



## CHAPTER 1

### Introduction

#### 1.1 Statement of the Problem

Thailand has policies to improve the country's general welfare and raise the economic growth. From the past, domestic resources had been used to develop the economy but such resources could not serve the fast pace of extension of Thai economy.

The National Economic and Social Development Plans bring about the highly demand for investment in Thailand. From 1975, the investment to GDP ratio was 26.7 percent and then increased to the figure of 35.1 percent in 1989. During 1990-1995, the investment to GDP ratio has had never below 40 percent and reached a peak of 42.9 percent in 1995. The domestic savings ratio was 22.7 percent in 1975 and it has been around this figure until 1989. It was 34.1 percent in 1989. During 1990-1995, the savings ratio has an average of about 33.9. It showed that the domestic savings has relatively slow increase (Table 1.1). Consequently, the domestic savings was not sufficient to invest or in other words there has been savings investment gap in Thailand. This savings investment gap has had a high level since 1990 which clearly indicate that foreign capital is necessary to fill these gap. Moreover, this will improve the current account deficit because saving investment balance is partially in current account balance.

Thailand has had current account deficit almost every year except only in 1986 which was 0.5 percent of GDP. In 1984, Baht value was devaluated by 14 percent compared to US dollar. Current account deficit was decreased from 5.1 percent of GDP to 4.0 percent of GDP and became surplus in 1986 which was 0.5 percent of GDP. From 1987, the current account deficit has emerged again and still widen since then. Foreign capital are needed to solve this problem and also improved the balance of payments (Table 1.2)

The increase of total foreign capital inflows from 99,401 million baht in 1980 to 11,501,126 million in 1995 or it has increased over 100 times that of

Table 1.1 Savings and Investment of Thailand

(% of GDP)

Year	Gross Domestic Investment	Gross Domestic Savings	Savings Investment gap
1970	25.6	22.1	-3.5
1971	24.2	21.9	-2.3
1972	21.7	21.1	-0.6
1973	27.0	26.5	-0.5
1974	26.6	26.0	-0.6
1975	26.7	2.7	-4.1
1976	24.0	21.5	-2.5
1977	26.9	21.4	-5.5
1978	28.2	23.5	-4.7
1979	27.2	19.7	-7.5
1980	26.4	20.0	-6.4
1981	26.3	19.0	-7.2
1982	23.1	20.4	-2.7
1983	25.9	18.7	-7.3
1984	24.9	19.9	-5.0
1985	24.0	20.1	-4.0
1986	21.8	22.4	0.6
1987	23.9	23.4	-0.5
1988	28.8	26.1	-2.8
1989	35.1	34.1	-1.0
1990	41.3	33.2	-8.1
1991	42.7	33.9	-8.8
1992	40.0	33.9	6.1
1993	40.4	33.5	-6.9
1994	41.2	34.5	-6.7
1995	42.9	34.6	-8.3

Source: Bank of Thailand

Table 1.2 Current Account and Balance of Payments of Thailand

Year	Current Account (Million of baht)	% of GDP	Balance of Payments (Million of Baht)	% of GDP
1980	-42,409	-6.4	-4,442	-0.7
1981	-56,049	-7.4	-5,197	-0.7
1982	-23,138	-2.7	-3,823	-0.4
1983	-66,285	-7.2	-2,624	-0.3
1984	-50,111	-5.1	12,422	1.3
1985	-42,717	-4.0	-1,780	-0.2
1986	5,784	0.5	11,614	1.0
1987	-9,656	-0.7	24,118	1.7
1988	-40,999	-2.7	61,983	4.1
1989	-64,956	-3.5	102,281	5.5
1990	-186,184	-8.5	97,232	4.4
1991	-193,263	-7.7	105,776	4.2
1992	-160,074	-5.7	77,113	2.7
1993	-161,129	-5.1	98,791	3.1
1994	-203,153	-5.6	104,827	2.9
1995	-335,700	-8.1	179,530	4.3

Source: Bank of Thailand

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1980 shows a high demand to foreign capital and its importance to the Thai economy. The total foreign capital inflows increased almost every year or it has the upward trend of inflows.

Considering in each part of capital inflows (Table 1.3), the foreign direct investment inflows percentage share increases until 1988 and then it has a little bit decrease but notably in the last three year which has a very small amount of percentage share in inflows. The reason will be explained in chapter 3. For portfolio foreign investment has a small percentage share during 1980-1986 and then increased its important from the incline of percentage share of total inflows. The same as foreign loans which always has the high amount of inflow share. Even though those 3 parts will be decrease in the last year and other inflows has the high sharing, the total amount is still high. Thus it's important to find out the way to attract and keep high investment in Thailand.

