

TESTING THE TOURISM – LED GROWTH HYPOTHESIS FOR VIETNAM

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ABSTRACT: The study empirically investigate the relationship between tourism receipts, exchange rate and economic growth in the period 1990-2017 and define whether the tourism –led growth (TLG) hypothesis for Vietnam. The study implements Vector Error correction Model, Granger causality tests, variance decomposition and impulse responses function with data in the periods 1990-2017. The results point out that GDP, TR and EXR are cointegrated, implying a long-run relationship between three variables. The value of ECM (-1) = 0.6388, this shows that speed of adjustment toward long run equilibrium is about 1.5 year. There is long run causality running between TR, GDP and EXR. In the short run, there is causality relation between GDP and EXR. Tourism industry has contributed in solving employments, brought foreign currencies and the results give the evidences that tourist –led growth hypothesis (TLG) is accepted in the case of Vietnam in the period 1990-2017. The study also proposed some recommendations to develop Vietnam economy and reduce the depreciation of Vietnam currency.

Keywords: Gross Domestic Product, Exchange Rate, Tourism Receipts, Vector Error Correction Model, Vietnam.

1. Introduction

Travel and Tourism is an important economic activity in most countries around the world. Travel & Tourism creates jobs, drives exports, and generate prosperity across the world. According World Travel & Tourism Council (2018), Travel & Tourism contributed 10.4% global GDP and 313 million jobs, or 9.9% of total employment, in 2017 (World Tourism Barometer, 2018).

In 2017, Travel & Tourism’s Total Contribution to Vietnam GDP is 20.6 US\$bn and Travel & Tourism’s Total Contribution to Employment is 4,060,900 jobs; that is the great success of Vietnam Tourism. (Table 1). Vietnam tourism received over 12.9 million international visitors, an increase of 29% compared to 2016. Tourism became a bright spot in the Vietnamese economy last when the total contribution (direct and indirect contribution) of Travel & Tourism to GDP (including wider effects from investment, the supply chain and induced income impacts) was VND 468,291 bn in 2017 (9.4% of GDP) and is expected to grow by 6.2% to VND 497,303 bn (9.3% of GDP) in 2018 (World Tourism Barometer, 2018). The number

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of international visitors to Vietnam in 2017 reached two records: The highest number of visitors and the highest increase over the year (over 3 million). Vietnam's tourism is rapidly closing the gap with Indonesia (about 14 million), Singapore (17.5 million), Philippines (7 million), Cambodia (about 6 million), Myanmar (about 33 million).

Table 1
The Contributions of Travel & Tourism

<i>Country</i>	<i>Direct Contribution to GDP (US\$bn)</i>	<i>Total Contribution to GDP (US\$bn)</i>	<i>Direct Contribution to Employment, (1.000 jobs)</i>	<i>Total Contribution to Employment (1.000 jobs)</i>
Thailand	42.2	95.0	2,336.6	5,834.0
Philippines	27.3	66.3	2,348.2	7,796.6
Malaysia	15.2	41.9	669.8	1,704.5
Singapore	12.8	31.5	169.3	322.9
Myanmar	2.0	4.9	569.8	1,282.4
Vietnam	13.0	20.6	2,467.6	4,060.9

Source: World Travel Tourism Council (2018)

Many modern tourism investment projects, large scale and high quality in the key areas of tourism development such as Phu Quoc, Khanh Hoa, Quang Ninh, Hoi An, Da Nang changes the image of Vietnam Tourism, which highlights the role of strategic investors in the country such as Sun Group, Vingroup, Muong Thanh Group, FLC, CEO Group, BIM Group and big international investors. Vietnam tourism has won many international awards such as "World's leading package tour operator in 2017" for Vietravel, the fourth consecutive "Luxury resort in the World" award for the InterContinental Da Nang Sun Peninsula Resort, "The Newest Resort in the World" award for JW Marriott Phu Quoc Emerald Bay Resort. Vietnam was voted "The most attractive golf destination in Asia-Pacific region in 2017" and voted by the Pacific Journalists Association as "The emerging destination for luxury travel". Destinations of Vietnam have been more known by friends and international visitors.

