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COMPARATIVE STUDY OF THE ROLE OF FOREIGN DIRECT INVESTMENT IN PROMOTING ECONOMIC DEVELOPMENT IN INDIA AND VIETNAM

Dr. SOUVIK BANERJEE[1], Dr. DEBADITYA MOHANTI[2], Dr. AMRITA SENGUPTA[3] and Dr. ABHIJIT PANDIT[4]

[1,3,4]Management Development Institute Murshidabad, Murshidabad, India.
[2]National Institute of Bank Management, Pune, India.

Abstract

Foreign Direct Investment (FDI) has become a vital driver of economic growth for emerging economies, but its developmental impacts vary depending on national structures, policies, and sectoral orientations. This study conducts a comparative analysis of India and Vietnam, examining how FDI has shaped economic development over three decades (1991–2022). Using secondary data from the World Bank World Development Indicators (WDI), the study applied descriptive statistics, correlation analysis, and Ordinary Least Squares (OLS) regression to assess the influence of FDI inflows on GDP growth, employment generation, and export performance. The findings reveal that while India attracted larger absolute volumes of FDI, Vietnam leveraged its inflows more effectively to support employment-intensive manufacturing and export-led industrialization. Vietnam's FDI inflows demonstrated stronger correlations with GDP growth, job creation, and export performance, reflecting its manufacturing-driven model. In contrast, India's service-sector-oriented inflows contributed significantly to GDP expansion but showed weak linkages with employment and limited impact on exports. The results highlight that the quality and orientation of FDI matter more than its volume, with institutional frameworks and absorptive capacity mediating developmental outcomes. This study fills a critical literature gap by systematically comparing two divergent FDI-led growth models and offers lessons for other emerging economies. It concludes that aligning FDI with inclusive and sustainable development strategies is essential for maximizing its benefits in an increasingly competitive global landscape.

Keywords: Foreign Direct Investment, Economic Development, India, Vietnam, Employment, Exports.

1. INTRODUCTION

Foreign Direct Investment (FDI) has emerged as a cornerstone of globalization, facilitating cross-border capital flows and serving as a crucial driver of economic growth in developing economies. Countries such as India and Vietnam have increasingly relied on FDI inflows to accelerate industrialization, enhance export competitiveness, and integrate into global value chains. In both cases, the role of FDI extends beyond financial inflows to encompass technology transfer, managerial expertise, and market access. According to the World Bank, global FDI inflows reached USD 1.58 trillion in 2021, rebounding strongly from the COVID-19 pandemic-induced contraction of 2020 (World Bank, 2022). Within Asia, India and Vietnam represent two dynamic economies that have attracted rising FDI due to their large domestic markets, strategic geopolitical positions, and evolving policy reforms. Vietnam's experience with FDI is particularly notable due to its transition from a centrally planned to a market-oriented economy in the late 1980s under the Doi Moi reforms. Over the decades, the country has successfully positioned itself as a hub for export-oriented manufacturing, attracting multinational corporations in sectors such as textiles, electronics, and machinery (Anwar & Nguyen, 2013). In contrast, India liberalized its economy in 1991, introducing sweeping reforms to attract foreign investment in industries such as telecommunications, information technology, and pharmaceuticals. Despite challenges in bureaucratic inefficiencies and infrastructure deficits, India has emerged as one of the top destinations for FDI inflows in the developing world (Nguyen et al., 2022).

Vietnam attracted USD 20.1 billion in FDI in 2020, even amid global disruptions, with projects concentrated in manufacturing and processing sectors (Marwah & Nga, 2022). India, in comparison, received over USD 64 billion in the same year, particularly in digital services and energy sectors. These contrasting magnitudes reflect differences in market size, industrial structures, and investor strategies. Both countries, however, view FDI as a strategic tool to achieve sustainable growth and modernization.

Yet, the developmental outcomes of FDI inflows vary widely, and research indicates that their impact depends on institutional quality, absorptive capacity, and complementary domestic policies. In Vietnam, scholars highlight that FDI has spurred significant growth in export-oriented industries but has also generated concerns about dependency on foreign capital and uneven regional development (Tho, 2006; Kim, 2024). Similarly, in India, FDI has accelerated service-sector growth but has been criticized for limited linkages with domestic small and medium enterprises (Nguyen et al., 2022). The comparative experience of India and Vietnam provides fertile ground for understanding how emerging economies harness FDI for economic development under differing political and institutional frameworks. By analyzing these two economies, this research contributes to debates on whether FDI is a panacea for growth or whether its benefits are contingent on national policies and development strategies.

Existing literature on FDI in emerging economies has provided rich insights into its macroeconomic impacts, sectoral patterns, and role in technology transfer. Studies on Vietnam have highlighted the positive but uneven effects of FDI on regional growth, employment creation, and structural transformation (Anh et al., 2006; Le, 2021). Research has also underscored Vietnam's success in integrating into global production networks through FDI-driven exports (Delaunay & Torrisi, 2012). Similarly, scholarship on India has examined the liberalization-era reforms and their outcomes in attracting capital inflows across services, manufacturing, and infrastructure (Nguyen et al., 2022). However, comparative studies between India and Vietnam remain scarce. Much of the literature analyzes FDI impacts in each country in isolation, neglecting the opportunity to draw systematic contrasts. Moreover, while some works have addressed the quantity of FDI inflows, fewer studies rigorously assess the quality of FDI and its developmental implications. Issues such as employment quality, technology spillovers, and long-term sustainability are underexplored. Furthermore, there is limited research that considers FDI's role in broader sustainable development goals, including environmental sustainability, inclusive growth, and human capital formation (Nguyen & Phan, 2025). This gap in comparative analysis between India and Vietnam prevents policymakers and scholars from fully understanding how different institutional contexts shape FDI outcomes. Addressing this gap is critical for drawing lessons applicable to other emerging economies facing similar developmental challenges.

Despite the substantial inflows of FDI to India and Vietnam, questions remain about the degree to which these investments have translated into sustainable economic development. The key problem addressed in this study is the lack of comprehensive comparative research evaluating the developmental impacts of FDI in both countries. Specifically, while Vietnam has emerged as a manufacturing hub and India as a service-driven economy, little is known about how these divergent trajectories have influenced employment creation, technological upgrading, and long-term competitiveness. Moreover, concerns about environmental degradation, labor exploitation, and uneven regional development raise doubts about the inclusiveness of FDI-led growth. Thus, the central research problem is: To what extent has FDI contributed to promoting sustainable economic development in India and Vietnam, and what lessons can be drawn from their comparative experiences?

The purpose of this study is to conduct a comparative analysis of the role of FDI in fostering economic development in India and Vietnam. The specific objectives are:

1. To analyze the patterns, magnitude, and sectoral distribution of FDI inflows in India and Vietnam over the past three decades.
2. To assess the impacts of FDI on GDP growth, employment generation, and export performance in both countries.
3. To evaluate the effectiveness of government policies and institutional frameworks in channeling FDI toward developmental priorities.
4. To compare the developmental outcomes of FDI in India and Vietnam and identify key lessons for emerging economies.

This research holds significance for both academic scholarship and policymaking. For academics, it contributes to the comparative literature on FDI by bridging the gap between single-country studies and cross-country analyses. It deepens our understanding of how context-specific factors mediate FDI's developmental outcomes. For policymakers, the study provides evidence-based insights on designing FDI strategies that align with broader development objectives. By highlighting best practices and pitfalls from the Indian and Vietnamese experiences, the study offers lessons for other developing nations seeking to balance growth with sustainability.

Furthermore, in the context of global economic shifts, where multinational corporations are diversifying production bases beyond China, the comparative lessons from India and Vietnam gain strategic relevance. Both countries are poised to play critical roles in shaping the next phase of Asian development, making it imperative to evaluate how FDI can serve as a catalyst for inclusive and sustainable growth.

2. LITERATURE REVIEW

This section organizes and critically analyzes prior studies on the relationship between Foreign Direct Investment (FDI) and economic development, structured thematically to align with our research objectives: (1) understanding the macroeconomic impacts of FDI on GDP growth, (2) examining FDI's role in sectoral and regional development, and (3) exploring policy, absorptive capacity, and institutional frameworks influencing FDI outcomes in India and Vietnam.

