectiveness of spatial targeting policies on approved FDI

	(1)	(2)	(3)	(4)
	All approved projects		Exclude giants	
	Targets	Targeted periods	Targets	Targeted periods
Targeta	0.823***		0.840***	
	(0.248)		(0.248)	
Target98a		3.950***		4.025***
		(0.519)		(0.513)
Target00a		3.416***		3.452***
		(0.437)		(0.438)
Target03a		4.095***		4.119***
		(0.409)		(0.410)
Target06a		0.163		0.163
		(0.278)		(0.278)
Constant	1.475***	-1.175**	1.431***	-1.268**
	(0.281)	(0.509)	(0.278)	(0.500)
Observations	11,328	11,328	11,328	11,328
R-squared	0.058	0.086	0.057	0.086
District FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Number of DIST	708	708	708	708

Robust standard errors clustered at the district level presented in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

Column (1) reveals that targeted districts attracted higher FDI inflows post-targeting. In fact, our results suggest that the level of registered FDI inflows increases 127% as a result of targeting. Some argue that large increases in inflows could be driven by a few very big projects. This is not the case in our sample as the result holds when we exclude giant FDI projects (registered capital of greater than $USD1 billion USD, many of which were registered in 2008) in column (3). In columns (2) and (4) we disaggregate the targeting indicator into the different policy regimes (1998, 2000, 2003 and 2006) to ascertain whether there are differences in the effectiveness of targeting over time. Being a targeted district in 2003 has the biggest effect on registered FDI inflows. However, given that we don't have data from before 1998 the identification is coming from districts losing preferential status. The impact of targeting in 1998 and 2003 is also large. The impact of targeting policies under the 2006 regime is not well determined.

The introduction of the 1998 policy occurred at a time when FDI into Vietnam was on a downward trend due to the Asian crisis. The initial effort to attract FDI through the creation of a transparent list of encouraged districts lead to an influx of FDI from countries that had not previously invested in Vietnam. The 2000 and 2003 policies involved only minor changes to the encouraged regions and so it is not surprising that the impact is similar across these regimes. The number of favoured regions reduced remarkably in 2006 which is one possible reason why we do not see any impact of targeting since it was introduced. Looking at the raw data confirms this story. FDI inflows into targeted regions increased from US$137 million to US$793 million between 2000 and 2003, or from 6% to 39% of the total registered capital. Little growth is observed after 2003.

The second part of our analysis considers whether the objective of the targeting policy, redistribution or efficiency, impacts on the level of FDI inflows. In Table 3 we present the results for equation (1) where we disaggregate the targeting indicator into level 1 and level 2 targeting. Level 2 targeting is primarily aimed at targeting investment into districts with extreme socio-economic difficulties and so is motivated to a greater extent by spatial redistribution arguments. The level of incentives is higher for investment into level 2 targeting areas than under level 1. We find in columns (1) and (4) that both types of targeting lead to increases in registered FDI inflows. The magnitude of the effect, however, is higher for level 1 targeting. This is not surprising given that level 2 targeting is primarily aimed at the most disadvantaged districts that without targeting, are unlikely to receive much FDI. While being in a targeted area plays an important part in attracting FDI into the district, investors also take into account other factors like the development of infrastructure or the business environment.

Table 3: The effectiveness of spatial targeting policies disaggregated by policy objective

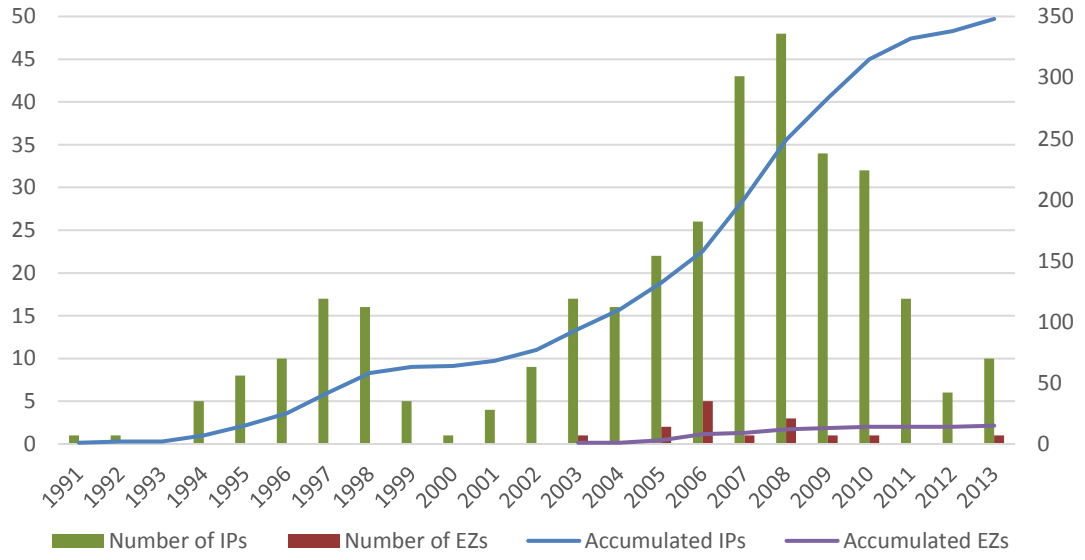
	(1)	(2)	(3)	(4)	(5)	(6)
	All approved projects			Exclude giants		
	Targeted levels	Levels Periods	Special zones	Targeted levels	Levels Periods	Special zones
Targeta1	1.140***			1.134***		
	(0.246)			(0.245)		
Targeta2	0.891***			0.868***		
	(0.314)			(0.311)		
Target98a1		2.328***	2.246***		2.426***	2.338***
		(0.668)	(0.654)		(0.663)	(0.650)
Target98a2		4.332***	3.953***		4.383***	4.043***
		(0.552)	(0.580)		(0.546)	(0.573)
Target00a1		2.238***	2.245***		2.330***	2.325***
		(0.542)	(0.548)		(0.544)	(0.550)
Target00a2		3.676***	3.340***		3.677***	3.378***
		(0.490)	(0.522)		(0.489)	(0.521)
Target03a1		2.809***	2.802***		2.898***	2.878***
		(0.455)	(0.463)		(0.460)	(0.467)
Target03a2		4.262***	3.930***		4.259***	3.962***
		(0.458)	(0.492)		(0.458)	(0.491)
Target06a1		1.657***			1.597***	
		(0.329)			(0.327)	
Target06a2		-0.0431			-0.0820	
		(0.333)			(0.329)	
Target06a1_IP			2.384***			2.343***
			(0.370)			(0.370)
Target06a1_DIST			0.663			0.665
			(0.444)			(0.441)
Target06a2_EZ			0.236			0.0447
			(0.782)			(0.771)
Target06a2_DIST			-0.212			-0.183
			(0.374)			(0.372)
Constant	1.373***	-1.142**	-0.874	1.360***	-1.223**	-0.980*
	(0.303)	(0.523)	(0.534)	(0.300)	(0.516)	(0.525)
Observations	11,328	11,328	11,328	11,328	11,328	11,328
R-squared	0.060	0.100	0.107	0.059	0.099	0.106
District FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Number of DIST	708	708	708	708	708	708

Robust standard errors clustered at the district level presented in parentheses.

*** p<0.01, ** p<0.05, * p<0.1

In columns (2) and (5) we disaggregate the intensity of targeting by period. We find a positive and well determined relationship between targeting in each period and the level of registered FDI inflows. The disaggregation reveals that in the 1998, 2000 and 2003 policy regimes, level 2 targeting led to a greater increase in FDI inflows than level 1 targeting (relative to the pre-targeting period). This suggests that incentive policies are potentially more effective in remote or disadvantaged areas. The aggregate results presented in columns (1) and (4) which suggest that level 2 targeting is less effective than level 1 targeting are driven by the 2006 targeting regime where the coefficient of the level 2 targeting under the 2006 regulations is not statistically significant.

Figure 5: The development of IPs and EZs in Vietnam



Source: Department for Economic Zones Management, MPI

The 2006 policy was very different to the previous policies. In addition to encouraging investment in disadvantaged areas, it aimed, for the first time, to target investment into special economic zones.[19] These consisted of industrial parks (IPs), export processing zones (EPZs), economic zones (EZs) and hi-tech parks (HTPs) and were designed to coincide with Vietnam joining the WTO. Level 1 targeting was used for IPs while level 2 targeting was used for EPZs, EZs and HTPs. To determine the effectiveness of targeting for these reasons, compared with targeting

[19] FDI firms in special economic zones also received incentives before 2006 depending on the sectors they are operating in and the location. In 2006, investment in special economic zones, regardless of sector or location were all encouraged.

disadvantaged areas, we disaggregate the 2006 targeting indicator into level 1 targeted IPs, level 1 targeted districts, level 2 targeted EPZs, EZs and HTPs and level 2 targeted districts. We also control for level 1 and level 2 targeting in earlier time periods. The results are presented in columns (3) and (6) of Table 3. They show large positive and statistically significant effects of targeting for IPs while other targeted areas are not well determined. In contrast, the impact on investment in districts targeted because of their disadvantaged socioeconomic status is negative but statistically insignificant. This suggests that the policy shift in 2006 toward more focussed targeting on efficiency grounds has been effective in attracting FDI into industrial parks, but not the economic zones. This is due to the fact that IPs were developed a long time before the introduction of the new regime while the first EZs were set up in 2003 as shown in Figure 5. The number of new industrial parks established increased remarkably between 2006 and 2010. In 2007, the number of new IPs was almost double that of 2006. The number of new economic zones was far below the number of industrial parks. Targeting disadvantaged districts under this regime, however, does not appear to have had the desired effects in contrast to the pre-2006 period. There was a significant drop in the number of districts in targeted areas in 2006 (as showed in Figure 3). The level 2 districts that remained in the targeted group were those that were in extremely difficult socio-economic conditions, and thus, were also less attractive for foreign investors.

In the final part of our analysis we examine to what extent targeting policies are associated with an extension of existing FDI. To examine this, we estimate equation (1) with the inflows of extended FDI as the dependent variable. A positive relationship would suggest that targeting leads to sustained increases in FDI. The results are presented in Table 4. In column (1) and (2) we do not find a well determined relationship between being in a targeted district and the increase in current FDI inflows into the targeted district over the 1998-2013 period. When we disaggregate by different policies regimes, column (3) reveals a positive impact of targeting on the sustainability of FDI for all previous policy regimes except the 2006 targeting regime. In column (4) and (5), we find particularly large effects on the extension of FDI in level 2 district in the 1998 and 2000 regimes. The 2006 regime only had a positive effect in the level 1 districts and in particular for Industrial Parks.

All results in Table 4 are robust to the exclusion of giant projects except for the level 2 of targeting of special economic zones and districts.[20]

Table 4: Impact of targeting on the extension of FDI

	(1) Targets	(2) Targeted levels	(3) Targeted periods	(4) Levels Periods	(5) Special zones
Targeta	0.247				
	(0.241)				
Targeta1		0.267			
		(0.204)			
Targeta2		0.273			
		(0.239)			
Target98a			2.038***		
			(0.514)		
Target00a			1.075**		
			(0.512)		
Target03a			0.879**		
			(0.416)		
Target06a			0.111		
			(0.198)		
Target98a1				1.505**	1.476**
				(0.592)	(0.591)
Target98a2				2.142***	2.198***
				(0.524)	(0.521)
Target00a1				0.891	0.869
				(0.561)	(0.565)
Target00a2				1.079**	1.137**
				(0.520)	(0.515)
Target03a1				0.888**	0.844*
				(0.439)	(0.446)
Target03a2				0.816*	0.860**
				(0.428)	(0.433)
Target06a1				0.273	
				(0.239)	
Target06a2				0.00887	
				(0.194)	
Target06a1_IP					0.583**
					(0.295)
Target06a1_DIST					0.494*
					(0.283)
Target06a2_EZ					0.0212
					(0.489)
Target06a2_DIST					0.181
					(0.235)

[20] We do not present them here but they are available on request.

Constant	0.640**	0.619***	-0.879*	-0.854*	-0.886*
	(0.260)	(0.239)	(0.497)	(0.496)	(0.485)
Observations	11,298	11,298	11,298	11,298	11,298
R-squared	0.014	0.015	0.021	0.022	0.024
Number of DIST	708	708	708	708	708

Robust standard errors clustered at the district level presented in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Taken together with the results presented in Table 3 this suggests that prior to 2006 targeting has been effective in increasing the level of FDI into economically disadvantaged districts and that it led to a sustained increase in FDI into these districts in the longer term. From 2006, the focus of targeting policies shifted much more towards level 1 districts, both in terms of initial and extended FDI projects.

Table 5 presents the estimation results for equation (2). Due to the fact that the district control variables are only available from 2005, we can only check for the robustness of our results to the inclusion of the control variables for the 2003 and 2006 policy schemes. All results are confirmed with the inclusion of district control variables. The 2006 regime is now well determined in all levels of targeting (except targets to economic zones) with the inclusion of the district control variables, column (2), (4), (6), (8) and (10), and without the district control, column (1), (3), (5), (7) and (9). While under the 2003 scheme we observe a stronger effect of targeting in the districts with extreme socio-economic difficulties. This is not the case for the latter period, when targeting policies are more effective in level 1 of targeting. The inclusion of district control variables helps to explain the previous results in Table 3 under the 2006 scheme. The policy aimed at the special economic zones did not work as expected because of the slow development of EZs in comparison with the rapid expansion of IPs.

Table 6 presents the estimation result of equation (2) where the dependent variable is the extended FDI. The results are also confirmed: the targeting policy in 2003 is associated with sustainable FDI, while the policy scheme in 2006 appeared to be effective at the first level of targeting, especially for targeting in IPs.

Table 5: Impact of targeting on the new inflows of FDI with district control variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Targeta	1.613***	1.648***								
	(0.369)	(0.370)								
Targeta1			2.074***	2.084***						
			(0.341)	(0.342)						
Targeta2			2.091***	2.116***						
			(0.405)	(0.406)						
Target03a					4.912***	4.970***				
					(0.508)	(0.509)				
Target06a					1.221***	1.235***				
					(0.400)	(0.401)				
Target03a1							3.632***	3.677***	3.609***	3.649***
							(0.589)	(0.590)	(0.608)	(0.608)
Target03a2							5.363***	5.422***	5.316***	5.375***
							(0.563)	(0.565)	(0.637)	(0.638)
Target06a1							2.140***	2.133***		
							(0.411)	(0.411)		
Target06a2							1.332***	1.334***		
							(0.429)	(0.429)		
Target06a1 IP									2.742***	2.739***
									(0.443)	(0.444)
Target06a1 DIST									1.373*	1.362*
									(0.727)	(0.727)
Target06a2 EZ									0.866	0.791
									(0.668)	(0.671)
Target06a2 DIST									1.485**	1.491**
									(0.625)	(0.624)
lnPop dens		-0.336**		-0.339**		-0.416***		-0.406***		-0.392***
		(0.142)		(0.143)		(0.147)		(0.148)		(0.148)
lnCereals		0.113**		0.105**		0.139***		0.134**		0.128**
		(0.0515)		(0.0510)		(0.0520)		(0.0519)		(0.0519)
Constant	2.006***	2.074***	1.596***	1.825***	-0.849*	-0.764	-0.929*	-0.809	-0.893	-0.757
	(0.370)	(0.606)	(0.354)	(0.572)	(0.509)	(0.711)	(0.523)	(0.704)	(0.546)	(0.719)
Observations	6,372	6,372	6,372	6,372	6,372	6,372	6,372	6,372	6,372	6,372
R-squared	0.016	0.017	0.023	0.024	0.039	0.041	0.046	0.047	0.053	0.054
Number of DIST	708	708	708	708	708	708	708	708	708	708

Robust standard errors clustered at the district level presented in parentheses. *** p<0.01, ** p<0.05, * p<0.1. District and year fixed effects included in all specifications.

Table 6: Impact of targeting on the extension of FDI with district control variables

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Targeta	0.106	0.127								
	(0.269)	(0.266)								
Targeta1			0.263	0.269						
			(0.225)	(0.225)						
Targeta2			0.0398	0.0547						
			(0.336)	(0.334)						
Target03a					1.027**	1.058**				
					(0.518)	(0.515)				
Target06a					0.0893	0.0973				
					(0.251)	(0.250)				
Target03a1							1.346**	1.371**	1.335**	1.359**
							(0.596)	(0.593)	(0.609)	(0.606)
Target03a2							0.866	0.899*	0.796	0.830
							(0.545)	(0.542)	(0.584)	(0.582)
Target06a1							0.0941	0.0902		
							(0.276)	(0.277)		
Target06a2							-0.0581	-0.0575		
							(0.294)	(0.294)		
Target06a1 IP									0.612**	0.610**
									(0.299)	(0.299)
Target06a1 DIST									-0.182	-0.189
									(0.509)	(0.509)
Target06a2 EZ									-0.282	-0.325
									(0.495)	(0.495)
Target06a2 DIST									0.0337	0.0361
									(0.421)	(0.422)
lnPop dens		-0.200		-0.199		-0.222		-0.221		-0.224
		(0.173)		(0.173)		(0.175)		(0.175)		(0.177)
lnCereals		0.0678		0.0665		0.0756		0.0739		0.0747
		(0.0582)		(0.0585)		(0.0589)		(0.0590)		(0.0594)
Constant	1.455***	1.487***	1.472***	1.528***	0.658	0.684	0.711	0.755	0.761	0.808
	(0.301)	(0.570)	(0.294)	(0.568)	(0.506)	(0.731)	(0.507)	(0.734)	(0.516)	(0.738)
Observations	6,351	6,351	6,351	6,351	6,351	6,351	6,351	6,351	6,351	6,351
R-squared	0.013	0.013	0.013	0.013	0.015	0.015	0.015	0.016	0.016	0.017
Number of DIST	708	708	708	708	708	708	708	708	708	708

Robust standard errors clustered at the district level presented in parentheses. *** p<0.01, ** p<0.05, * p<0.1. District and year fixed effects included in all specifications

2.6. Conclusion

This paper examined the effectiveness of spatial investment targeting policies in attracting FDI to specific districts within Vietnam. We consider policies aimed at attracting FDI to economically disadvantaged districts and those aimed at attracting FDI more strategically to increase efficiency. The latter generally take the form of special economic zones such as industrial parks and export processing zones. Using data on all FDI projects in Vietnam for the 1998-2013 period we find evidence to suggest that spatial targeting is effective in attracting FDI into disadvantaged districts. Prior to 2006, these policies were also effective in securing extensions to existing FDI project. The policy shift in 2006 focussed to a much greater extent on level 1 districts, in particular industrial parks, where it positively impacts on both the level of FDI and extensions to FDI investments. Post-2006, however, these policies do not lead to a sustained increase in FDI over the longer term in level 2 targeted districts.

An open question is the extent to which these policies are cost effective. Attracting FDI to disadvantaged areas brings benefits in the form of employment creation and possibly productivity spillovers due to technology transfers. This is not without cost however given that subsidies, tax breaks and other incentives are required to attract the FDI firms there in the first place. It is important in future work to ascertain whether the actual benefits outweigh these costs in determining whether such policies are the most effective way of encouraging disadvantaged areas.

Appendix 1. FDI by sector in Vietnam (ongoing projects at 31/12/2016)

No.	Sectors	Number of projects	Registered capital (US$ mil.)
1	Manufacturing	11,703	172,399.578
2	Real estate activities	576	52,029.264
3	Electricity, gas, steam and air conditioning supply	108	12,727.209
4	Accommodation and Food service activities	540	11,330.463
5	Construction	1,376	10,611.878
6	Wholesale and retail trade; repair of motor vehicles and motorcycles	2,222	5,293.009
7	Information and communication	1,475	4,718.312
8	Transportation and storage	604	4,285.869
9	Agriculture, fishing and aquaculture	518	3,551.989
10	Mining and quarrying	103	3,524.789
11	Arts, entertainment and recreation	138	3,094.193
12	Professional, scientific and technical activities	2,183	2,661.064
13	Financial, banking and insurance activities	88	1,968.903
14	Human health and social work activities	122	1,543.601
15	Water supply; sewerage, waste management and remediation activities	56	1,450.896
16	Other service activities	152	786.636
17	Education and training	309	767.441
18	Administrative and support service activities	232	494.017
19	Activities of households as employers; undifferentiated goods and services producing activities of households for own use	4	7.440
	Total	**22,509**	**293,246.552**

Source: Foreign Investment Agency of Vietnam, 2017

Appendix 2. FDI by province in Vietnam (ongoing projects at 31/12/2016)

No.	Province	Number of projects	Registered capital (US$ mil.)
1	Ho Chi Minh city	6,737	44,817.370
2	Ba Ria - Vung Tau	342	26,860.247
3	Binh Duong	3,035	26,696.668
4	Dong Nai	1,359	25,769.533
5	Ha Noi	3,950	26,168.630
6	Hai Phong	565	14,514.487
7	Bac Ninh	928	12,485.523
8	Ha Tinh	64	11,593.054
9	Thanh Hoa	86	10,641.896
10	Hai Duong	382	7,420.660
11	Thai Nguyen	121	7,255.268
12	Long An	869	6,528.966
13	Quang Ninh	121	5,950.482
14	Quang Nam	151	5,762.905
15	Phu Yen	40	4,867.101
16	Da Nang	445	4,398.096
17	Tay Ninh	256	4,203.651
18	Vinh Phuc	262	3,832.224
19	Hung Yen	401	3,580.874
20	Binh Thuan	130	3,541.075
21	Bac Giang	292	3,488.365
22	Kien Giang	42	3,076.018
23	Tra Vinh	32	2,939.130
24	Offshored projects	50	2,800.192
25	Thua Thien Hue	94	2,330.367
26	Ha Nam	195	2,112.366
27	Tien Giang	102	2,096.963
28	Nghe An	78	1,713.059
29	Binh Phuoc	180	1,420.229
30	Ninh Binh	57	1,296.673
31	Can Tho	81	1,155.908
32	Quang Ngai	40	1,097.503
33	Ninh Thuan	37	1,036.760
34	Khanh Hoa	94	966.075
35	Nam Dinh	76	891.506
36	Phu Tho	121	863.259
37	Ca Mau	11	793.414
38	Hau Giang	19	792.731
39	Ben Tre	55	601.187
40	Lao Cai	29	572.757

41	Binh Dinh	66	539.530
42	Hoa Binh	46	519.557
43	Thai Binh	69	509.829
44	Lam Dong	101	458.522
45	Vinh Long	38	417.653
46	Lang Son	40	224.402
47	Yen Bai	21	204.098
48	An Giang	26	182.107
49	Quang Binh	16	180.968
50	Tuyen Quang	5	149.463
51	Dak Lak	13	135.529
52	Son La	9	134.080
53	Soc Trang	14	123.562
54	Dong Thap	19	123.231
55	Quang Tri	22	89.578
56	Kon Tum	5	76.164
57	Bac Lieu	16	74.777
58	Dak Nong	11	74.137
59	Cao Bang	25	57.025
60	Bac Kan	3	13.005
61	Gia Lai	5	12.171
62	Ha Giang	7	9.989
63	Lai Chau	3	4.000
	Total	**22,509**	**293,246.552**

Source: Foreign Investment Agency of Vietnam, 2017

Appendix 3. FDI by country in Vietnam (ongoing projects at 31/12/2016)

No.	Economies	Number of projects	Registered capital (US$ mil.)
1	Korea Rep.	5,747	50,706.440
2	Japan	3,280	42,058.303
3	Singapore	1,786	37,878.848
4	Taiwan ROC	2,509	31,568.963
5	British Virgin Islands	686	21,149.491
6	Hong Kong	1,161	16,937.044
7	Malaysia	546	12,295.234
8	China	1,555	10,521.718
9	United State of America	823	10,148.556
10	Thailand	445	7,799.618
11	Netherlands	274	7,611.436
12	Samoa	183	6,484.544
13	Cayman Islands	87	5,323.343
14	Canada	158	5,122.571
15	United Kingdom	289	3,750.277
16	France	484	3,385.874
17	Switzerland	129	2,880.108
18	Luxembourg	47	2,304.275
19	Australia	390	1,759.148
20	Germany	275	1,357.249
21	Brunei Darussalam	214	1,326.857
22	British West Indies	15	1,207.699
23	Russia	118	1,093.408
24	Cyprus	13	966.567
25	India	132	724.060
26	Turkey	15	704.345
27	Seychelles	77	696.883
28	Denmark	131	632.900
29	Belgium	63	592.106
30	Indonesia	50	364.304
31	Italia	78	356.690
32	Mauritius	47	331.250
33	Philippines	73	311.786
34	Bermuda	8	307.382
35	Slovakia	6	235.518
36	Cook Islands	2	172.000
37	Belize	17	137.800
38	Poland	14	125.474
39	Austria	29	113.049
40	Bahamas	3	108.653

41	New Zealand	29	100.112
42	Laos	11	98.504
43	Sweden	52	92.746
44	Norway	34	92.564
45	Czech	34	89.949
46	Channel Islands	12	79.476
47	Sri Lanka	15	76.842
48	Macau	13	76.000
49	Barbados	2	68.143
50	Panama	10	62.700
51	Cambodia	18	58.125
52	Ecuador	4	56.703
53	Korea Dem. People's Rep	6	50.900
54	Hungary	15	50.656
55	Marshall Islands	4	48.000
56	Israel	24	46.371
57	Swaziland	1	45.000
58	Saint Kitts and Nevis	2	39.685
59	Spain	53	35.746
60	Liechtenstein	2	35.600
61	Isle of Man	1	35.000
62	Bulgaria	10	30.910
63	Ukraine	21	28.957
64	Pakistan	16	27.938
65	Iraq	4	27.195
66	UEA	12	24.750
67	Angola	3	23.340
68	Finland	17	20.897
69	Ireland	16	20.692
70	Costa Rica	2	16.568
71	Belarus	1	16.200
72	Saint Vincent and the Grenadines	1	16.000
73	Armenia	2	12.980
74	El Salvador	1	10.000
75	Oman	2	10.000
76	St Vincent & The Grenadines	2	9.000
77	Dominica	2	8.360
78	Island of Nevis	2	7.500
79	Cu Ba	1	6.600
80	Jordan	3	4.545
81	Andorra	1	3.800
82	Slovenia	4	3.270
83	Guatemala	4	3.216
84	Turks & Caicos Islands	2	3.100
85	Brazil	3	2.800

86	Nigeria	25	2.617
87	Romania	3	2.100
88	Serbia	1	1.580
89	Saudi Arabia	3	1.280
90	Guinea Bissau	1	1.193
91	Syrian Arab Republic	3	1.100
92	Morocco	2	1.045
93	Mongolia	2	1.000
94	Saudi Arabia	1	1.000
95	Egypt	2	0.746
96	Bangladesh	3	0.544
97	Guam	1	0.500
98	Libanon	3	0.405
99	Kuwait	1	0.400
100	Argentina	3	0.280
101	Estonia	2	0.250
102	Maldives	1	0.225
103	Monaco	1	0.210
104	South Africa	4	0.200
105	Antigua and Barbuda	1	0.100
106	Sudan	1	0.100
107	Uruguay	1	0.100
108	Palestine	1	0.090
109	Iran (Islamic Republic of)	3	0.054
110	Malta	1	0.050
111	Mexico	1	0.050
112	Yemen	1	0.050
113	Sierra Leone	1	0.038
114	Portugal	1	0.020
115	Latvia	1	0.010
116	Venezuela	1	0.007
	Total	**22,509**	**293,246.552**

Source: Foreign Investment Agency of Vietnam, 2017

Appendix 4. FDI by form of investment (ongoing projects at 31/12/2016)

No.	Form of investment	Number of projects	Registered capital (US$ mil.)
1	100% foreign owned	18,624	209,329.290
2	Joint venture	3,635	68,024.508
3	BOT, BT, BTO contracts	14	10,700.197
4	Business Cooperation Contracts	236	5,192.556
	Total	**22,509**	**293,246.552**

Source: Foreign Investment Agency of Vietnam, 2017

Appendix 5. Regulations on foreign direct investment in Vietnam

Legal documents*	Reference No.	Issued date	Effective date	Revoked date
Law on Foreign Direct Investment	4-HĐNN8	29/12/1987	09/01/1988	23/11/1996
Decree on details guidelines for implementing Law on Foreign Direct Investment	139-HĐBT	05/09/1988	05/09/1988	06/12/1991
Amended law on Foreign Direct Investment	41-LCT/HĐNN8	30/06/1990	07/07/1990	23/11/1996
Decree on details guidelines for implementing Law on Foreign Direct Investment	28-HĐBT	06/12/1991	06/12/1991	16/04/1993
Amended law on Foreign Direct Investment	6-L/CTN	23/12/1992	07/01/1993	23/11/1996
Decree on details guidelines for implementing Law on Foreign Direct Investment	18/CP	16/04/1993	16/04/1993	01/03/1997
Law on Foreign Direct Investment	52-L/CTN	12/11/1996	23/11/1996	01/07/2006
Decree on details guidelines for implementing Law on Foreign Direct Investment	12/CP	18/02/1997	01/03/1997	01/08/2000
Addition Decree on details guidelines for implementing Law on Foreign Direct Investment	10/1998/NĐ-CP	23/01/1998	08/02/1998	01/08/2000
Decision 53	53/1999/QĐ-TTg	26/03/1999	10/04/1999	01/07/2006
Amended law on Foreign Direct Investment	18/2000/QH10	09/06/2000	01/07/2000	01/07/2006
Decree on details guidelines for implementing Law on Foreign Direct Investment	24/2000/NĐ-CP	31/07/2000	01/08/2000	25/10/2006
Amended Decree on details guidelines for implementing Law on Foreign Direct Investment	27/2003/NĐ-CP	19/03/2003	07/05/2003	25/10/2006
Law on Investment	59/2005/QH11	29/11/2005	01/07/2006	01/07/2015
Decree on details guidelines for implementing Law on Investment	108/2006/NĐ-CP	22/09/2006	25/10/2006	01/07/2015
Law on Investment	67/2014/QH13	26/11/2014	01/07/2015	
Decree on details guidelines for implementing Law on Investment	118/2015/NĐ-CP	12/11/2015	27/12/2015	

*Only legal documents on guidelines for the Law on (Foreign Direct) Investment

Chapter 3. The role of targeted promotion techniques in attracting foreign direct investment

3.1. Introduction

A number of studies highlight the important role of FDI in the economic development of the host countries (Iamsiraroj, 2016). FDI does not only bring additional capital to the host economy, but foreign invested enterprises also play a part in the transfer of technology, creating jobs and generating positive spillover effects to domestic firms (Javorcik, 2004, Newman et al., 2015). Attracting more FDI in order to boost economic development has become a policy priority for many governments and the United Nations Conference on Trade and Development (UNCTAD) estimates that 81 percent of countries around the world have established a national Investment Promotion Agency (IPA) (UNCTAD, 2013a). The IPAs are involved in several different activities grouped into four functional categories: national image building, investment generation, facilitation services for potential investors, and policy advocacy (Wells and Wint, 1990). Empirical testing of the efficiency of IPAs has produced diverging results (Lim, 2008) but the positive contribution of promotion in increasing FDI inflows has been proved in many studies (Charlton and Davis, 2007). The role of promotion is more important in developing nations than in developed nations (Harding and Javorcik, 2007) because of information asymmetry in the developing world. The positive correlation between IPAs and higher levels of FDI indicate that promotion may constitute a cost-efficient way of increasing FDI inflows (Harding and Javorcik, 2011), especially in developing countries.

Research in this field has mainly considered promotion as a whole package, proxied by the presence of promotion offices abroad (Wells and Wint, 1990, Anderson and Sutherland, 2015) or by promotion expenditures (Morisset and Andrews-Johnson, 2004, Morisset, 2003). Other studies explore the role of intermediation by the investment promotion agency between the host country and foreign investors (Lim, 2008). Several researches examine the role of Bilateral Investment Treaties (BITs) in

attracting FDI (Busse et al., 2010, Berger et al., 2013). Casey (2013) suggests that host countries should build a dynamic investment promotion programme with specific promotion packages to compete in attracting FDI. A survey of investment promotion agencies conducted by UNCTAD (2001b) documented the promotion techniques that national Investment Promotion Agencies (IPAs) commonly use. These include attending and organising investment conferences and investment missions abroad. IPAs differ by their functions but investor targeting always appears as the core function of the IPA regardless of the level of development of the host countries (UNCTAD, 2001b). Studies on investor targeting mainly focus on the effectiveness of targeting specific industries (Anderson and Sutherland, 2015, Harding and Javorcik, 2011, Charlton and Davis, 2007); there is much less evidence on the effectiveness of targeting efforts aim at selected source countries.

We try to fill in this gap in the literature. This paper examines promotion efforts focussed on targeted source countries, from the perspective of a developing host country. We aim to answer the following research questions: (1) whether promotion activities focused on selected economies contribute to an increase in the level of FDI from those countries; (2) which promotion techniques are most effective in terms of attracting investment from the targeted countries; and (3) whether or not the influence of promotion activities differs by types of FDI.

We use the case of Vietnam to explore this issue. Vietnam is an emerging economy that appeared in the world map as an attractive destination for foreign investors just three decades ago. From an almost closed economy with no foreign investment, the economic reform known as “doi moi” policy introduced in 1986 started the transformation of the economy to a market-oriented economy. FDI played an important role during the transformation process. FDI not only brought additional capital for the economy, which was in very short supply before the renovation, FDI was also expected to bring advanced technology and know-how as well as to develop human capital resources. Thus, attracting FDI has always been considered as the key policy for the successful transformation and the development of the economy. Investment promotion in Vietnam has gradually developed in line with the business environment and the growth of FDI firms in Vietnam. During the first ten years of the transformation, Vietnam widely welcomed FDI from all over the world but had

limited promotion activities. The signing of several Bilateral Investment Treaties (BITs) and Double Taxation Treaties (DTTs) was the first step to promote foreign investment. In the next five years, Vietnam continued calling for FDI from all countries but started to pay more attention to attracting investment from developed countries[21], involved in more BITs and DTTs, and started to negotiate the Bilateral Trade Agreement with the US, including bilateral investment between the two countries. The Foreign Investment Agency of Vietnam (FIA) was set up in 2003 and this marked the active stage in investment promotion but until the National Investment Promotion Fund (NIPF) was established in 2007, there was no promotion strategy at the national level. The investment strategy was approved in 2008 and the annual investment promotion programmes with specific country targets began. The annual national investment promotion programme included different techniques and tools for each specific targeted investor.

We construct a panel dataset on foreign investment into Vietnam from more than 100 economies between 1996 and 2016. We investigate the role of different promotion techniques applied at the national level by the Foreign Investment Agency of Vietnam (FIA) to attract investment from targeted countries. We find evidence that focussed promotion efforts bring more investment from selected countries. Aftercare services in particular, such as help desks can be a cost-effective method in attracting FDI into developing countries. Our findings also suggest that the intensity of promotion activities in the targeted country does contribute to the increase in FDI inflows.

The rest of the paper is structured as follows. Section 2 describes the role of promotion and promotional techniques in attracting FDI. Section 3 summarizes the development of investment promotion in Vietnam. Sections 4 and 5 present the empirical approach and discuss the results. Section 6 concludes and provides policy implications.

[21] The master plan of attracting FDI from 2001 – 2005, Ministry of Planning and Investment

3.2. The role of promotion and promotional techniques in attracting FDI

3.2.1. Investment promotion and FDI

Wells and Wint (1990) define promotion as "certain marketing activities" that host governments apply to attract foreign investors. It consists of a variety of activities: investment conferences, business forums, advertising on mass media, investment missions, business matching and supporting investors during their operation (after-care services) but does not include granting investment incentives or investment licensing. A broader definition of investment promotion is all activities or methods that the host countries implement in order to attract foreign investors, including the national FDI policy framework, economic factors and business facilitation (UNCTAD, 1998). Based on their functions, promotion activities can be divided into four groups: image building, investment generation, investor service and policy advocacy.