2. The view of related literature

The theoretical literature studying tourism with the development model can be found in Mowforth and Munt (1998), Black Jane Knippers (1991). From the different economic point argument, there are argument about the impact of tourism on economic growth.

Earlier, Hazari and A-Ng (1993) opined that if a monopoly power framework exists, tourism may be welfare- reducing. Balaguer and Cantavell-Jorda (2002) and Kim *et al* (2006) found evidence that demonstrated how the tourism business positively affects economic growth over time. Some researchers proposed that tourism-led growth appears when tourism stimulates across the overall economy in the form of spillovers and other externalities (Marin, 1992). International

tourism receipts bring foreign currencies for the host countries and might generate significant export revenues. Specially, they are important resources in offsetting current account deficits and negative balance of payments (Oh, 2005). On the other hand, because of the linkage and contribution of international tourism to every sector of the economy, budget deficits also benefit from these activities via changes in tax revenues.

Pourier (1995) noted the impressive economic impact of tourism in capital accumulation in Tunisia. Secondly, international tourism contributes to increasing income by increasing efficiency through competition between local enterprises and those in other destinations (Bhagwati and Srinivasan, 1979; Krueger, 1980). According to Helpman and Krugman (1985), specialising in tourism exports also allows local enterprises to exploit economies of scale. Hazari and Pasquale (1995) showed that a favourable impact of demand of international visitors would positively effect on the long-run growth of a small economy. Similarly, Brau *et al.* (2003), and Sequiera and Campos (2005) showed that the rising number of tourists to the world's main destinations is associated with a corresponding growth in GDP, enabling higher growth and employment rates than in many areas around them. They showed how tourism-based economies have displayed faster growth on average than other economies. International tourism may also contribute long-term growth, first by providing incomes that can be used to import capital goods or basic inputs, which allows greater production of goods and services and therefore greater economic growth.

Dritsakis (2004) found a strong causal relationship from international tourism earnings to economic growth in Greece, there was also a causal relationship from economic growth to international tourism earnings. This is, however, not as strong as the former. The role of the tourism sector is not only to generate foreign exchange but also to impact positively on the growth of any economy.

Katircioglu (2010) empirically investigated the tourism-led growth hypothesis in the case of Singapore by employing the bounds test for cointegration, error correction models and Granger causality tests using annual data from 1960 to 2007. The results confirm the existence of a long-term equilibrium relationship between international tourism and economic growth in the case of Singapore; real income growth converges significantly toward its long-term equilibrium level of 51.4% in the TLG model.

Husein and Kara (2011) empirically re-examined the possible causal relationships among tourism receipts, real exchange rate and economic growth by using annual data (1964–2006) in the case of Turkey. The study found the existence of a 'stable' and significant long-run equilibrium relationship among real GDP, tourism receipts and real exchange rate (RER). Granger causality tests also indicated a unidirectional causality from tourism receipts and RER to real GDP.

Akinboade and Braimoh (2009) researched international tourism and economic development in South Africa using annual data covering 1980 -2005. **The study demonstrated the direction of causality between international tourism earnings and long run economic growth,** The result also showed a unidirectional causality

running from international tourism earning to real GDP, both in the short run and in the long run.

Meurer (2010) studied the relationship between exchange rate, world gross domestic product and number of travelers to Brazil. The result found that the number of travelers is quite sensitive to world income and less sensitive to the exchange rate. Exchange rate has an influence on revenues with a lag of four quarters, revenue don't react to the exchange rate. The results found that the expenditures of foreign travelers are not influenced by their costs measured in the currency of the country of origin.

Speaking generally, there were the previous researches investigated the possible causal relationship among economic growth, tourism receipts and exchange rate. Most of these researches agreed that there were the long – run relationship between international tourism, economic growth and exchange rate but a little of the studies were opposite. For example, the researches of Eugenio- Martin *et al* (2004), Cortes-Jimenez and Pulina (2006), Kweka *et al* (2003)...