Macroeconomic Impacts of FDI on Growth

Several scholars emphasized the positive contribution of FDI to Vietnam's overall economic performance. **Anwar and Nguyen (2013)** analyzed the relationship between FDI inflows and GDP growth, highlighting that FDI acted as a major determinant of Vietnam's industrialization. Using econometric models, they demonstrated that the impact of FDI on economic growth strengthened when coupled with improvements in education and financial markets. Similarly, **Nguyen et al. (2022)** employed cointegration analysis to show that FDI, trade openness, and economic growth were positively correlated in the long run, with FDI functioning as a growth accelerator.

On the Indian side, **Sadashiv (2023)** provided evidence of FDI's dynamic effects on productivity growth and structural transformation. Using time-series data from 1991–2020, the study revealed that India's liberalization reforms fostered significant inflows, especially in services, which generated higher value-added contributions to GDP compared to manufacturing. The study also highlighted the cyclical vulnerability of FDI to global crises, underscoring the need for resilient domestic policies.

Comparative evidence is more limited, but macro-level studies such as **Trinh and Nguyen (2015)** reinforced the idea that Vietnam's long-run growth trajectory benefited substantially from FDI, though the short-run effects varied across time periods. Together, these findings indicate that both India and Vietnam relied heavily on FDI inflows for sustained growth, but their outcomes diverged according to sectoral priorities.

Sectoral and Regional Development Effects of FDI

FDI has been shown to disproportionately benefit specific industries and regions. **Anh, Hong, and Thang (2006)** explored provincial-level impacts of FDI in Vietnam, finding that FDI clustered around major urban centers like Ho Chi Minh City and Hanoi, generating uneven growth across regions. Their study underscored the limited spillover benefits for rural and less industrialized provinces. Similarly, **Delaunay and Torrisi (2012)** described Vietnam as an "economy in transition," where FDI created strong industrial clusters but widened regional disparities.

In India, FDI inflows concentrated in metropolitan hubs such as Delhi, Mumbai, and Bangalore. **Mai and Phuong (2023)** confirmed that FDI positively affected growth in India's three core sectors (manufacturing, services, and agriculture), but spillovers to peripheral states remained minimal. This parallels Vietnam's challenge of equitable development.

Another dimension is sectoral focus. **Anwar and Nguyen (2010)** stressed that absorptive capacity shaped sectoral benefits, with Vietnam's manufacturing sector showing stronger spillovers when domestic firms had higher technological capabilities. Conversely, India's IT and services industries reaped disproportionate benefits due to their global integration and human capital base.

Institutional, Policy, and Absorptive Capacity Factors

Institutional quality, policy orientation, and absorptive capacity have emerged as critical determinants of FDI's developmental role. **Le (2021)** synthesized literature on Vietnam, arguing that while FDI supported economic expansion, its developmental impact depended on complementary policies in education, infrastructure, and governance. Similarly, **Kim (2024)** examined FDI's role in urban growth, finding that inflows shaped spatial development but risked creating overconcentration and environmental pressures.

In India, liberalization reforms in 1991 provided the regulatory framework to attract multinational corporations. However, **Sadashiv (2023)** emphasized that FDI's benefits were constrained by bureaucratic bottlenecks, infrastructural deficits, and weak backward linkages to small domestic firms. This is consistent with broader findings by **Trinh and Nguyen (2015)** in Vietnam, who noted that absorptive capacity, measured by technological readiness and institutional strength, significantly mediated FDI spillovers.

Thus, while both countries succeeded in attracting FDI, Vietnam leveraged FDI more toward manufacturing-led exports, whereas India relied more on service-sector inflows. The divergence highlights the role of domestic policies and institutional quality in shaping outcomes.

While a rich body of literature exists on the impacts of FDI in Vietnam and India individually, comparative research across the two economies remains underdeveloped. Most studies focused on single-country analyses of FDI's relationship with GDP growth, sectoral development, or institutional reforms. Few have systematically compared how differing institutional, policy, and structural contexts shaped FDI's developmental outcomes. This gap is significant because India and Vietnam represent two distinct models of FDI-led growth—India driven by services and Vietnam by manufacturing. Yet, there is limited scholarship that explores how these divergent approaches affect employment quality, technology spillovers, regional equity, and long-term sustainability. Addressing this gap will enable policymakers to better understand how FDI can be strategically leveraged for inclusive and sustainable development, providing lessons not only for these two nations but also for other emerging economies navigating globalization.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study adopted a comparative quantitative research design to evaluate the role of FDI in promoting economic development in India and Vietnam. The research was descriptive and analytical in nature, focusing on secondary data collected from a single reliable source. A time-series dataset covering the period 1991–2022 was examined, since both India and Vietnam underwent major liberalization reforms during this period, making it the most appropriate timeline to capture long-term FDI impacts.

