

Chonnipa Mahapattanathai 2007: Roles of Foreign Capital on Economic Growth in Thailand.
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Mr. Bundit Chaivichayachat, Ph.D. 204 pages.

An important issue in the debate over the desirability of freer capital mobility for Thailand is whether foreign capitals have significant effects on economic growth. So, the objective of this study is to explore the roles of foreign capital on economic growth in Thailand using secondary data from 1981 to 2005. To perform this analysis we apply the Engle and Granger's Cointegration method and Error Correction Model. Within this study, we also classified foreign capital into four types; which are foreign direct investment, foreign loans, portfolio investment and non-resident baht account.

Based on the result, we found that foreign capital and foreign direct investment generate negative on economic growth. Moreover, if Thailand has financial development, total foreign capital, foreign capital (exclude trade credit and others) and foreign loans will generate positive on economic growth. Thus, the implication of the financial development is the domestic financial sector plays a role in ensuring that foreign capitals do indeed promote economic growth in Thailand. However, technology spillover from foreign capital is not significantly linked to economic growth.

Finding from this study leads to a recommendation that the government authorities should encourage foreign direct investment rather than other foreign capital because it is the long-term investment that result in employment, investment and human resource development. Furthermore, almost other foreign capitals are the short-term investment which are the cause of the bad result on Thailand so the government authorities should control and pay more attention on them or should also promote domestic saving for decreasing foreign capital. Finally, the government authorities should take an interest on financial development because it implies that the role played by the domestic financial sector can bring about the process linking foreign capitals and economic growth.

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