Eugenio- Martin *et al* (2004) studied 21 Latin American countries. They found that there is causality between tourism and economic growth. They concluded that tourism expansion is adequate for the economic growth of low- and medium-income countries. Cortes-Jimenez and Pulina (2006) supported the tourism-led growth (TLG) hypothesis for Spain, while they rejected it for Italy by using multivariate cointegration techniques and Granger causality tests. In the case of Tanzania, Kweka *et al* (2003) results showed that although tourism has a significant contribution to growth, there is a low income multiplier. This may suggest that tourism does not have a considerable impact on income and employment generation in this country.

In the case of Vietnam, until now, we don't find out the quantitative analysis about this subject, especially the researches use **Vector Error correction Model**. Therefore, our study's aims are:

First, to investigate the relationship between tourism receipts, exchange rate and economic growth in the period 1990-2017.

Second, to examine the tourism – led growth hypothesis for Vietnam.

3. Methodology and data

3.1. Variables Description

This study uses the data for the period 1990 to 2017, obtained from World Tourism Organization, World Bank and General Statistics Office of Vietnam. The data are defined as below:

- (a) The Gross Domestic Product (GDP - in US Dollars)
- (b) Real exchange rate (EXR – the proportion between VND with USD)
- (c) Tourism Receipts (TR- in US Dollars)

Three variables are taken in their natural logarithms to avoid the problems of heteroskedasticity. The estimation methodology employed in this study is the cointegration and vector error correction modeling technique.

3.2. Models Specification

The basic estimating equation is determined as follows:

$$LTR = a_0 + a_1 LGDP + a_2 LEXR \quad (1)$$

Where: $a_0, a_1 - a_6$ are parameters to be estimated

4. Empirical Results

4.1. Descriptive statistics

Table 2
Descriptive statistics

	<i>LGDP</i>	<i>LEXR</i>	<i>LTR</i>
Mean	24.60640	9.611528	21.43216
Median	24.51301	9.656777	21.19619
Maximum	26.11434	10.03390	23.08853
Minimum	22.59071	8.776908	19.33697
Std. Dev	1.051502	0.299209	0.999255
Skewness	-0.194122	-0.648585	0.000499
Kurtosis	1.986439	3.286824	1.995041
Jarque-Bera	1.374380	2.059074	1.178268
Probability	0.502988	0.357172	0.554808
Sum	688.9793	269.1228	600.1006
Sum Sq. Dev.	29.85271	2.417197	26.95976
Observations	28	28	28

Source: Author's survey, 2018.

The study's variables are found to be normally distributed as shown in Table 2. The mean to median ratio of each variable is approximately one. The standard deviation of each variable is also low, compared to the mean showing a small coefficient of variation, while the range of variation between maximum and minimum is also reasonable.

Table 3
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.301161	Prob. F(9,15)	0.3133
Obs*R-squared	10.96055	Prob. Chi-Square(9)	0.2784
Scaled explained SS	4.915495	Prob. Chi-Square(9)	0.8416

Source: Author's survey, 2018.

Heteroskedasticity test for used data, the result finds out that F-Statistic = 1.3011 < F(0.05, 9,15) = 2,5876, $nR^2 = 10.9605 < CHIINV(0.05,9) = 16.9189$. Accept Null hypothesis, this means that model has no heteroskedasticity (Table 3).

4.2. Stationary results

Each of the variables in the model has been controlled to determine whether it is stationary or its order of integration. To implement this, ADF test (Augmented Dickey-Fuller) and PP test (Phillips- Perron) are implemented. The results of ADF and PP are shown in Table 4 and Table 5 as below:

Table 4
ADF Test

<i>Variables</i>	<i>ADF Statistic</i>	<i>Critical Value</i>	<i>Prob^s</i>	<i>Decision</i>
D(LGDP,2)	-4.960467	At 1% level = -3.737853 At 5% level = -2.991878 At 10% level = -2.635542	0.0006	Reject Null hypothesis of no unit root
D(LEXR,2)	-8.743451	At 1% level = -3.737853 At 5% level = -2.991878 At 10% level = -2.635542	0.0000	Reject Null hypothesis of no unit root
:D(LTR)	-6.372477	At 1% level = -3.711457 At 5% level = -2.981038 At 10% level = -2.629906	0.0000	Reject Null hypothesis of no unit root

* MacKinnon (1996) one -sided *p*-values

Source : Author's survey, 2018.