The main barrier to investing cross border is information asymmetries (Portes and Rey, 2005, Portes et al., 2003). Better information on the business environment in the host country can have a positive impact on FDI inflows (Hashimoto and Wacker, 2016). As gathering information is costly, particularly for individual investors, host countries provide information for their potential investors through an investment promotion organisation, mainly through a national investment promotion agency (IPA). The number of IPAs worldwide has been increasing since the early 1990s and currently 81% of countries all over the world and 78% of developing countries have a national IPA (UNCTAD, 2013a). National IPAs have been found to positively contribute to the increase in FDI inflows where the IPA acted as an intermediate organisation between the foreign investor and the host country (Lim, 2008). Investment promotion has been shown as a cost-effective method in attracting FDI in developing countries as it overcomes information asymmetries (Harding and Javorcik, 2011).

3.2.2. Targeting techniques

Business facilitation of the host country, including investment promotion and post-investment services, together with economic factors and the host FDI policy framework, are important determinants of FDI (UNCTAD, 1998). The core functions of IPAs vary by country, but investment targeting is the common task regardless of the country's levels of development (UNCTAD, 2001b). Actively promoting a country abroad as a destination for foreign investors requires the application of a variety of promotion techniques. Each IPA uses different strategies, but the frequent techniques used by IPAs are described in Figure 6.

Figure 6: Promotional techniques used by IPAs

Source: UNCTAD survey of investment promotion agencies, 2000

The ultimate purpose of promotion is to provide accurate information to foreign investors and persuade them to invest in the host countries. Different techniques could be employed. Wells and Wint (1990) summarise that general information on the business environment and investment policies of the host countries are normally provided through general investment conferences or advertising on mass media and categorise those activities as image-building techniques. For specific investors, investment missions to source countries or sector seminars could be conducted. As these activities normally target some specific industries or specific home countries and might lead to the decision to invest, Wells and Wint define those techniques as

investment generation. The host countries could also support investors during the setting up or operation process by providing after care services. As the FDI stock grows, after care services became the core functions of IPAs (UNCTAD, 2007a). The fourth technique, which gradually becomes one of the most powerful tools to promote FDI is policy advocacy (Wells and Wint, 2000b).

The costliest method to reach out to potential investors is assigning investment representatives to the targeted countries. While several studies have shown that the presence of overseas investment offices is associated with a higher levels of FDI in the host countries (Wells and Wint, 1990, Bobonis and Shatz, 2007, Lim, 2008, Woodward, 1992), some studies suggest that foreign representatives had no significant influence on site selection of investors (Head et al., 1999). Wells and Wint (1990) show that the presence of investment offices in the US is associated with higher levels of FDI in the host countries. Bobonis and Shatz (2007) also found that state promotion offices in the investing countries contribute to an increase in the level of FDI from those countries into that state in the US. Although finding that in general promotion is positively correlated with FDI inflows, Morisset (2003) and Andrews-Johnson (2004) noted that in particular, the number of foreign offices had no significant influence on FDI inflows. Although the effectiveness of the oversea offices, in terms of compensating the cost, is still an open question, many IPAs continue to open offices abroad (UNCTAD, 2001b).

In addition to the above techniques, many countries use International Investment Agreements (IIAs) to strengthen bilateral investment relationships with their partners. The most common agreements for this purpose are Bilateral Investment Treaties (BITs), which mainly provides investment protections, and Double Taxation Treaties (DTTs), which help investors to avoid double taxation at home and in the host countries. It is still an open question about the effectiveness of IIAs in promoting FDI. Empirical studies have produced mixed results. A number of studies show that BITs contribute to the increase in FDI inflows in developing countries (Busse et al., 2010). BITs might be an efficient way to attract FDI in sectors that require large initial investment and sectors that need government guarantees (Colen et al., 2016). Blonigen and Davies (2009) summarize previous mixed results of the influence of DTTs on FDI flows and showed that DTTs actually reduced inward

FDI. Despite the fact that there is mixed evidence on their effectiveness (Dagan, 1999), the number of IIAs is still growing globally (UNCTAD website).

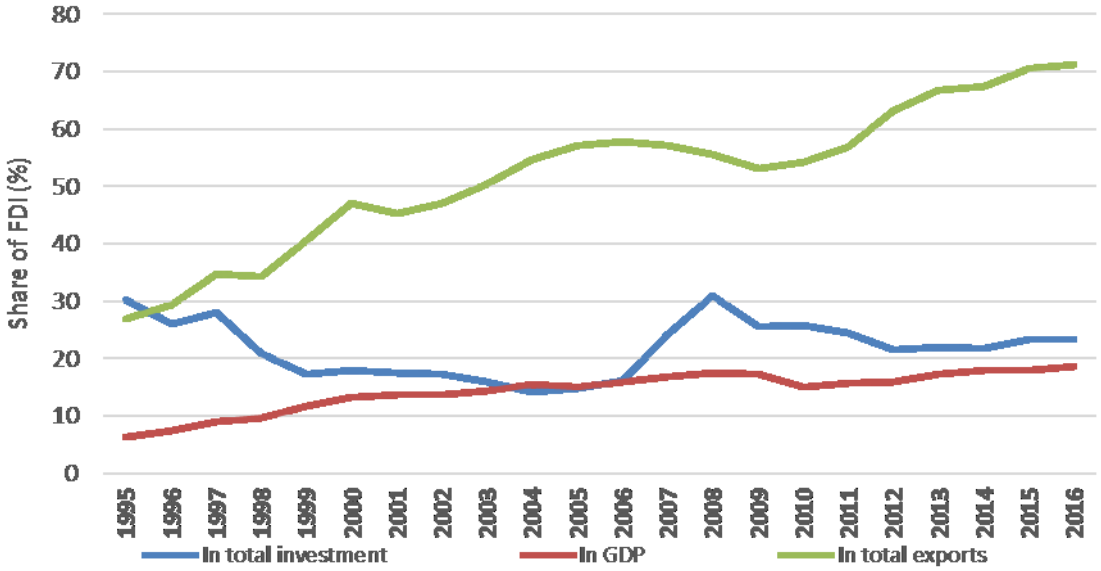
3.3. Vietnamese context

3.3.1. FDI in Vietnam

As in many developing countries, attracting the right FDI for development has been an important aim of investment promotion policy in Vietnam. Following the introduction of the Law on Foreign Direct Investment in 1987, Vietnam soon became a new destination for foreign investors from all over the world. In the first year of the foreign investment law in Vietnam, there were 37 projects with registered capital of US$ 341 million from 16 economies invested in the country. The number of countries invested in Vietnam has gradually increased since the country integrated deeply into the regional and global economy beginning with joining the ASEAN in 1995, APEC in 1998 and WTO in 2007. By the end of 2016, nearly 26,000 projects have been approved with total registered capital of US$ 36 billion[22] and investors coming from more than 110 nations all over the world.

[22] Annual FDI report 2016, FIA 2017

Figure 7: The role of FDI in Vietnam

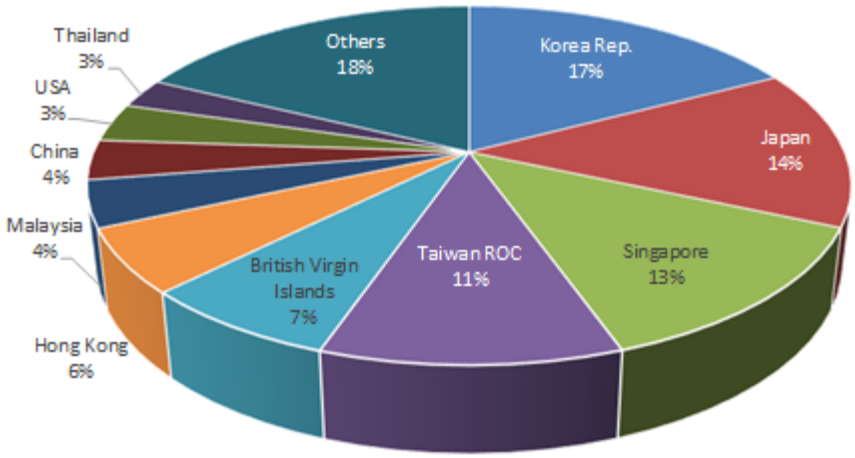


Source: The General Statistics Office of Vietnam

The important role of FDI in the development of Vietnam has been examined in many studies. FDI positively contributed to rapid economic growth in Vietnam (Hoang et al., 2010, Hiep Ngoc et al., 2017). Foreign firms not only bring an additional source of capital but also play a part in technology transfer, creating jobs and enhancing export capacity (Nguyen et al., 2006). FDI influenced growth through labour productivity (Vu, 2008) and generated spillover effects to local enterprises (Newman et al., 2015). Export from foreign direct enterprises accounted for 70% of total export, 20% of GDP and 25% of total investment in 2016 as illustrated in Figure 7.

By the end of 2016, the top ten investors, mainly from Asia, accounted for 82% of registered FDI stock in Vietnam. South Korea was the biggest investor with registered capital of US$ 50.7 billion in 5,747 ongoing projects, followed by Japan with US$ 42 billion in 3,280 projects and Singapore with US$ 37.8 billion in 1,786 projects. The United States of America is the only investor not from Asia (excluding British Virgin Islands). The composition of registered FDI stock at the end of 2016 is presented in Figure 8.

Figure 8: Top ten investors in Vietnam



Source: The Foreign Investment Agency of Vietnam

3.3.2. The development of investment targeting policies

FDI promotion policies in Vietnam fall under three development stages from welcoming, marketing and targeting (UNCTAD, 2001a). The welcoming stage of investment promotion in Vietnam lasted about a decade since the Foreign Investment Law came into effect in 1988. A lack of capital at the beginning of the economic transformation process and the low level of development were the main reasons that the country welcomed all foreign investors. As a newly opened economy with a population of more than 70 million people, Vietnam was a promising destination for foreign investors even without any promotion efforts. The majority of investors came to Vietnam were from the Asian region. Singapore, Japan, Republic of Korea, Taiwan and Hong Kong, Japan had always been among the top ten foreign investors in Vietnam and accounted for more than 50 per cent of total registered capital in Vietnam before 1997. FDI inflows fell remarkably during the Asian financial crisis and this fact increased the need for diversification of the investor origin and the targeting of investment from developed economies. The task of attracting FDI from developed countries had been placed in the five-year FDI management plan[23] but

[23] Resolution No.09/2001/NQ-CP of the Vietnames Government dated on 28th August 2001 on enhancing the effectiveness of attracting and governing FDI in the period between 2006 and 2010.

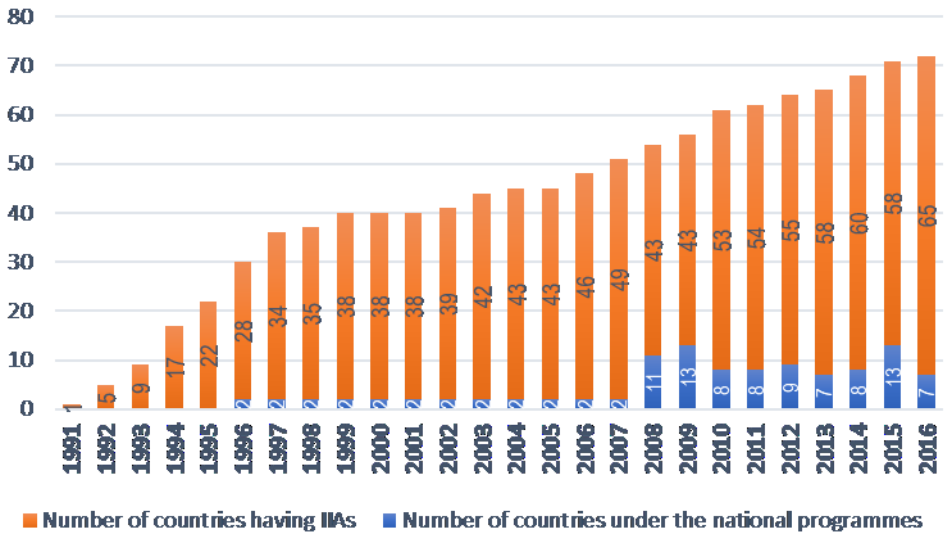
could not be implemented due to the lack of financial support as well as the absence of a coordination authority. Recognising that the business environment and regulations were underdeveloped, Vietnam used IIAs in the form of BITs and DTTs as commitments to the protection of foreign investors. In fact, 45 out of 66 BITs and 40 out of 76 DTTs had been signed between 1990[24] and 2002.

The establishment of the Foreign Investment Agency (FIA), a government authority under the Ministry of Planning and Investment in July 2003 marked the beginning of the second stage of the FDI promotion policy. The main functions of the FIA include licensing, monitoring and supporting inward and outward FDI, supervising the implementation of FDI policy in all provinces, FDI promotion and FDI policies at the national level. In terms of promotion, FIA covers four major categories of a typical IPA from image-building, investment generation, investor service and policy advocacy (Wells and Wint, 2000a). The year 2005 could be considered the turning point in the investment promotion strategy in terms of policy. The need to focus promotion work on selected investors and the requirement for having funds from the national budget for reforming promotion activities was emphasised up to this point[25]. The policy was not, however, legalised in a legal document and as a result, particularly in the context of Vietnam, it was difficult to implement the targeting tasks. Promotion activities were traditionally in the form of the national investment conferences (mainly in Ha Noi, the capital or in Ho Chi Minh city, the biggest city in Vietnam), which focused on national image-building and dispatching general information on the business environment and policies to a wide range of potential investors. The targeted techniques applied in this period remained the same as in the previous period and involved signing more IIAs. Although the national conferences attracted hundreds of international investors, there were no specific investors targeted. Feedback from different business groups after those conferences suggested that the direction to reform the promotion activities was towards tailoring the method to deliver the promotion messages to the specific groups of investors. The sharp reduction in the FDI inflows in 2008 caused alarm and highlighted the urgent need to

[24] The first BITs was signed in 1990 with Italia but it took four years to come into effect, in 1994
[25] Directive No. 13 of the Prime Minister, 2005

renovate promotion activities.[26] Promotion policies changed from passively welcoming foreign investors to actively promoting foreign investment in selected sectors from targeted investors in line with the socio-economic development strategy of Vietnam.

Figure 9. Number of targeted countries by types of promotion techniques



Source: FIA, General Department of Taxation and UNCTAD

The targeting period was marked by the establishment of the National Investment Promotion Fund (NIPF) in 2007 which provided for the first time a source of funding from the national budget for the FIA to actively promote targeted investors in their home countries, rather than in Vietnam. Under this scheme, investment conferences and business forums were held in targeted countries[27] together with investment missions abroad, the main aim of which was to persuade the targeted investors to invest in Vietnam. The NIPF also allowed the FIA to organise supporting desks which facilitate investors from selected countries in implementing their projects and deals with any other queries after the granting of licences.[28] The investment talks and the help desks support targeted investors during their implementation phase and through the post-investment process. Investment representatives were also assigned

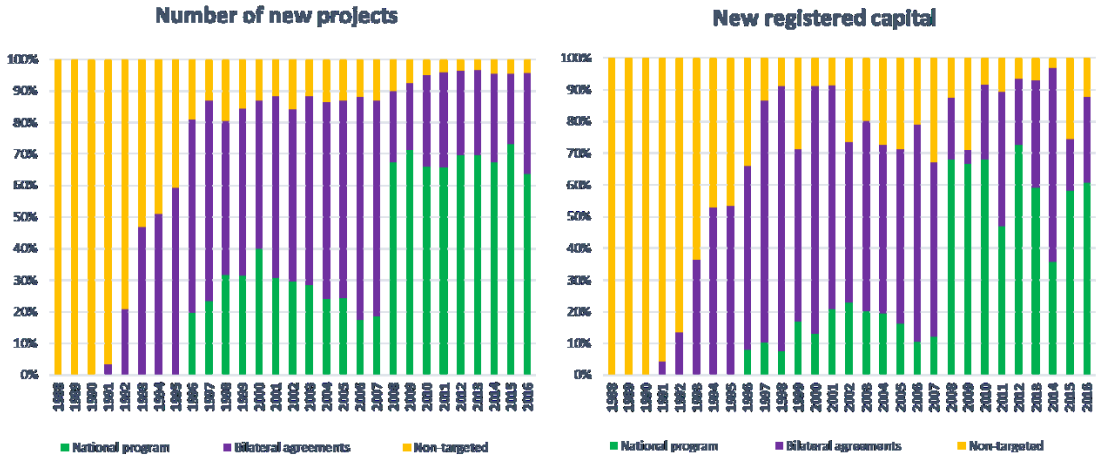
[26] Directive No.13/2005/CT-TTg of the Prime Minister of Vietnam dated on 8th April 2005 on a number of solutions to creating further changes in the attraction of foreign direct investment in Vietnam

[27] Some investment conferences and business forums were held earlier in line with the cultural or diplomat ceremony.

[28] This form of support is the development of the hotline established in 1999, managed by the Department of Foreign Direct Investment Projects' Monitoring, which facilitated all foreign investors during their operation in Vietnam.

to the economies from which Vietnam would like to attract more investment. Ten investment representatives were assigned to eight targeted economies including the US (Washington DC[29] and San Francisco), France, Germany, Singapore, Taiwan[30], Republic of Korea, Japan (Tokyo and Osaka) and Saudi Arabia. The representative in Saudi Arabia terminated in 2012[31]. A summary of the number of countries under the national investment programme versus the number of countries having IIAs is presented in Figure 9.

Figure 10: New FDI inflows from targeted economies vs non-targeted economies 1988-2016



Source: Foreign Investment Agency of Vietnam

The targeted countries under the national programme was relatively smaller than the number of countries having IIAs with Vietnam. However, Figure 10 shows that the proportion of investment from countries under the national scheme was always higher than that from the countries under the IIAs scheme. In the absence of a study on the effectiveness of the targeting programmes, the increase in FDI inflows in general and the increase in the proportion of FDI from targeted countries could be considered as a positive signal of the impact of the national promotion programme

[29] Actually, the representative in Washington DC was first assigned in 1995, right after the normalization between the two countries upon the request from the US to support US investors during the bilateral investment negotiation. The Bilateral Trade Agreement with the US had been signed in 2001 but the investment officer remained.