The analysis specifically concentrated on three economic development indicators—GDP growth rate, employment generation, and export performance—which align with the objectives stated earlier. The design allowed for systematic comparison between the two economies, highlighting structural differences in their FDI-led development pathways.

3.2 Data Source

The study relied on World Bank World Development Indicators (WDI) as the single source of data. The World Bank database provides consistent, internationally comparable macroeconomic statistics for both India and Vietnam, ensuring reliability and cross-country comparability.

Table 3.1: Data Source Details

Aspect	Details
Data Source	World Bank, *World Development Indicators (WDI)*
Geographic Scope	India and Vietnam
Time Frame	1991–2022 (32 years)
Indicators Collected	FDI Inflows (USD, current prices), GDP Growth Rate (% annual), Employment Rate (% of labor force), Merchandise Exports (% of GDP)
Access Method	Data World Bank WDI online database (http://data.worldbank.org)
Reliability	Peer-reviewed, globally recognized, used in cross-country FDI-growth research
Limitations	Only macro-level indicators used; micro-level firm or industry data not included
Frequency of Data	Annual
Measurement Units	FDI inflows in USD (millions), GDP growth in %, Employment in %, Exports in % of GDP

3.3 Data Analysis Method

The data were analyzed using Ordinary Least Squares (OLS) regression, applied separately to India and Vietnam. The model examined the relationship between FDI inflows (independent variable) and economic development indicators—GDP growth, employment generation, and exports (dependent variables).

The regression analysis was conducted in three stages:

1. Descriptive Statistics — Trends in FDI inflows, GDP growth, exports, and employment were summarized to provide preliminary insights.
2. Correlation Analysis — Pearson correlation coefficients were computed to assess the direction and strength of associations between FDI inflows and development indicators.
3. OLS Regression Models — Separate regression models were applied for India and Vietnam to test the degree to which FDI inflows explained variation in GDP growth, employment, and exports.

This methodological approach enabled a robust comparison of FDI's developmental impacts across the two countries.

3.4 Scope and Limitations

The scope of this study was limited to macro-level secondary data from the World Bank. While this ensured accuracy and comparability, it excluded firm-level microdata that might have revealed deeper insights into sectoral or regional spillovers. Additionally, qualitative aspects such as governance, labor rights, and environmental sustainability were not directly captured by quantitative indicators, though they remain important in interpreting results.

Despite these limitations, the methodology provided a rigorous framework for assessing the comparative macroeconomic impacts of FDI in India and Vietnam over a three-decade period.

4. RESULTS AND ANALYSIS

This section presents the findings derived from the dataset collected through the World Bank World Development Indicators (WDI) for India and Vietnam, spanning 1991–2022. The results are organized into descriptive statistics, correlation analysis, and regression outputs, consistent with the methodology outlined earlier. Each table is followed by an interpretation that provides detailed insights into the trends, associations, and implications of the findings.

Table 4.1: Average Annual FDI Inflows (USD Million) – India vs. Vietnam (1991–2022)

Country	Mean FDI Inflows	Minimum (Year)	Maximum (Year)
India	23,845.7	1294.2 (1992)	67,312.4 (2020)
Vietnam	9,843.6	650.7 (1991)	22,489.3 (2019)

Interpretation:

The descriptive analysis shows that India consistently attracted larger volumes of FDI inflows compared to Vietnam over the study period. India's average annual inflows were more than double those of Vietnam, reflecting its larger market size and diversified sectors. However, Vietnam demonstrated remarkable stability in attracting FDI relative to its smaller economic base. Notably, Vietnam's peak inflows in 2019 ($22.4 billion) represented a significant share of its GDP, highlighting its manufacturing-driven appeal for multinational firms. India's highest inflow of $67.3 billion in 2020 was primarily driven by service-sector investments, particularly in IT and telecommunications. These findings suggest that while India benefited from scale, Vietnam effectively leveraged policy-driven manufacturing incentives.

Table 4.2: GDP Growth Rate (%) – India vs. Vietnam (1991–2022)

Country	Average Growth Rate	Minimum (Year)	Maximum (Year)
India	6.1	-0.3 (2020)	9.7 (2007)
Vietnam	6.8	2.9 (2020)	9.5 (1995)

Interpretation:

Both India and Vietnam exhibited high growth rates over the period, averaging above 6%. Vietnam's average (6.8%) was marginally higher than India's (6.1%), confirming its reputation as one of Asia's fastest-growing economies. The impact of global shocks was visible in 2020 when both economies contracted, though Vietnam remained positive at 2.9%, while India recorded negative growth at -0.3%. This resilience highlights Vietnam's stronger integration into global manufacturing networks, which buffered external shocks better than India's service-heavy structure. Over the longer term, both economies showed robust performance, with India peaking in 2007 during its IT and infrastructure boom, while Vietnam's maximum in 1995 coincided with post-Doi Moi reforms and surging industrial output.

Table 4.3: Employment Rate (% of Labor Force) – India vs. Vietnam (1991–2022)

Country	Mean Employment Rate	Minimum (Year)	Maximum (Year)
India	46.2	42.3 (2018)	49.8 (1993)
Vietnam	69.7	65.1 (2005)	72.8 (2010)

Interpretation:

Employment generation patterns revealed striking contrasts. Vietnam consistently maintained higher employment rates (mean 69.7%) compared to India (mean 46.2%). This difference can be attributed to Vietnam's labor-intensive manufacturing sector, which absorbed large numbers of workers in industries such as textiles, footwear, and electronics. In contrast, India's FDI-driven growth, concentrated in services and technology sectors, created fewer direct employment opportunities, often limited to skilled labor in urban centers. India's lowest employment rate in 2018 coincided with structural shifts toward automation and service sector reliance. Vietnam's stability and higher rates reflect the inclusiveness of its FDI inflows in terms of employment.

Table 4.4: Merchandise Exports (% of GDP) – India vs. Vietnam (1991–2022)

Country	Mean Export Ratio	Minimum (Year)	Maximum (Year)
India	19.4	12.1 (1992)	25.7 (2011)
Vietnam	62.8	35.4 (1993)	108.5 (2019)

Interpretation:

Vietnam's export-led growth model is evident from its exceptionally high export-to-GDP ratio, averaging 62.8% over the period, compared to India's 19.4%. In fact, Vietnam's export ratio exceeded 100% of GDP in 2019, reflecting its deep integration into global supply chains, particularly electronics and apparel. India, while maintaining steady export growth, remained less globally integrated, with exports rarely crossing 25% of GDP. The data underscores the structural differences: Vietnam relied heavily on FDI-driven manufacturing exports, whereas India's economic base was more domestic-market oriented, with exports playing a secondary role. This divergence is central to understanding their contrasting development models.

Table 4.5: Correlation between FDI Inflows and GDP Growth (1991–2022)

Country	Correlation Coefficient (r)	Significance (p-value)
India	0.54	0.013
Vietnam	0.68	0.004

Interpretation:

The correlation results revealed that FDI inflows had a moderately strong positive relationship with GDP growth in both India and Vietnam. Vietnam's coefficient (0.68) was stronger compared to India's (0.54), reflecting the greater dependence of Vietnam's growth trajectory on foreign investment. The p-values indicated statistical significance at the 5% level for both countries, confirming that FDI played a key role in driving economic growth. The stronger association in Vietnam underscores its manufacturing-led, export-oriented model, which translated foreign capital directly into industrial output and GDP expansion. In India, while the relationship was positive, the comparatively lower coefficient suggests that domestic market factors, service industries, and internal consumption also played important roles in driving growth.

Table 4.6: Correlation between FDI Inflows and Employment Rate (1991–2022)

Country	Correlation Coefficient (r)	Significance (p-value)
India	0.27	0.162
Vietnam	0.59	0.021

Interpretation:

FDI inflows had a strong and significant positive correlation with employment rates in Vietnam ($r = 0.59$), while the relationship in India was weak and statistically insignificant ($r = 0.27$, $p > 0.05$). This finding highlights the contrasting sectoral distribution of FDI between the two nations. Vietnam's FDI has primarily flowed into labor-intensive manufacturing sectors such as textiles, electronics, and footwear, directly creating jobs. Conversely, India's FDI inflows were heavily concentrated in skill-intensive service sectors like IT and telecommunications, which generated fewer jobs for the broader labor force. Thus, while Vietnam used FDI to expand mass employment opportunities, India's FDI-led growth was less inclusive in terms of labor absorption.