Table 5
Phillips – Perron Test

<i>Variables</i>	<i>PP Statistic</i>	<i>Critical Value</i>	<i>Prob^s</i>	<i>Decision</i>
D(LGDP,2)	-6.471652	At 1% level = -3.724070 At 5% level = -2.986225 At 10% level = -2.632604	0.0000	Reject Null hypothesis of no unit root
D(LEXR)	-9.551184	At 1% level = -3.711457 At 5% level = -2.981038 At 10% level = -2.629906	0.0000	Reject Null hypothesis of no unit root
:D(LTR)	-8.261010	At 1% level = -3.711457 At 5% level = -2.981038 At 10% level = -2.629906	0.0000	Reject Null hypothesis of no unit root

*MacKinnon (1996) one-sided *p*-values

Source : Author's survey, 2018.

In PP test the EXR got the different stationary test but having the contrast in ADF test. Therefore, this gives more credence to PP test because of its validity even if the disturbances are serially correlated and heterogeneous. The mentioned variables are stationary at the difference levels, we implement to establish whether or not there is long -run cointegrating nexus among the variables by using the Johansen method (Johansen and Juselius, 1990).

4.3. Cointegration test

The testing hypothesis is the null of non-cointegration against the alternative of existence of cointegration using the Johansen maximum likelihood procedure. The Johansen approach on two test statistics, viz, the Trace test statistics and the Max

eigenvalue test statistics. Accordingly, the Eigen value statistics and likelihood ratio detect one cointegrating relationship at 5% level of significance (Table 6).

Table 6
Johansen Cointegration Test

<i>Hypothesized No. of CE(s)</i>	<i>Eigenvalue</i>	<i>Trace Statistic</i>	<i>Critical Value at 5% (p-value. **)</i>	<i>Max-Eigen Statistic</i>	<i>Critical Value at 5% (p-value)</i>
None*	0.606610	34.17997	29.79707 (0.0147)	24.25679	21.13162 (0.0175)
At most 1	0.287703	9.923181	15.49471 (0.2867)	8.820774	14.26460 (0.3014)
At most 2	0.041514	1.102407	3.841466 (0.2937)	1.102407	3.841466 (0.2937)

Series: LEXR LGDP LTR

Included observations: 26 after adjustments

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source : Author's survey, 2018.

AIC (Akaie Information Criterion), SC (Schwarz Criterion) and LR (Likelihood Ratio) test are used to select the number of lags required in the cointegration test. The option lag is 2 (Table 7).

Table 7
VAR Lag Order Selection Criteria

<i>Lag</i>	<i>LogL</i>	<i>LR</i>	<i>FPE</i>	<i>AIC</i>	<i>SC</i>	<i>HQ</i>
0	13.68035	NA	8.83e-05	-0.821565	-0.676400	-0.779763
1	113.5650	169.0356	8.18e-08	-7.812693	-7.232033	-7.645483
2	130.9372	25.39018*	4.44e-08*	-8.456710*	-7.440555*	-8.164094*

* indicates lag order selected by the criterion

Endogenous variables: LGDP LEXR LTR

Exogenous variables: C

Included observations: 26

Source : Author's survey, 2018.

4.4. VECM (Vector Error correction Model)

VECM is estimated to model the long run causality and short run dynamics. The aim of VECM model is to indicate the speed of adjustment from the short run equilibrium to the long run equilibrium state. The greater the coefficient of the parameter the higher the speed of adjustment of the model from short - run to long - run.

VECM is a restricted VAR designed for use with non-stationary series that are known to be cointegrated. Once the equilibrium conditions are imposed, the VECM

describes how the examined model is adjusting in each period towards its long run equilibrium state. Since the variables are supposed to be cointegration, then in the short run, deviations from this long run equilibrium will feedback on the changes in the dependent variables in order to force their movements towards the long run equilibrium state. The cointegration term is known as the error correction term since the deviation from long run equilibrium is corrected gradually through a series of partial short run adjustments. The size and statistical significance of the coefficient of the ECM measures the tendency of each variable to return to the equilibrium. A significant coefficient implies that past equilibrium errors play a role in determining the current outcomes.

