Chapter 6

Conclusion and Recommendations

This chapter summarizes of the findings of this research. First, the relationships between EU and Thailand in trade and investment terms are presented. Second, the conclusions from the results from regression analysis are stated. Next, some recommendations of necessary policies for inducing more FDI into Thailand are suggested. The final section states some limitations of this study and makes some suggestions for further study.

6.1 Relationships between EU and Thailand

Thailand is ranked 37^{th} among countries that have trade and investment with EU. Automatic data processing machines and parts are the first in value of Thai products exported to EU. In addition, the export of precious metals and articles clad with precious metal from Thailand to EU has increased sharply.

FDI has played a major role in Thai economy. Among foreign investors, firms from EU member countries are ranked fourth as partner with Thailand in trade and investment. In the past, the Thai food industry received the largest share of FDI from EU. However, the chemical industry has now become the largest industry with EU investment in Thailand. The top four EU investor countries in Thailand are the United Kingdom, France, Germany and the Netherlands. Each country has its own FDI pattern. The petroleum products industry and the chemical industry are the main British industries in Thailand. Metal based and non-metallic industry accounts for the major of French investment in Thailand. German industry in Thailand mainly consists of electrical appliances industry, and the largest Dutch investment in Thailand is in the chemical industry.

In addition, most EU companies have located their affiliates in Zone 3 due to the incentives from the BOI. They use Thailand mainly as the production base, with more than 80 percent of total production exported to other countries.

This study also found that despite the Asian financial crisis, which started in 1997, EU countries' economic growth has lead to higher levels of direct investment. Deregulation in Thailand, particularly the amendment of the Proclamation No. 281 of the Revolutionary Council, also induced more FDI from EU into Thailand.

6.2 FDI determinants in Thailand

The analysis in this study considered the political and economic factors that were expected to explain determinants of total FDI and FDI from EU into Thailand during 1970-1997. The high R^2 indicated that the explanatory variables in the model can explain most of the variation in the dependent variable and suggests that most of the explanatory variables are the major determinants of both total FDI and FDI from EU into Thailand.

1) Total FDI in Thailand

The results of the quantitative analysis seemed to indicate that the main determinants of FDI in Thailand during the period 1970-1997 were the size of the market (as measured by the level of GDP), total exports lagged for one period, exchange rate of the Thai Baht, total FDI lagged for one period, import tariff rates, the infrastructure (as measured by the electricity generation per capita), wages relative to the US and the EC's 1992 programme. The first four variables stimulated foreign investors to invest in Thailand. However, the last four variables discouraged prospective investors and they chose to invest in their home or other countries

2) FDI from EU in Thailand

Size of local market (one-year lag) and Thailand exports to EU (one-year lag) are the predominant determinants when an EU firm considers investing in Thailand. FDI from EU is correlated negatively with the central bank's discount rate. It shows that some EU projects use more local financial sources. Favourable exchange rates with a one-year lag thus induce EU firms to locate more production facilities in Thailand, which is an importing country, in order to gain a more permanent presence and avoid tariff barriers. The significant coefficient of the political dummy lagged for one period had a negative sign, which was unexpected. It indicates that political stability has an inverse correlation with FDI from EU. Likewise, the EC 1992 programme lagged for one year (dummy variable) also had an inverse correlation with FDI from EU into Thailand. This stimulated more FDI from EU into Thailand.

6.3 Policy Implications

Considering the empirical results, duties on raw material and machinery should be reduced. Next, in order to enlarge domestic market, Thailand may act as a main distributor for the region. This can lead to a higher GDP in Thailand. New markets should also be sought to stimulate Thai exports. Improving the infrastructure is another method to induce foreign investment into Thailand. Moreover, lowering the Thai discount rate can induce more FDI from EU into Thailand due to some EU affiliates being financed through local sources. Moreover, the Thai government should make more bilateral or multilateral agreements with EU member countries for higher levels of economic relationships with them.

6.4 Limitations and Recommendations for Further Study

This study explained the overall pattern of FDI in Thailand, and FDI from the EU in particular. Any further study should focus on FDI from EU classified by industry, such as chemicals, paper, electric and electronic products and public utilities. Moreover, when the same regression method is done with quarterly data, the results do not have the correlation as expected. Further research should keep in mind that investment is a long-term project; so data for a short period of time should not be used. Another method, the cointegration method could be use to do further research.

In addition, data for analysis in a further study can substitute the wage ratio, using Spanish or Portuguese wages instead of German, representing the lowest wages among EU countries. In the case of the infrastructure variable, the electricity consumed classified by industry could be employed instead of electricity generation per capita. The former might reflect a relation between infrastructure and FDI better than the latter. Further, changes in the effective exchange rate and the percentage change in the real exchange rate can be introduced in further study instead of a change in the nominal exchange rate.

Moreover, the issue of privatization in Thailand can be introduced into the analysis, since it can be an incentive to induce more FDI into Thailand. However, the researcher found that there is a limitation to FDI data in Thailand covering other EU member countries, apart from the United Kingdom, France, Germany and the Netherlands.