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Foreign Direct Investment (FDI) and Exports in a Developing Economy:
Provincial Level Evidence From Vietnam

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ABSTRACT

This study examines the impact of key dimensions of foreign direct investment (FDI) on provincial exports in a developing economy context. Examining the population of 63 Vietnamese provinces in the period 2010–2023, the research, using a fixed-effects model with Driscoll–Kraay standard errors, reveals that FDI capital has a positive impact on provincial exports, while the number of FDI enterprises exerts a negative effect, highlighting the importance of investment quality over quantity. In contrast, FDI performance does not show a significant effect, suggesting that FDI profitability is not necessarily associated with provincial exports. Employment generated by FDI enterprises has a strong positive impact, underscoring the role of labor as a key transmission channel linking FDI with exports of Vietnamese provinces. These insights further support the FDI-led export perspective at the provincial level, highlighting the need for policies tailored to provincial contexts to enhance export competitiveness in Vietnam and other developing economies.

KEYWORDS

FDI-Led Export, Foreign Direct Investment, FDI, Exports, Provincial Level, Developing Economy, Vietnam

INTRODUCTION

Foreign direct investment (FDI) is defined as “an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor’s purpose being to have an effective voice in the management of the enterprise” (IMF, 1977, p. 136). FDI is established through “*a long-term relationship between the direct investor and the direct investment*

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enterprise and a significant degree of influence on the management of the enterprise" (OECD, 2025a, p. 32). As one of the most important drivers of globalization and structural transformation in developing economies, FDI has become a central policy instrument for promoting export expansion and international integration. In the FDI-led export perspective, FDI has been theoretically (Balasubramanyam et al., 1996; Majeed & Ahmad, 2007) and empirically (Ahmad et al., 2018; Majumder et al., 2022; Mukhtarov et al., 2019) demonstrated to promote exports through multiple channels, including technology transfer, employment creation, labor productivity enhancement, and integration into global value chains. This relationship is further evidenced in practice, as exports from foreign-invested enterprises make a substantial contribution to total exports in developing economies (Qiang et al., 2021; UNCTAD, 2024), with Vietnam standing out as a notable case in which the share reaches approximately 70% (GSO, 2024; OECD, 2025b). Despite this dominant contribution, concerns have emerged regarding the uneven distribution of FDI and export benefits across provinces, raising questions about whether the FDI–export nexus operates uniformly within a country. These questions, in turn, motivate the present study.

In the literature, scholars focus predominantly on examining the impact of FDI on exports at the country level in developing countries (Amoah et al., 2025; Makhoba, 2024; Sahoo & Dash, 2022). In such countries, macroeconomic indicators often show an optimistic picture of rapid integration and sustained growth, while substantial provincial disparities in infrastructure, industrial development, human capital, and access to international markets (Kareem, 2025; McDonald et al., 2018; Nguyen et al., 2019; Pham et al., 2025) can be easy to overlook. Empirical evidence at the national level largely confirms a positive and statistically significant relationship between FDI inflows and export performance, thus affirming the FDI-led export hypothesis. However, these prior studies predominantly operationalize FDI using aggregate capital inflows, with the implicit premise that the scale of investment alone captures its export-enhancing effects. As a result, the underlying transmission mechanisms through which FDI influences exports are often inferred rather than directly examined. These provincial differences create disparities in competitive capabilities and participation in global value chains, which require high compliance with global standards and technical barriers imposed by importing markets. Consequently, these variations significantly shape provincial-level the FDI attraction strategies and trade policy of provinces.

In the Vietnamese context, provinces differ markedly in industrial base, institutional quality, and absorptive capacity; these differences may condition how different dimensions of FDI translate into export performance. More importantly, prior research has paid limited attention to distinguishing between different structural dimensions of FDI (such as the number of foreign-invested enterprises, employment generated by the FDI sector, capital stock, and operational performance) when assessing export outcomes. Existing findings therefore provide limited insight into whether these dimensions exert heterogeneous or differentiated effects on exports, and whether their relative importance varies across subnational units. This gap a substantive empirical one rather than merely a contextual one. Therefore, an investigation into the determinants of FDI-driven exports in developing economies becomes essential, as macroeconomic analysis alone fails to capture subnational dynamics in a developing economy. Addressing this gap is particularly timely as Vietnam is deepening its participation in new-generation free trade agreements and restructuring its growth model toward higher value-added exports, thereby increasing the strategic importance of understanding provincial export drivers.

Furthermore, empirical studies approach FDI mainly in terms of capital inflows, regarding this metric as the central indicator of the scale and economic impact of the FDI sector (Amoah et al., 2025; Okechukwu et al., 2018; Wu & Wu, 2017). While this approach provides a macroeconomic overview of investment magnitude, it remains insufficient to comprehensively elucidate the actual transmission channels through which FDI influences export activity. In reality, FDI encompasses multiple dimensions, including not only capital flows but also the number of FDI enterprises, employment generation, and FDI performance. These multidimensional indicators provide direct and

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