

## CHAPTER 5

### Conclusions and Recommendations

#### Conclusions

The study traces the capital inflows and found the factors determining capital inflows which was separated into 3 sections. Foreign direct investment, portfolio investment and foreign other loans. Such factors are as follows:

The factors determining foreign direct investment are population, minimum wages and yields from investment. Population and yields from investment have the same direction with foreign direct investment inflows. Minimum wages has the opposite direction with foreign direct investment inflows. All those variables have the expected sign as in hypothesis.

The factors determining portfolio investment are gross domestic products and exchange rate with significance. Gross domestic product goes in the same direction with portfolio foreign investment inflows but exchange rate goes in the opposite direction with portfolio foreign investment. For interest rate differential, yields from portfolio investment and the political situation have the sign as we have expected but they do not have significance with the inflows of portfolio foreign investment.

The factors determining foreign loans is interest rate differential and current trade balance with significance. Current trade balance is significance at the impose level and the coefficient has the sign as we have expected.

#### The Policy Response to the Capital Inflows

Thailand has fiscal policy to be the main approach in managing the inflows because (1) it affects the level of aggregate demand directly, (2) it helps lower the pressure on domestic interest rate that may have contributed to the inflows

and hence the case of sterilization and (3) the expenditure reducing effect of fiscal policy is independent of the interest rate effect that induces offsetting capital inflows as is the case of monetary policy. These features make fiscal policy the only effective means of containing domestic demand and inflation. Therefore, conceptually a right amount of fiscal contraction can maintain internal balance in the short-term by offsetting the expansion in private demand.

The monetary policy is the scope for sterilization and the degree to which domestic interest rate is constrained by external factors. The tightness of this constraint depends on the openness of the financial system and the smoothness of the link between the bank lending rates and the money market rates, the latter being particularly sensitive to capital inflows.

Higher short term capital inflows have made liquidity in the money market more volatile while inducing short-term interest rate. This may not be desirable for domestic policy objectives. The constraint in monetary policy depends also on the stickiness of the bank lending rate high respect to the money market rate. This constraint is more binding when the degree of stickiness is lower, when bank lending rate adjust more quickly to changes in the money market rates. Such stickiness tends to be influenced by the cost to banks in adjusting interest rates, the degree of competition in financial system, and the level of development of the money market. In conclusion, the greater flow of short-term capital, the government has tended to increase the constraint on monetary policy.

### Recommendations

Foreign investors used to invest a large amount of foreign direct investment because of Thai lower labor cost. But at present Thai labor wages is higher and rather high compared with neighboring countries. From the findings of this study, the minimum wage is one of the factors determining foreign investment because it was the study of the past 2 decades and it was consistent during the study period but it may not permanently in the future. Government can not maintain the minimum wage, therefore, other alternatives should be brought to solve this problem. Tax incentives and privileges from Board of Investment was still to be the good choice.



From the empirical results of the study, it is found that domestic political has not been the factors affecting capital inflows. However, considering the data of portfolio investment inflows, it can be seen that in the year that Thai coup emerged, this cause the decrease in portfolio invesment. Eventhough, it has been said that the global situation is partially effect, it does not mean that Thai political situation has no invlovement. Therefore,it should be further observe the relationship of domestic political situation in the future.

The exchange rate is the factor determining inflows of portfolio investment. Since this study used the annual data of exchange rate which might not response to the rapid fluctuation of the exchange rate. Thus, there should be another effort using shorter time of exchange rate. Furthermore, from the economic knowledge, the appreciation of currency will bring about the higher of portfolio investment inflows, But when we have other choices then keep the exchange rate stable. This will be much benefits to the economy.



ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย