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The Detriments of Vietnam's Outward Foreign Direct Investment: Does Political Stability Matter?*

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Abstract

This paper analyses the motivations of outward Foreign Direct Investment pattern of Vietnam using the gravity theory and panel data of 159 economies worldwide during the 2007-2021 period. The author extends the gravity model proposed by Zhang & Daly (2011) to test the determinants of Vietnam's OFDI, divided into two strategy groups namely location selection and the amount of new registered OFDI capital. Results indicate that Vietnamese OFDI's location choice was positively impacted by high levels of political stability, export relations, and proximity to Vietnam. Meanwhile, natural resource advantages and the other good governance factors in one economy do not have statistically significant effects on the location choice, whereas Vietnamese new registered OFDI amount is negatively affected by governance effectiveness, rule of law, and regulatory quality. Relatively, among all the determinants, low regulatory quality is the most powerful factor in increasing the new registered OFDI scale. As the main practical policy implications, issuing policies for promoting trade relations, launching the novel strategy of FDI neighbourhood policy are recommended.

Keywords: Good Governance, Natural Resource Advantages, Outward FDI, Political Stability, Vietnam

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1. Introduction

Since the implementation of Renovations or "*Doi Moi*" towards a market economy in 1986, Vietnam has gained significant achievements in economic development and international integration. Vietnam has become a reliable destination of multinational corporations (MNCs) as a result of its political and macroeconomic stability and improved ease of business. In response, several domestic enterprises have started investing abroad since 1989. This is considered as initial steps in Vietnamese Investment Development Path (IDP), where Outward Foreign Direct Investment (OFDI) flows have increased at a level much lower than inward foreign direct investment (IFDI) (Dunning, 1981, 1986).

Due to its large economic openness and reliance on international cooperation (Quang, 2023), Vietnam's OFDI has become an important factor, contributing to its process of extensive economic integration and value chain enhancement. From strategically investing into neighbours such as Laos and Cambodia in the 1990s, Vietnam has expanded its OFDI locations to approximately seventy countries and territories by 2021 (VFIA, 2022). While there have been many studies investigating the motives of foreign direct investment (FDI) in Vietnam (Quang et al., 2022; Nguyen, 2008a) or its effects on Vietnamese economy (Nguyen, 2021; Jenkins, 2006; Le & Pomfret, 2011; Nguyen, 2008b; Nguyen et al., 2020), few have endeavoured to analyse Vietnam's OFDI motivations.

OFDI from emerging and developing countries are implemented in distinctive strategies, as prevailing theoretical approach to OFDI largely focuses on MNCs in developed countries (Thu Ha et al., 2021; Abdulrazak et al., 2023; Eatessam et al., 2023). Empirical research strands on OFDI in developing economies are nearly on

prominent powers' strategies such as India and China. These giant economies themselves hold geopolitical senses and consequently tend to design distinctive OFDI plans, which might not be applied to medium-scale economies like Vietnam. For example, China showed significant interests on African markets (Mourao, 2018), while Indian MNCs largely invested in developed countries (Hansen, 2009). Therefore, the analysis of OFDI motives in Vietnam, a medium-scale economy, contributes to the current literature on OFDI from developing countries, and serves as a measure of comparison with other nations with similar economic sizes at different stages of IDP. Using regression models with panel data of 159 economies during the period 2007-2021, this paper aims to investigate the determinants of Vietnamese OFDI's location choice and the amount of new-registered OFDI capital in host economies.

2. Literature Review

The IDP model is a classic theoretical framework analysing worldwide FDI patterns, in which the values of FDI flows inward and outward depend on their levels of economic development (Dunning, 1981; 1986). Developing countries are at IDP's initial stages IDP. Their OFDI scale begins flourishing; however, it would be much lower the IFDI one. Dunning et al. (2010) provide empirical evidence on Trade Development Path (TDP) in parallel with IDP; accordingly, levels of trade increase with expansion of cross-border investment flows as economies constantly grow.

However, Svetličič (2003) argues that some countries under the socialist regime have made efforts to leapfrog steps in the IDP model via forceful government interventions in international cooperation. Furthermore, deviating from the conventional electric