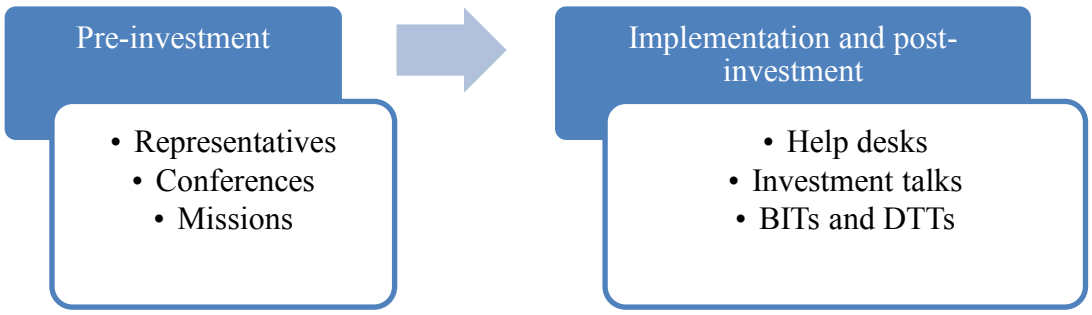
[30] The representative in Taiwan was also first assigned in 1995, when the Vietnam Economic and Culture Office established in Taipei. Similar to the investment official in the US, this assignment was originated from the partner's request as Taiwan was one of the biggest investors in Vietnam.

[31] There was no public report of the reason for withdrawing the investment representative in Saudi Arabia. There was no investment from Saudi Arabia until 2016. Investors from Saudi Arabia invested in 3 projects in 2016.

but requires a more detailed examination of the impact of targeted policies and the role of each promotion tool.

In brief, in addition to promotion tools which dispatch general information to all potential investors, the seven following techniques (Figure 11) have been used to implement the national investment promotion programme to transmit specific messages to targeted source countries. Only BITs and DTTs applied before the implementation of the national investment promotion programmes. Investment conferences and missions were designed mainly to focus on approaching new potential investors to provide them with accurate and thorough information and explore their needs; they are mainly used in the pre-investment process. Investment representatives abroad also investigate the potential investors in-country and deliver information to them; they mainly support investors in the pre-investment process. However, they could also facilitate the implementation and post-investment requests. The help desks were organised under the national investment promotion programmes to support investors from South Korea and Japan. The investment talks are organised bi-annually and upon requests if needed to discuss the policy issues relating to the investment environment and specific industrial policy under the joint initiative to improve the investment environment between Vietnam and Japan for Japanese investors. Thus, the help desks and talks mainly support existing investors during their implementation and post-investment process. As BITs and DTTs provide protection for foreign investors and avoid double taxation, they mainly apply to the implementation and post-investment process, but they also play a role in making the decision to invest.

Figure 11: The role of targeting promotion techniques in the investment process



Source: Authors classification

As the design of the tools differ by group of investors during the investment process, we construct two datasets on FDI inflows to examine the impact of promotion techniques. The inflows of new registered investment will be used to test the impact of promotion techniques during the pre-investment process and the inflows of registered extension FDI will be used to examine the impact during the implementation and post-investment process.

3.4. Empirical approach

In order to explore the first research question on whether or not the FDI flows from targeted countries are higher than the countries that are not targeted, we estimate equation (1).

$$Invest_{ct} = \gamma_c + \tau_t + \beta_0 Target_{c(t-1)} + \delta \mathbb{Z}_{c(t-1)} + \varepsilon_{ct} \quad (1)$$

Where $Invest_{ct}$ is a dummy variable which taken a value of 1 in year t if country c has at least one new investment project or positive amount of new investment and 0 otherwise. $Target_{c(t-1)}$ is a binary variable, which equal to 1 if any promotion technique targeted to investors from country c in year $t-1$ and 0 otherwise. We use a year lag for the target variable considering that all promotion tools required time for investors to react and decide to invest. They also need to prepare a dossier to submit in order to get the licences or investment certificates, measure by the number of project or the investment inflows.

In order to tackle the second research question on the impact of each specific promotion techniques on FDI from the targeted countries, we employ the empirical strategy as describe in the equation (2).

$$FDI_{ct} = \alpha Realised\_FDI_{c(t-1)} + \beta_1 Tool_{c(t-1)} + \delta \mathbb{Z}_{c(t-1)} + \gamma_c + \gamma_t + \varepsilon_{ct} \quad (2)$$

Where FDI_{ct} is the level of FDI from country c in time t into Vietnam; $Tool_{c(t-1)}$ is a vector of different measures of promotion tools implemented in country c or applied for investors from country c at the national level in year $t-1$. $Realised\_FDI_{c(t-1)}$ is the realised FDI from country c at time $t-1$ to control for

agglomeration of FDI from particular countries; it is likely that having a large number of investors from a particular country will lead to more investment from that country in the future, independent of investment promotion efforts (Frank et al., 2003).

The last research question is investigated through equation (3) where the explanatory variables are the same as in equation (2) but the dependent variable $\mathrm{FDI_{fct}}$ is the FDI inflows from country c in time t disaggregated by forms of investment, i.e. joint ventures and 100% foreign owned investment. Thus, the impact of targeting on each form of investment will be estimated separately.

$$FDI_{fct} = \alpha Realised\_FDI_{c(t-1)} + \beta_1 Tool_{c(t-1)} + \delta \mathbb{Z}_{c(t-1)} + \gamma_c + \gamma_t + \varepsilon_{ct} \qquad (3)$$

In all specifications, $\mathbb{Z}_{c(t-1)}$ is a vector of time-varying country control variables which are common FDI determinants in the literature (Blonigen and Piger, 2014). They consist of the differences in labour costs between the host and home countries. We have only one host country so we use the logarithm of GDP per capita of the investing countries. The bilateral trade inflows (both exports and imports) are also included as firms are likely to invest in countries where they have export experience (Conconi et al., 2016). γ_c are country fixed effects which control for all time-invariant factors that influence the bilateral relationships between the partner country and Vietnam; τ_t are time dummies which control for common shocks impacting on the flow of FDI from all countries in year t (e.g. financial crisis or change in regulations of the home or host country); and ε_{ct} is a statistical noise term.

3.5. Data sources and measurement

3.5.1. Measure of FDI and data source

FDI inflows are compiled from the list of the annual approved FDI projects between 1988[32] and 2016 of the Foreign Investment Agency (FIA) of Viet Nam, aggregated by country where the foreign investor is registered. The list of approved FDI projects are from the administrative database of the FIA, the government body in charge of

[32] The starting year of implementing the Law on Foreign Investment in Vietnam.

consolidating and monitoring the national FDI database network which is connected with all FDI licensing authorities in the country. Morisset and Andrew-Johnson (2004) suggest that the level of FDI approved is a good proxy for FDI inflows when evaluating the effectiveness of promotion as this minimizes the time lag between promotion activities and its associated actions; the investors decision to invest.[33]

The dependant variable enters the specification in two forms, the number of projects and the total registered capital of the projects. This will allow us to examine two different aspects of promotion efforts. Promotion activities are always expected to bring more investors to the host country so firstly, the number of FDI projects from country c in year t is the first choice of measurement. This could also reflect the results of promotion efforts quantitatively (Anderson and Sutherland, 2015). However, the number of projects cannot tell us how much the investors plan to invest, or to some extent, the quality of the promotion work. The volume of registered FDI from country c in year t in current US dollars is used to proxy for the qualitative scale of promotion efforts, measured by the log of total registered FDI from country c in year t.[34] The IPAs around the world also used both qualitative and quantitative indicators to evaluate their performance. About two thirds of IPAs in the world use FDI inflows as the main qualitative indicator while the rest used the number of projects in their self-assessment (UNCTAD, 2001b).

In order to examine the impact of different promotion tools on new investors and existing investors, the dependent variables are constructed from two datasets: the new investment and the expanded investment. The promotion techniques applied mainly for the pre-investment process are expected to have greater influence on the new investment while the techniques targeted toward the existing investors (in the implementation and post-investment process) are expected to affect the expanded investment more than the new investment. The administrative data of the FIA covers both new inflows from 116 economies and expanded inflows from 76 economies in the period between 1988 and 2016.

[33] In their cross-country analysis, this measurement was not applicable as the definition and the data collection methodology were largely different.
[34] In order to deal with 0 value, we added 1 into the sum before taking the natural logarithm.

3.5.2. Measure of targeting countries

As mentioned earlier, a country is considered as a targeted investment partner of Vietnam if the Vietnamese government implemented at least one targeted promotional technique at the national level in the targeted country or orientated itself towards attracting investors from that country. This includes signing a bilateral investment treaty or a double taxation treaty with the country, assigning an investment representative, an investment mission to the country, organising a conference or business forum in the targeted country or in Vietnam for investors from the targeted countries, facilitating selected investors during their operation such as holding a help desk, organising regular policy talks and implementing a join promotion plan. The targeted countries are constructed through the implementation of any promotion tools applied for specific targeted investors. The targeted country in the first equation is a dummy which is positive if any promotion tools are applied to that country (i.e. any of the promotion tools are implemented) and is zero elsewhere.

3.5.3. Promotion techniques for targeting purposes

The tool variables in equation (2) enter the regression as binary and count variables. The binary are the targeted countries describe above. The count variables are the number of promotion tools that are used in that country or in Vietnam but for that particular country investor. This variable will reveal the impact of the combination of methods. For example, there was an investment mission to the US in 2009, together with the presence of the investment representative in the US, the count variable for the US would be two if no other tools were used for investment promotion in the US in that year. The count variable will vary from 0 (i.e. no tools applied) to 7 (all tools applied).

The data on the promotion techniques applied in targeted countries are based on several sources. The unilateral promotional techniques are extracted from the annual national promotion programme and the annual promotion programmes of the

Ministry of Planning and Investment[35] from 2008 to 2015. The annual promotion activities in the two programmes cover a wide range of promotion activities but only the activities targeted on specific investors are included in the measurement of the tools in this article. For targeted new investors in their home countries, investment conferences, business forums and investment missions are the first choice of the FIA. For targeting existing investors, the help desks and investment talks are more relevant. The combination of conference, forum, mission, desk, and talk tools will receive a value of 1 if the corresponding tools has been planned in the promotion programmes in country c in year t, or for investors from country c in year t, and 0 otherwise.

Data on the number of investment representatives, the countries they focus on and the duration of each promoter is also from the FIA of Vietnam. The first investment promotion official was assigned to Taiwan in 1995, when the Vietnam Economic and Cultural Office established in Taipei. The inclusion of an investment official in the Office was driven by the Taiwanese as their investors were keen on investing in Vietnam. The second location of an investment representative was in the US. Ten years later, investment promoters have been assigned to six countries: the US, France, Germany, Japan, Republic of Korea and Singapore. These destinations are common for all IPAs (UNCTAD, 2001b) because they are considered as the main source of FDI outflows. An investment representative was also assigned to Saudi Arabia from 2009 but finished in 2013. This special type of promotional tool, like others, will receive a value of 1 if at least one investment representative was present in country c in year t and 0 otherwise.

Data on Bilateral Investment Treaties (BITs) with Vietnam is from the UNCTAD database which capture BITs between 1991 and 2016. Due to the fact that bilateral investment relationships are sometimes regulated under bilateral trade agreements, we review the contents of all bilateral trade agreements for Vietnam and include those that have an investment chapter or articles. The data on investment related trade agreements are firstly checked in the database of the bilateral investment agreements of the Ministry of Planning and Investment in Vietnam and then, double

[35] The promotion programmes implemented by the Ministry of Planning and Investment (MPI) are also considered as the national programme because the MPI is the legal coordination body of promotion programmes at the national level.

checked in the online database of the Ministry of Trade and Industry of Vietnam. Only the Bilateral Trade Agreements with the US have been added to the UNCTAD database of BITs because it contains two specific chapters regulating investment relations. In total, there was 66 BITs, of which 48 was in force by the end of 2016.

Data on the bilateral Double Taxation Treaties (DTTs) are from the website of the General Department of Taxation in Vietnam. There are 76 DTTs in force. The variable BIT and DTT are positive if the BIT or DTT are effective in year t and zero if the BIT or DTT are terminated or not enforced.

3.5.4. Control variables

GDP per capita at current US dollars for 219 countries in the world from 1987 to 2016 are taken from the World Development Indicators of the World Bank. As data for Taiwan are not available in the World Development Indicators, we gather this data for the same period from the National Statistics Office of Taiwan.[36] GDP per capita for Cook Islands from 2000 to 2016 is extracted from the Key Indicators 2017 of Cook Islands and from 1987-1999 from the Key Indicators 2004, the Asian Development Bank statistics. In total, GDP per capita is available for 221 economies.

Data on bilateral trade flows (import and export value at current $US) from 1995 to 2016 are taken from the General Statistics Office (GSO) of Vietnam website. The data cover the annual export values from Vietnam to 73 economies and the annual import values of 75 economies. The bilateral trade flows from 1986 -1994 are from the online version of "The Vietnamese international merchandise trade for twenty years renovation (1986-2005)". The number of export and import partners during this period was smaller, about 60 countries. The trade flows in the second period were mainly from and to the Soviet Union and countries in Eastern Europe. Some adjustments were made to the trade data from the second source. Trade values with East Germany are added to the trade value with West Germany to form trade flows with Germany for the whole period. Trade transactions with the Soviet Union also transferred to the trade values of Russia as Russia was the biggest trading partner in the former Soviet Union at that time. The trade flows with Yugoslavia during 1986-

[36] Taiwan always is the top ten investors in Vietnam

1994 and some unidentified items are excluded as they cannot be matched with the GDP and FDI data.

Data on implemented FDI from the source countries to Vietnam from 2010 onward are available on the ASEAN website. They cover the realised flows from 247 source economies. The realised FDI from source countries to Vietnam between 1995 and 2009 were provided by the ASEAN Statistics on our request. As the data collection form of the ASEAN Statistics were limited to some countries, the realised data for this period only cover 44 economies.

Combined all together, the control data included 253 economies of which 32 economies from the ASEAN data (mainly are small islands) could not be matched with the World Bank data.

All control variables enter the regression in the form of natural logarithms. To deal with 0 values, we add 1 to all variable before taking the log. The summary statistics for all variables can be found in Appendix 6.

3.6. Results

The estimation results for equation (1) are presented in Table 7. The targeted countries where Vietnam applied any promotion tools are more likely to have investment in Vietnam as the coefficients are positive and significant in all specifications. The results are consistent with the raw data presented in Figure 10 that the large proportion of inflows are from targeted economies.

As lots of small islands are in the sample and many of them are considered tax havens, we estimate equation (1) for the sample excluding the 38 tax havens (UNCTAD, 2015), the results hold except for in the logit regression.

Table 7. The likelihood of having investment from targeted countries

	(1) Fixed effects	(2) Fixed effects	(3) Logit FE	(4) Probit RE
L.target_dummy	0.156***	0.123**	0.673**	0.801***
	(0.0486)	(0.0486)	(0.336)	(0.163)
L.lnGDPperCap		0.0193	0.250	0.466***
		(0.0221)	(0.352)	(0.0727)
L.lnImport		0.000909	0.0228	0.0563***
		(0.00236)	(0.0464)	(0.0160)
L.lnExport		0.00691**	0.0240	0.0492***
		(0.00292)	(0.0270)	(0.0132)
Constant	0.145***	-0.00857		-6.059***
	(0.0160)	(0.172)		(0.630)
Observations	5,313	4,229	1,811	4,229
R-squared	0.050	0.068		
Number of country	253	212	88	212
Country FE	Yes	Yes	Yes	No
Year FE	Yes	Yes	Yes	Yes

Robust standard errors at the country level in parentheses *** p<0.01, ** p<0.05, * p<0.1

In order to investigate the impacts of targeting on the level of FDI inflows from that country, we first estimate equation (2) with the main explanatory is the simple dummy variable capturing whether that country was targeted (i.e. the dummy receives the value of 1 if any promotion tools are used in the country). Although the results in Table 7 suggest that FDI inflows are more likely to come from the targeted countries, the target dummy is not well determined in any specifications as show in Table 8.

To explore whether the intensity of targeting matters, we estimate the second equation where the number of tools applied, our count measurement of targeting, is the independent variable. The underlying hypothesis is that each promotion tool aims at some types of investors and conveys certain kinds of information, so the diversified of promotion activities could reach out to more investors and providing them more information, which is crucial for making decision to invest. The results present in Table 9 confirm this hypothesis, all the coefficients are significant and positive (except for the extended inflows).

Table 8. The impact of being targeted countries

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			New investment						Extension investment			
	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects
L.target_dummy	2.060***	-0.419	1.596**	-1.795	0.698	-18.67	0.935**	-0.0605	0.753*	-0.441	0.526	-5.827
	(0.658)	(2.226)	(0.664)	(2.828)	(0.684)	(23.39)	(0.378)	(0.638)	(0.382)	(0.809)	(1.259)	(6.874)
L.lnImpFDI					-0.114	4.874					0.256	1.505
					(0.128)	(3.202)					(0.186)	(1.070)
L.lnGDPperCap			0.268	-3.647	3.008*	-5.363			-0.101	-1.213	2.513*	-5.413
			(0.309)	(4.059)	(1.626)	(34.25)			(0.212)	(1.179)	(1.424)	(10.40)
L.lnImport			0.0203	0.240	-0.102	0.928			0.0273	0.0762	-0.283	0.722
			(0.0335)	(0.157)	(0.0867)	(1.892)			(0.0253)	(0.0498)	(0.188)	(0.705)
L.lnExport			0.0950**	-0.0349	-0.0793	-1.725			0.0300	-0.00847	0.288	-0.945
			(0.0387)	(0.0723)	(0.219)	(2.199)			(0.0208)	(0.0247)	(0.260)	(0.809)
Constant	2.437***	1.487	0.326	28.91	-8.566	-13.91	1.391***	0.507	2.063	9.629	-17.66	29.88
	(0.248)	(1.048)	(2.383)	(30.83)	(14.34)	(302.8)	(0.156)	(0.366)	(1.648)	(8.801)	(14.00)	(91.97)
Observations	5,313	5,313	4,229	4,229	633	633	5,309	5,313	4,225	4,229	629	633
R-squared	0.053	0.021	0.072	0.029	0.173	0.201	0.032	0.019	0.042	0.025	0.139	0.152
Number of country	253	253	212	212	80	80	253	253	212	212	80	80
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors clustered at the country level in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 9. The impact of combination tools on new and extended investment

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			New investment						Extension investment			
	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects
L.no.of tools	0.810***	21.52**	0.599**	22.02**	0.350*	39.29***	0.672***	6.817**	0.567***	7.002**	0.160	13.24***
	(0.288)	(8.545)	(0.251)	(8.665)	(0.180)	(10.45)	(0.205)	(2.771)	(0.197)	(2.811)	(0.273)	(3.787)
L.lnImpFDI					-0.128	1.551					0.253	0.394
					(0.126)	(1.764)					(0.181)	(0.603)
L.lnGDPperCap			0.317	-0.521	3.249*	36.98			-0.0380	-0.222	2.591*	8.782
			(0.312)	(2.491)	(1.670)	(24.28)			(0.213)	(0.642)	(1.519)	(7.556)
L.lnImport			0.0209	0.0945	-0.0964	-2.009			0.0258	0.0303	-0.273	-0.251
			(0.0338)	(0.116)	(0.0904)	(1.574)			(0.0253)	(0.0315)	(0.185)	(0.608)
L.lnExport			0.104***	-0.187	-0.0652	-0.585			0.0326	-0.0556	0.296	-0.559
			(0.0392)	(0.118)	(0.215)	(1.865)			(0.0207)	(0.0372)	(0.262)	(0.693)
Constant	2.526***	-0.931	-0.000429	2.977	-10.64	-353.7	1.398***	-0.253	1.578	1.412	-18.38	-84.11
	(0.230)	(1.948)	(2.404)	(19.72)	(14.81)	(241.6)	(0.154)	(0.646)	(1.657)	(5.091)	(14.86)	(75.86)
Observations	5,313	5,313	4,229	4,229	633	633	5,309	5,313	4,225	4,229	629	633
R-squared	0.049	0.156	0.070	0.162	0.175	0.354	0.035	0.110	0.044	0.116	0.139	0.269
Number of country	253	253	212	212	80	80	253	253	212	212	80	80
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors clustered at the country level in parentheses *** p<0.01, ** p<0.05, * p<0.

The application of one additional promotion tool in the targeted country could lead to an increase in the level of new FDI investment by nearly 35% (column 3), attracting 39 new projects and leading to 13 registered expanding investment. The impact of the size of the promotion package on the volume of FDI extension is not statistically significant but it is positive. All results in Table 9 hold when tax havens are excluded from the sample.

The above results suggest that a single promotion tool might not work but the combination of promotion techniques in the targeted country could help the host countries reach out to potential investors effectively. Investors need for information varies by industry as well as by form of investment so that a single tool might not cover all information requirements for the investors. For this reason, the combination of promotion activities could result in an increase in investment. The more tools that are applied, the more investors that come. This suggests that targeting is effective in attracting new investment in general (extensive margin) but does not impact on the level of investment (intensive margin).

The estimation results of equation (2) disaggregating by tool present in Table 10. The results are mixed and to some extent, unexpected. The presence of the investment representative and organising the help desk are positively associated with the number of new investors as well as the expanded projects but do not significantly impact the level of FDI. Indeed, the coefficient of the promotor is negative although not statistically significant. The only tool that positively influences the level of new and extended FDI is having a DTT. Conducting an investment mission and organising an investment conference, the most two common tools to approach targeted investors, have no significant influence on new and existing investment. Holding a policy talk negatively impact new projects and reduces the number of extended projects. This could be due to the fact that in Vietnam policy talks are normally held to discuss the problems or drawbacks of the current policies and policy issues might take time to be solved and it is expected to be effective in the long run.

Table 10. The roles of promotion tools

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	New investment								Extension investment			
	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects
L.rep	-0.353	40.78**	-0.436	40.75**	-0.385	39.73**	0.00833	11.45*	-0.118	11.51*	-0.809	12.96*
	(0.492)	(17.25)	(0.509)	(17.19)	(0.578)	(17.45)	(0.379)	(5.861)	(0.399)	(5.854)	(0.628)	(6.562)
L.mission	-0.0508	15.04	-0.158	14.99	0.124	13.84	-0.147	5.150	-0.245	5.145	-0.397	7.247
	(0.431)	(15.64)	(0.448)	(15.62)	(0.716)	(16.10)	(0.832)	(7.004)	(0.836)	(7.004)	(1.183)	(7.713)
L.conference	0.453	15.39**	0.401	15.18**	0.581	9.828	1.949**	5.659	1.842**	5.488	1.034	3.482
	(0.455)	(6.362)	(0.452)	(6.320)	(0.473)	(6.886)	(0.856)	(3.585)	(0.853)	(3.556)	(1.001)	(3.881)
L.desk	1.279**	319.4***	1.122**	319.1***	1.017	307.6***	1.705***	109.4***	1.639***	109.3***	0.615	104.8***
	(0.522)	(18.36)	(0.529)	(18.39)	(0.691)	(21.26)	(0.576)	(6.143)	(0.580)	(6.191)	(0.635)	(7.601)
L.talk	0.0641	-177.6***	0.518	-176.8***	0.380	-157.1***	-1.610**	-66.04***	-1.416**	-65.75***	0.690	-59.94***
	(0.508)	(7.062)	(0.513)	(7.163)	(0.885)	(14.07)	(0.717)	(2.709)	(0.703)	(2.691)	(1.071)	(5.104)
L.BIT	-1.480**	3.339	-1.663***	3.004	-0.161	1.467	-0.427	0.316	-0.532	0.256	-0.677	-0.928
	(0.592)	(4.650)	(0.562)	(4.791)	(0.534)	(18.33)	(0.394)	(1.254)	(0.393)	(1.297)	(1.028)	(4.645)
L.DTT	3.108***	2.580	2.820***	2.430	2.090**	-3.249	1.743***	1.280	1.667***	1.307	2.449*	2.654
	(0.590)	(2.382)	(0.570)	(2.612)	(0.792)	(14.96)	(0.475)	(1.025)	(0.484)	(1.128)	(1.241)	(5.242)
L.lnImpFDI					-0.119	1.073					0.265	0.240
					(0.122)	(1.119)					(0.184)	(0.454)
L.lnGDPperCap			0.338	0.829	3.114*	29.79			-0.0360	0.192	2.393	5.840
			(0.302)	(2.343)	(1.614)	(20.19)			(0.207)	(0.553)	(1.527)	(5.406)
L.lnImport			0.00646	0.0921	-0.173*	0.236			0.0186	0.0248	-0.377*	0.326
			(0.0312)	(0.0780)	(0.0956)	(1.527)			(0.0220)	(0.0260)	(0.200)	(0.527)
L.lnExport			0.0929**	-0.0741	-0.0583	-1.038			0.0269	-0.0233	0.311	-0.678
			(0.0376)	(0.0525)	(0.205)	(1.763)			(0.0205)	(0.0200)	(0.270)	(0.670)
Constant	2.653***	1.102	0.0957	-5.323	-8.695	-275.6	1.460***	0.440*	1.689	-1.022	-15.62	-51.15
	(0.228)	(0.710)	(2.335)	(18.42)	(14.44)	(186.2)	(0.143)	(0.262)	(1.616)	(4.259)	(15.10)	(48.55)
Observations	5,313	5,313	4,229	4,229	633	633	5,309	5,313	4,225	4,229	629	633
R-squared	0.068	0.481	0.087	0.485	0.188	0.574	0.042	0.347	0.052	0.352	0.152	0.433
Number of country	253	253	212	212	80	80	253	253	212	212	80	80

Robust standard errors clustered at the country level in parentheses *** p<0.01, ** p<0.05, * p<0. Country and year FE included in all specifications

Table 11. The role of the quantity of tools used in attracting investment

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	New investment						Extension investment					
	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects
L.rep_n	-0.313	38.23**	-0.410	38.30**	-0.378	37.47**	-0.0407	10.03**	-0.172	10.11**	-0.842	11.24**
	(0.413)	(16.70)	(0.426)	(16.60)	(0.484)	(16.45)	(0.333)	(4.986)	(0.350)	(4.981)	(0.631)	(5.380)
L.mission_n	0.0149	29.45	-0.0675	29.50	0.173	31.71	-0.0156	9.842	-0.0941	9.866	-0.308	12.28
	(0.302)	(21.02)	(0.320)	(21.07)	(0.478)	(22.39)	(0.518)	(7.986)	(0.523)	(8.007)	(0.758)	(8.395)
L.CoFo_n	0.268	-7.087	0.279	-7.051	0.314	-6.400	0.916***	-3.886	0.900***	-3.898	0.838**	-3.328
	(0.205)	(8.364)	(0.210)	(8.367)	(0.216)	(8.810)	(0.329)	(3.952)	(0.323)	(3.969)	(0.363)	(4.186)
L.desk_n	1.323***	256.0***	1.263**	255.9***	0.914	247.5***	1.318**	77.41***	1.323**	77.39***	0.836	74.70***
	(0.464)	(52.65)	(0.511)	(52.41)	(0.566)	(47.68)	(0.656)	(29.71)	(0.619)	(29.60)	(0.652)	(26.88)
L.talk_n	0.102	-77.88**	0.356	-77.58**	0.581	-68.47**	-0.380	-12.51	-0.270	-12.48	0.749	-11.49
	(0.300)	(36.39)	(0.331)	(36.16)	(0.527)	(28.24)	(0.330)	(20.22)	(0.310)	(20.13)	(0.573)	(17.56)
L.BIT	-1.473**	0.850	-1.652***	0.461	-0.137	-8.520	-0.447	-0.807	-0.548	-0.897	-0.646	-5.723*
	(0.592)	(3.354)	(0.562)	(3.512)	(0.519)	(15.06)	(0.395)	(0.725)	(0.393)	(0.774)	(1.033)	(3.084)
L.DTT	3.106***	2.982	2.817***	2.876	2.084**	-3.166	1.747***	1.442	1.669***	1.476	2.439*	2.175
	(0.590)	(2.241)	(0.570)	(2.462)	(0.796)	(14.37)	(0.475)	(1.001)	(0.484)	(1.102)	(1.253)	(5.183)
L.lnImpFDI					-0.120	1.460					0.258	0.438
					(0.122)	(1.268)					(0.183)	(0.513)
L.lnGDPperCap			0.337	1.375	3.129*	34.11*			-0.0331	0.437	2.399	7.968
			(0.303)	(2.289)	(1.632)	(19.51)			(0.207)	(0.503)	(1.543)	(4.874)
L.lnImport			0.00652	0.0757	-0.173*	-0.260			0.0187	0.0206	-0.375*	0.116
			(0.0312)	(0.0753)	(0.0962)	(1.439)			(0.0221)	(0.0254)	(0.199)	(0.440)
L.lnExport			0.0929**	-0.0709	-0.0594	-0.604			0.0269	-0.0207	0.309	-0.442
			(0.0376)	(0.0515)	(0.204)	(1.568)			(0.0205)	(0.0200)	(0.268)	(0.512)
Constant	2.652***	1.298**	0.105	-9.231	-8.830	-314.6*	1.462***	0.529**	1.668	-2.795	-15.58	-71.45
	(0.229)	(0.631)	(2.339)	(18.13)	(14.55)	(178.1)	(0.143)	(0.210)	(1.619)	(4.000)	(15.24)	(43.08)
Observations	5,313	5,313	4,229	4,229	633	633	5,309	5,313	4,225	4,229	629	633
R-squared	0.068	0.468	0.087	0.472	0.188	0.567	0.041	0.322	0.051	0.327	0.152	0.417
Number of country	253	253	212	212	80	80	253	253	212	212	80	80

Robust standard errors clustered at the country level in parentheses *** p<0.01, ** p<0.05, * p<0.1. Country and year FE included in all specifications

The presence of investment representative significantly associated with the increase in new and expansion projects but not the level of FDI in both cases, similar to the previous results. The difference in the number of investment officers are quite small, only two countries having two representatives, that might not affect the results. However, the number of conferences now significantly associated with higher extended inflows. When the number of year in implementation count, the role of DTT is not well determined in all specifications. The results for the other tools hold. These results confirmed results in Table 6 that the quantity of tools applied does matter, when the combination of tools influence the inflows. Morisset and Andrews-Johnson (2004) argue that there is a minimum level of promotion expenditure require to be effective, under this threshold, promotion efforts does not associate with the increase in FDI inflows.

As the quantity of each tools applied might lead to the observed differences in their effectiveness, we estimate equation (2) with the tools measured by the quantity of each tool used. We predict that, for example, holding two conferences in the targeted countries could draw attention from more potential investors. The quantity of BITs and DTTs measure by the number of year since the IIAs came in forced. For example, the DTT with Ireland was signed in 2008 and took effect in 2009, the count DTT is equal to 1 in 2010, 2 in 2011 and so forth. The results in Table 11 reveal a bit different story.

Since the establishment of the national investment promotion fund, 68% of budget for targeting purpose are allocated for investment missions and another 20% for holding investment conference[37]. A very small amount is spent on maintaining the help desk. Our results point to the need for further investigation into the allocation of the national budget for promotion activities. Our findings indicate that to some extent there is a mismatch between design targets and their cost effectiveness.

The information demand might also differ by form of investment. If an investor is looking for a business partner, they normally require more information than an investor setting up a 100% foreign owned firm. To explore this aspect, we estimate

[37] Authors calculation from the budget plan for annual investment promotion programmes.

equation (3) for a sub sample of 100% foreign owned firms and joint ventures, including Business Cooperation Contracts (BCCs)[38]. The results are present in Table 12. Investment representatives have a stronger impact on investment in the form of 100% foreign owned firms for both new and expanded projects. Investment desks appear to be best tools for first time investors or existing investors. The impact of mission, conference and BITs are not significant for both types of investment.

[38] The special form of investment which does not allowed to set up an foreign invested firms. BCCs were mainly applied in rude oil exploration and telecommunication.

Table 12. The roles of promotion tools on different forms of investment

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	100% foreign owned				Joint-venture			
	New		Extension		New		Extension	
	Inflows	Projects	Inflows	Projects	Inflows	Projects	Inflows	Projects
L.rep	-0.729	33.57**	-1.184*	11.68*	0.248	6.162**	-0.108	1.279*
	(0.709)	(14.75)	(0.695)	(5.931)	(0.824)	(2.928)	(1.553)	(0.720)
L.mission	-0.189	11.78	-0.157	6.390	0.403	2.068	0.655	0.858
	(0.709)	(14.40)	(1.184)	(7.226)	(0.749)	(1.822)	(0.961)	(0.596)
L.conference	0.496	8.890	1.457	3.261	0.727	0.938	0.311	0.220
	(0.485)	(5.994)	(1.133)	(3.612)	(0.620)	(1.546)	(1.306)	(0.510)
L.desk	0.670	296.0***	0.359	102.1***	0.325	11.63***	-0.303	2.779***
	(0.736)	(18.12)	(0.710)	(6.857)	(0.833)	(3.416)	(1.441)	(0.860)
L.talk	0.474	-169.2***	-0.316	-60.35***	0.969	12.06***	1.827	0.406
	(0.867)	(13.39)	(1.069)	(4.989)	(1.047)	(1.075)	(1.237)	(0.406)
L.BIT	0.119	1.914	0.247	-0.911	-0.0458	-0.447	-1.437	-0.0173
	(0.676)	(16.57)	(0.768)	(4.553)	(1.457)	(2.013)	(1.534)	(0.327)
L.DTT	1.549**	-2.255	2.728**	2.741	0.708	-0.994	0.529	-0.0874
	(0.773)	(13.88)	(1.262)	(5.136)	(1.078)	(1.387)	(0.981)	(0.276)
L.lnImpFDI	-0.308**	1.089	0.214	0.203	-0.111	-0.0164	0.287*	0.0374
	(0.123)	(1.029)	(0.188)	(0.435)	(0.189)	(0.118)	(0.159)	(0.0366)
L.lnGDPpCap	3.413**	28.28	2.497*	5.078	2.880**	1.507	1.641	0.763
	(1.693)	(19.63)	(1.281)	(5.231)	(1.203)	(1.399)	(1.037)	(0.582)
L.lnImport	-0.169	0.315	-0.340*	0.360	-0.487***	-0.0796	-0.125	-0.0339
	(0.110)	(1.409)	(0.173)	(0.519)	(0.108)	(0.145)	(0.0928)	(0.0313)
L.lnExport	0.130	-1.210	0.152	-0.738	0.184	0.172	0.0393	0.0597
	(0.135)	(1.651)	(0.215)	(0.694)	(0.209)	(0.165)	(0.216)	(0.0472)
Constant	-15.30	-265.7	-17.45	-45.45	-7.764	-9.930	-9.653	-5.706
	(14.89)	(180.8)	(13.58)	(46.94)	(12.55)	(12.88)	(10.05)	(5.106)
Observations	633	633	631	633	633	633	628	633
R-squared	0.204	0.579	0.208	0.441	0.132	0.426	0.090	0.226
No.of country	80	80	80	80	80	80	80	80
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors clustered at the country level in parentheses *** p<0.01, ** p<0.05, * p<0.1

3.7. Conclusions and policy implications

This paper is the first study to explore the impact of specific investment promotion tools on attracting FDI. We find that promotion efforts focused on targeted countries does bring more FDI from those countries. This should encourage the Investment Promotion Agency to continue to implement targeting programmes.

The question of how to target the countries is also of interest. Our results show that the help desk is the best tools in terms of attracting new FDI as well as additional capital from existing investors. It also appears to work well in attracting fully foreign owned investment and joint-ventures. In terms of budget allocation, help desks do not require a huge budget so it could be considered as a cost-effective tool to promote FDI. The results also raise a question about the effectiveness of promoting FDI through assigning a mission abroad and holding a conference.

The findings also suggest another issue that the IPA should draw attention on, that is the quantity of tools applied does contribute to the effectiveness of promotion efforts. We find evidence that the combination of tools work better than a single tool. The quantity of each techniques applied also influences the inflows. As the size of promotion efforts dose matter, IPA would be trade off between the wide targeted countries with the limited number of targeting countries but more promotion activities in a destination.

