

The Link between Foreign Exchange Rate and Foreign Direct Investment: Case from Vietnam

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Abstract: Foreign direct investment (FDI) in Vietnam has increased significantly recently. Foreign capital flows can greatly impact the local currency despite different exchange rate mechanisms. Therefore, the Vietnamese government must understand the relationship between the exchange rate (FX) and FDI to issue effective financial policies. This study uses the Vector autoregression (VAR) model to assess the relationship between FX and FDI in Vietnam based on quarterly data from 2013 to 2022. The study results show a meaningful relationship between the exchange rate and FDI in Vietnam. The findings also indicate that foreign direct investment flows into Vietnam are also influenced by its past values. The study also found that trade openness and economic growth were the main control variables affecting the relationship between foreign exchange rates and foreign direct investment. The empirical evidence in the study can provide critical information for policymakers to design and implement appropriate policies to attract foreign investment and stabilize the exchange rate in Vietnam.

Keywords: Foreign direct investment, foreign exchange rate, exchange rate, Vietnam.

JEL Classification: F21, F31, G15.

1. INTRODUCTION

When a country's savings rate is lower than its investment rate, it must close the savings gap through financing. However, short-term capital inflows, mainly from portfolio investors, can threaten financial stability in developing countries during liquidity crises. Thus, FDI is considered the most reliable and preferred way to finance national savings deficits, and attracting FDI to these countries is crucial in solving this problem (Froot and Stein 1991; Tran Thi Anh & Dinh Thi Thanh 2013; Blonigen 2019). FDI is expected to bring modern technology, improve knowledge and labor productivity, and contribute to economic development. Moreover, FDI can enhance the host country's balance of payments and create new job opportunities (Barrell and Pain 1996). Barrell and Pain (1996), Borensztein, Gregorio and Lee (1998), and Thi Xuan Huong, Thi Nguyen, and Thi Kim Lien (2020) emphasize that FDI helps developed and developing countries increase productivity. Moreover, FDI significantly increases domestic savings, especially for developing countries. Moreover, FDI enterprises can create jobs by transferring skills and knowledge to local workers, further promoting the importance of attracting foreign investment into these economies.

Many factors affect the flow of foreign direct investment into a country, such as exchange prices, transaction costs, financial stability, political risks, labor costs, and market access.

Among these factors, the exchange rate is one of the most important determinants of FDI due to its impact on the relative cost of production. In particular, devaluing the host country's currency can reduce production costs, thereby increasing profits and facilitating FDI attraction. Moreover, when the national currency is weaker, it can also reduce the relative cost of capital, causing foreign investors to transfer more money into the host economy. Swenson (2004) suggested that international investors can increase their capital holdings through assets when the host country's currency depreciates.

Many studies have studied the relationship between exchange rates and foreign direct investment flows over the past decades. Previous studies have shown a statistically significant relationship between these two variables (Froot and Stein 1991; Blonigen 2019; Takagi and Shi 2011; Boateng, Hua, Nisar, and Wu 2015; Nguyen and Dang 2022). However, this relationship's specific nature and extent remain controversial in the literature. According to current research results, the link between exchange rates and foreign direct investment may vary depending on research data, research methods, and exchange rate regimes in effect in each country.

Vietnam, a developing country, has seen the importance of FDI in the context of global integration. According to the Ministry of Planning and Investment of Vietnam (2021), the FDI currently contributes about 20% of the country's GDP and continues overgrowing over the years. In addition, FDI also contributes to improving Vietnam's export capacity and plays an essential role in bringing Vietnam to the international market, thereby creating Vietnam's position and influence with the region and the world. Especially noteworthy,

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from 2015 to 2020, nearly 70% of Vietnam's total goods export turnover is contributed from the FDI sector (General Statistics Office 2021) (GSO 2021). To attract foreign investment and enhance its reputation abroad, Vietnam has benefited from its status as a developing country, promoting trade openness through stable economic development and exchange rates.

The report of the GSO (2021) indicates that Vietnam has achieved significant growth in foreign direct investment (FDI) inflows over the past several years. However, different exchange rate regimes and exchange rate mechanisms will impact foreign direct investment flows differently. However, for many years, Vietnam has maintained a flexible, controlled exchange rate system in which the nominal value of the local currency and the cost of non-tradable goods have a specific influence on the level of appreciation of the Vietnamese dong. Therefore, it certainly affects the attraction of FDI inflows into Vietnam, contributing significantly to the interest of FDI for many years. Consequently, it is essential to consider how the relationship between the exchange rate affects FDI inflows into Vietnam now and in the future.

2. LITERATURE REVIEW

Two critical indicators of the economy, the exchange rate, and foreign direct investment, greatly influence a country's economic growth and development. In particular, the exchange rate is the rate between two currencies. Furthermore, FDI is investments of a foreign business or individual that invests in the economy, directly operates and uses that resource in the destination country (Ibarra 2011). For a long time, scholars have been interested in studying the connection between foreign exchange rates and foreign direct investment. The relationship between them can be assessed and learned through various theoretical and empirical studies. In particular, the supply and demand factor affects the exchange rate. Then the exchange rate affects foreign direct investment flows and vice versa. Usually, when the exchange rate is high, foreign investors will find it attractive to invest in a country with a high exchange rate to obtain more local currency, and vice versa. Besides, when investing in that country or locality, the production cost will be relatively cheap compared to the foreign currency investors spend. As a result, foreign investors will be able to earn more profits (Pehlivan 2019). Attracting FDI will create certain advantages for countries in the production process. However, to attract FDI effectively, governments must consider exchange rate factors and introduce appropriate policies. Therefore, to attract FDI, it is necessary to know exchange rate fluctuations and the impact of exchange rates on the ability to attract FDI to a country in the present and future. Moreover, long-term production costs are also significantly disrupted by changes in exchange rates.

Moreover, this volatility could increase or decrease the expectations of foreign direct investors entering the host country. Several empirical studies have studied how fluctuations in exchange rates affect foreign direct investment. Several studies have demonstrated that exchange rate fluctuations positively and negatively impact FDI. The higher the exchange rate volatility, the more it increases the ability of international investors to recover investment capital. There-

fore, it is essential to consider the impact and relationship between exchange rates and foreign direct investment values (Cushman 1985). Furthermore, Cushman (1985) also looked at the link between FDI and exchange rates in different situations. In another respect, when the exchange rate rises, it creates an opportunity to attract more FDI, while in some respects, when the exchange rate increases, it represses the rise of FDI inflows into a country. In addition, several other studies have made assumptions about the change in the exchange rate leading to the change in FDI, which makes the country richer from attracting FDI due to the present impact of exchange rate fluctuations. According to research by Baek and Okawa (2001), when the exchange rate between JPY and USD rises, it strongly promotes attracting foreign direct investment into Japan and other Asian countries. However, in the study of Bénassy-Quéré, Coupet, and Mayer (2007), increased changes in the exchange rate caused FDI inflows to decline due to investors' concerns about the value of investments that are unlikely to generate expected returns.

The study had similar results to those of Pehlivan (2019) and Cergibozan and Demir (2020), which also found a positive and negative relationship between FX and FDI in Turkey, as FX had a positive impact on FDI and economic growth. However, it hurts the nation's trade balance in the long term. Pehlivan (2019) conducted an earlier study showing that exchange rate variables, as an indicator of competition, affect foreign direct investment (FDI) in income and expenses. Currency devaluation allows export-oriented investors to increase their contribution to output, exports, and profits, resulting in a positive impact on FDI, known as the income effect. However, for investors who use imported inputs in production and rely heavily on them, currency devaluation can decrease exports and profits, known as cost-effectiveness. The relative intensity of these two impacts will determine how much the exchange rate affects FDI income and cost-effectiveness. Increasing the exchange rate will benefit FDI if the revenue outweighs the cost effect. Improving the exchange rate will reduce FDI if costs exceed the revenue effect. The value of the local currency had an impact on German FDI, according to Buch and Kleinert (2006) analysis of German FDI from various countries worldwide between 1997 and 2002. Furthermore, Alba, Park, and Wang (2009) demonstrated that, between 1982 and 1994, exchange rates had a statistically significant beneficial effect on FDI inflows into the United States, particularly in the retail sector. The rise of the U.S. dollar is the main reason for this increase in FDI inflows.