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paradigm theory and specifically the IDP model, Hansen (2009) introduces a theoretical proposition by utilizing India as an anomaly. The hypothesis posits that during the initial stages of development, the imposition of stringent policies on Indian Inward Foreign Direct Investment (IFDI) alongside the establishment of non-equity linkages with multinational corporations impedes the capacity of domestic enterprises to initiate and proactively engage in overseas investment through Outward Foreign Direct Investment (OFDI). Additionally, it suggests that the promotion of OFDI can, in turn, catalyze the augmentation of domestic industries through the enhancement of IFDI. In empirical aspects, most studies show the universality of the IDP model. However, in the application of the IDP model, selected specific characteristics of economic structures, monetary policies and especially governance institutions should be taken into account to provide a comprehensive analysis on OFDI's features in each country (Bellak & Jel-code, 2001; Liu et al., 2005; Stoian, 2013). In essence, the empirical literature links economic development with OFDI in the IDP model with large considerations on good governance. When a developing economy grows at significant rates, several aspects of good governance, such as its abilities on control of corruption tend to be improved (Paldam, 2003). In addition, the state would be under increasing civilian pressure (Acemoglu & Robinson, 2000), or the economy can face vital conditions such as better education (Fukuyama, 2001) and a rising middle class (Pittaluga et al., 2015) to undertake institutional reforms towards more transparency and democracy. Therefore, economic development becomes a requisite for good governance in terms of improving democratic and transparent institutions (Boix & Stokes, 2003). These good governance conditions establish crucial fundamentals in appealing IFDI as well as nurturing domestic enterprises to become MNCs for OFDI. For

the former, it is confirmed that MNCs are interested in foreign countries with good government infrastructure during their location choice (Globerman & Shapiro, 2002). For the latter, Das (2013), while studying developing countries' behaviours on OFDI, shows that good governance in home economies plays an indispensable role in encouraging these flows. However, weak governance in source countries might be a thrust for MNCs to escape bad institutions and invest abroad (Stoian & Mohr, 2016).

In a firm level, foreign investors can be divided into four categories based on their motives: natural resource seekers; market seekers, efficiency seekers, or strategic asset seekers (Dunning, 1977; Dunning & Lundan, 2008). This is also a key topic in various empirical studies assessing host countries' features and determining OFDI flows from developing and emerging economies. This is because MNC's motives and strategies are diverse across countries, depending on host countries' barriers such as corruption and ease of doing business, and MNCs' own capacity (Kravtsova, 2010).

For the first type, MNCs tend to select locations with ample natural resources and cheap labour to match their technical and administrative efficacy. Studies on China's OFDI flows show that this country is a typical case of resource-seeking motives (Hu, 2013; Kolstad & Wiig, 2012; Zhang & Daly, 2011). Weak governance and large values of natural resource exports in host economies are key drivers of its OFDI flows. Wang et al. (2012) affirm that Chinese government has implemented state-ownership interventions in outward investment activities to orient its OFDI capital toward developing countries rather than developed ones. In doing so, China has succeeded in promoting investments in African countries, where there are natural resource advantages and limited governance (Mourao, 2018) .

Market seekers invest in various countries with their desire to expand market shares abroad by providing products to host economies' domestic markets. This market entry usually comes after an increase in export to the host countries. Empirical evidence of Eem et al. (2019) and Goh & Wong (2011) reveals that Malaysian MNCs employ market-seeking motives, as host countries' market sizes and income levels positively affect Malaysian' OFDI flows. In addition, Ibrahim et al. (2019) vividly indicate that selected ASEAN countries, such as Malaysia, Singapore, Indonesia, and Thailand boost their OFDI flows via the market-seeking motives.

The efficiency seeking OFDI aims to rationalize firms' operation by technology transferred to host countries and taking advantages of their cheap labour conditions. These enterprises employ economy-to-scale features and a natural monopoly to increase their competitiveness. Among developing countries, Ma et al. (2020) argue that the motives of China's OFDI in the period 2005-2016 in ASEAN countries shifted from resource-seeking to efficiency-seeking.

Beside a traditional exploitative view based on the three aforementioned motives, Kim et al. (2015) investigate a novel theoretical concept, in which businesses can access an explorative view to conduce to their growth via seeking new knowledge and favourable conditions in host countries. Regarding the theory of Dunning & Lundan (2008), the approach of Kim et al. corresponds to the forth motive-strategic asset seeking. In host countries, strategic asset seekers use ownership methods that are ineffective or infeasible in their source country, generate gains from adjusted ownership, and improve their positions in international markets by weakening competitors. An analysis of Indian OFDI reveals that its

MNCs had a tendency to implement market entries through strategic asset seeking, and largely invested in non-tradable high-tech services such as software and telecommunications in developed countries, which resulted in a significant increase of its OFDI flows from 2001 (Hansen, 2009). This strategy was reinforced by Indian high-tech workforce migrating to developed countries, promoting strategic OFDI from India into those industries and in turn boosting the Indian economy (Khadria, 2002).

Theoretical and empirical literature review reveals that countries design different investment strategies: Although the IDP model is basically universal across countries, specific investigations should be carried out when governments implement intervention policies in developing countries as well as countries under the socialist regime in transition. Vietnam's outward FDI, to a certain extent, follows the IDP model. However, the OFDI's motives have not been thoroughly investigated. To the knowledge of this research's author, only two articles by Phung (2016) and Thanh Thu et al. (2018) empirically analyse the determinants of Vietnamese OFDI in its two neighbours, Laos and Cambodia, in which Vietnam's OFDI activities are positively influenced by the State interventions as well as Vietnamese relative economic development levels compared to Laos and Cambodia. Such studies cannot fully reflect Vietnam's OFDI motives and strategies in its development path.

