

CHAPTER 1

INTRODUCTION



1.1 Statement of Problem

A high degree of international capital mobility can be both a blessing and a curse for developing countries. Inward mobility expands opportunities for finance of domestic investment by foreign savings. But high outward mobility constraints the effectiveness of several policies intended to expand domestic saving mobilization.

During the past few decades ASEAN countries have become known for the attainment of high rates of growth. Industrialization has proceeded rapidly during the past two decades and export growth rates have been outstanding. The rapid growth of the ASEAN countries have attracted foreign direct investment (FDI). The inflow of FDI into the ASEAN countries has increased rapidly. However, FDI from the ASEAN countries has not steadily increased as a share of total net resource flows. International Monetary Fund shows that FDI in Malaysia and Singapore are about 20 and 35 percent, but are usually well above 5 percent in the other countries.

All the ASEAN countries consider FDI desirable for its overall contribution to their economic development efforts. In order to attract

FDI, every ASEAN country has an elaborate incentive and guarantee scheme.

However, the government in each of the countries always makes and adjusts the policy which is more attractive to foreign investors for increasing the foreign investment inflow. This study examines what are the determinants of FDI which is important in ASEAN; why foreign investors decide to invest in ASEAN, and compares these determinants of FDI to study what is the policy implication, and what could Thailand learn from this study.

1.2 Objective of study

This study concentrates on the determinants of FDI as follows: GNP, the change in GNP, domestic investment, exchange rate, the standard deviation of exchange rate, the degree of openness, government expenditure share, and labour cost.

1. To study and compare the motives of FDI in ASEAN economy by using the FDI inflows model from the United Nations report (New York, 1993), *Explaining and Forecasting Regional Flows of Foreign Direct Investment*.
2. To evaluate the policy implication of FDI in ASEAN
3. To propose some feasible policies which might improve the FDI to Thai economy.

1.3 Scope of the study

The study employs the multiple regression and pooled regression (cross-section and annual time series data) that cover period between 1975 and 1996 which is in the continuous economic growth period of ASEAN economies. This study concentrates on FDI of the first five members of ASEAN (Indonesia, Malaysia, Philippine, Singapore, and Thailand) and exclude Brunei because of unavailable data. The sequence of the study will be as follows: first we will discuss about the nature of inward FDI, second we will determine the determinants of FDI, third we will compare the determinants of FDI in each ASEAN countries, and fourth, in the advantage of further study, policy implication of FDI in ASEAN will be discussed.

1.4 Hypothesis

There are 3 hypothesis in the study which related with the determinants of FDI as follows:

1. FDI in ASEAN determined by the level of GNP, the change in GNP, domestic investment, exchange rate, variation of exchange rate, the degree of openness, government expenditure, and labour cost.

2. Positive impact on FDI are the level of GNP, the change in GNP, domestic investment, degree of openness, and government expenditure while negative impact on FDI are , exchange rate, variation of exchange rate, and labour cost.

3. The determinants of FDI in each countries in ASEAN are different.

1.5 Benefit of Study

The analysis of the comparison among the determinants of FDI in ASEAN, would benefit policy makers in evaluating the policy implication of FDI in ASEAN and especially, it can be used to propose some feasible policies which might improve more FDI in Thailand.

1.6 Organization of the Study

This study contains four chapters. Chapter I is the introduction which includes the statement of problem, the objective of study , scope of the study, hypothesis, and benefit of study. Chapter II presents theoretical background of FDI. Chapter III is the study of the determinants of FDI in ASEAN which has 4 parts, first, the characteristics of FDI in ASEAN, second, methodology, third, empirical result, and fourth, comparison the determinants of FDI in ASEAN. Chapter IV is conclusion and summary, policy implication in each countries, the feasible policies for improving FDI in Thailand, and limitation of the study and suggestions.