The link between the trade between nine Asian countries and Japan's FDI from 1987 to 2008 was examined by Takagi and Shi (2011). According to the study's results, FDI inflows from Japan to some countries are significantly affected by the devaluation of the host country's currency. The study also demonstrates that exchange rate fluctuations increase foreign direct investment inflows, suggesting that FDI is an alternative to exports in these countries. These results contradict those of Itagaki (1981) and Cushman (1985), who claimed that foreign investors tend to invest more money to reduce currency risk while creating products. Even with this, some studies have demonstrated that foreign investors can delay investment selection when exchange rates vary (Campa 1993; Kiyota and Urata 2004).

To consider the impact of foreign direct investment (FDI) on the Nigerian economy and how exchange rates and inflation might attract FDI, Ogundipe A., Alabi J., Asaleyeye A., and Ogundipe O. (2019) also studied the relationship between inflation rates and FDI using time series data from 1996 to 2016. The results showed that FDI affected economic expansion during the study period, but it could have been more critical. The results further demonstrate that although inflation does not affect FDI much, foreign exchange rates have greatly affected FDI inflows in the short and long term. The relationship between FX and FDI from 1986 to 2011 was also examined in a study in 2014 by Ifeakachukwu and Ditimi (2014), whose authors used the Granger causal method and the Error Correction Model (ECM). The study results showed no meaningful correlation between the exchange rate and foreign direct investment flows during the study period. This result is entirely different from Oladeji, Olalekan, and Abiodun (2020), which found a negative association between FDI and the exchange rate in Nigeria during the study period. However, in the short term, the relationship between FX and FDI is negligible.

The research of Boateng, Hua, Nisar, and Wu (2015) discovered that macroeconomic variables already affect foreign direct investment (FDI) in different countries are different. The study used data from 1986 to 2009 to analyze the research issues. Boateng, Hua, Nisar, and Wu (2015) have indicated the influence of macroeconomic variables on FDI and the finding that the exchange rate impacts FDI inflows. The strengthening of the Norwegian krone has created a chance to attract many foreign direct investments in Norway. Similarly, in a 2018 study of FDI inflows into Malaysia from 1970 to 2014, Azmi (2018) found that the increase in exchange rates negatively impacted the FDI inflows of Malaysia.

In contrast, research by Ibrahim and Raji (2018) shows that exchange rate fluctuations negatively affect the M&A choices of foreign investors in ASEAN countries. In 2017, Zakari (2017) studied the relationship between exchange rates and FDI. He also discovered the effect of FDI on GDP in Nigeria from 1990 to 2015. The regression analysis results show a strong positive link between FDI and local exchange rates in Nigeria. From the study results, the author petitioned that the government of Nigeria should implement liberalization of the exchange system to move towards exchange rate flexibility, creating a basis for attracting more FDI inflows into the country.

The study of Muhammad, Azu, and Oko (2018) also looked at how fluctuations in foreign currency prices affected FDI inflows into Nigeria between 1970 and 2014. GARCH and ARDL regression models were used to calculate volatility. The study results indicate that when the value of the host country's currency depreciates, it will create opportunities to attract FDI. However, if the devaluation is out of control, and the unpredictable fluctuations of the exchange rate, causes foreign investors to reduce investment. Therefore, exchange rate fluctuations should be evaluated in a specific, predictable control variable to ensure the possibility of return on capital invested directly in a country.