For investigating the motivations of Vietnam's OFDI, we propose three main hypotheses, divided into two strategy groups: location selection and the amount of new registered OFDI capital.

For Vietnamese location selection for OFDI flows, we proposed one hypothesis:

H1: Political stability in one country has positive impacts on Vietnam's selection of investment locations.

For new registered OFDI amount, once this country is selected for OFDI flows, we proposed two hypotheses:

H2: Natural resource advantages have positive impacts on the amount of registered OFDI.

H3: Good governance in host middle income country groups has negative impacts on the new registered OFDI amount.

We follow the gravity model of Zhang & Daly (2011) to test the aforementioned hypotheses. As this paper is the first quantitative research, investigating the determinants of Vietnam's OFDI strategies, the coefficients of the controls in the gravity model like population, geographical distance, GDP per capita are also analysed in terms of statistical significance levels to investigate associations of these factors with Vietnamese OFDI.

3. Methodology

The Vietnamese OFDI strategies will be investigated in this research via the construction of a panel data regarding all countries and territories during the 2007-2021 period. The main reason for selecting the year 2007 as the beginning of our time span is the fact that this year marks Vietnam’s joining of the WTO. It can be said that the year 2007 is a unique step in Vietnam’s globalization and economic openness. We follow the empirical gravity models of Kolstad and Wiig (2012) as well as Zhang and Daly (2011), and add other independent variables on good governance to test our hypotheses:

$$OFDI_i = \alpha + \beta_1 * Governance_i + \beta_2 * Natural\ resources_i + \gamma * Controls_i + \varepsilon_i,$$

where i is an index by country or territory, ε is an independent and identically distributed random variable.

The calculation and data sources of variables: *OFDI*, *Governance*, *Natural resources* and *Controls* are described in Table 1. We calculate the average value of these indicators in the period 2007-2021 to produce long-term variables (Zhang & Daly, 2011). In our regression models, we use natural logarithmic numbers, as suggested by Goh & Wong (2011) to be able to compare their impacts and elasticities in relative terms, which cannot be investigated via the original model of Zhang & Daly (2011).

Table 1. Data and Sources

No	Name	Description	Variables[1]	Source
Vietnamese outward FDI				
1	OFDI	Annual Vietnam's new registered OFDI flows to host economy	Ln (OFDI)	FIA
Controls				
2	GDPP	GDP per capita	Ln (GDPP)	WDI
3	GGDP	Average GDP growth	Ln (1+ GGDP)	WDI
4	Inflation	Average inflation rate, consumer price index (CPI)	Ln (1+|Inflation|)	WDI
5	OPEN	Ratio of inward FDI stock to GDP	Ln (OPEN)	WDI
6	POP	Average population	Ln (DIST)	WDI
7	DIST	Distance between capitals of an economy and Vietnam	Ln (DIST)	CPEII
8	EX	Vietnam's exports to an economy	Ln (EX)	WITS
9	IM	Vietnam's imports from an economy	Ln (IM)	WITS

1. logarithms of these figures to compare the results in regression models in relative terms.

No	Name	Description	Variables[1]	Source
Governance, Natural resources				
10	NR	Nature Resources Index, measured by the ratio of ores and metals exports to merchandise exports	Ln (NR)	WDI
11	COC	Percentage Rank of Control of Corruption	Ln (COC)	WGI
12	GEF	Percentage Rank of Governance Effectiveness	Ln (GEF)	WGI
13	POS	Percentage Rank of Political Stability	Ln (POS)	WGI
14	ROL	Percentage Rank of Rule of Law	Ln (ROL)	WGI
15	RQU	Percentage Rank of Regulatory Quality	Ln (RQU)	WGI
16	VOA	Percentage Rank of Voice and Accountability	Ln (VOA)	WGI

