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The Impact of Foreign Direct Investment on the Recovery of Viet Nam's Economic Post-COVID-19

Uyen Luong

Abstract: *This study examines the role of foreign direct investment (FDI) in Viet Nam's economic recovery following the COVID-19 pandemic, utilizing annual data from 2014 to 2024 at both national and sectoral levels. By analyzing trends in FDI inflows and gross domestic product (GDP) across three key sectors—Agriculture, Forestry, and Fishery; Industry and Construction; and Services—the paper provides a nuanced understanding of how FDI influenced recovery dynamics. The results indicate that while all sectors experienced varying degrees of disruption during the pandemic, FDI played a particularly significant role in revitalizing the Industry and Construction sector, where inflows closely aligned with rising GDP. The Services sector also showed a resilient recovery, with FDI rebounding alongside output after an initial decline. In contrast, the Agriculture sector recovered despite low and declining FDI, demonstrating a weaker dependence on foreign capital. The findings highlight the importance of targeted FDI strategies to foster resilient and inclusive economic growth.*

Keywords: *Foreign Direct Investment, Economic recovery, post-COVID-19.*

I. INTRODUCTION

The COVID-19 pandemic triggered an unprecedented global economic crisis, disrupting supply chains, reducing global demand, and altering the flow of international capital. Viet Nam, despite its initially successful containment of the virus, experienced economic contractions in key sectors such as tourism, manufacturing, and services. The country's GDP growth decelerated sharply in 2020, and unemployment rose, particularly in urban centers and export-oriented industries. In this volatile context, foreign direct investment (FDI) emerges as a potential catalyst for economic recovery.

FDI has long been recognized as a critical driver of Viet Nam's economic transformation. Since the Doi Moi reforms, FDI has contributed significantly to the development of the manufacturing sector, export expansion, and job creation. By 2023, FDI accounted for more than 20% of Viet Nam's GDP and around 70% of total exports. In the wake of the pandemic, FDI can provide essential resources such as capital, technology, and access to international markets, which are pivotal for revitalizing production and employment.

This study investigates the role of FDI in Viet Nam's post-pandemic economic recovery between 2020 and 2024. It aims to determine whether provinces receiving higher FDI inflows exhibit stronger recovery indicators such as GDP growth, employment, and industrial production. This research makes several contributions to the existing literature. First, it offers an empirical analysis focused on the recovery phase using new panel data at the provincial level. Second, it incorporates COVID-specific shocks and policy responses, offering a nuanced understanding of FDI's role during systemic crises.

In comparison with existing studies, such as Nguyen and Nguyen (2021), who examined FDI's general contribution to regional growth in Viet Nam, and Tran et al. (2020), who focused on productivity spillovers in the manufacturing sector, this study zeroes in on the post-COVID recovery. It also builds on international studies like Cuervo-Cazurra et al. (2022), who explored multinational enterprise (MNE) responses to crises, and Nguyen and Doan (2022), who examined FDI trends in the ASEAN region post-pandemic. Unlike these prior works, this study integrates granular post-2020 data, recovery indicators, and cross-industrial and cross-economic regional comparisons within Viet Nam to provide new insights into crisis-resilient development. In doing so, this paper fills an empirical gap and provides practical implications for Viet Namese policymakers aiming to leverage FDI for an inclusive and resilient recovery.

The remainder of the paper is organized as follows: Section 2 provides a concise overview of the role of FDI in economic growth, along with an examination of the consequences of the spread of COVID-19. Section 3 shows the analytical strategy and the data employed. Section 4 discusses the empirical results. The final section concludes the paper.

II. LITERATURE REVIEW

Prior research has shown mixed evidence on the role of FDI in economic recovery. FDI can stimulate job creation, technology transfer, and export capacity, contributing to economic growth (Borensztein et al., 1998; Alfaro, 2003). In Viet Nam, studies such as Nguyen and Nguyen (2021) and Pham et al. (2023) have confirmed that FDI inflows are correlated with provincial GDP growth and industrial productivity. However, few studies have explored this relationship during the post-COVID-19 recovery period. This paper fills that gap.

Prior research has shown mixed evidence on the role of FDI in economic recovery and development. FDI can stimulate job creation, technology transfer, and export capacity, thereby contributing to long-term economic growth (Borensztein et al., 1998; Alfaro, 2003). The benefits of FDI, however, are conditional on the host country's absorptive capacity, including human capital, institutional quality, and infrastructure (Balasubramanyam et al., 1996; Carkovic & Levine, 2005).