The fluctuations of the exchange rate and FDI inflows are also affected by many macroeconomic volatilities. The following two macroeconomic variables are trade openness and national economic development. In many previous studies, these two variables have also been included in evaluating the correlation between FX and FDI, including Omolola and Adefemi (2018) and Nguyen (2022). They demonstrated that the link between exchange rates and FDI is statistically significant in the close correlation of two variables of economic openness and national economic growth. Asiedu (2002) argues that increased trade openness, triggered by reducing tariff barriers, can benefit exporting countries by stimulating transnational labor and capital movement, thereby increasing FDI inflows into that country.

Much research on the relationship between FX and FDI has been done. However, the consistency in these study results is not clear. Overall, research results in developing and emerging countries show a positive correlation between FX and FDI. However, in some developed countries, this result is different. Other studies have yet to produce statistically significant results. Vietnam, as a developing country, has taken various measures to collect FDI inflows because Vietnam is aware of the importance of this capital to the country's economic development. However, more studies and research results on the relationship between FX and FDI could be more precise, so a more complete and specific analysis is needed., this study aims to study and deeply analyze the two-way relationship between Vietnam's exchange rate and FDI in the context of Vietnam, particularly developing countries opening their markets to the region and the world.

3. RESEARCH METHODOLOGY

3.1. Research Data and Variables

This study assesses the relationship between the exchange rate and foreign direct investment in Vietnam from 2013 to 2022. The data used in the analysis were collected quarterly from the General Statistics Office of Vietnam (2021), the World Bank, and the International Monetary Fund.

3.2. Research Model and Methodology

Based on previous studies by Kodongo and Ojah (2013), Ifeakachukwu and Ditimi (2014), Lee (2015), and Boateng, Hua, Nisar, and Wu (2015), the author built a research model to predict the link between FX and FDI in Vietnam. This study examines the link between FX and FDI in Vietnam from 2013 to 2022 using vector automation model (VAR) analysis. The model is as equations (1) and (2). Furthermore, the software Stata 17 is used to analyze collected data to find the model's results.

$$FDI_t = \alpha_0 + \alpha_1 \Delta FDI_t + \alpha_2 FX_t + \alpha_3 OPEN_t + \alpha_4 ECGR_t + \epsilon_t \quad (1)$$

$$FX_t = \beta_0 + \beta_1 \Delta FX_t + \beta_2 FDI_t + \beta_3 OPEN_t + \beta_4 ECGR_t + \epsilon_t \quad (2)$$

Inside:

Table 1. Variables Used in the Research Model.

Indicators	Variable	Index	Unit	Previous Research
Foreign Direct Investment	FDI	FDI inflows	Million USD (quarterly frequency)	Cushman (1985); Dunning (1988); Campa (1993); Blonigen (2019); Asiedu (2002); Takagi and Shi (2011); Boateng, Hua, Nisar, and Wu (2015); Azmi (2018)
Foreign Exchange Rate	FX	VND/USD	Vietnam Dong (VND)	Blonigen (2019); Takagi and Shi (2011); Boateng, Hua, Nisar, and Wu (2015)
Trade Openness	OPEN	$\frac{Exports + Imports}{GDP}$	% (quarterly frequency)	Asiedu (2002); Boateng, Hua, Nisar, and Wu (2015); Azmi (2018)
Economics Growth	ECGR	Gross domestic product	% (quarterly frequency)	Azmi (2018); Omolola and Adefemi (2018)

α_0, β_0 are the intercept, ε_t is the error term, α, β_{1-4} are the coefficients to independent variables. The subscript t represents time.

- FDI_t: Foreign Direct Investment in Vietnam.
- ΔFDI_t : The lag of the Foreign Direct Investment.
- FX_t: Vietnam's foreign exchange rate.
- ΔFX_t : The lag of the foreign exchange rate.