Source: Prepared by Author

There are four clarifications on our data and methodology for calculating the variables. Firstly, we use three data sources to calculate the Controls: Centre d'Études Prospectives et d'Informations Internationales (CEPII) for the distance variable, World Integrated Trade Solution (WITS) of the WB for the variables on imports and exports, and World Development Indicators (WDI) for the other Controls. Secondly, we calculate our dependent variable, OFDI, as the annual average of new-registered OFDI capital from Vietnam to each country and territory in the world. Data on the new-registered OFDI capital is extracted from FIA data set, which records new OFDI registration licenses during the period of 2007-2021. The measure of new registered capital is employed to reflect the Vietnamese MNCs' expectations at the starting points of planning their investments abroad. In the period of 2007-2021, Vietnam has registered to invest in 59 countries and

five territories (Macao, Hong Kong, Taiwan, British Virgin Islands (BVI), and Camay Islands). Thirdly, for governance variables, we use the WB's Database on Good Governance to measure 6 sub-indicators: Control of Corruption (COC), Governance Effectiveness (GEF), Political Stability (POS), Rule of Law (ROL), Regulatory Quality (RQU), and Voice and Accountability (VOA) (Kaufmann et al., 2010). Finally, we calculate natural logarithms of (1+ GDPG) and (1+ |Inflation|) as proxies for GDP growth and inflation to run our regressions. A one percentage point increase in (1+ GDPG) corresponds to an increase of one percent in GDP growth (GDPG). In addition, the absolute value of CPI is employed to test a hypothesis that the more stable CPI one country maintains (an inflation rate is near zero), the more motives Vietnamese firms have to invest via OFDI.

We use two regression techniques to test two hypothesis groups: probit for the determinants of location choice and Fully Modified Ordinary Least Squares (FMOLS) for the determinants of the OFDI amount. In both regression techniques, we use robust standard errors to avoid heteroskedasticity, which leads regression techniques to become inefficient (White, 1980).

For the determinants of location choice, the panel data is constructed in all countries and territories with available data. WITS records countries and territories with whom Vietnam trades in significant amounts of exports and imports; therefore, we exclude countries which are not included in the WITS data set due to uncertainties in Vietnamese export and import values (see Table 2 for the variables' description)[1]. In addition, we use observations with missing no figures in all of the variables in Table 1 to run

1. The remaining five economies in which Vietnam invested included Camay Islands, BVI, Hong Kong, Taiwan, and Macao. See more at Appendix 1.

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probit regressions. The *OFDI* variable in probit regressions has binary values of 0 if there are no OFDI flows from Vietnam to an economy in the period of 2007-2021, and 1, reversely.

Table 2. Description of Variables

Variable	Observation	Mean	Std. Dev.	Unit
OFDI	59*	18.0	50.0	Million USD
GDPP	171	12,741	17,655	USD
GDPG	171	1.5	0.5	%
CPI	171	5.8	6.8	%
OPEN	171	10.3	58.5	%
POP	171	38.3	142.0	Million
DIST	168	9244.7	4517.5	Km
EX	171	455.7	1589.3	Million USD
IM	171	455.3	2062.3	Million USD
NR	171	7.9	13.7	%
COC	171	49.1	29.0	%
GEF	171	50.2	28.4	%
POS	171	47.9	27.7	%
RQU	171	50.7	27.9	%
ROL	171	49.3	28.7	%
VOA	171	49.5	28.0	%

Source: Prepared by Author

To examine the factors that impact the OFDI amount, we employ the FMOLS estimate to regress Ln (*OFDI*) with independent variables. In this model, only observations in Vietnamese host countries-or *OFDI* =1 in probit regressions-are taken into account. Correlation matrix of the variables for this model is presented in Table 3. It can be seen that good governance variables are strongly correlated with each other.

Table 3. Correlation Matrix of Variables

	LOFDI	LGDPP	GDPG	LCPI	LOPEN	LPOP	LDIST	LEX	LIM	LNR	LCOC	LGEF	LPOS	LRQU	LROL	LVOI	LVOA
LOFDI	1.00																-0.29
LGDPP	-0.27	1.00															0.53
GDPG	0.21	-0.53	1.00														-0.50
LCPI	0.27	-0.25	0.04	1.00													-0.31
LOPEN	0.03	0.27	0.23	-0.17	1.00												0.07
LPOP	0.22	-0.17	0.07	0.06	-0.26	1.00											-0.05
LDIST	-0.14	0.22	-0.47	0.15	-0.16	0.12	1.00										0.38
LEX	0.22	0.36	-0.13	-0.26	0.11	0.67	-0.04	1.00									0.22
LIM	0.18	0.34	-0.05	-0.31	0.16	0.58	-0.14	0.89	1.00								0.11
LNR	0.28	-0.02	0.05	-0.02	0.05	0.22	0.11	0.09	0.05	1.00							0.18
LCOC	-0.40	0.76	-0.39	-0.55	0.19	-0.19	0.18	0.23	0.25	0.04	1.00						0.68
LGEF	-0.38	0.77	-0.36	-0.58	0.23	-0.11	0.08	0.34	0.33	0.10	0.93	1.00					0.71
LPOS	-0.22	0.74	-0.29	-0.36	0.39	-0.49	0.05	0.05	0.11	0.07	0.73	0.72	1.00				0.46
LRQU	-0.34	0.74	-0.39	-0.63	0.29	-0.10	0.16	0.41	0.40	0.09	0.86	0.94	0.66	1.00			0.74
LROL	-0.41	0.70	-0.34	-0.67	0.21	-0.16	0.08	0.28	0.29	0.08	0.95	0.97	0.72	0.92	1.00		0.71
LVOA	-0.29	0.53	-0.50	-0.31	0.07	-0.05	0.38	0.22	0.11	0.18	0.68	0.71	0.46	0.74	0.71	1.00	

Source: Prepared by Author

4. Results and Discussion

Regarding the determinants of location choice, the probit technique is employed with regressing the binary OFDI variable with *Controls*, *Natural resources*, and *Governance*. Results of six regressions are presented in Table 4.