During the Seventh National Economic and Social Development Plan, an important guideline affecting foreign investment specified that the government must continue with the liberalization policies to facilitate private business operation emphasizing the leading role of the private sector, both domestic industrial development and foreign investment in this country, with the government playing only supporting, promotion and supervisory roles. The investment promotion policies clearly spell out the government's intention to promote the role of foreign investment in Thailand.<sup>1</sup>

Even though the Eighth National Economics and Social Development Plan sets a target to narrow the savings investment gap by means of promoting domestic savings both households and government sectors as for reducing the dependence on foreign capital because such foreign capital has some risks of external factors such as exchange rate, interest rate and price level, foreign funds are still essential for the present time while we are waiting for its results which aren't immediately happen.

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<sup>1</sup> N. Akrasanee, K.Jansen, and J.Pongpisanupichit. "International Capital Flows and Economic Adjustment in Thailand." *TDRI Research Monograph*, No.10, The Thailand Development Research Institute, Bangkok, 1993

Table 1.3 The Capital Inflows to Thailand during 1980-1995

Million of Baht

Year	FDI	%	PFI	%	Loans	%	Other inflows	%	Total	%
1980	9,259	9.3	1,096	1.1	30,269	30.5	58,777	59.1	99,401	100
1981	9,342	8	277	0.2	33,028	28.3	73,868	63.4	116,515	100
1982	9,540	7.7	615	0.5	46,624	34.3	71,492	57.5	124,328	100
1983	13,944	10.6	420	0.3	34,827	28.3	73,981	60.1	123,172	100
1984	16,970	10.6	2,416	1.5	70,438	43.9	70,555	44	160,386	100
1985	10,166	7.3	4,079	2.9	51,122	36.5	73,825	53	139,193	100
1986	10,526	9.3	3,054	2.7	48,084	42.7	43,219	38.4	112,684	100
1987	12,536	9.6	17,148	13.2	27,659	21.3	72,712	55.9	130,065	100
1988	32,738	16	27,754	13.6	45,287	22.1	98,813	48.3	204,592	100
1989	53,079	15.3	64,796	18.6	103,128	29.7	126,519	36.4	347,522	100
1990	77,267	14.3	87,642	16.2	185,646	34.4	189,554	35.1	540,109	100
1991	93,935	9.7	58,586	6.1	347,210	35.9	467,527	48.3	967,451	100
1992	135,028	10.1	86,375	6.4	368,376	27.5	750,353	56	1,340,172	100
1993	66,768	2.3	277,253	9.4	460,950	15.7	2,139,381	72.6	2,944,924	100
1994	61,599	0.9	225,916	3.3	440,096	6.5	6,038,100	89.2	6,766,151	100
1995	75,991	0.6	248,393	2.2	533,703	4.6	10,642,284	92.5	11,501,126	100

Note: other inflows include non-resident baht account, trade credits and other capitals

Source: Bank of Thailand

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## **1.2 Objectives of the Study**

1. To study the structure and characteristics of capital inflows to Thailand during the past two decades.
2. To study the factors which affected the capital inflows in Thailand and the relationship between those factors and capital inflows.
3. To analyze the effect of the factors which caused a large amount of international capital flows to Thailand.
4. To find out and propose appropriate policies related to the factors to response to the capital inflows properly.

## **1.3 Scope of the Study**

This study use the factors affected the capital inflows only in Thailand. The data is from 1976-1995 (20 years) because before 1976 the current account deficit and the capital account balance were relatively small. The data are collected annually.

The capital inflows referred in the study comprise of foreign direct investment(FDI) which included foreign equity and foreign direct loans, portfolio investment(PFI) and foreign loans which covered the rest of other loans

## **1.4 Research of Methodology**

Secondary data is used in this study and it is times series data which is from 1976-1995. The data is collected from the Bank of Thailand, The National Economic and Social Development Board, Commercial Banks and other affiliated documents.

The study uses both descriptive method and quantitative method.

The descriptive method obtains all facts about capital inflows all through 20 years and explain some important macroeconomics variables. The data of variables are collected and then showed in the table together with its explanation. Besides there are the theory of capital inflows.

The quantitative method is the analysis of those facts. All variables which affect capital inflows are analyzed with econometric model through multiple regression.

### **1.5 Benefits of the Study**

1. To know the structure and characteristics of capital inflows to Thailand and to perceive the changes of capital inflows in Thailand all through 20 years.
2. The results shows the factors which brought about the surge of capital inflows to Thailand.
3. The results from analysis can be used as a guideline for some policies planning in managing capital inflows effectively.

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