4. RESEARCH RESULTS AND DISCUSSIONS

4.1. Statistical Description

Table 2 shows statistical findings for four variables in the estimated model during the study period. FDI peaked in the fourth quarter of 2021 (\$9580 million) and was the lowest in the third quarter of 2018 (\$1931 million), with an average of \$3715 million per quarter. In the first quarter of 2013, the exchange rate peaked at 23,612 VND/USD; the lowest was 20,920 VND/USD. The trade opening (OPEN) reached a high of 248.61% in the first quarter of 2018. Moreover, it had a low of 46.15% in the fourth quarter of 2013. Economic growth (ECGR) peaked at 13.67% in the third quarter of 2022 and the lowest in the third quarter of 2021 (only 1.420%).

Table 2. Descriptive Statistical Results.

Variable	Mean	Std. Dev.	Min
FDI	3715	1602.04	1931
FX	22388.72	824.54	20920
OPEN	115.51	62.66	46.15
ECGR	5.666	1.99	1.420

Source: Author's estimation.

4.2. Unit Root Tests

This study used the Dickey-Fuller Augmented Test (ADF) (Dickey and Fuller 1979) to assess whether the absolute value of the statistical variable fell below the corresponding importance in the initial sequence.

Table 3. Unit Root Tests Result.

Variables	ADF test	Test Statistics at 1%	P-Value	Status
FDI	-3.015	-3.655	0.0335	Non-Stationary
ΔFDI	-14.661	-3.662	0.0000	Stationary
FX	-1.255	-3.655	0.0649	Non-Stationary
ΔFX	-6.221	-3.662	0.0000	Stationary
OPEN	-7.493	-3.655	0.0000	Stationary
ECGR	-3.674	-3.655	0.0000	Stationary

Source: Author's estimation.

The inspection results provided meaningful conclusions about the presence of non-stop unit roots. However, when the ADF test was conducted with a 1% difference, the variables were found to be stationary. Therefore, these variables are considered suitable for further analysis.

The latency of variables in the time series is a decisive factor in determining their stationary position and quantifying the impact of each variable. VAR and Akaike (AIC) models were used to test this problem. The results showed that the best latency for FDI, an exchange rate (FX), openness (OPEN), and economic growth rate (ECGR) have a maximum time lag of three. Subsequently, various testing techniques were used to determine the best and exclude inappropriate latency.

4.3. Var Coefficient

4.3.1. Study on the Influence of Exchange Rates on Foreign Direct Investment in Vietnam

Table 4. Results of FX Impact Assessment on FDI.

Variable	ΔFDI	
	Coef.	P_value
$\Delta FDI (-2)$	0.2326	0.083*

Δ FDI (-3)	0.7567	0.036**
Δ FX (-1)	0.6026	0.0733*
OPEN (-1)	7.4106	0.033**
OPEN (-2)	8.6085	0.009***
ECGR (-1)	241.4217	0.085*
ECGR (-2)	355.6038	0.037**

Note: *, ** and *** have meanings at 10%, 5%, and 1%, respectively.

Source: Author’s estimation.

Vector Autoregression (VAR) model results show that previous fluctuations in Foreign Direct Investment positively affect current FDI with a 2-quarter and 3-quarter lag of 5% and 10%, respectively. The study also showed that the level of FDI in previous periods and quarters affected FDI in Vietnam in the current quarter. At the same time, the amount of FDI raised in the current year will be significant for FDI in the following years. More specifically, FDI increased by 1% in the previous two and three quarters resulting in an increase of 0.2326% and 0.7577% in current FDI, respectively. Therefore, the government must create a conducive environment to attract further investment and stimulate the economy.

Regarding the exchange rate factor, there was no statistically significant effect of FX (-2) or FX (-3) on FDI in Vietnam. However, the study results indicate that FX (-1) positively influences 10% of FDI inflows into Vietnam. If FX increases by 1% in the previous quarter, FDI will increase by 0.6026%. The reason is that when the value of the Vietnamese dong decreases, foreign investors' wealth will increase, promoting investment. This effect occurs with a delay of 1 quarter (not too much), which is also consistent with the nature of FDI inflows and FDI decisions that only change in short time.

Moreover, the research results also show that the Vietnamese dong devaluation can lead to many positive effects for Vietnam in attracting foreign direct investment and boosting exports. Lower production costs and asset values for investors make Vietnam an attractive investment destination. In addition, the devaluation of the VND compared to trading partners makes the country's exports more affordable for external buyers. This result increases Vietnam's attractiveness to potential FDI investors from an export-oriented perspective. Campa (1993), Boneen (2019), Takagi and Shi (2011), Kodongo and Ojah (2013), Pham and Nguyen (2013), Lee (2015), and Ibrahim and Raji (2018) agree with these findings. The findings from these studies also support trade opening in the correlation between FX and FDI, which is positively associated with foreign direct investment. Specifically, data from studies show that when the variables OPEN (-1) and OPEN (-2) increased by 1%, FDI increased by 7.4106% and 8.8085%, respectively. Moreover, data in other ASEAN countries also prove that Vietnam has a relatively high level of economic openness. This finding suggests that foreign investment is essential to the country's economy. Domestic enterprises can take advantage of the science, technology, and management skills of the FDI sector to become more competitive.

The regression study results also show that for economic growth variables, when the economic growth of the previous quarter and the ECGR of the last two quarters improved by 1%, FDI will increase by 241.4117 million USD and 355.6038 million USD, respectively. The impact of the exchange rate, trade openness, and economic expansion on foreign direct investment flows into Vietnam is the same. The results are consistent with past studies by Shrikhande (2002) and Lee (2015).

4.3.2. Study on the Impact of Foreign Direct Investment on the Exchange Rate in Vietnam

Table 5. Results of FDI Impact Assessment on FX.

Variable	Δ FX	
	Coef.	P_value
Δ FX (-1)	0.7561	0.000***
Δ FDI (-2)	-0.0140	0.069*
OPEN (-1)	1.8952	0.059*
OPEN (-2)	1.5348	0.089*
ECGR (-1)	2.2167	0.094*

Note: *, ** and *** have meanings at 10%, 5%, and 1%, respectively.

Source: Author’s estimation.

Results from the VAR model show that a lag of FX in a previous quarter has a positive impact and has a 1% significance for current FX. However, FX's lags in quarter 2 and 3 currently affect FDI attraction. This conclusion implies that FX in previous quarters influenced current FX, which will also control FX in the coming quarters. If last quarter's FX grew by 1%, the current FX would also be up 0.7561%. The reason for this problem is that the State Bank of Vietnam has many measures to exchange rates according to market supply and demand flexibly. At the same time, it helps stabilizes foreign currency exchange rates, creating peace of mind for foreign investors in Vietnam.

The model results show that only FDI in the second lag impacts FX. Besides, findings also show that FDI had a 10% negative impact on the currency after two quarters. FDI and other FDI lags are still essential to practical conclusions. The results show that Vietnam's exchange rate will decrease when FDI increases quarter-on-quarter. If FDI rises 1% in two previous quarters, FX will fall 0.0140% at a 10% significant level. It shows that when FDI into Vietnam increases, it will cause the exchange rate to fall or the Vietnamese currency appreciates against a foreign currency at a meaningful 10% level. The results are similar to Ma, Jiang, and Yao (2022). They state that only countries with the possibility of opening financial growth in FDI exploration increase the value of the host country's currency. There is a particular trade-off in countries in attracting FDI and the adjustment of current exchange rate policies.