Among *Controls*, coefficients of three variables, *inflation rate*, *distance*, and *EX*, are statistically significant at different levels of 1%, 5%, and 10% in all 6 columns. At a 1% significance level, all 6 regressions show that geographical distance to Vietnam negatively impacts the probability of Vietnam's choice of the country to become its investment location. Meanwhile, export value from Vietnam to one country has positive association with the probability of Vietnamese investment location, with the coefficients ranging from 0.41 to 0.45 at significance levels of 5% in the two columns (4.1) and (4.3) and 1% in the four columns (4.2), (4.4), (4.5) and (4.6). These results support the correlations between IDP and TDP models in Vietnam. In addition, countries with inflation rates farther than zero percent are more likely to be used for investment by Vietnamese enterprises. In other words, Vietnam tends to invest in countries with relatively large inflation rates. Finally, a coefficient of the population variable, *POP*, in column (4.3) is statistically significant at a 5% significance level with a magnitude of 0.0658. Population also has a positive effect on Vietnamese OFDI's location choice. However, this effect cannot be confirmed by other results in the remaining five columns of Table 4[1].

1. OFDI = 1 if a country is chosen for Vietnam's OFDI during 2007-2021; otherwise, OFDI = 0. Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1. See List of 159 observations in Appendix 1.

Table 4. Probit Regression for Determinants of Location Choice

	All Economies					
	(4.1)	(4.2)	(4.3)	(4.4)	(4.5)	(4.6)
	LCOC	LGEF	LPOS	LRQU	LROL	LVOA
LGDPP	0.0247	0.0178	0.0136	0.0349	0.0333	0.0402
	(0.0345)	(0.0397)	(0.0296)	(0.0389)	(0.0357)	(0.0326)
LGDPG	-0.0459	-0.0505	-0.0473	-0.0448	-0.0472	-0.0277
	(0.0814)	(0.0820)	(0.0803)	(0.0831)	(0.0823)	(0.0815)
LCPI	0.0117***	0.0118***	0.0113***	0.0114***	0.0116***	0.0108***
	(0.00341)	(0.00349)	(0.00304)	(0.00349)	(0.00372)	(0.00324)
LOPEN	-0.0169	-0.0182	-0.0251	-0.0223	-0.0181	-0.0186
	(0.0400)	(0.0402)	(0.0388)	(0.0414)	(0.0405)	(0.0406)
LPOP	0.0271	0.0198	0.0658**	0.0218	0.0248	0.0276
	(0.0257)	(0.0257)	(0.0287)	(0.0257)	(0.0254)	(0.0252)
LDIST	-0.216***	-0.205***	-0.220***	-0.212***	-0.208***	-0.223***
	(0.0463)	(0.0444)	(0.0440)	(0.0453)	(0.0451)	(0.0473)
LEX	0.0439**	0.0436*	0.0445**	0.0416*	0.0429*	0.0411*
	(0.0221)	(0.0224)	(0.0216)	(0.0220)	(0.0223)	(0.0220)
LIM	0.0133	0.0163	-0.000324	0.0155	0.0148	0.0144
	(0.0185)	(0.0181)	(0.0193)	(0.0187)	(0.0185)	(0.0187)
LNR	-0.00556	-0.00643	-0.0129	-0.00456	-0.00337	-0.00473
	(0.0168)	(0.0174)	(0.0171)	(0.0178)	(0.0171)	(0.0166)
Governance	0.0819	0.0874	0.176***	0.0548	0.0543	0.0630
	(0.0575)	(0.0619)	(0.0577)	(0.0539)	(0.0503)	(0.0507)
Constant	0.787	0.826	0.120	0.859	0.780	0.781
	(0.579)	(0.578)	(0.590)	(0.586)	(0.571)	(0.583)
Observations	159	159	159	159	159	159
R-squared	0.422	0.421	0.449	0.418	0.419	0.421

Source: Prepared by Author

Regarding *Governance* and *Natural resources*, only a coefficient of *POS* in column (4.3) is statistically significant at a 1% level with its magnitude of 0.176. Political stability positively influences the probability of Vietnamese location choice. In addition, it cannot be confirmed that natural resource advantages are a factor that induces Vietnamese firms to choose their investment locations. Similarly, the five other sub-indicators of *Governance*, control of corruption (*COC*), governance effectiveness (*GEF*), regulatory quality (*RQU*), rule of law (*ROL*), and voice and accountability (*VOA*) are not significantly associated with Vietnamese OFDI's location choice.