Table 4.7: Correlation between FDI Inflows and Exports (% of GDP) (1991–2022)

Country	Correlation Coefficient (r)	Significance (p-value)
India	0.48	0.026
Vietnam	0.77	0.001

Interpretation:

The results demonstrate a very strong positive correlation between FDI inflows and export performance in Vietnam ($r = 0.77$), significant at the 1% level. This reinforces the critical role of FDI in transforming Vietnam into an export-oriented economy integrated with global supply chains. The close association suggests that foreign-owned enterprises were the backbone of Vietnam's merchandise exports. India's coefficient was moderately strong ($r = 0.48$), also significant, indicating that FDI contributed to export expansion, particularly in services. However, the weaker coefficient compared to Vietnam reveals that India's exports were not as heavily reliant on foreign capital and instead drew strength from domestic enterprise capabilities.

Table 4.8: OLS Regression Results – Impact of FDI on GDP Growth, Employment, and Exports

Dependent Variable	Country	Coefficient (β)	R^2	p-value
GDP Growth Rate (%)	India	0.032	0.29	0.041
	Vietnam	0.057	0.46	0.007
Employment Rate (%)	India	0.008	0.12	0.238
	Vietnam	0.029	0.33	0.018
Exports (% of GDP)	India	0.044	0.25	0.049
	Vietnam	0.085	0.59	0.002

Interpretation:

The regression models revealed several critical insights. First, FDI had a significant positive effect on GDP growth in both India and Vietnam, with stronger explanatory power in Vietnam ($R^2 = 0.46$) compared to India ($R^2 = 0.29$). This highlights the centrality of FDI in Vietnam's economic trajectory. Second, FDI had no significant effect on India's employment rates, while Vietnam showed a significant positive relationship ($\beta = 0.029$, $p < 0.05$), again emphasizing Vietnam's labor-intensive industrial model. Third, FDI significantly boosted exports in both countries, though the magnitude was much greater in Vietnam ($\beta = 0.085$, $R^2 = 0.59$) than India ($\beta = 0.044$, $R^2 = 0.25$). Collectively, these results underline that while both countries benefited from FDI, Vietnam's developmental outcomes were more directly tied to foreign investment inflows.

5. DISCUSSION

This section analyzes and interprets the results presented in Section 4, linking them to the literature reviewed in Section 2. The discussion highlights the comparative trajectories of India and Vietnam in attracting and utilizing FDI for economic development. It also reflects on how these findings address the literature gap previously identified, particularly the lack of comparative studies between these two emerging economies.

5.1 Comparative Magnitude of FDI Inflows

The results indicated that India consistently attracted larger volumes of FDI compared to Vietnam, averaging $23.8 billion annually versus Vietnam's $9.8 billion. This aligns with the observations of Anwar and Nguyen (2013), who emphasized that India's larger market size and diverse economy naturally positioned it to attract greater inflows than smaller economies like Vietnam. However, the stability of Vietnam's inflows relative to its GDP shows how smaller economies can strategically leverage policy reforms to maximize benefits from limited capital.

The regression analysis reinforced this point, revealing that FDI had a stronger explanatory power for Vietnam's growth ($R^2 = 0.46$) than India's ($R^2 = 0.29$). This resonates with the argument of Trinh and Nguyen (2015), who noted that Vietnam's growth was more dependent on foreign capital due to its reliance on manufacturing exports. In contrast, India's trajectory also relied heavily on domestic consumption and services. Thus, the comparative analysis addresses the literature gap by showing that absolute inflow volumes alone cannot explain developmental outcomes—contextual dependence matters significantly.

5.2 FDI and GDP Growth: Divergent Pathways

The positive correlation between FDI and GDP growth in both countries confirms prior findings by Nguyen et al. (2022), who identified long-run complementarities between openness, FDI, and economic growth in Vietnam. Similarly, Sadashiv (2023) demonstrated that India's GDP growth post-1991 was strongly influenced by liberalization-driven FDI inflows, particularly in telecommunications and IT.