Considering our base equation (1), the VECM model is specified as follows:

$$\Delta LTR_t = \alpha_o + \alpha_1 \sum_{i=1}^n \Delta LTR_{t-i} + \alpha_2 \sum_{i=1}^n \Delta LGDP_{t-i} + \alpha_3 \sum_{i=1}^n \Delta LEXR_{t-i} + \beta_t ECM(-1) + \varepsilon_t \quad (2)$$

Where Δ is the first difference operator, $ECM(-1)$ is the error correction term, ε_t is the error term, β_i captures the long run impact. The error correction coefficient β_i is very important in this error correction estimation as the greater coefficient indicates higher speed of adjustment of the model from the short run to the long run.

Table 8
Model D(LTR)

<i>Variable</i>	<i>Coefficient</i>	<i>Std.Error</i>	<i>t-statistics</i>	<i>Prob</i>
ECM(-1)	0.638838	0.26622	2.39966	0.0281
D(LGDP(-1))	-0.541160	0.58650	-0.92269	0.3691
D(LGDP(-2))	0.994028	0.52344	1.89903	0.0747
D(LEXR(-1))	-0.479523	0.89535	-0.53557	0.5992
D(LEXR(-2))	1.105575	0.48182	2.29459	0.0348
D(LTR(-1))	0.431016	0.25358	1.69975	0.1074
D(LTR(-2))	-0.079137	0.21781	-0.36334	0.7208
C	-0.025138	0.08789	-0.28601	0.7783

Diagnostic Statistics: R -Squared = 0.380413, Adjusted R-squared =0.1252.

Source : Author’s survey, 2018.

ECM (-1) = 0.6388 and p-value = 0.0281. These coefficients are statistically significant, there is the long - run relationship between LTR and other variables (LGDP, LEXR).

Table 9
Breusch-Godfrey Serial Correlation LM Test

F-statistic	1.132491.	Prob. F(2,15)	0.3483
Obs*R-squared	3.279733	Prob. Chi-Square(2)	0.1940

Source : Author’s survey, 2018.

Table 8 shows LM test, this test is used to inspect whether there is serial correlation or not between three variables. $F_{qs} = 1.13 < F(0.05, 3-1, 15) = 3.682$. The results have suggested the acceptance of null hypothesis. There is no serial correlation, it means that the disturbance term relating to any variable has not been influenced by the disturbance term relating to another variable.

4.5. Causality test

Table 10
Pairwise Granger Causality Tests

<i>Null Hypothesis</i>	<i>Obs</i>	<i>F-Statistic</i>	<i>Prob.</i>	<i>Decision</i>
LEXR does not Granger Cause LGDP	26	3.70978	0.0417	Reject
LGDP does not Granger Cause LEXR		13.2584	0.0002	Reject
LTR does not Granger Cause LGDP	26	2.38968	0.1161	Accept
LGDP does not Granger Cause LTR		1.29338	0.2953	Accept
LTR does not Granger Cause LEXR	26	1.15586	0.3340	Accept
LEXR does not Granger Cause LTR		1.74240	0.1995	Accept

Source : Author's survey, 2018.

The results in Table 9 show the Pairwise Granger causality test among the variables analyzed. In the short -run, the results indicate that:

- There is bidirectional causality relationships between GDP and EXR ($F_{obs} > F_{0.05}(2,23)$).
- There is no causality relation between TR and GDP and there also isn't causality relation between TR and EXR .

4.6. Variance Decomposition

We employ a twice- year forecasting time horizon and observed the relevance of the variables over time horizon. Table 10 gives the fraction of the forecast error vector variance that is attributed to its own innovation and to innovations in other variables. The own shocks of LTR ranged from 70.75% to 26.50%.