To compare impacts' magnitudes among variables' coefficients with statistical significance at a 10% level or lower, the two variables *POS* and *DIST* have the largest effects on the location choice. In other words, political stability and distance are the most important factors in selecting investment location in the period of 2007-2021. The possibility of being selected as Vietnamese OFDI's host countries would be large if their political systems remain stable with their close geographical distance to Vietnam. Interestingly, the coefficients of the inflation rate variable are positive and statistically significant, but lower than ones of *POS*. This means that Vietnamese's enterprises give priorities to stable political systems over stable economic ones, at least in terms of inflation, when choosing a location to invest abroad.

Regarding the determinants of new registered OFDI amount, Table 5 shows results of regressing Vietnam's new registered OFDI capital to host economies with dependent variables *Controls, Natural resources,* and *Governance*. While geographical distance and political stability play important roles in the location selection

model, we cannot confirm that these factors have impacts on the new registered OFDI amount during the period 2007-2021.

Among *Controls*, population and export value have the strongest associations with the amount of new registered OFDI capital. Coefficients of *POP* are around -1.1 and statistically significant at a 5% level or lower in all six columns of table 5. If a host country's population increases by 1%, the amount of the new registered capital decreases by 1.1 percentage points. In addition, coefficients of GDP per capita, *GDPP*, are negative and statistically significant at a 5% level in two regressions (5.3) and (5.6). Therefore, Vietnam's OFDI strategies are different from Malaysian ones, since Vietnam does not seem to invest via market-seeking motives. Instead, Vietnam tends to increase the amount of the OFDI capital in host countries with lower degrees of both population sizes and GDP per capita. This investigation partially corresponds to our observations that Vietnam invests a significant amount of capital in low middle-income economies.

In addition, export value is positively associated with the amount of the OFDI capital, with coefficients proximately 1.0 and statistically significant at a 5% level or lower in all six regressions. If the export value to a host country increases by 1%, the amount of Vietnamese new registered OFDI capital in that country increases by approximately 0.93-1.13 percentage points.

Table 5[1]. Determinants of New Registered OFDI Amount

	55 host economies					
	(5.1)	(5.2)	(5.3)	(5.4)	(5.5)	(5.6)
	LCOC	LGEF	LPOS	LRQU	LROL	LVOA
LGDPP	-0.783	-0.515	-1.195**	-0.692	-0.576	-1.038**
	(0.514)	(0.492)	(0.509)	(0.449)	(0.460)	(0.392)
GDPG	0.690	0.724	0.500	0.433	0.648	0.175
	(1.101)	(1.107)	(1.067)	(1.043)	(1.071)	(1.072)
LCPI	0.0900**	0.0682	0.123***	0.0555	0.0466	0.104***
	(0.0408)	(0.0441)	(0.0325)	(0.0462)	(0.0482)	(0.0340)
LOPEN	-0.168	-0.165	-0.104	-0.0513	-0.176	-0.116
	(0.315)	(0.308)	(0.323)	(0.315)	(0.310)	(0.334)
LPOP	-1.045***	-1.001**	-1.048**	-1.207***	-1.046***	-1.108***
	(0.379)	(0.379)	(0.427)	(0.372)	(0.369)	(0.377)
LDIST	0.148	0.00431	0.0693	0.334	0.0895	0.289
	(0.480)	(0.454)	(0.469)	(0.454)	(0.456)	(0.482)
LEX	0.934**	0.996**	1.002**	1.115***	0.966**	1.130***
	(0.386)	(0.394)	(0.389)	(0.405)	(0.376)	(0.418)
LIM	0.151	0.0946	0.135	0.165	0.117	0.0460
	(0.323)	(0.320)	(0.322)	(0.291)	(0.305)	(0.314)
LNR	0.812***	0.881***	0.779**	0.888***	0.873***	0.873***
	(0.284)	(0.276)	(0.318)	(0.280)	(0.262)	(0.277)
Governance	-1.020	-1.930**	0.0280	-2.118**	-1.806**	-0.865
	(0.894)	(0.908)	(1.148)	(0.799)	(0.809)	(0.560)
Constant	25.20***	26.97***	24.92***	27.78***	27.20***	25.74***
	(5.923)	(5.717)	(7.212)	(6.047)	(5.639)	(6.117)
Observations	55	55	55	55	55	55
R-squared	0.440	0.464	0.423	0.475	0.472	0.451

Source: Prepared by Author

1. Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

The OFDI capital amount is largely affected by a host country's natural resource potential. Coefficients of *Natural resources, NR*, are ranging between 0.78 and 0.88 at 1% and 5% significance levels in all six columns, as illustrated in Table 5. If a host country increases the ratio of ores and metals exports to merchandise exports by 1%, the amount of Vietnamese OFDI capital increases by 0.78-0.88 percentage point. Therefore, Vietnam's OFDI flows hold resource-seeking motives.