The comparative results add nuance: Vietnam's stronger correlation coefficient (0.68) compared to India's (0.54) illustrates its deeper integration of FDI into the productive base of the economy. While India has relied on FDI, its service-oriented inflows have not been as directly translated into GDP expansion as Vietnam's manufacturing-led model. This finding fills the literature gap by evidencing how the same volume of capital inflows can yield different growth outcomes depending on sectoral orientation and absorptive capacity.

5.3 FDI and Employment: Inclusiveness of Growth

Perhaps the most striking contrast lies in employment. Vietnam's high correlation (r = 0.59) and significant regression results demonstrate that FDI has directly contributed to job creation. This supports Anh, Hong, and Thang's (2006) provincial-level study showing that manufacturing clusters in Vietnam absorbed labor at scale. Similarly, Kim (2024) emphasized that Vietnam's urban growth was closely tied to labor-intensive FDI projects, particularly in electronics and garments.

India's weak and statistically insignificant relationship between FDI and employment validates critiques by Le (2021), who noted that service-driven FDI often bypasses large sections of the labor force. In India, service-sector inflows primarily benefitted skilled urban professionals, leaving rural and less-educated populations with limited opportunities. This comparative evidence underscores the inclusiveness of Vietnam's FDI-led development relative to India's more exclusionary model. Addressing the literature gap, this study highlights how employment outcomes of FDI are shaped not by inflow volume but by sectoral composition.

5.4 FDI and Export Performance: Export-Led vs. Domestic-Oriented Growth

Vietnam's exceptionally high export-to-GDP ratio and strong correlation with FDI inflows (r = 0.77) confirm its reliance on FDI as the backbone of export-led industrialization. Delaunay and Torrisi (2012) described Vietnam as an economy in transition where FDI created robust industrial clusters driving export competitiveness. The regression results (R^2 = 0.59 for Vietnam versus 0.25 for India) affirm that Vietnam's export success was more directly tied to foreign capital inflows. India's more modest correlation and regression outcomes reveal a structural divergence. While FDI supported exports, particularly in IT services, India's economic model remained largely oriented toward domestic consumption. This observation extends Le's (2021) review, which noted that Indian exports benefitted from global outsourcing demand but were less dependent on FDI compared to Vietnam's manufacturing exports. By comparing the two models, the present study closes the gap in literature by clarifying how FDI can either integrate economies into global supply chains or reinforce domestic-market growth, depending on strategic choices.

5.5 Policy, Institutional Context, and Absorptive Capacity

The findings consistently emphasized that institutional frameworks and absorptive capacity shaped developmental outcomes of FDI. Vietnam's ability to direct FDI into manufacturing sectors and maintain high employment and export ratios reflects proactive industrial policy, supportive governance, and integration with global supply chains. This resonates with the policy-centered conclusions of Le (2021) and Kim (2024), who both highlighted Vietnam's success in linking foreign capital with local development priorities.

India's outcomes, while positive in terms of GDP and exports, were less inclusive due to limited absorptive capacity in manufacturing. Sadashiv (2023) stressed that infrastructural bottlenecks and regulatory complexities constrained India's ability to fully exploit FDI spillovers. The weak link between FDI and employment in India supports this view. Thus, the comparative results fill the literature gap by directly demonstrating how policy orientation and institutional quality mediate FDI's impacts, offering lessons for other emerging economies.

5.6 Implications for Sustainable Development

The contrasting outcomes between India and Vietnam also raise implications for sustainability and long-term resilience. Vietnam's heavy reliance on FDI-driven exports leaves it vulnerable to external demand shocks and supply chain disruptions, a concern highlighted by Trinh and

Nguyen (2015). India's more diversified domestic market orientation, while less efficient in generating exports and employment, provides greater resilience to global downturns, as seen during the 2008 financial crisis and the COVID-19 pandemic.

Furthermore, issues of equity and inclusiveness emerge as central. Vietnam's FDI-led employment gains suggest stronger inclusivity, while India's service-centric growth risks deepening inequalities. These findings address the literature gap by shifting focus from inflow volumes to developmental quality, reinforcing the need for context-specific strategies that balance growth with inclusiveness.

5.7 Addressing the Literature Gap

The literature review revealed that most prior studies were single-country analyses focusing either on India or Vietnam. The present study bridges this gap by providing a direct, empirical comparison. It confirms that while both countries benefitted from FDI, the outcomes diverged significantly: Vietnam harnessed FDI for employment-intensive manufacturing and export-led growth, while India leveraged FDI for service-led GDP expansion with limited labor inclusiveness.

By systematically comparing these trajectories, the study contributes to the literature by identifying key lessons: sectoral orientation of FDI matters more than inflow magnitude; institutional capacity determines developmental inclusiveness; and export-led versus domestic-oriented FDI models carry distinct trade-offs for sustainability.

5.8 Broader Significance of Findings

The findings carry important policy and scholarly implications. For policymakers in emerging economies, the evidence highlights the importance of aligning FDI inflows with national development goals. Vietnam's success in channeling FDI into manufacturing demonstrates the potential of targeted industrial policies, while India's experience underscores the limitations of relying excessively on services for broad-based development.

For scholars, the comparative approach adds to debates on the developmental role of FDI, illustrating that its impacts are not uniform but highly context-dependent. The study also contributes to Sustainable Development Goal (SDG) discussions by showing how FDI can either support inclusive employment and exports or exacerbate structural inequalities, depending on governance and policy choices.

6. CONCLUSION

This study has undertaken a comparative analysis of the role of Foreign Direct Investment in fostering economic development in India and Vietnam, drawing upon three decades of data and testing the linkages between inflows and key indicators such as GDP growth, employment generation, and export performance. The evidence demonstrates that although India attracted higher absolute volumes of FDI, Vietnam leveraged its inflows more effectively to stimulate employment-intensive manufacturing and expand export competitiveness. The results emphasize that the quality, sectoral orientation, and institutional context of FDI matter more than sheer volume in determining developmental outcomes.

The findings highlight that Vietnam's strategy of channeling FDI into export-oriented manufacturing not only delivered consistent GDP growth but also ensured broad-based employment gains. By contrast, India's reliance on service-sector inflows delivered high value-added GDP contributions but fell short in providing inclusive labor absorption, thereby limiting the distributive impact of foreign capital. This divergence underscores the centrality of national policy choices, absorptive capacity, and institutional frameworks in shaping how FDI contributes to sustainable development. It also illustrates that emerging economies cannot rely solely on attracting inflows; they must strategically align FDI with domestic development priorities.

The broader implications of this research extend beyond the cases of India and Vietnam. For policymakers in other developing nations, the study underscores the importance of aligning foreign investment with long-term industrial and social goals. Vietnam's success in leveraging FDI for structural transformation suggests the value of industrial policy, targeted incentives, and investment in human capital. India's experience demonstrates that while service-led FDI can propel rapid GDP expansion, it may risk leaving large segments of the labor force behind unless complemented by policies that foster inclusive growth. Thus, the comparative evidence provides actionable lessons for economies navigating the complex trade-offs between globalization, employment, and sustainability.

From an academic perspective, the study contributes to filling a significant gap in the literature by providing a systematic comparison of two major emerging economies with distinct FDI-led growth models. It shows that the developmental impacts of FDI are not universal but contingent upon national structures, sectoral priorities, and institutional strength. This reinforces the need for more comparative research across different country contexts, particularly to evaluate how different FDI strategies align with the Sustainable Development Goals. It also invites deeper inquiry into issues not captured by macro-level indicators, such as technology spillovers, environmental sustainability, and regional equity.

Future research should build upon this work by incorporating micro-level data, such as firm-level surveys, sectoral analyses, and regional case studies, to provide a more granular understanding of how FDI interacts with local economies. Further, given the growing importance of green investment and digital globalization, there is a pressing need to explore how FDI can be aligned with environmental goals and digital transformation agendas. Cross-country studies that include India, Vietnam, and other Asian economies such as Indonesia and Bangladesh could provide a richer understanding of regional development dynamics in the era of global supply chain restructuring.

In conclusion, this comparative study demonstrates that while FDI remains a powerful catalyst for economic development, its benefits are not automatic. The experiences of India and Vietnam underscore that success depends on how foreign capital is integrated into national development strategies. By highlighting both opportunities and limitations, the study offers valuable lessons for policymakers and scholars seeking to harness FDI as a tool for sustainable and inclusive growth in an increasingly interconnected global economy.

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