In the context of crisis recovery, Alfaro et al. (2004) argue that countries with deeper financial systems are better able to leverage FDI for recovery. Similarly, Estrin et al. (2013) highlight that post-crisis periods can offer opportunities for reinvigorating FDI-led growth if proper macroeconomic and institutional frameworks are in place.

For Viet Nam specifically, Nguyen and Nguyen (2021) analyzed the link between FDI and regional economic growth using panel data from 2000 to 2018 and found a positive but regionally heterogeneous effect. Tran et al. (2020) assessed FDI's contribution to productivity and employment in Viet Nam's manufacturing sector, showing that provinces with better infrastructure and governance derived more benefits. Pham et al. (2023) expanded this line by including competitiveness indices to explain variations in FDI impact post-COVID-19.

Globally, studies such as Bevan and Estrin (2004) and UNCTAD (2021) have emphasized the role of FDI in economic resilience. However, few papers have specifically investigated the post-COVID-19 context. Notable exceptions include Cuervo-Cazurra et al. (2022), who explored FDI behavior during and after crises, and Nguyen and Doan (2022), who analyzed FDI in the ASEAN region post-pandemic, including implications for digital and green sectors.

Despite these contributions, the empirical literature still lacks Viet Nam-specific research that examines the relationship between FDI and economic recovery using granular, post-2020 data. This paper addresses that gap by incorporating new recovery indicators and recent provincial-level FDI data.

III. DATA AND METHODS

In this study, I use a combination of time-series and cross-sectional data to analyze the impact of foreign direct investment (FDI) on Viet Nam's economic recovery following the COVID-19 pandemic. Specifically, I collect annual data on total FDI inflows and GDP from 2014 to 2024 to capture long-term trends and identify changes before, during, and after the pandemic. This 11-year dataset enables us to examine the correlation between FDI and GDP growth, particularly during the recovery phase from 2021 onward.

In addition to aggregate national data, I conduct a cross-industrial analysis by disaggregating GDP contributions into three main sectors: Agriculture, Forestry and Fishery; Industry and Construction; and Services. This sectoral breakdown allows us to assess whether FDI disproportionately benefits certain industries and to what extent it supports structural transformation in the economy. By combining macroeconomic indicators with sector-specific performance, I aim to provide a nuanced understanding of how FDI contributes to both overall economic growth and post-COVID recovery across different areas of economic activity.

Data are collected from the General Statistics Office (GSO) and the Ministry of Planning and Investment (MPI).

IV. RESULTS

From 2014 to 2024, Viet Nam's economic data clearly illustrates the vital role that foreign direct investment (FDI) played in driving the country's recovery following the COVID-19 pandemic (Figure 1). Prior to the pandemic, FDI inflows steadily increased, reflecting investor confidence in Viet Nam's political stability, favorable business environment, and growing role in global supply chains. However, in 2020, FDI dropped significantly—from $35.97 billion in 2019 to $28.53 billion—as the pandemic caused widespread disruptions to international investment flows, delayed project implementation, and heightened global uncertainty. Despite this decline, Viet Nam's economy demonstrated resilience; GDP still grew in 2020, albeit at a slower pace, reaching $316.22 billion. This was due in part to the government's early and effective pandemic containment measures, which minimized internal economic shutdowns and maintained core industrial and export activities.