In the third period, 43.54% of the total change on the variance of LTR is due to LGDP. This percent increase gradually over the time and even in the twice periods it gets 62.25%. The salient feature is that predominant source of variation in LTR are LGDP (Table 11). In case of LGDP, we see that in the fifth periods 88.13% of the total change on the variance is due to LGDP and this percentage reduces smartly in the next period, getting 85.22% in the twice period (Table 12).

- In appendix shows that the impulse response of EXR on TR is positive and mildly decreases as time passes on.
- The shocks given to GDP on TR is positive over the time. The shocks of TR immediately rise GDP and gradually decrease from the fifth year in order to gain equilibrium
- The shocks given to TR immediately reduce EXR and restore gradually from the seventh year.

Table 11
Variance Decomposition of LTR

<i>Variance Decomposition of LTR: Period</i>	<i>S.E.</i>	<i>LGDP</i>	<i>LEXR</i>	<i>LTR</i>
1	0.134692	29.24157	0.005826	70.75261
2	0.178498	38.41681	1.701710	59.88148
3	0.199946	43.54109	4.705508	51.75340
4	0.212796	46.50213	7.319267	46.17860
5	0.222456	48.79855	8.943363	42.25809
6	0.231269	51.11795	9.760876	39.12118
7	0.240165	53.58588	10.12877	36.28536
8	0.249289	55.99778	10.32051	33.68171
9	0.258356	58.10711	10.49505	31.39785
10	0.266976	59.81430	10.71443	29.47127
11	0.274904	61.16369	10.97304	27.86326
12	0.282108	62.25580	11.23657	26.50763

Cholesky Ordering: LGDP LEXR LTR

Source : Author's survey, 2018.

Table 12
Variance Decomposition of LGDP

<i>Variance Decomposition of LGDP: Period</i>	<i>S.E.</i>	<i>LGDP</i>	<i>LEXR</i>	<i>LTR</i>
1	0.054224	100.0000	0.000000	0.000000
2	0.097072	98.23965	1.032134	0.728213
3	0.132000	94.47022	3.109630	2.420146
4	0.158235	90.76487	5.609362	3.625771
5	0.177058	88.13016	7.966359	3.903485
6	0.190897	86.54877	9.794103	3.657123
7	0.202023	85.70592	10.98296	3.311124
8	0.211922	85.33804	11.64877	3.013187
9	0.221324	85.24537	11.98839	2.766241
10	0.230445	85.25882	12.17423	2.566947
11	0.239219	85.26410	12.31771	2.418192
12	0.247496	85.22037	12.46974	2.309886