We also find that promoting FDI through bilateral agreements seems only work in the case of Double Taxation Treaties, not the Bilateral Investment Treaties in the case of Vietnam. More work is required to fully understand this issue. Almost all ongoing BITs were signed during the first period of the promotion policy and belong to the previous generation of BITs. UNCTAD (2007b) classifies these as "administration" agreements. The new generation of BITs include the BTA with the US and the BITs with Japan. This brings the economic relations between the two countries to a new level as well as sets a milestone for cooperate in investment promotion. It is an open question for future investigation.

Appendix 6. Statistics summary of variables

Variable	Obs	Mean	Std. Dev.	Min	Max	Notes
ln_nFDI_cy	1,042	16.2353	3.0624	0.0000	23.4346	Level of new FDI (log transform)
nProj_cy	1,042	23.6823	65.4587	1	853	Number of new projects
ln_eFDI_cy	648	16.3247	2.2039	10.3090	22.4123	Level of extended FDI (log transform)
eProj_cy	652	12.0568	28.6399	1	412	Number of extended projects
tar_e_d	5,566	0	0	0	1	Target_dummy
tar_e_c	5,566	0	1	0	7	Target_count
rep	5,566	0	0	0	1	Representative
mission	5,566	0	0	0	1	Mission
conf	5,566	0	0	0	1	Conference/Forum
desk	5,566	0	0	0	1	Desk
talk	5,566	0	0	0	1	Talk
BIT	5,566	0	0	0	1	Bilateral Investment Treaty
DTT	5,566	0	0	0	1	Double Taxation Treaty
lnImpFDI	757	16.1893	2.9374	8.2171	22.0146	Realised FDI (log transform)
lnGDPperCap	4,412	8.2468	1.6375	4.1898	12.1704	GDP per capita (log transform)
lnImport	4,862	5.7063	8.5365	0.0000	24.6357	Value of Import (log transform)
lnExport	4,862	5.5262	8.6232	0.0000	24.3726	Value of Export (log transform)

Chapter 4. The impact of restrictions on inward foreign direct investment inflows in the services sector

4.1. Introduction

It is widely accepted that foreign direct investment (FDI) plays a role in economic development in developing countries (Blomstrom et al., 1994, Borensztein et al., 1995, Iacovoiu, 2015). FDI is expected to bring new sources of capital, advanced technology, and new management skills and know-how to the host economy. These can contribute to productivity growth and private sector expansion in any economy but are especially important in developing countries which lag much further behind. Several studies have shown a positive impact of FDI on economic growth (Iamsiraroj, 2016), technology transfer (Newman et al., 2015), human capital and productivity (Javorcik, 2004) in the host economies. Thus, attracting FDI, is an important source of finance for development, and has become an important component of government policy in developing countries. Designing national FDI policies to get the right FDI for development targets are key for success.

Empirical work examining the effectiveness of FDI related policies have so far mainly focussed on FDI in manufacturing with little research examining FDI in the services sector. The services sector has gradually become more important in many countries, particularly in developing countries, many of which have bypassed the traditional industrialisation growth path. In the mid-90s, global FDI flows shifted to service sectors (UNCTAD, 2004) and in 2015 service sector FDI accounted for 67% of the global FDI stock (UNCTAD, 2017). Countries have, however, been much more reluctant to open the services sector to foreign investors. FDI barriers, particularly in the services sector, exist in all countries, regardless of the level of development, although developed countries are relatively more open to FDI in the services sectors than developing countries (UNCTAD, 2004, Golub, 2009). National investment policies are generally focussed on liberalising and promoting FDI, but in some cases, FDI restrictions are on the rise (UNCTAD, 2018).

Very few studies have explored the influence of restrictions on the inflows of FDI in services. Golub (2009) showed the correlation between high restrictions and low stock of FDI in services in OECD countries. Ghosh et al. (2012) also concluded that restrictions significantly lower the FDI stock in developed economies. The focus on OECD countries is largely due to data availability. FDI restrictions are generally hard to measure and FDI data for developing countries is often not available at a disaggregates sector level. As such, the impact of FDI barriers on services sector FDI in a developing country context is to our knowledge, as of yet unexplored.

Vietnam is the excellent case to study the impact of restrictions on foreign direct investment inflows in services. From an almost closed economy before the economic renovation named "Doi moi" in 1986, Vietnam has gradually opened the economy to foreign investors through the introduction of the Foreign Investment Law in December 1987. FDI regulations in Vietnam has been evolved significantly during the transformation of the economy from a closed to an export-oriented economy in order to attract foreign investment. FDI has made a significant contribution to this transformation process. FDI regulations in the services sector have been transformed even faster than foreign investment policies in general. The signing of the Bilateral Trade Agreement (BTA) with the US played a particularly important role.

In the first decade of the reform, the number of FDI projects in the services sector in Vietnam was always less than 30% of total projects. Foreign investors were mainly from the Asian region with the government targeting developed economies with advanced technology and management skills. Vietnam joined the Association of South East Asian Nations (ASEAN) in 1995. This marked the first move toward economic integration into the Asia region. Joining ASEAN, together with the lifting of the US embargo imposed on Vietnam, provided significant opportunities for a new wave of FDI in Vietnam from all over the world. FDI inflows grew rapidly but flows into the services sector was limited as the barriers were high and business regulations in the sectors were still far below the international standard. As services are traditionally non-tradable, FDI into the service sectors are more sensitive to institutional quality than general FDI (Kolstad and Villanger, 2008). Thus, improving the business environment and removing the barriers are key policies in attracting FDI in general and FDI in services in particular. However, eliminating restrictions and opening the services sector for foreign investors are difficult for policy makers, even

in developed countries. The common mechanism for lifting barriers is through bilateral agreements (Thomsen and Mistura, 2017).

During the Doi Moi renovation process, Vietnam signed many Bilateral Investment Treaties (BITs) as a tool to promote FDI from different potential partners before signing the BTA with the US. These BITs did not require a lot of changes in the national regulations. The BTA with the US was unique, not only because of the coupling of the investment agreement with the trade agreement, but also because of the detailed commitments to open the Vietnamese market in service sectors as well as commitments related to improving and standardising the business environment. The signing of the BTA required the Vietnamese government to amend a vast majority of national laws in order to bring the business environment closer to the international standard and to facilitate and protect US firms investing in Vietnam. The stringent requirements of BITs with the US, as well as with Canada and Japan, posed significant challenges for developing countries in general as they were associated with higher levels of liberalisation and protection (UNCTAD, 2007b). This makes their impact on Vietnam particularly interesting and relevant for other developing country contexts.

The introduction of US Bilateral Investment Treaties (BITs) is highly positively correlated with the increase in overall inward FDI inflows of the US signing partners (Salacuse and Sullivan, 2005). This can be explained by the fact that the US mainly signed BITs with countries who are strategic from a foreign policy perspective rather than purely having the potential to yield economic benefits (Chilton, 2016). From the perspective of developing countries, signing a BIT with the US is of significant importance as it is likely to promote FDI from the US but also from other OECD members (Salacuse and Sullivan, 2005). First, the BTA required significant changes in laws, regulations and even the rule of law in Vietnam making it easier to do business in general, and second, signing the BTA with the US signalled to other investors that the relationship between the Vietnam and the US is strategically important from a US perspective. In the case of Vietnam, the signing of the BTA was the biggest step the normalization process between the two countries after the Vietnam war and paved the way for US friends and allies to do business with Vietnam. This was very much a consideration of the Vietnamese government in the

run up to the signing of the Treaty[39]. After 15 years of implementation of the BTA, Vietnam went from being ranked the most restrictive nation in terms of FDI in 1997, to being the first reformer in removing restrictions in 2015 (Thomsen and Mistura, 2017).

In this paper, we explore three main research questions: (1) Did imposing FDI restrictions decrease FDI inflows from the US into the services sector in Vietnam? (2) What type of barriers influences inward US FDI inflows? (3) Did restrictions on investors from the US have spillover effects on FDI flows from other investors? and if yes, through what channel?

We compile a unique database of FDI inflows in services for Vietnam between 1988 and 2016 from several sources. The main source of information is from the Foreign Investment Agency which cover almost all sectors, except banking and finance and legal services. We combine the main FDI data from the FIA with data on banking and finance from the State Bank of Vietnam and FDI in insurance from the Ministry of Finance of Vietnam. The data consists of 11,387 projects in the services sector from 103 economies from all over the world from 1988. FDI data in Vietnam are only available at the broad industry level so we manually classify projects to sub sectors that correspond with the sub sectors under the specific sector commitments under the BTA. Then, data are aggregated to the sub sector level for each country to construct a panel dataset at the country-sector level.

This unique dataset allows us to investigate the direct impact of imposing barriers on US investors as well as the indirect impact of barriers on other investors, the spill over effects of FDI restrictions. We find strong evidence that imposing barriers on US investors not only reduces US FDI in services but also lowers FDI from investors in other countries, in terms of both the volume of investment as well as the number of new projects. Different types of barriers influence the inflows in different directions but the overall impact is negative. While ownership and operational restrictions decrease FDI from all countries, barriers on screening and approval positively impact inflows. We also investigate the channel through which restrictions on the US transfer to other investors.

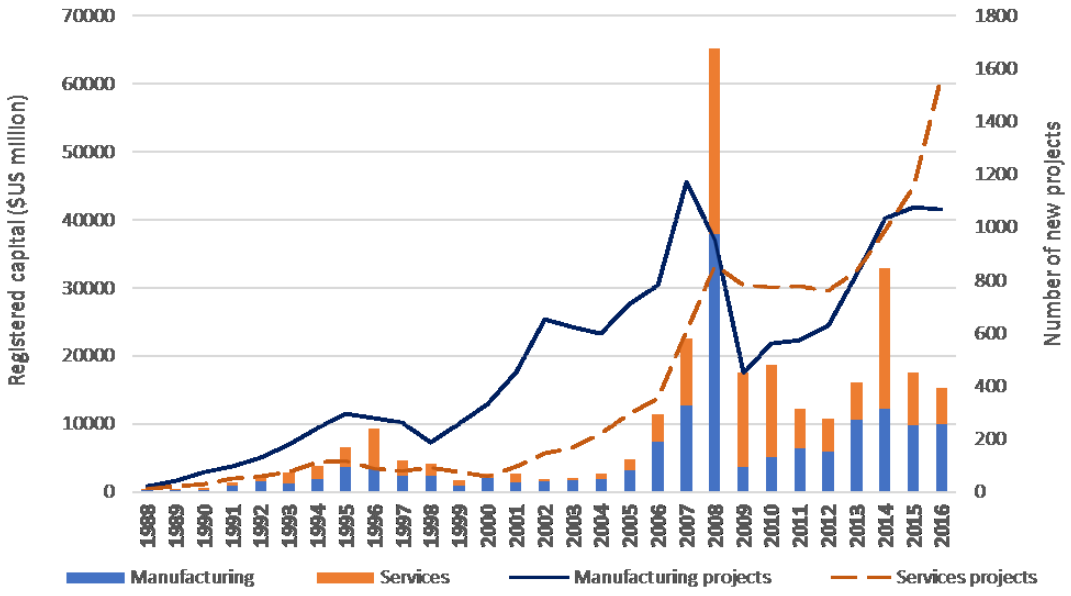
[39] "The Head of the BTA delegation: 'the agreement has to be signed'", https://vnexpress.net/tin-tuc/the-gioi/tu-lieu/truong-doan-bta-chet-tren-ban-dam-phan-cung-phai-ky-xong-3239652.html

The rest of the paper is structured as follows. In section 1 we provide the background to the Vietnamese context. Section 3 describes how we define and measure FDI restrictions. Section 4 present the empirical approach that we use to explore the impact of FDI restrictions on FDI in services. Section 5 discusses the results and section 6 concludes and provides policy implications.

4.2. Vietnamese context

4.2.1. FDI in Vietnam

Figure 12: FDI in manufacturing and services sector in Vietnam



Source: FIA Vietnam

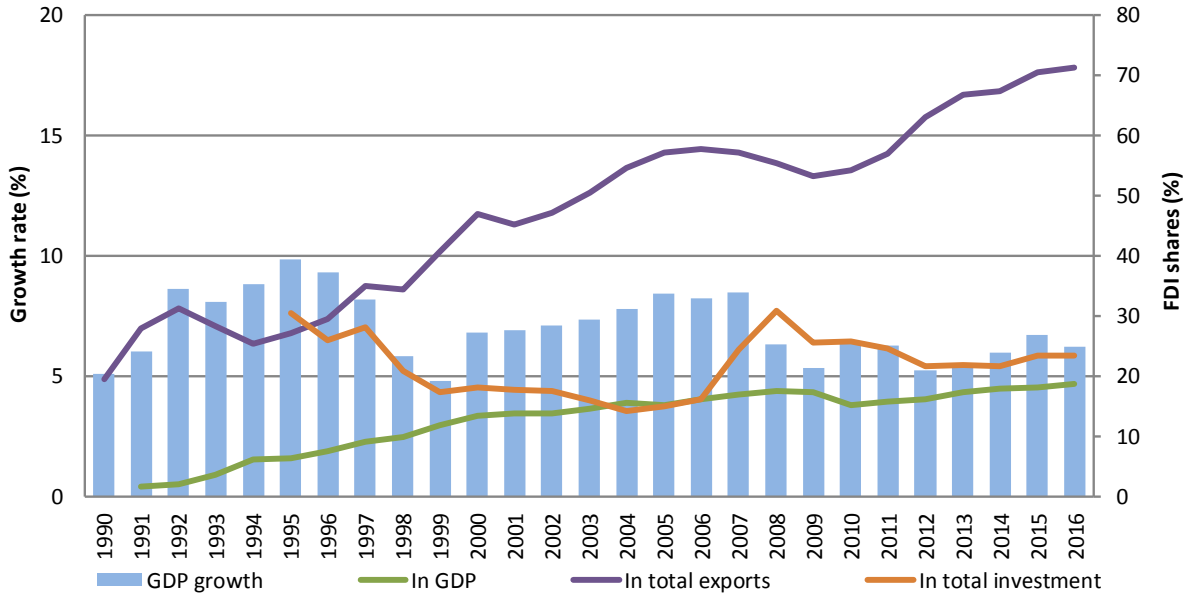
The "Doi Moi" (i.e. the economic reform) started in Vietnam in 1986 when Vietnam was a centrally planning economy and almost closed to the world. The Foreign Investment Law came into effect in 1987 and the first FDI project was licenced in 1988, marking Vietnam as a new destination for foreign investors. As a newly transition country, Vietnam became a promising market and increasingly attractive for foreign investors. This was not the case for US investors, however, due to the trade embargo imposed by the US. Until 1995, when Vietnam joined the Association of Southeast Asian Nations (ASEAN), Vietnam had received investment from 36 economies with the majority of investors originated from Asia. Less than 30% of

investment in Vietnam (as shown in Figure 12) was in the services sectors. This was largely due to the fact that FDI in services is more sensitive to institutional quality than manufacturing FDI (Kolstad and Villanger, 2008). The lack of transparent and predictable regulations was considered the biggest concern of foreign investors. Partners from OECD countries were limited, partly because of the trade embargo imposed by the US to Vietnam.

The lift of the US embargo and the status as a new ASEAN member in 1995 marked the economic integration process of Vietnam into the region and the world and brought more investors to Vietnam from all over the world. FDI inflows to Vietnam increased remarkably until 1998, when the Asian crisis led to a slow-down in flows. The number of projects in non-services sectors was always higher than that in the services sector up until 2008, when specific sector commitments were phased in; in particular, the telecommunication and banking sectors started to open. Despite being impacted by the financial crisis in 2008, the number of registered projects in the services sector surpassed the non-services sector and started to grow dramatically.

FDI contributed more and more to the development of the export-oriented economy and became an increasingly important part of the Vietnamese economy as shown in Figure 13.

Figure 13: The growing contribution of FDI in Vietnam



Source: General Statistics of Vietnam (GSO)

4.2.2. Keystones in the US Vietnam economic relationships

Before 1995 there were no economic relations between the US an Vietnam due to the trade embargo imposed by the US government to Vietnam. The US president Bill Clinton ordered the lift of the trade embargo imposed on Vietnam in 1994 and a year later, the US formally announced the normalization of economic relations with Vietnam. The liaison offices of both countries opened in 1995 with trade and investment representatives installed in each country. This paved the way for the development of the bilateral economic relations between the two countries, particularly the growth of bilateral trade and investment.

The US-Vietnam Bilateral Trade Agreement (BTA) which came into effect in 2001 was the first comprehensive bilateral trade agreement Vietnam had ever signed. The BTA covered investment relations and set out a roadmap to relax the investment conditions for US foreign investors. In addition, the BTA not only regulated the bilateral trade and investment relationships between the two countries but also included articles which requested major reforms in the Vietnamese business environment bringing it towards the WTO and international standards. The latter helped to improve the investment environment in Vietnam and thus, indirectly, called for other investors to invest in Vietnam.

The Trade and Investment Framework Agreement (TIFA) between two countries was signed in June 2007, after Vietnam joined the WTO. The TIFA confirmed the continuation of the implementation of the BTA in line with the WTO commitments. In addition, the TIFA set the framework for the establishment of the United States-Vietnam Council on Trade and Investment to promote bilateral trade and investment.

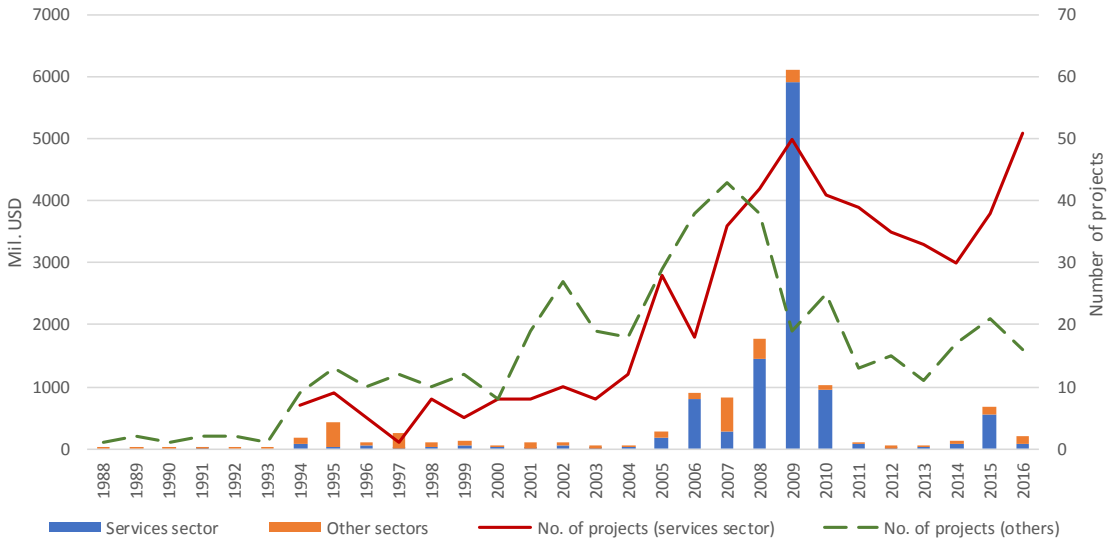
4.2.3. US FDI in Vietnam

Before the normalization between the two countries in 1995, US FDI in Vietnam was exclusively in manufacturing and was from individual Vietnamese-American investors rather than from US enterprises. The latter were not allowed to have any business with Vietnam. When the former US President Bill Clinton ordered the lift of the embargo in 1994, US manufacturers started to invest in Vietnam and the investment gradually increased during the BTA negotiation process from 1995 to

2000. The services sector had particularly strict regulations limiting foreign investors. The BTA came into effect in 2001 and began a new era for US investment in Vietnam in general, and in the service sectors in particular. Immediately following the implementation of the BTA in 2001, there was no increase in the flows of US FDI in Vietnam in the four following years. In fact, US FDI declined during this period and the majority of US investment was still in manufacturing. The commitments of Vietnam under the BTA represented the first transparent effort to open up the services sector. Most of the specific subsector commitments under the BTA were phased in from two to ten years after the effective year of the BTA in 2001. US FDI started to increase significantly from 2005 onwards. In Figure 14

Figure 14, the large chunk of US inflows since then are in the services sector.

Figure 14: US FDI in Vietnam 1988 – 2016



Source: FIA Vietnam

The BTA came into force in December 2001, but the volume of registered FDI, in terms of official statistics[40], seemed not increase as expected after three years of the implementation of the BTA. A joint report by the FIA and the STAR Vietnam

[40] The FIA Vietnam captured information on the foreign country based on the registered country of the foreign investor rather than the country of origin. For example, Coca Cola, a well-known US firms, established three factories in Vietnam with the original registered capital of more than USD 270 million through their regional subsidiaries in Singapore. Thus, the three Coca projects in Vietnam was classified as Singapore investment. Another case is the chip factory of Intel with registered capital at the year of establishment was USD 605 million (now is more than 1 billion USD) in Vietnam was registered under Intel Holding B.V registered in the Netherlands (FIA Vietnam).

project[41] based on a unique survey of US related FDI[42] in Vietnam revealed a different story. According to this report, US related FDI grew rapidly after signing the BTA. By the end of 2004, US related FDI in Vietnam was more than double the US reported FDI in terms of registered investment, implemented capital and employment (FIA and STAR, 2005). The report also revealed that the majority of US related FDI was from the tax-havens such as the British Virgin Islands, Bermuda, Cook Islands and the Cayman Islands or firm's regional headquarters in Singapore and Hong Kong. Investing through offshore entities are common, particular for US investors. Haberly and Wojcik (2015) reported that "offshore FDI" accounted for more than 30% of the world FDI stock. The report has not been updated so we do not know whether the trend of investing through foreign US affiliates has continued or was just the case before the introduction of the BTA. The findings of the survey presented in this report suggests the existence of a different channel through which US enterprises invested in Vietnam that was not be captured through official statistics. Parker et al. (2005) noted that US firm tend to invest through their subsidiaries abroad as the US tax law encouraged them to do so. Thus, examining the impact of the BTA on FDI in Vietnam without looking at the US related FDI not coming directly from the US will underestimate US investment. In other words, to examine the impact of the BTA on US inflows, investment through US affiliates which are not captured in the official statistics, needs to be taken into account.

4.3. Defining and measuring FDI restrictions

FDI restrictions vary across different bilateral agreements. They can restrict the level of investment by setting a ceiling on foreign equity or limit the scope that foreign investors have in merger and acquisition activities. Some types of restrictions are related to the project appraisal process where the host government requires a special procedure for foreign investors or could make approval conditional on certain factors such as the composition of the board of directions or the movement of people. Restrictions might also apply in the post license period by narrowing down the scope of activities of foreign entities or restrict the customers that foreign firms could serve. In particular, these restrictions can vary significantly across sectors.

[41] An USAID funded project
[42] The investment from the US affiliates or US subsidiaries abroad to Vietnam

We group FDI restrictions into three main types. Following Golub (2009), we calculate a score for the extent of FDI barriers in different services sectors under the BTA. This is presented in Table 14.

Under Annex G of the US-Vietnam BTA, twenty-five sub services sectors were opened to US investors from between two and ten years after the effective date. The commitments covered a wide range of restrictions from the limitation of foreign ownerships, management conditions to the movement of foreign experts. Based on the general and specific commitments in the Annex, we grade the barrier scores for each subsector in each sub category using the method outlined in Table 13. We also followed Golub (2009) to cap the scores to one if the sum of the component scores is greater than 1.

Table 13: The scores of FDI barriers

FDI barriers	**Scores**
Foreign ownership	
No foreign equity allowed	1
1-19% foreign equity allowed	0.6
20-34% foreign equity allowed	0.5
35-49% foreign equity allowed	0.4
50-74% foreign equity allowed	0.2
75-99% foreign equity allowed	0.1
Screening and approval	
Investor must show economic benefits	0.2
Approval unless contrary to national interests	0.1
Notification (pre- or post)	0.05
Operational barriers	
Boards of directors or managers	
Majority must be nationals or residents	0.1
At least one must be nationals or residents	0.05
Movement of people	
Less than one year	0.1
One to two years	0.05
Three to four years	0.025
Other operational barriers	
Labour market or other barriers	0.1
Total (cap to 1 if over)	**0-1**

Source: Golub (2009)

The roadmap for removing restrictions differed significantly by sub sector, especially the limitation on foreign ownership and for some sectors, the requirement related to the approval and screening process. The ground commitments, which applied for all

services sectors, include the requirement for approval in the form of an investment license for all projects and a working permit for foreigners. Vietnam committed that foreign firm managers should be allowed to stay in Vietnam the first term of three years and with an application for extension permitted if required. There was no time limit for this commitment so the score of the "movement of people" under the "Operation barriers" will have a fixed score of 0.025 for all service sectors since the BTA took effect. Similarly, the approval requirement is applicable for all services sector so the licencing score will be at least 0.1 if no other restrictions on screening or showing the economic benefits applied.

The specific sector commitments are the detailed commitments to open the services sector for US foreign investment. The hotel and restaurant sector is the most open in Vietnam, as in many other countries (Golub, 2009), with no limitation on foreign ownership and was phased in right after the effective date of the BTA. There is also no further requirement on screening or managers so the barrier grades for the hotel and restaurant sector are the lowest of all sectors and are stable over time.

The second most open sector is business services including legal services, management consulting services and supporting services like construction and engineering services, and architecture services. These services have a strong link with the manufacturing sectors (Benjamin and Cyrille, 2010).

The most protected sectors are telecommunications, insurance and internet services (UNCTAD, 2007b). Banking is also very strict in terms of restrictions.

Table 14: The barrier scores in Vietnam under the BTA

Subsectors	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Accounting, auditing and book keeping service	0.475	0.475	0.475	0.375	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175
Advertising services	0.775	0.775	0.775	0.775	0.775	0.775	0.575	0.575	0.375	0.375	0.375	0.375
Architectural service	0.275	0.275	0.275	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175
Banking	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.875	0.475	0.375
Basic telecommunication services	1	1	1	1	1	0.775	0.775	0.775	0.775	0.775	0.775	0.775
Computer and related services	0.275	0.275	0.275	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175
Construction and related engineering services	0.275	0.275	0.275	0.275	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175
Distribution services	1	1	1	1	0.775	0.775	0.775	0.375	0.375	0.375	0.375	0.375
Educational services	0.575	0.575	0.575	0.575	0.575	0.575	0.575	0.575	0.475	0.475	0.475	0.475
Engineering services	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275
Film production and distribution	0.575	0.575	0.575	0.575	0.575	0.575	0.375	0.375	0.375	0.375	0.375	0.375
Financial services	0.575	0.575	0.575	0.575	0.475	0.475	0.475	0.475	0.475	0.375	0.375	0.375
Health related services	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475	0.475
Hotel and restaurants	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175	0.175
Insurance	1	1	1	1	0.975	0.975	0.575	0.475	0.475	0.475	0.475	0.475
Internet services	1	1	1	1	0.775	0.775	0.775	0.775	0.775	0.775	0.775	0.775
Legal services	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275
Management consulting service	0.275	0.275	0.275	0.275	0.275	0.275	0.175	0.175	0.175	0.175	0.175	0.175
Market research	0.775	0.775	0.775	0.775	0.775	0.775	0.575	0.575	0.375	0.375	0.375	0.375
Motion picture projection services	0.575	0.575	0.575	0.575	0.575	0.575	0.375	0.375	0.375	0.375	0.375	0.375
Reinsurance	0.475	0.475	0.475	0.475	0.475	0.475	0.375	0.375	0.375	0.375	0.375	0.375
Taxation services	0.475	0.475	0.475	0.475	0.475	0.475	0.175	0.175	0.175	0.175	0.175	0.175
Travel agencies and tours operators services	0.775	0.775	0.775	0.775	0.575	0.575	0.375	0.375	0.375	0.375	0.375	0.375
Value-added services	1	1	1	0.775	0.775	0.775	0.775	0.775	0.775	0.775	0.775	0.775
Voice telephone services	1	1	1	1	1	1	1	0.775	0.775	0.775	0.775	0.775

Source: Authors calculations

All commitments of the Vietnamese government were phased in within ten years from the effective date in 2001 so the scores do not change from 2012 onwards. The detailed scores for each subsector are presented in Table 14.

4.4. Data

Data on restrictions in the services sub-sectors for US investors are compiled from Annex G, the "Schedule of specific commitments of Trade in Services", that Vietnam committed under the BTA. We evaluate the level of restrictions in each sub-sector in each year using the Golub scores describe in Table 13.

We compiled a unique panel data on inward FDI into services sub-sectors from 103 economies into Vietnam between 1988 and 2016 from different sources. The major source is the FIA, which cover all FDI projects approved under the Investment Law in Vietnam. We exclude all projects in manufacturing, mining, agriculture and fishery industries and focus on the FDI data in services. The FIA data are not available at the sub sector level so we classify service projects into sub sectors based on the registered scope of the activities. It is common in the services sectors that the coverage of registered activities is large so we use the first activity to assign the project to a sub-sector and match that to the corresponding sub sector in Annex G of the BTA. For example, if the scope of activities registered for a project included four sub sectors: market research, business management consultation, taxation consultation and tourism service, the project is classified as market research.

However, projects in several services sectors, including banking, financial leasing, insurance and legal services, required different procedures and were approved by different authorities which were not connected to the national FDI network run by the FIA. As none of the above authorities responded to our request for information, we had to collect information on foreign investment in those sectors through unofficial channels and verified the information using public business announcements, which are compulsory for all new FDI projects in Vietnam.

Inflows into the insurance sector were collected mainly from The Annual Report of Vietnam Insurance Market in different years, published by the Insurance Supervisory Authority of Vietnam, under the Ministry of Finance. The reports provided the on-going list of insurance companies in Vietnam (both domestic and foreign companies) in the year of the report but did not provide the detailed ownership of those companies. We gather information on the shareholders and country of origin of the foreign owners from the website of each insurance firm[43] and include in the FDI insurance database all enterprises having at least 10% of foreign owners in the charter capital. In fact, there is no insurance firm with foreign investors owning less than 10% of the charter capital.

Similarly, inflows to banking sector were compiled from the lists of 100% foreign-owned banks, joint-venture banks and foreign branches on the website of the State Bank of Vietnam (i.e. the central bank of Vietnam) published twice a year since 2009. As only the bank name and current charter capital are available on the lists, we find and merge information on the country of origin and registered capital at the time of entry from news sources documenting their business announcement[44]. The charter capital in Vietnamese Dong is converted to USD using the annual average exchange rate of the year of establishment available in the World Bank database. We also gather information on foreign firms in the financial leasing sector through the public lists on the website of the State Bank of Vietnam.

The legal service sector is the only sub-sector for which we could not find enough information on foreign investment, so this sector was excluded from our analysis, although it is a sub-sector under the commitments of the BTA.

We merged data from the other sources with the major data from the FIA to create a full list of 11,387 foreign investment projects in the services sectors. Then we aggregate data to sub-sectors corresponding with the subsectors documented in

[43] This might not reflect the country or territory that the foreign investors in Viet Nam registered their firms. E.g. the country of origin of Bank A is France but Bank A Vietnam might have foreign investors registered in Singapore or any other third countries. Thus, to some extent, this data is not comparable with data from the FIA, which captured the countries that foreign investors legally registered, rather than their countries of origin.

[44] The limitation of this data compilation method is that it captured the country of origin, rather than the registered countries of foreign investors, similarly to the banking sector.

Annex G of the BTA based on the scope of registered activities. Details on data sources by sectors are provided in Appendix 7.

In total, our data includes inflows in 35 sub service sectors from the US and 38 subsectors from non-US investors (around 100 economies) to Viet Nam between 1988 and 2016. The list of economies in our analysis are presented in Appendix 8.

Several of the sub-sector level agreements under the scope of the BTA commitments are fully phased in but by the end of 2016 there was still no FDI into those sectors, for example, basic telecommunications, voice telephone, value added and internet services. The barrier scores of these four sub-sectors are the highest of all sub-sectors and take a value of 0.775 in 2016, just a bit lower than the overall score for the banking sector at the year of signing.

Data on the Bilateral Investment Treaties (BIT) with Vietnam are from the UNCTAD database of International Investment Agreements (IIAs). The data provide the list of all BITs where Vietnam is a partner, the status of the agreements and details on the signing, effective and termination dates of each agreement.

4.5. Empirical specifications

In order to investigate the impact of foreign investment restrictions on inward FDI, we employ the following empirical specifications.

$$US\_FDI_{it} = \alpha_0 + \beta_0 Barrier_{it} + \gamma_i + \gamma_t + e_{it} \quad (1)$$

Equation (1) explores the impact of overall barriers on inward US investment inflows. The dependent variable US_FDI_{it} is the level of inflows from the US to services sector i in time t measure by (i) the number of new projects in sector i in time t and (ii) the level of total registered capital of new projects in sector i in time t (in natural logarithm). $Barrier_{it}$ are the scale of FDI restrictions under the bilateral trade agreement between the US and Vietnam in sector i in time t, which receive a score between 0 and 1 depending on the restrictions imposed in sector i in year t. γ_i are sector fixed effects which control for all time-invariant factors that could affect bilateral investment in sector i. γ_t are time fixed effects which absorb common

shocks which could influence all US investors regardless of the sector they invest in (for example, the introduction of the new investment law which affected all investment in that year or the signing of a new agreement which facilitated all US investment). β_0 is expected to be negative as the barriers, if any, will lower the inflow of FDI in that sector. e_{it} are the error terms.

$$US\_FDI_{it} = \alpha_0 + \theta_1 f\_score_{it} + \theta_2 s\_score_{it} + \theta_3 o\_score_{it} + \gamma_i + \gamma_t + e_{it} \quad (2)$$

Equation (2) explores the role of different restriction types. f_score_{it} is the score relating to limitations on foreign ownership which ranges from 0 (i.e. totally open to foreign investors) to 1 (i.e. fully closed to foreign investors) applying to investment in sector i in year t. s_score_{it} is the score relating to screening requirements and restrictions applying to sector i in year t in getting the approval or license. o_score_{it} is the score for specific requirements in operating the business in sector i in year t, such as the limitation on the number of foreign employees or the requirement of local representatives in the board of managers of foreign firms.