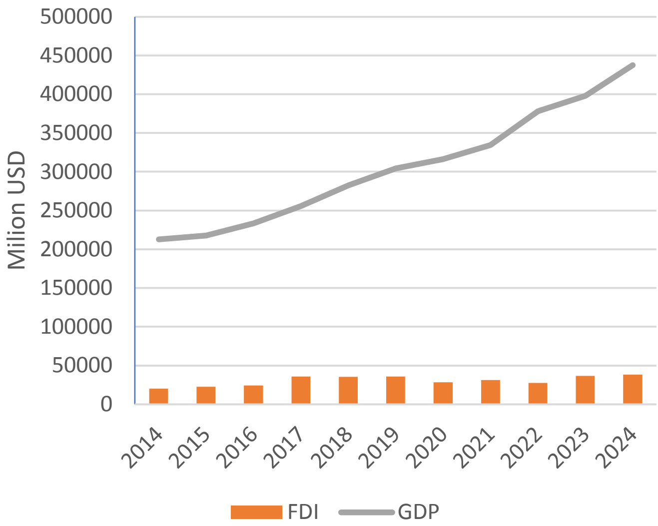


Figure 1. Viet Nam's FDI and GDP from 2014 to 2024

From 2021 onward, FDI rebounded as Viet Nam reopened and global firms resumed or restructured their investment plans. Inflows rose to $31.15 billion in 2021, dipped slightly in 2022, and then surged to $38.23 billion in 2024. This recovery in FDI contributed significantly to revitalizing Viet Nam's economy by injecting much-needed capital, restoring employment, and restarting industrial production in key sectors like manufacturing, electronics, logistics, and infrastructure. Many of these sectors are dominated by foreign-invested enterprises, which are responsible for a large share of the country's exports and industrial output.

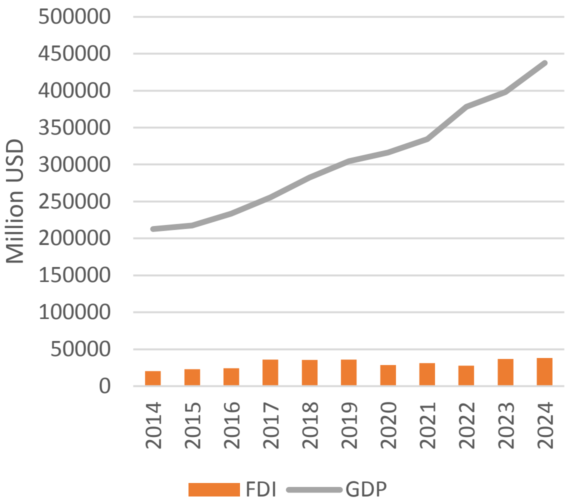
At the same time, GDP grew steadily from $316.22 billion in 2020 to $437.63 billion in 2024, indicating a strong recovery trajectory. The near-parallel rise in FDI and GDP suggests a clear link between foreign investment and national economic performance. FDI did not just support short-term recovery but also helped Viet Nam modernize its industrial base, adopt new technologies, and strengthen its export capacity. Furthermore, the global trend of diversifying supply chains away from China post-pandemic positioned Viet Nam as a strategic alternative, attracting investments from multinational corporations in sectors such as electronics, semiconductors, and green energy.

The data shows that FDI acted as a powerful catalyst for Viet Nam's post-COVID-19 economic recovery. It provided essential resources for rebuilding the economy, fostered long-term growth through technology transfer and industrial upgrading, and enhanced the country's competitiveness in global markets. The strong rebound in both FDI and GDP underscores Viet Nam's success in leveraging foreign investment not just to bounce back from the crisis, but to accelerate structural transformation and pursue more resilient and inclusive development.

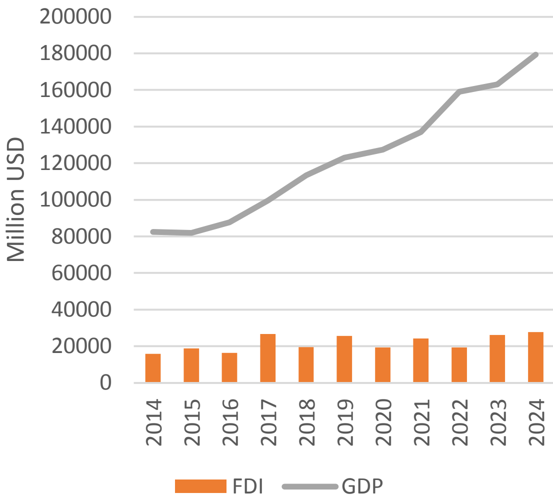
A deeper cross-sectoral analysis of FDI and GDP data from 2014 to 2024 across Viet Nam's three key economic sectors—Agriculture, Forestry and Fishery; Industry and Construction; and Services—provides valuable insights into the differential impact of foreign direct investment (FDI) on the country's post-COVID-19 economic recovery (Figure 2)

In the Agriculture, Forestry and Fishery sector, FDI has consistently remained the lowest among the three sectors, never exceeding $267.5 million annually. However, this sector exhibited resilience during the pandemic, with GDP rising from $39.4 billion in 2019 to $43.9 billion in 2020 despite global economic disruptions. Post-pandemic, the sector's GDP continued to grow, reaching $56.5 billion by 2024, even as FDI declined to just $77.6 million. This suggests that while FDI contributes marginally to growth in this sector, domestic policy and internal demand likely played a more significant role in its recovery.