While coefficients of selected *Governance* sub-indicators, *COC, POS,* and *VOA*, are not statistically significant, coefficients of the other *Governance* ones, *GEF, RQU,* and *ROL,* are all negative and statistically significant at a 5% level. If a host country's good governance sub-indicators *GEF, RQU,* and *ROL* decrease by 1%, there are increases of 1.93, 2.11, and 1.80 percentage points, respectively in the amount of Vietnamese new registered OFDI capital in that country. Compared to each other in a group of *Governance*, the regulatory quality, *RQU,* has the largest negative impact on the OFDI amount. Vietnamese strategies on the OFDI amount are designed to increase the capital into host countries with weak governance, especially low regulatory quality; however, these countries must ensure high political stability, as shown in the location choice model.

In comparison with impacts' magnitudes among all of the independent factors, three governance variables, *GEF, RQU,* and *ROL* also have the strongest impacts on Vietnamese OFDI amount with negative coefficients, following by export value with positive coefficients, and population size with negative ones.

5. Conclusion

Since the implementation of Renovations or "*Doi Moi*" in 1986, the Vietnamese economy has grown considerably and started to participate in OFDI process, which has been promoted since the 2000s. This process follows the IDP model with its FDI flows larger than its OFDI ones. This study investigated the factors affecting Vietnam's OFDI strategies on location selection and the amount of new registered OFDI capital in host countries. The data were based on panel data of 159 countries and territories in the period 2007-2021 with a probit technique for investigating the determinants of the location selection and the data of 55 host economies with FMOLS technique for investigating ones of the new registered OFDI amount.

Trade relations, measured by export values, are positively associated with both probabilities that Vietnam chooses investment locations and the new registered OFDI amount in host economies. These findings support a hypothesis on TDP and IDP, since trade and investment values have positive correlation with each other and correspond to the level of economic development.

In terms of location selection, proximity to Vietnam and high levels of political stability are the two most important determinants of probability for being chosen as a host economy. Priorities are given to political stability over macroeconomic stability, at least in terms of inflation. In addition, the potential on natural resources cannot be confirmed to have significant effects on the choice of investment locations.

Regarding the choice of the new registered OFDI amount, high levels of political stability in host countries no longer affect this variable. Instead, other factors of good governance, including

government effectiveness, regulatory quality, and rule of law have negative impacts on this variable. If degrees of variables *GEF*, *RQU*, and *ROL* decrease by 1%, the OFDI value in host countries increases by 1.93, 2.11, and 1.80 percentage points, respectively. Furthermore, natural resource advantages are a crucial factor that positively impacts the value of new registered OFDI flows. If the ratio of ores and metals exports to merchandise exports in host countries increases by 1%, there is an increase of 0.78-0.88 percentage point in the Vietnamese new registered OFDI value. Comparing impact magnitudes of all dependent variables, *Controls*, *Natural resources*, and sub-indicators in *Governance*, low levels of regulatory quality in host countries have the strongest effects on the OFDI amount.

Our empirical analysis contributes to the understanding of OFDI motives in developing countries in IDP initial stages. Before reaching a higher level of economic development like other countries in ASEAN, such as Singapore, Malaysia, Thailand and Indonesia, OFDI from Vietnam aimed at resource seeking rather than market seeking. In these first stages, Vietnamese strategies are similar to Chinese strategies in the early 2000s. However, with its rapid economic development, China has shifted its strategies on the OFDI motives to market-seeking in selected regions (Ma et al., 2020). This also implies research topics and hypotheses for future studies on Vietnam's OFDI motives, as Vietnam climbs to higher stages of economic development.

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Appendix 1. List of 159 Economies for Probit Model