Foreign direct investment increased due to the devaluation of the Vietnamese currency, which reduced production costs, increased asset prices, and significantly impacted international investors. In addition, the depreciation of the VND

compared to its trading partners makes Vietnam's exports more competitive, benefits export-oriented enterprises, and provides more incentive for FDI investors looking to take advantage of Vietnam's export potential. However, a large inflow of foreign currency can create long-term upward pressure on Vietnamese currency, potentially causing macroeconomic problems. Therefore, the government must implement policies and regulations to monitor and manage FDI inflows to prevent excessive growth and inefficient resource allocation.

Regression results also show a link between trade openness and current exchange rates. At a significant 10%, the results show that OPEN (-1) and OPEN (-2) positively and statistically significantly influence FX. As a result, trade openness has a favorable impact on exchange rates and foreign direct investment flows. When OPEN increased by 1% two quarters ago, FX increased by 1.8952% and 1.5348%, respectively. This finding underscores the process of economic integration in the context of globalization. Vietnam has a high level of financial openness compared to other ASEAN countries, second only to Singapore.

Moreover, the increasing level of economic openness in Vietnam is due to the open trade policy that the Vietnamese government is applying. In addition, trade opening played an essential role in changing Vietnam's economy from purely agricultural to industrial development. Opening up trade and economy will create opportunities for Vietnam to benefit from new scientific and technological skills and advanced management of the FDI sector, thereby improving the competitiveness of Vietnamese businesses and the economy. Besides the openness of the economy, the impact of ECGR economic growth is also strongly correlated with FX and FDI. The study's results showed that, at a statistically significant level of 10%, ECGR (-1) showed a positive and statistically significant association with FX. When last quarter's economic growth increased by 1, it will lead to FX increasing by 2,2167 Vietnamese dong. However, the relationship between FX and other lags of the ECGR variable gives unclear and insignificant results. The study's results are consistent with previous research findings by Shrikhande (2002) and Lee (2015), who all agreed with this study. According to GSO (2021), the report indicates that from 2016 to 2019, Vietnam's GDP grew by an average of 6.78%, surpassing the average growth rate of 5.91% of the previous period of 2011-2015 and reaching the annual growth target of 6.5%-7% for the period 2016-2020. Despite the adverse impacts of the COVID-19 pandemic that have significantly affected Vietnam's social economy in the past period, Vietnam's GDP in 2021 still achieved a growth rate of 2.58%.

Moreover, in 2022, Vietnam witnessed spectacular gross domestic product growth when this number reached 8.02%. This achievement is Vietnam's highest GDP growth in the past decade. This achievement offers significant potential in attracting FDI and strengthening Vietnam's international cooperation in the coming years.

5. CONCLUSIONS AND SUGGESTIONS FOR FUTURE WORK

The study assessed the relationship between the exchange rate and foreign direct investment in Vietnam in the period

from 2013 to 2022 using the Vector Auto regression model. The study results provide significant empirical evidence highlighting the importance of the FX-FDI relationship during the research phase. Firstly, a positive and significant impact of FX on FDI was found. Secondly, FDI was found to have a negative and significant effect on FX. Two control variables, trade openness, and economic growth, also significantly affected FDI and FX in Vietnam. Furthermore, the findings also reveal that their past values affect both FDI and FX in Vietnam. The study contributed valuable empirical evidence regarding FX-FDI relationships, particularly for developing and emerging countries. These findings are the foundation for the Vietnamese government and regulators to develop more effective policies to attract foreign investment and regulate the value of the national currency to support trade openness, promote exchange rate stability, and improve attractiveness to foreign investors.

The study only assesses the link between FX and FDI according to quarterly data from 2013 to 2022 in correlation with two important control variables to be trade openness and economic growth. Besides there are other macroeconomic variables such as money supply, interest rate, or inflation. Therefore, further studies can consider adding other variables to the topics in the future.

CONFLICTS OF INTEREST STATEMENT

The author asserts no conflicts of interest

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