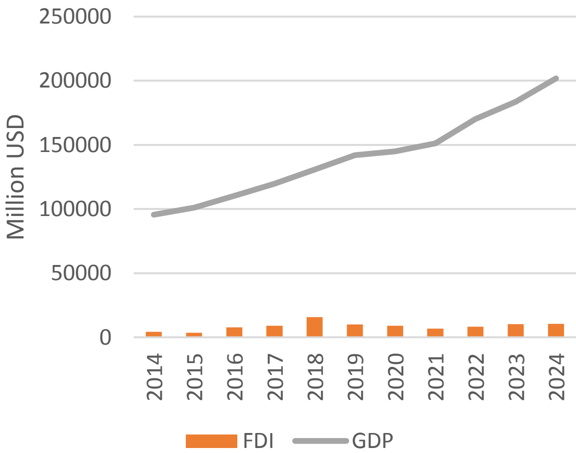
The Industry and Construction sector received the highest volume of FDI throughout the period, with inflows peaking at $27.6 billion in 2024. Even during the pandemic year of 2020, FDI remained relatively stable at $19.3 billion, and GDP continued to increase from $123.0 billion in 2019 to $127.3 billion in 2020. The sector's post-COVID recovery was robust, with GDP surging to $179.3 billion in 2024. This close alignment between FDI and GDP trends underscores the sector's strong dependence on foreign investment for capital, technology, and export production. The rapid rebound in both FDI and GDP suggests that FDI was instrumental in restoring supply chains, restarting production, and driving industrial growth after the pandemic.



Agriculture, Forestry, and Fishery



Industry and Construction



Services

Figure 2. Viet Nam's cross-sectional FDI and GDP in the period 2014 – 2024

The Services sector, which includes tourism, finance, logistics, and education, experienced the most volatility in FDI inflows during the pandemic. FDI dropped sharply from \$10.1 billion in 2019 to \$9.0 billion in 2020 and further to \$6.7 billion in 2021. However, GDP continued to expand—from \$142.0 billion in 2019 to \$144.9 billion in 2020—reflecting the sector's adaptability and domestic consumption-driven nature. From 2021 onward, both FDI and GDP recovered steadily, with FDI climbing to over \$10.5 billion and GDP reaching \$201.8 billion by 2024. This indicates that while short-term disruptions affected foreign investment in services, its long-term recovery was supported by renewed investor interest in sectors like digital services, finance, and e-commerce, all of which grew in importance post-pandemic.

The cross-sectoral data reveals that FDI was a critical engine of post-COVID recovery, particularly in the Industry and Construction sector, where investment closely aligned with economic output. The Services sector also benefited significantly from FDI, albeit with a lag, while Agriculture showed a relatively weak FDI-growth linkage, suggesting greater reliance on domestic factors. Overall, FDI played a differentiated but essential role in Viet Nam's economic resilience and structural transformation in the post-pandemic period.

V. CONCLUSION

This study has examined the impact of foreign direct investment (FDI) on Viet Nam's economic recovery in the aftermath of the COVID-19 pandemic, using both aggregate data from 2014 to 2024 and cross-sectoral analysis across the Agriculture, Forestry and Fishery, Industry and Construction, and Services sectors. The findings reveal that FDI played a vital but uneven role in driving post-pandemic recovery. At the national level, both FDI inflows and GDP growth exhibited a clear upward trend after a temporary disruption in 2020, indicating a positive correlation between foreign capital and economic rebound.

Sectoral data further illustrate this relationship in more detail. In the Industry and Construction sector, high and steadily increasing FDI contributed directly to robust GDP growth, reinforcing the sector's dependence on foreign investment for industrial output and exports. The Services sector showed a more delayed but resilient recovery, with FDI inflows rebounding alongside GDP growth after an initial drop, reflecting renewed investor confidence in digital and consumer service industries. Conversely, the Agriculture, Forestry and Fishery sector received the least FDI, yet still demonstrated steady GDP growth, suggesting that its recovery was driven more by domestic efforts than foreign investment.

Collectively, the results highlight that while FDI is not the sole driver of economic recovery, it has been a critical factor—especially in capital-intensive and export-oriented sectors—supporting Viet Nam's path toward a more resilient and diversified post-COVID economy. These findings underscore the importance of sector-specific FDI strategies and policies aimed at improving institutional capacity, infrastructure, and investment climate to sustain inclusive recovery and long-term growth.

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