No	Economies	Group**	No	Economies	Group
Host economies*					
East Asia & Pacific			**Europe & Central Asia**		
1	Australia	HI	28	Belarus	UMI
2	Brunei Darussalam	HI	29	Belgium	HI
3	Cambodia	LIM	30	Czech Republic	HI
4	China	UMI	31	Finland	HI
5	Hong Kong SAR, China	HI	32	France	HI
6	Indonesia	LIM	33	Germany	HI
7	Japan	HI	34	Greece	HI
8	Korea, Rep.	HI	35	Ireland	HI
9	Lao PDR	LIM	36	Kazakhstan	UMI
10	Macao SAR, China	HI	37	Netherlands	HI
11	Malaysia	UMI	38	Poland	HI
12	Myanmar	LIM	39	Russian Federation	UMI
13	New Zealand	HI	40	Slovak Republic	HI
14	Philippines	LIM	41	Spain	HI
15	Samoa	UMI	42	Sweden	HI
16	Singapore	HI	43	Ukraine	LMI
17	Thailand	UMI	44	United Kingdom	HI
South Asia			**Sub-Saharan Africa**		
18	Bangladesh	LIM	45	Angola	LIM
19	Bhutan	LIM	46	Burundi	LI
20	India	LIM	47	Cameroon	LIM
21	Sri Lanka	UMI	48	Cote d'Ivoire	LIM
Latin America & Caribbean			49	Ghana	LIM
22	Brazil	UMI	50	Mauritius	UMI
23	Mexico	UMI	51	South Africa	UMI
24	Peru	UMI	52	Tanzania	LI
25	Venezuela, RB	UMI	**Middle East & North Africa**		
North America			53	Algeria	UMI

No	Economies	Group**	No	Economies	Group
26	Canada	HI	54	Saudi Arabia	HI
27	United States	HI	55	United Arab Emirates	HI
Non host countries					
East Asia & Pacific			**Sub-Saharan Africa**		
56	Fiji	UMI	107	Benin	LI
57	Kiribati	LIM	108	Botswana	UMI
58	Mongolia	LIM	109	Burkina Faso	LI
59	Palau	HI	110	Central African Republic	LI
60	Papua New Guinea	LIM	111	Congo, Rep.	LMI
61	Solomon Islands	LIM	112	Ethiopia	LI
62	Tonga	UMI	113	Gabon	UMI
63	Vanuatu	LIM	114	Gambia, The	LI
Europe & Central Asia			115	Guinea	LI
64	Albania	UMI	116	Guinea-Bissau	LI
65	Armenia	UMI	117	Kenya	LMI
66	Austria	HI	118	Lesotho	LMI
67	Azerbaijan	UMI	119	Madagascar	LI
68	Bosnia and Herzegovina	UMI	120	Malawi	LI
69	Bulgaria	UMI	121	Mali	LI
70	Croatia	HI	122	Mauritania	LMI
71	Cyprus	HI	123	Namibia	UMI
72	Denmark	HI	124	Niger	LI
73	Estonia	HI	125	Nigeria	LMI
74	Hungary	HI	126	Rwanda	LI
75	Iceland	HI	127	Sao Tome and Principe	LMI
76	Italy	HI	128	Senegal	LMI
77	Kyrgyz Republic	LIM	129	Seychelles	HI
78	Latvia	HI	130	Sierra Leone	LI
79	Lithuania	HI	131	Sudan	LMI
80	Luxembourg	HI	132	Togo	LI
81	Moldova	LIM	133	Uganda	LI

No	Economies	Group**	No	Economies	Group
82	Norway	HI	134	Zambia	LMI
83	Portugal	HI	135	Zimbabwe	LMI
84	Romania	UMI	**Latin America & Caribbean**		
85	Slovenia	HI	136	Antigua and Barbuda	HI
86	Switzerland	HI	137	Aruba	HI
87	Turkey	UMI	138	Bahamas, The	HI
Middle East & North Africa			139	Barbados	HI
88	Bahrain	HI	140	Bolivia	LIM
89	Djibouti	LIM	141	Chile	HI
90	Egypt, Arab Rep.	LIM	142	Colombia	UMI
91	Iran, Islamic Rep.	UMI	143	Costa Rica	UMI
92	Israel	HI	144	Dominica	UMI
93	Jordan	UMI	145	Dominican Republic	UMI
94	Kuwait	HI	146	Ecuador	UMI
95	Lebanon	UMI	147	El Salvador	LIM
96	Libya	UMI	148	Grenada	UMI
97	Malta	HI	149	Guatemala	UMI
98	Morocco	LIM	150	Guyana	UMI
99	Oman	HI	151	Honduras	LIM
100	Syrian Arab Republic	LI	152	Jamaica	UMI
101	Tunisia	LIM	153	Nicaragua	LIM
102	Yemen, Rep.	LI	154	Panama	HI
South Asia			155	Paraguay	UMI
103	Afghanistan	LI	156	St. Lucia	UMI
104	Maldives	UMI	157	St. Vincent and the Grenadines	UMI
105	Nepal	LI	158	Trinidad and Tobago	HI
106	Pakistan	LMI	159	Uruguay	HI

Note: *Nine host economies not included in the Table: Timor-Leste, Taiwan (China), Uzbekistan, British Virgin Islands, Cayman Islands, Cuba, Haiti, Congo, Dem. Rep., and Mozambique; **: HI – High Income, UMI-Upper middle income; LMI-Lower middle income; LI- low income. Income groups and regions are based on classification of World Bank (2020)