Equations (3) and (4) examine the potential impact of barriers on inflows from others investors (i.e. all investors excluding the US). In other words, these regressions explore whether there are spillover effects of imposing restrictions on US investors. While bilateral agreements only regulate investment flows from the partners country, and are not applicable for other investors, other investors could react to the reduced restrictions resulting from the BTA or to the signal it sends about the extent of openness of a particular sector in the host country. The dependent variable here is the inward FDI from all non-US investors in sector i in year t.

$$nonUS\_FDI_{it} = \alpha_0 + \beta_0 Barrier_{it} + \gamma_i + \gamma_t + e_{it} \quad (3)$$

$$nonUS\_FDI_{it} = \alpha_0 + \theta_1 f\_score_{it} + \theta_2 s\_score_{it} + \theta_3 o\_score_{it} + \gamma_i + \gamma_t + e_{it} \quad (4)$$

The selection of sectors included in the BTA might not be random. For example, it could be that all foreign investors are interested in a particular sector because of a limited number of domestic suppliers, the small range of services offered in the domestic market, or the quality of the services on offer. These confounding factors could influence both the extent of restrictions imposed in the BTA in that sector and the level of investment into that sector from abroad. To tackle this potential

endogeneity problem, in addition to sector and time fixed effects, we include sector-country pair fixed effects γ_{ci} and country-time pair fixed effects γ_{ct} in our estimations as illustrated in equations (5) and (6). γ_{ci} control for all factors that could affect investment in sector i from country c, such as a new agreement between country c and Vietnam to facilitate investment in sector i or the establishment of an investment desk which supports investors from country c in sector i. Country-time fixed effects γ_{ct} will absorb common shocks that could influence investors originated from country c in year t (i.e. the signing of a new strategic partnership agreement between the UK and Vietnam which ease investors from the UK or the specific conditions of certain sectors in year t). The dependent variable in both equations (5) and (6), $nonUS\_FDI_{ict}$, is the inflows from country c in year t disaggregated by sub service sectors measure by the total registered capital in logarithm form or the number of new projects.

$$nonUS\_FDI_{ict} = \alpha_0 + \beta_0 Barrier_{it} + \gamma_c + \gamma_i + \gamma_t + \gamma_{ci} + \gamma_{ct} + e_{ict} \quad (5)$$

$$nonUS\_FDI_{ict} = \alpha_0 + \theta_1 f\_score_{it} + \theta_2 s\_score_{it} + \theta_3 o\_score_{it} + \gamma_c + \gamma_i + \gamma_t + \gamma_{ci} + \gamma_{ct} + e_{ict} \quad (6)$$

If the spillover effects exist, the question is that to what channel that barriers imposed on US investors can affect none US investors? The possible mechanism here could be through the Most Favoured Nation (MFN) rules which appeared to be common in all BITs. Schill (2009)argue that with the MFN treatment, BITs not only regulate the investment relations between the two singing parties but also interact with each other to generate the international regime and thus, impact all investors in the network. To test this hypothesis, we employ the dummy variable for countries which have bilateral investment agreement with Vietnam (BIT) and also add the interaction term as present in equation (7) for overall barrier and equation (8) for sub barriers.

$$nonUS\_FDI_{ict} = \alpha_0 + \beta_0 Barrier_{it} + \beta_1 BIT_{ct} \times Barrier_{it} + \gamma_c + \gamma_i + \gamma_t + \gamma_{ci} + \gamma_{ct} + e_{ict} \quad (7)$$

$$nonUS\_FDI_{ict} = \alpha_0 + \theta_1 f\_score_{it} + \theta_2 s\_score_{it} + \theta_3 o\_score_{it} + \theta_4 BIT_{ct} \times f\_score_{it} + \theta_5 BIT_{ct} \times s\_score_{it} + \theta_6 BIT_{ct} \times o\_score_{it} + \gamma_c + \gamma_i + \gamma_t + \gamma_{ci} + \gamma_{ct} + e_{ict} \quad (8)$$

The sign of the interaction terms are expected to be the same with the variable they interact with as the MFN rules aim to provide an equal treatments to all investors within the network.

4.6. Results

To investigate the impact of barriers on inward US FDI, we estimate equation (1) for the sample of US FDI. Overall, the higher the barrier score, the lower the level of newly registered capital of US investors and the smaller the number of new US projects. Table 15 summaries the estimation results of the impacts of barriers on the inward US inflows measures by the level of new registered US FDI (in natural logarithm, columns 1, 3, 5) and the number of new projects (in columns 2, 4 and 6). Overall, barriers significantly lower the level of newly registered capital as well as the number of newly registered projects from the US in all specifications. The results are consistent with other studies in the field (Ghosh et al., 2012, Golub, 2009, Koyama and Golub, 2006). When the barrier score increases 1 percentage point, the US FDI inflows decrease 2.85% and the number of newly registered projects fall by more than one project.

Table 15: Impacts of barriers on US investment in services

	(1) Inflows	(2) Projects	(3) Inflows	(4) Projects	(5) Inflows	(6) Projects
Barrier	-1.630**	-0.385*	-5.114***	-1.346***	-2.853***	-1.131***
	(0.671)	(0.214)	(0.783)	(0.253)	(1.008)	(0.263)
Constant	3.161***	0.665***	0.431	0.0286	0.431	0.0286
	(0.237)	(0.0754)	(0.943)	(0.305)	(0.547)	(0.202)
Observations	910	910	910	910	910	910
R-squared	0.006	0.004	0.125	0.094	0.117	0.126
Sector FE	No	No	No	No	Yes	Yes
Year FE	No	No	Yes	Yes	Yes	Yes
Number of sector					35	35

Robust standard errors clustered at the sector_year level in parentheses.

*** p<0.01, ** p<0.05, * p<0.1

We could not find any studies examining the impact of different types of restrictions on inward FDI at the country level. Table 16 provides a closer look at the impact of different types of barriers on inward US FDI into Vietnam. Columns 1 and 2 show that in general, restrictions on foreign ownership and operation negatively and significantly affect investment flows and new projects. However, screening requirements have a positive impact on new FDI. The strict requirement on the approval process might come from the desire to limit foreign presence in the sub sectors which are highly reserved for domestic providers. This might also make these sectors very attractive for foreign investors due to few providers in the market and the likelihood that domestic firms, in the absence of foreign competition, provide lower quality services in terms of scope and quality. This is exactly the case in Vietnam as we observe high screening and approval scores in distribution, education, financial and healthcare services as well as in banking and insurance. Those sub sectors were reserved for domestic firms and applied a complicated procedure for foreign investors long before they were opened under the BTA implementation. When time trends are added, the coefficients on ownerships and screening restrictions hold their sign but become insignificant. With year and sector fixed effects, the impact of requirements in screening and approval processes become negative for the inflows (column 5) but remain positive for the number of projects although are still not statistically significant. After controlling for all time-invariant factors and trends, we find that limitations on foreign ownership negatively influence the number of new projects but do not significantly affect the level of inflows.

Table 16: Impacts of different types of barriers on US investment in services

	(1) Inflows	(2) Projects	(3) Inflows	(4) Projects	(5) Inflows	(6) Projects
f_score	-2.714**	-0.467	-1.921	-0.0846	-1.228	-0.646*
	(1.203)	(0.383)	(1.217)	(0.392)	(1.095)	(0.354)
s_score	7.356***	2.478***	0.212	0.376	-0.0818	0.298
	(1.936)	(0.616)	(2.063)	(0.665)	(2.916)	(0.841)
o_score	-9.906***	-3.802***	-15.48***	-5.595***	-7.899**	-2.914***
	(3.577)	(1.139)	(3.502)	(1.128)	(3.548)	(0.993)
Constant	2.850***	0.581***	0.431	0.0286	0.431	0.0286
	(0.243)	(0.0773)	(0.941)	(0.303)	(0.546)	(0.201)
Observations	910	910	910	910	910	910
R-squared	0.032	0.029	0.130	0.106	0.118	0.127
Sector FE	No	No	No	No	Yes	Yes
Year FE	No	No	Yes	Yes	Yes	Yes
Number of sector					35	35

Robust standard errors clustered at the sector_year level in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 17 reports the impact of barriers on non-US investment and in general, it is even stronger than that on US investment. The coefficient on the overall barrier is positive and although it is insignificant (column 1) it suggests that when a barrier is imposed on US investment, US investors might transmit their investment through their offshore affiliates or the regional headquarters which are not under the limitation of the BTA. If this is the case, the inflows from non-US investors tend to increase. However, barriers significantly lower the number of new projects in the service sectors (column 2). Columns 3 and 4 present the impact of the three types of restrictions. Similar to the impact on US investment, operational restrictions significantly reduce inflows as well as the number of new projects while limitations on foreign ownership significantly reduce the number of projects (column 3, 4). The only barriers to have a positive impact on the inflows and number of new projects are barriers relating to the establishment itself. Screening and approval requirements positively and significantly impact the inflows and number of new projects. One explanation for this may be that stricter conditions applied to the approval process make investors assess the investment opportunities more carefully. In fact, the higher scores in screening and approval are observed in relatively closed sectors like insurance and distribution services, or in sectors that have few service providers at the international level like international schools or universities leading to very high demand for investment into these sectors.

Table 17: Impacts of barriers on none US investment

	(1) Inflows	(2) Projects	(3) Inflows	(4) Projects
Barrier	0.219	-17.95***		
	(0.959)	(3.548)		
f_score			1.720*	-13.22
			(0.999)	(8.830)
s_score			7.603***	38.66*
			(2.918)	(20.53)
o_score			-11.80***	-76.58***
			(4.179)	(21.87)
Constant	2.262**	0.316	2.262**	0.316
	(1.048)	(2.863)	(1.028)	(2.779)
Observations	1,102	1,102	1,102	1,102
R-squared	0.205	0.157	0.213	0.169
Sector FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Number of sector	38	38	38	38

Robust standard errors clustered at the sector_year level in parentheses. *** p<0.01, ** p<0.05, * p<0.1

The estimated results for equation (5) and (6) are presented in Table 18 and confirm the results presented in Table 17. With the inclusion of pair country-sector and country-year fixed effects, all coefficients are now well determined. Similar to the previous results, barriers significantly reduce the number of projects (column 2) and the registered level of capital (column 1). Ownership and operational restrictions significantly lower both the number of projects as well as the level of new investment from no.n-US investors while screening barriers significantly increase both registered capital and projects.

Table 18: Impacts of US barriers on non-US investment- robustness check

	(1) Inflows	(2) Projects	(3) Inflows	(4) Projects
Barrier	-0.443**	-0.556**		
	(0.222)	(0.240)		
f_score			-1.120***	-1.351***
			(0.408)	(0.344)
s_score			3.587***	2.867***
			(0.671)	(0.665)
o_score			-7.725***	-5.721***
			(1.453)	(1.687)
Constant	0.206***	0.0160***	0.206***	0.0160***
	(0)	(0)	(0)	(0)
Observations	21,779	21,779	21,779	21,779
R-squared	0.206	0.170	0.209	0.176
Sector FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
Number of sector_country	751	751	751	751
SectorCountry FE	Yes	Yes	Yes	Yes
CountryYear FE	Yes	Yes	Yes	Yes

Standard errors clustered at sector_ country levels in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 19 presents the estimation results of equation (7) and (8), shows the spillover effects of barriers and sub barriers on non-US investors which have BITs with Vietnam. Having a BIT is positively associated with both inflows and the number of projects from non-US firms. For sectors where there are barriers imposed on US-Vietnam investment inflows the positive effect of having a BIT is eliminated. The interaction effect is well determined in the case of the number of projects. While it is not well determined for the level of inflows the sign is negative. While the spillover impact on inflows is not well determined, the interaction terms are all statistically significant and negative for f_score and o_score and positive for s_score, similar to previous results.

Table 19: Spillover impacts of barriers and sub barriers

	(1) Inflows	(2) Projects	(3) Inflows	(4) Projects
Barrier	-0.161	-0.153		
	(0.332)	(0.144)		
BIT*barrier	-0.413	-0.592***		
	(0.443)	(0.212)		
f_score			-1.027**	-0.695***
			(0.407)	(0.230)
s_score			1.810*	0.704**
			(0.941)	(0.346)
o_score			-2.083	0.427
			(2.171)	(0.810)
BIT*f_score			-0.0764	-0.972**
			(0.615)	(0.417)
BIT*s_score			2.446**	2.960***
			(1.191)	(0.797)
BIT*o_score			-7.367***	-7.886***
			(2.537)	(1.243)
Constant	1.831	0.347	1.328	0.265
	(4,199)		(3,802)	
Observations	21,779	21,779	21,779	21,779
R-squared	0.206	0.170	0.209	0.178
Number of sector_country	751	751	751	751
Sector FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes
SectorCountry FE	Yes	Yes	Yes	Yes
CountryYear FE	Yes	Yes	Yes	Yes

Standard errors clustered at sector_country year levels in parentheses. *** p<0.01, ** p<0.05, * p<0.1

All the interaction terms have the expected signs confirm our hypothesis. The MFN scheme play a role in transmitting the spillover effect of US barriers.

4.7. Conclusion and policy implications

Using the case of Vietnam and the restrictions imposed in the services sector under the bilateral trade agreement, we examine the impact of barriers to investment on inward FDI. We build a unique dataset of FDI in services in Vietnam to explore the impact of FDI restrictions on FDI inflows to service sectors. We find strong evidence that barriers under the bilateral framework not only negatively impact investors from the counterpart country, they also negatively impact other investors, especially investors who also come from economies that have a BIT with Vietnam.

We find strong evidence that imposing barriers on US investors not only results in a decrease in US FDI in services but it also lowers FDI from other investors. The sub barriers influence the inflows in different directions but the overall impact is negative. While ownership and operational restrictions decrease FDI from all countries, barriers on screening and approval positively impact inflows. We also investigate the channel through which restrictions on the US transfer to other investors and find that the bilateral framework is an important mechanism.

Our findings have several policy implications. First, imposing restrictions on investors not only reduces investment from that investor, it also obstructs investment from other investors, especially investors from economies that have BITs with the host countries. In other words, in order to promote FDI, the host countries should consider removing restrictions. It would work directly and indirectly in raising the FDI flows.

Second, the findings of the roles of each component of barriers suggest that in order to remove barriers, host countries should focus on removing the limitations on foreign ownerships and operational restrictions. There is no need to eliminate restrictions on screening and approval as it appears to increase the inflows.

Third, restrictions or liberalisation under bilateral investment agreements seems not only to influence investment flows between the two countries, but it also has spillover effects through all other bilateral agreements.

Appendix 7. List of service sectors and sub sectors

Sector Subsector	BTA	Sample	Source
Accommodation and food service activities		yes	FIA[1]
Travel agencies and tours operators services	yes	yes	FIA
Activities of households as employers, undifferentiated goods and services producing activities of households for own use		yes	FIA
Administrative and support service activities		yes	FIA
Arts, entertainment and recreation		yes	FIA
Construction		yes	FIA
Construction and related engineering services	yes	yes	FIA
Education and training	yes	yes	FIA
Electricity, gas, steam and air conditioning supply		yes	FIA
Financial, banking and insurance activities		yes	
Banking	yes	yes	SBV[2]
Financial services	yes	yes	SBV
Insurance	yes	yes	MOF[3]
Insurance broking	yes	yes	MOF
Leasing	yes	yes	SBV
Reinsurance	yes	yes	MOF
Human health and social work activities		yes	FIA
Health related services	yes	yes	FIA
Information and communication	yes	yes	FIA
Basic telecommunication service	yes	yes	FIA
Computer and related services	yes	yes	FIA
Film production and distribution	yes	yes	FIA
Internet service	yes	yes	FIA
Motion picture projection services	yes	yes	FIA
Value-added services	yes	yes	FIA
Voice telephone service	yes	yes	FIA
Other service activities		yes	FIA
Professional, scientific and technical activities		yes	FIA
Accounting, auditing and book keeping service	yes	yes	FIA
Advertising services	yes	yes	FIA
Architectural service	yes	yes	FIA
Engineering services	yes	yes	FIA
Legal services	yes	no	FIA
Management consulting service	yes	yes	FIA
Market research	yes	yes	FIA
Others	yes	yes	FIA
Taxation services	yes	yes	FIA
Real estate activities		yes	FIA
Transportation and storage		yes	FIA
Water supply, sewerage, waste management and remediation activities		yes	FIA
Wholesale and retail trade; repair of motor vehicles and motorcycles		yes	FIA
Distribution services	yes	yes	FIA

[1] FIA – Foreign Investment Agency of Vietnam

[2] SBV – State Bank of Vietnam

[3] MOF – Ministry of Finance

Appendix 8. List of countries

Country name	Country name	Country name
Antigua and Barbuda	Hong Kong SAR, China	Philippines
Argentina	Hungary	Poland
Armenia	India	Portugal
Australia	Indonesia	Romania
Austria	Iran, Islamic Rep.	Russian Federation
Bahamas, The	Iraq	Samoa
Bangladesh	Ireland	Saudi Arabia
Belarus	Isle of Man	Serbia
Belgium	Israel	Seychelles
Belize	Italy	Sierra Leone
Bermuda	Japan	Singapore
Brazil	Jordan	Slovak Republic
British Virgin Islands	Korea, Dem. People's Rep.	Slovakia
British West Indies	Korea, Rep.	Slovenia
Brunei Darussalam	Lao PDR	South Africa
Bulgaria	Latvia	Spain
Cambodia	Lebanon	Sri Lanka
Canada	Luxembourg	St. Kitts and Nevis
Cayman Islands	Macao SAR, China	St. Vincent and the Grenadines
Channel Islands	Malaysia	Sudan
China	Maldives	Sweden
Cook Islands	Marshall Islands	Switzerland
Costa Rica	Mauritius	Syrian Arab Republic
Cuba	Mexico	Taiwan
Cyprus	Monaco	Thailand
Czech Republic	Mongolia	Turkey
Denmark	Morocco	Ukraine
Dominica	Netherlands	United Arab Emirates
Egypt, Arab Rep.	New Zealand	United Kingdom
Estonia	Nigeria	United States
Finland	Norway	Uruguay
France	Oman	Vanuatu
Germany	Pakistan	Yemen, Rep.
Guam	Palestinian Territory	
Guatemala	Panama	

Chapter 5. Conclusion

The findings in this thesis confirm results of previous studies, investment promotion in general, and investor targeting, the common duty of all IPAs, in particular, positively impacts on FDI inflows. Recent empirical studies proved that sector targeting is effective in bringing more investment to the targeted sectors. This thesis contributes to the empirical studies on the effectiveness of investment targeting along two other under-explored dimensions of the investor targeting, region target and source country target. The finding confirms that promotion efforts toward region or source countries associated with higher FDI inflows to the targeted region or from the targeted countries.

Using the case of Vietnam, chapter two finds evidence to suggest that spatial targeting is effective in attracting FDI into disadvantaged districts. Considering different types of targeting policies over time in Vietnam, the chapter argue that the success of regional targeting policies depends on policy motivations, whether the districts are targeted on efficiency grounds, i.e. the most efficient place for investment to take place, or on redistribution grounds, i.e. to equalize opportunities across Vietnam. The chapter finds that regions targeted on the efficiency grounds not only receive a higher level of FDI, but also maintain a higher level of FDI in the long run.

Chapter three finds that FDI inflows are likely to come from the countries that received at least one type of promotion efforts. The more promotion efforts to reach out to investors from the targeted destination, the more inflows the host could expect from the target economies. The chapter also address the fact that a combination of promotion tools works better in targeted countries and emphasises this dimension in designing and implementing promotion programmes. The chapter also points out that after-care service, such as help desks, are a cost-effective tool to attract FDI.

Chapter four explores the bilateral framework in promotion targeting. The findings highlight the fact that the barriers under bilateral agreements might not only limit investment from the signing partner but also might transmit to other investors, especially investment from the economies that have bilateral investment treaties with

the host. Under the boom of BITs, these findings have several policy implications but also require further research.

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