Cholesky Ordering: LGDP LEXR LTR

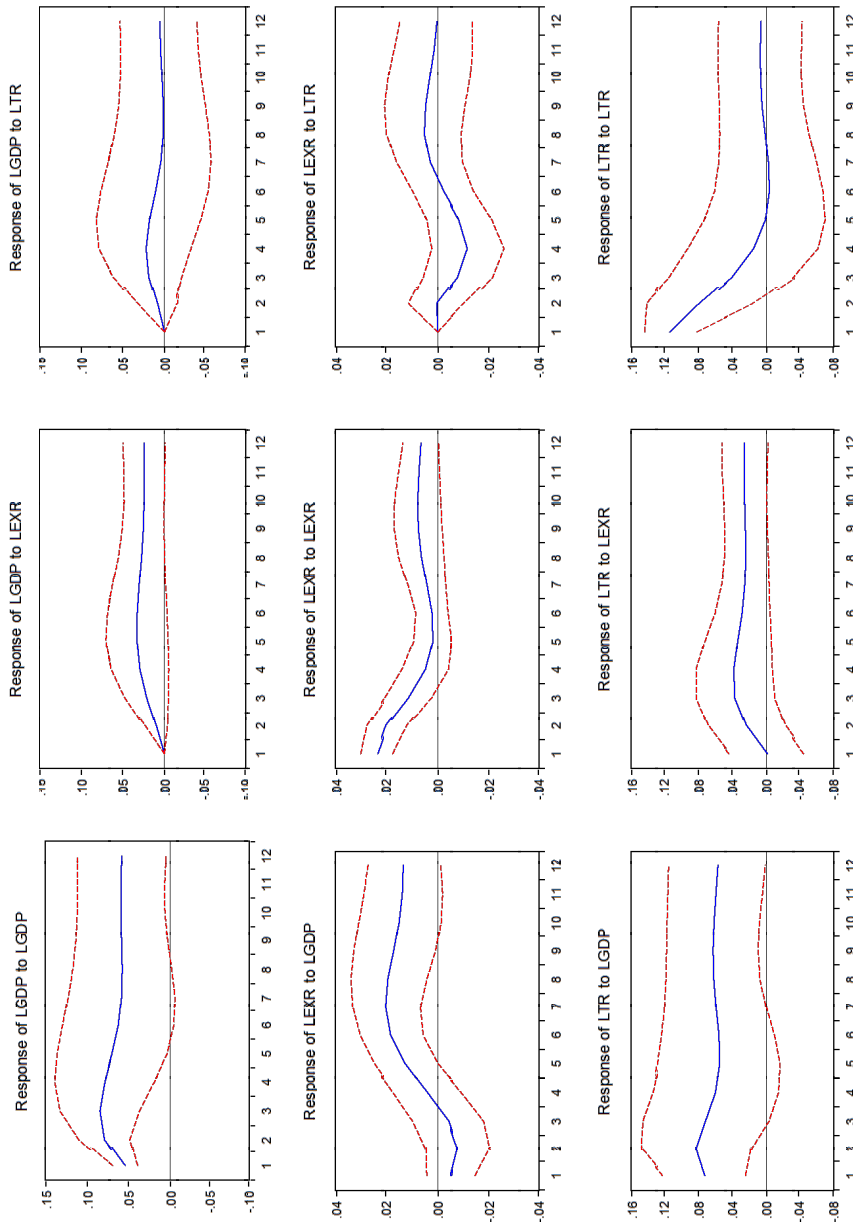
Figure 1 demonstrates impulse responses function (IRF):

5. Conclusions and Recommendations

Using VECM, this study includes EXR as a third variable and examine the relationship between tourism receipts and economic growth for Vietnam in 1990-2017.

- The results point out that GDP, TR and EXR are cointegrated, implying a long-run relationship between three variables. The value of ECM (-1) = 0.6388, this shows that speed of adjustment toward long run equilibrium is about 1.5 year.

Figure 1
Response to Cholesky One s.D. Innovations ± 2 s.e.
Response to Cholesky One s.D. Innovations ± 2 s.e.



- **In the short run, the results also reveal that there is bidirectional** causality relationships between GDP and EXR, GDP have strong sensitive to changes in the appreciation or depreciation of Vietnam currency. There is no causality relation between TR and GDP and there also isn't causality relation between TR and EXR in the short run.
- Tourism industry has contributed in solving employments, brought foreign currencies and the mentioned –above results give us to conclude that tourist –led growth hypothesis (TLG) is accepted in the case of Vietnam in the period 1990-2017.

This finding is in line with the research of Eugenio –Martin et al, (2004), Katircioglu (2010), Husein et al, (2011)

First, Having the matching policies for attracting foreign investment

Vietnam economy no longer depends heavily on natural resources exploitation, growth relies considerably on foreign direct investment (FDI) sector. However, apart from job creation, this sector does not generate much added value for domestic revenue. In 2017, the FDI sector made up 71% of Vietnam's total exports and 60% of total imports. Domestic enterprises accounted for less than 28% of total exports, and mainly suffered trade deficit, which amounted to US\$23 billion. Meanwhile, the FDI sector gained a trade surplus of nearly US\$26 billion. So, it can be said that domestic enterprises have no capacity to produce goods so as to enter the global marketplace, and the country is mainly a consumption market for foreign goods. A deeper insight shows how foreign investors have taken advantage of Vietnam's cheap labor. Though the import/export ratio of the FDI sector has dropped, it remains very high, at over 80%, an indication that the localization ratio and the ripple effect of the sector are insignificant. Based on data in 2017, the localization ratio is estimated at roughly 22%. Therefore, the employment of low technology and low skilled, cheap labor may not last long, as they cannot compete with robot-based production. Vietnam will be left behind if the country is not fully aware of this situation. The Vietnamese state has policy to choose FDI matching, with the long-term development needs of the country. The FDI and the domestic sector, which are unified to make the entire national economy.

