

CHAPTER 4

CONCLUSION



4.1 Conclusion and Summary

This study aims to investigate the determinants of ASEAN's foreign direct investment (FDI) in the quantitative sense. In order to capture the determinants of FDI, a structural model is constructed. Since the study mainly emphasizes the macroeconomic aspect of FDI in particular, with its effects on key macroeconomic variables, the model consists of ten variables, i.e. the FDI/GDP ratio, the level of GNP, the change in GNP, domestic investment, the degree of openness, the government expenditure/GDP ratio, and the labour cost. The estimation method is ordinary least squares with Cochrance-Orcutt technique to solve the encountered problem of autocorrelation. The empirical results are estimated over the period from 1975 to 1996.

The main mechanism of the model focuses principally on the net FDI inflow which is determined by macroeconomic factors. Finally, the level of GNP, the change in GNP, the degree of openness, the government expenditure and labour cost will affect on FDI. For the exchange rate and the the squared deviation of the exchange rate,

they can not be used in this study since the ASEAN countries use the fixed exchange rate during 1975 to 1996.

From this study, the determinants of FDI are the level of GNP, the change in GNP, the degree of openness, and the government expenditure which have positive impact on FDI, while labour cost has negative impact on FDI. Only the domestic investment has not significant.

In addition, four periods lagged value of the level of GNP in Indonesia, two periods lagged value of the level of GNP in Malaysia, four and one periods lagged value of the level of GNP and change in GNP in Philippines, one period lagged value of labour cost in Singapore, and one period lagged value of the degree of openness in Thailand are found to have positive effects on FDI inflows. This means the foreign investors who have just started to invest in host countries require the time for management.

From this empirical results, the level of GNP and the degree of openness have significance in Indonesia, while the level of GNP and the government expenditure have significance in Malaysia. The level of GNP and change in GNP have significance in Philippines. The degree of openness and labour cost have significance in Singapore, and the change in GNP and the degree of openness have significance

in Thailand. Therefore, the determinants of FDI in each countries in ASEAN are different.

Finally, the elasticity of significant variables in each countries from the estimated results are brought to evaluate the policy implication for enhancing public and policy-maker's awareness of the trends and developments in ASEAN's FDI.

4.2 Policy Implication

As this study indicates, the expansion of FDI inflows in ASEAN countries depend on the different determinants. Hence, the investment promotion policies implemented by government should be used further for enhancing public and policy-maker's awareness of the trends and developments in ASEAN's FDI. Countries in Southeast Asia have generally adopted open trading systems, maintained low rates of inflation and adopted prudent fiscal and monetary policies. They have also been very successful in raising saving and investment rates to high levels while also attracting capital and technology from abroad. However, they have also been the recipients of large inflows of foreign direct investment, which has helped them to increase industrial capacity and adopt new technology.

4.3 The Feasible Policies for Improving FDI in Thailand

In order to attract FDI inflow to Thai economy over time, we have to retain our competitiveness with other countries in this region. That is, the country must possess high growth and low inflation when compared with other developing countries in this region. To stimulate economic growth, government can help by increasing government investment and providing more credit for private sector. And it has to stabilize the economy at the same time. The exchange rate is the importance determinant of FDI. Since the depreciation of baht could stimulate FDI, macroeconomic policy (exchange rate policy, monetary policy and fiscal policy) can be managed by the government to attract FDI. Political stability also is an important factor in domestic capital accumulation through foreign capital inflow, because political instability can discourage FDI. At the same time, the government has to subsidize education in order to increase the number of skilled labourers, engineers and scientists. This human capital is necessary for developing our own technology and receiving technology transfer efficiently. And activities so that we can innovate some simple technology that may result in our having to import only necessary materials and intermediate products.

4.4 Limitations of the Study and Suggestions

The net FDI inflow in the study is only net inward FDI inflow, not the amounts of inward and outward FDI. Therefore, the results of estimation show only the determinants of net inward FDI. For further study, a researcher can study the determinants of net outward FDI or the net amounts of inward and outward FDI. These other two definitions of FDI may give a different result when compared with this study. There are many variables determined FDI in ASEAN such as non-tariff barriers, tax, and political stability, etc. Therefore, further research could emphasize the other variables which determine FDI.