THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT, TRADE OPENNESS, AND GROSS NATIONAL INCOME PER CAPITA IN VIETNAM

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ABSTRACT:

The rapid expansion of e-commerce in Vietnam has profoundly reshaped consumer purchasing behThis study examines the relationship between foreign direct investment (FDI), trade openness, and gross national income (GNI) per capita in Vietnam over the period 2020–2024, using data sourced from the World Bank. The findings indicate a clear trajectory of economic recovery following major external shocks, notably the COVID-19 pandemic and global economic instability. Net FDI inflows and GNI per capita increased markedly from 2022 to 2024, with FDI exhibiting a positive and relatively robust linear association with GNI per capita. In contrast, although trade openness remained consistently high, it fluctuated in response to global economic conditions and did not demonstrate a stable positive linear relationship with GNI per capita. Overall, the results provide empirical evidence that, in a context of heightened economic volatility, FDI plays a more prominent role than trade openness in enhancing living standards in Vietnam.

Keywords: foreign Direct Investment (FDI), trade openness, GNI per capita.

1. Introduction

In the process of economic development, developing countries often rely on two key pillars: attracting foreign direct investment (FDI) and promoting international trade openness. Both trade openness and FDI have long been regarded as important drivers of domestic economic growth and contributors to improvements in national income in developing economies (Borensztein, De Gregorio, & Lee, 1998).

Vietnam is currently one of trade-open economies in the region, with total export–import turnover increases GDP for many years (World Bank, 2024). Moreover, many studies have confirmed a positive relationship between trade openness and economic growth in Vietnam. Pham Minh Thuy et al. (2024) show that during the period 2014 - 2023, trade openness and GDP in Vietnam increased simultaneously so trade openness contributes to economic growth. In addition, studies on FDI indicate that capital has a positive impact on socio-economic development at both the national and local levels (Pham Minh Thuy et al., 2022).

However, although FDI inflows have grown steadily and made substantial contributions to exports and job creation, their spillover effects on national income remain limited due to low levels of local value added and profit repatriation abroad (UNCTAD, 2023). Therefore, this study is to analyse the relationship among three key factors in the context of Vietnam.

2. Theories and data

2.1. Theories

The Solow–Swan growth model show that capital, labours, and technology are the core determinants of economic growth. Foreign direct investment (FDI) provides additional capital and technology, thereby improving productivity and income per capita.

David Ricardo's theory of comparative advantage and the Heckscher–Ohlin model emphasize that trade liberalization and economic openness help to specialize in production and enhances allocative efficiency and overall economic welfare. Therefore, a higher degree of trade openness is expected to promote economic growth and increase national income.

The theory of technology and knowledge spillovers (FDI spillover effects theory) argues that the impact of FDI is not confined to foreign-invested firms but also extends to domestic enterprises through technology learning, labour training, and supply chain linkages. These spillover effects contribute to higher labour productivity and increased income for workers.

Finally, export-led growth and outward-oriented development theory show that economies are trade openness and deep international integration tend to achieve higher growth rates than closed economies. Accordingly, liberalization and FDI attraction allow economies to access global markets, advanced technologies, and international capital flows, thereby fostering economic growth and improving gross national income per capita.

2.2. The relationship between FDI, trade openness, and GNI per capita

There are many studies and analyses on the impacts of foreign direct investment (FDI), trade openness and GNI per capita such as:

Firstly, according to outward-oriented development theory, economies with a high degree of trade openness, especially in the early stages of development, tend to attract larger inflows of international investment, thereby stimulating economic growth and contributing to improvements in national income (Balassa, 1985). FDI plays a crucial role as a channel for supplementing capital, technology, and managerial skills, helping to enhance labour productivity and expand income opportunities for residents in host countries.

Secondly, international studies also indicate that FDI has a positive relationship with income per capita, particularly in developing countries when combined with open trade policies and an appropriate institutional environment (Borensztein; De Gregorio; Lee, 1998)

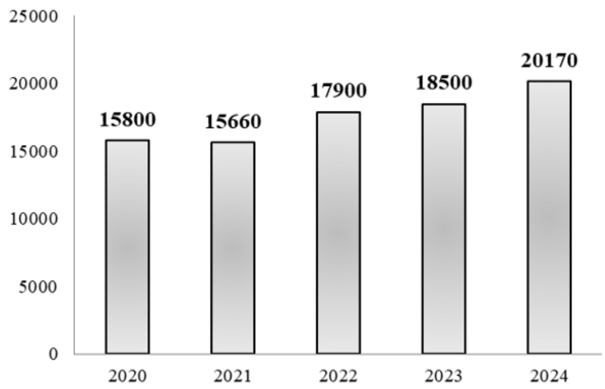
Thirdly, a high degree of trade openness improves the investment climate and attracts FDI inflows, while FDI, in turn, promotes exports and international trade. This interaction creates a positive cycle that contributes to higher GNI per capita (Balassa, 1985; Frankel & Romer, 1999). Empirical evidence from many developing countries shows that trade openness is positively associated with economic growth and GNI (Dollar & Kraay, 2004).

In the context of Vietnam, domestic empirical studies by Pham Minh Thuy et al. (2022; 2024) demonstrate that both FDI and trade openness play important roles in promoting economic growth and socio-economic development, thereby indirectly improving income per capita.

2.3 Data

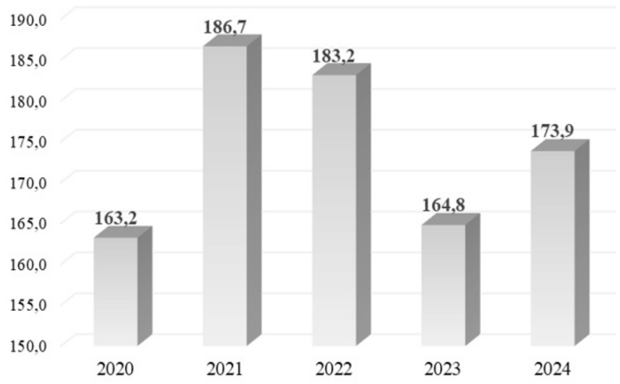
The data were collected from the database of the World Bank, a highly reliable secondary data source that is widely used in economic and development studies. Specifically, the study employs annual data for Vietnam over the period 2020–2024, including net foreign direct investment inflows (FDI net inflows), gross national income per capita (GNI per capita), total exports, total imports, and gross domestic product (GDP). Based on these variables, the indicator of trade openness is calculated as the ratio of total exports and imports to GDP. The selection of the 2020–2024 period aims to capture Vietnam's economic context during a time of strong

Figure 1. Vietnam's FDI net inflows



Source: World Bank, 2025

Figure 2. Vietnam's Trade openness



Source: World Bank, 2025

exposure to external shocks, thereby enabling an assessment of the roles of FDI and trade openness in influencing GNI per capita under conditions of economic volatility.

3. Results

3.1 FDI net inflows

The chart on net FDI inflows during the period 2020–2024 shows that foreign direct investment into Vietnam experienced a recovery and relatively stable medium-term growth, despite negative impacts in the early years. Specifically, net FDI inflows from 2020 to 2021 reflecting the prolonged effects of the COVID-19 pandemic, disruptions in global supply chains, and the cautious sentiment of international investors. From 2022 onward, FDI inflows began to recover strongly, indicating the effectiveness of economic reopening and policies aimed at improving the investment climate. This upward trend continued in 2023 and peaked at USD 20,170 million in 2024. These results reflect growing confidence among foreign investors, Vietnam's increasingly important role in global supply chains, and the positive contribution of FDI to economic growth and macroeconomic stability.

3.2 Trade openness

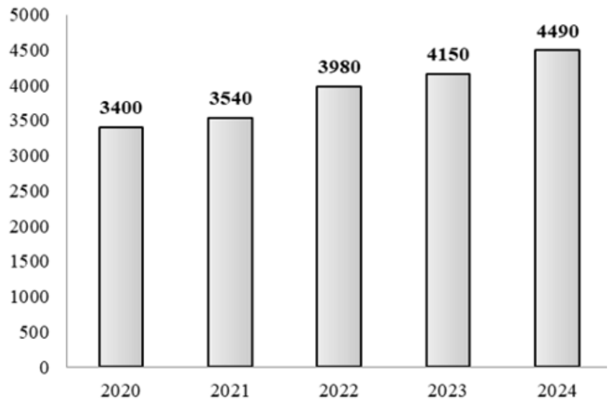
The chart on trade openness during the period 2020–2024 illustrates a non-uniform upward and downward trend. In 2021, trade openness rising sharply, indicating Vietnam's rapid recovery in export–import activities following the pandemic, supported by the effective utilization of free trade agreements and deep international integration.

However, from 2021 to 2023, this indicator gradually declined. In 2022, trade openness decreased about 3.5% compared to the previous year, and fell more sharply in 2023, representing a significant decline of about 18.4% from 2022. This contraction was partly driven by weakening global demand, heightened international economic uncertainty, and ongoing supply chain disruptions, which constrained the growth of exports and imports. In 2024, trade openness showed a slight recovery, reaching 173.9%. Despite this narrowing trend, the level of trade openness remained high relative to GDP, indicating that international trade continues to be an important driver of the Vietnamese economy. At the same time, this pattern reflects a reasonable adjustment to the global economic cycle, moving toward a more balanced relationship between domestic growth dynamics and international economic integration.

3.3 GNI per capita

The chart of income per capita over the period 2020–2024 shows a continuous and relatively stable upward trend, reflecting a clear recovery and improvement in socio-economic conditions. Specifically, income per capita increased from 2020 to 2024, representing an overall rise of approximately 32.1% over the entire period. Following the adverse impacts of the pandemic, income growth was modest in 2021, increasing by about 4.1% compared to 2020. However, from 2021 to 2024, the growth rate became stronger and more stable, with a notable increase of approximately 12.4% during the 2021–2022 period, indicating the recovery of the labour market, production activities, and the service sector. During the 2022–2024 period, income per capita continued to rise steadily at an average annual growth rate of around 6%, highlighting the positive effects of economic growth, investment inflows, trade expansion, and improvements in labour productivity. Overall, the upward trend in income per capita not only reflects the effectiveness of post-crisis economic recovery but also suggests a relatively sustainable growth foundation in the medium term.

Figure 3. Vietnam's GNI per capita



Source: World Bank, 2025

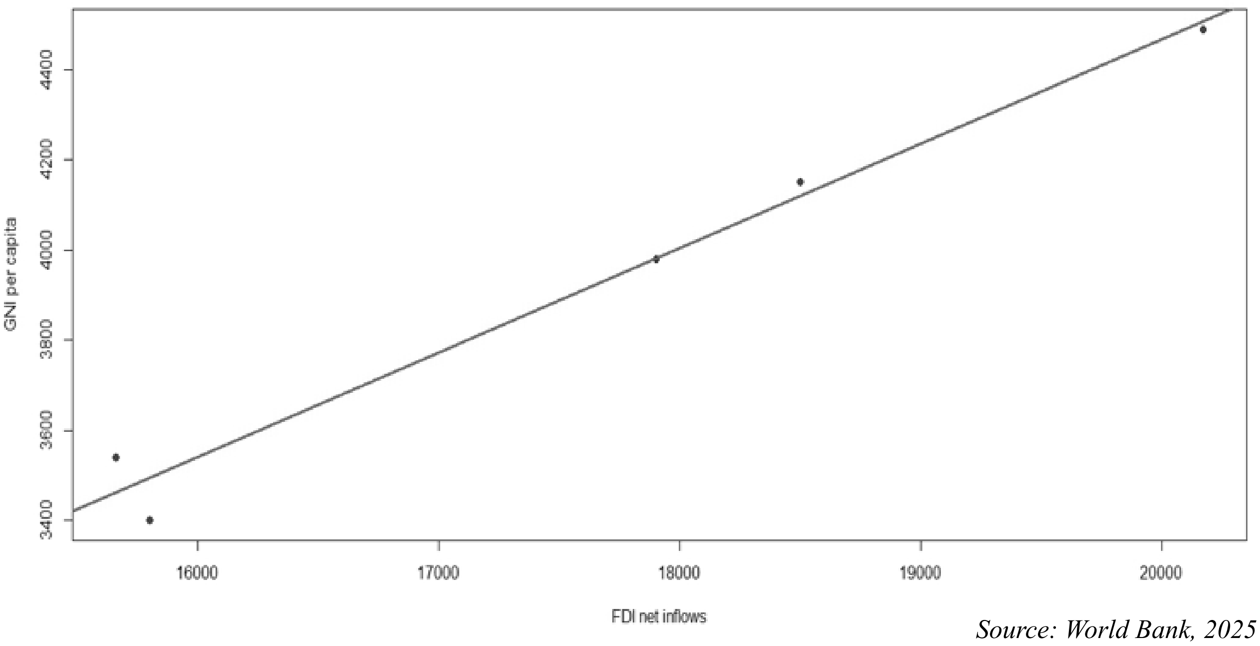
3.4 FDI and GNI per capita

The analysis results indicate the existence of a positive linear relationship between net foreign direct investment inflows (FDI net inflows) and gross national income per capita (GNI per capita). The scatter plot combined with the linear regression line shows that as FDI increases, GNI per capita tends to rise correspondingly, reflecting the positive impact of FDI on living standards. The observations are distributed relatively close to the regression line, implying a reasonably good fit of the linear model in describing the relationship between the two variables. These findings support the argument that FDI contributes to economic growth by generating employment, facilitating technology transfer, and enhancing labour productivity, thereby improving income levels in the host economy.

3.5 Trade openness and GNI per capita

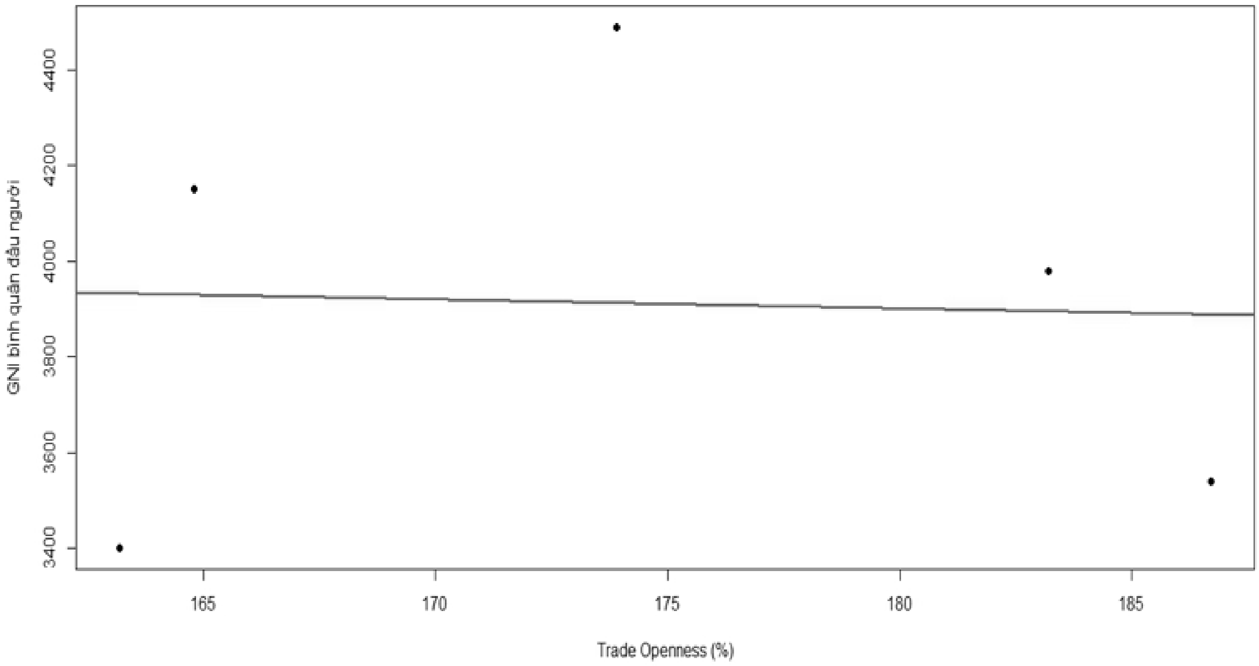
The scatter plot illustrating the relationship between trade openness and gross national income per capita (GNI per capita) indicates a slightly negative correlation between the two variables over the observed period. The linear regression line has a negative slope, suggesting that increases in trade