Second, Implementing solutions to improve the business environment and boost the national competitiveness.

- State management need to be changed from pre-clearance inspections to post – clearance inspections, the overlapping management of a certain product will be restricted, and the ratio of import shipments undergoing specialized inspection in the customs clearance process will be reduced.
- To cut logistics costs as well as enforce work discipline. Civil servants failing to improve administrative procedure and facilitate investment and business activities, and those with signs of abuse of authority for personal gains will be replaced.

Third, Creating the prefer conditions for developing integrated circuit (IC) and business process outsourcing (BPO) sector.

The Government should accelerate the economic restructuring associated with the reform of growth model, focusing on increasing productivity in large economic hubs like Hanoi and HoChiMinh City, Binh Duong province. Vietnam would create favorable conditions for local and foreign investors to develop the IC and sensor industry through cooperation, investment and technology transfer. Determining the integrated circuit (IC)/sensor sector as one of the important industries in its economic restructuring scheme and will create favorable conditions for investment in the sector. Otherwise, with a talented, low-cost and growing information technology workforce, Vietnam holds high potential to develop the business process outsourcing (BPO) sector, one of the five most attractive fields to foreign investors. The BPO sector, which includes software outsourcing, survey, accounting, call centers, and wage calculation which international firms tend to outsource to other countries to save costs, has grown well in Vietnam. With an additional 40,000 information technology graduates a year, Vietnam is an ideal provider of such services. Apart from the BPO, the other potential sectors which can develop significantly and attract huge investment in the coming time. These include solar and wind power generation, upscale and luxury hotels, agriculture and food processing, and retail banking.

Fourth, Demand for labor in the production and service sectors are rising and accounts for up 40% of the total recruitment demand. In some localities as Ho Chi Minh City, Ha Noi Capital, Binh Duong province, Dong Nai province, companies face labor shortage when foreign investors open many new factories. Otherwise, the demand of high – quality human resources with knowledge and skills in services, in science – technology and management. However, there is imbalance in labor demand and supply, while the qualification of the labor force, especially for industries under the development strategy, has yet to meet the demand for economic development and integration. Therefore, besides long –term solutions like boosting economic restructuring and labor re-distribution, manager should adopt short-term measures, such as intensifying efforts to align career orientation, student enrolment, training and practice with the labor demand, perfecting labor support policies, and updating data on labor market.

Fifth, *Reforming* the financial system

Depreciated value of exchange rate (local currency) in Viet Nam during the 1990 -2017period, this makes import expensive and export cheap, and hence may bring the difficulties to companies in importing materials, machines for product. The increasing in Government's expenditure can lead budget deficit of 5-6% of GDP every year and when the public debt exceeds the safety threshold, it becomes bad debt and the economy may slide into a crisis. *Reforming* the financial system and more importantly to the position and status of SOEs (The State Enterprises) are increasingly urgent. Aside from the Government's spending tightening and budget allocation measures in order to maintain the speed of rapid economic growth and reduce the nation's public debt.

Sixth, Diversifying the export market.

In the last years, Vietnam always suffers trade deficit with the largest figure recorded from China (about US\$25 billion per annum). The majority of imports

from China were raw materials and accessories used to manufacture exports, which technically means Vietnam is exporting their raw and accessories facilitated by local workers, giving Chinese goods a shortcut and a buffer against troubles caused by trade protectionism. In the period 2010-2017, many raw items are still mainly exported to China, the low value and the slow growth have led to a reduction in their share of total exports. Vietnam need to changes in export market profile and need the shift in the structure of export items. Contrary to this trend, more and more high - value industrial goods are shipped to the US and the EU, triggering breakthroughs in turnover and improvement in proportion. In this direction, exports will be less dependent on a particular market.

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