Figure 4. Scatter plot of FDI and GNI per capita



Source: World Bank, 2025

Figure 5. Scatter plot of trade openness and GNI per capita



Source: World Bank, 2025

openness are not accompanied by corresponding increases in GNI per capita, but rather a slight downward tendency. The data points are relatively dispersed around the regression line, implying that the relationship between the two variables is weak and not clearly defined. This result suggests that the impact of trade openness on income per capita is not direct but may depend on various mediating factors such as the structure of exports and imports, domestic competitiveness, value added within global supply chains, and the quality of economic institutions.

4. Conclusion and recommendations

The synthesis of the three charts provides an overview of Vietnam's economic performance during 2020–2024, showing a gradual recovery and positive development. Net FDI inflows declined slightly during the COVID-19 period but recovered steadily from 2022 to 2024, reflecting renewed confidence from foreign investors. Trade openness reached a very high level in 2021 and then slightly declined due to global economic uncertainties, though it remained relatively high, indicating Vietnam's strong integration into the global economy. Meanwhile, GNI per capita increased continuously, with stronger growth after 2021, reflecting the effectiveness of economic recovery and investment expansion. Empirical results also show a positive linear relationship between FDI and GNI per capita, highlighting the important role of foreign investment in improving income levels. In contrast, trade openness does not show a clear positive relationship with GNI per capita, suggesting that its impact depends on other factors such as trade structure and domestic competitiveness. Based on these findings, the study proposes several recommendations:

Firstly, Vietnam should improve the quality of FDI attraction by prioritizing projects with high technological content, greater value added, and stronger income spillover effects.

Secondly, trade integration should be deepened rather than merely expanded, with more effective utilization of new-generation free trade agreements to broaden export markets.

Thirdly, FDI and trade policies should be better aligned with the objective of raising GNI per capita, through human capital development, productivity enhancement, and stronger linkages between foreign-invested enterprises and domestic firms■

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MỐI QUAN HỆ GIỮA ĐẦU TƯ TRỰC TIẾP NƯỚC NGOÀI, ĐỘ MỞ THƯƠNG MẠI VÀ THU NHẬP QUỐC DÂN BÌNH QUÂN ĐẦU NGƯỜI TẠI VIỆT NAM

● **PHẠM MINH THỦY**

Khoa Quản trị kinh doanh, Trường Đại học Tây Đô

TÓM TẮT:

Nghiên cứu này phân tích mối quan hệ giữa đầu tư trực tiếp nước ngoài (FDI), độ mở thương mại và thu nhập quốc dân bình quân đầu người (GNI bình quân đầu người) tại Việt Nam trong giai đoạn 2020 - 2024. Dữ liệu được thu thập từ cơ sở dữ liệu của Ngân hàng Thế giới. Kết quả thực nghiệm cho thấy nền kinh tế Việt Nam có xu hướng phục hồi rõ rệt sau các cú sốc bên ngoài lớn, đặc biệt là đại dịch COVID-19 và tình trạng bất ổn kinh tế toàn cầu. Dòng vốn FDI ròng và GNI bình quân đầu người tăng mạnh trong giai đoạn 2022 - 2024 và FDI thể hiện mối quan hệ tuyến tính thuận chiều với GNI bình quân đầu người. Ngược lại, mặc dù độ mở thương mại duy trì ở mức cao và chỉ tiêu này có sự biến động theo các điều kiện kinh tế toàn cầu nhưng không cho thấy mối quan hệ tuyến tính với GNI bình quân đầu người. Nhìn chung, trong bối cảnh kinh tế biến động, FDI đóng vai trò quan trọng hơn so với độ mở thương mại trong việc cải thiện mức sống tại Việt Nam.

Từ khóa: đầu tư trực tiếp nước ngoài (FDI), độ mở thương mại, GNI bình quân đầu người.