

**FOREIGN CAPITAL INFLOWS, DOMESTIC  
SAVINGS, AND ECONOMIC GROWTH:  
THE CASE OF THAILAND**

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**DOCTOR OF PHILOSOPHY  
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**FOREIGN CAPITAL INFLOWS, DOMESTIC  
SAVINGS, AND ECONOMIC GROWTH:  
THE CASE OF THAILAND**

**By**

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## ABSTRAK

Memahami proses pertumbuhan ekonomi adalah merupakan asas di dalam menganalisa faktor-faktor yang mempengaruhi pertumbuhan. Kejayaan atau kegagalan proses yang diasaskan kepada tiori pertumbuhan terhadap sesebuah negara terletak kepada issue empirik. Kajian ini adalah suatu usaha yang bertujuan untuk menerangkan isu pertumbuhan ini dengan melihat kepada kesan aliran modal luar dan simpanan domestik ke atas pertumbuhan ekonomi Thailand serta hubungan antara kedua-duanya didalam kerangka dinamik. Model kajian ini diasaskan kepada *two gap economic growth model*. Analisa kajian ini menggunakan data siri masa suku tahunan bagi tempoh 1993-2007. Model kajian ini dianggar menggunakan prosidur Johansen dan juga pendekatan satu persamaan. Hasil kajian ini mendapati, simpanan, aliran modal luar berhubung positif dengan pertumbuhan ekonomi Thailand. Walaubagaimanapun kesan simpanan adalah lebih besar. Hasil kajian ini juga mendapati bahawa hubungan antara kedua modal ini adalah negatif, menunjukkan ianya adalah bersifat gantian. Kadar bunga dan buruh juga digunakan sebagai angkubah dalam kajian ini. Hasil kajian mendapati buruh dan kadar bunga memberi sumbangan yang signifikan keatas pertumbuhan ekonomi Thailand. Hubungan positif antara buruh dan pertumbuhan menyokong konsep pertumbuhan endogen. Hasil kajian juga mendapati, krisis kewangan, 1997-1999, memberi kesan negative kepada simpanan tetapi kesan positif kepada aliran modal luar, mengukuhkan kedua-dua modal ini adalah faktor gantian.

## ABSTRACT

Understanding the growth process is central to development economics. Analyzing and interpreting the determinants of growth, either the process has worked or failed in countries is ultimately an empirical issue. This study attempts to explain this issue looking not only at the economic impact of FCI and domestic savings on economic growth in Thailand but also on how these two components of financial capital are related in a dynamic framework. The model for analysis was developed base on the Two Gap economic growth model. The analysis of this relationship is based on quarterly time series data for the period of 1993-2007. To capture the dynamic relationship, the model was estimated for error correction both by single equation framework and also by Johansen's procedure. The results show that domestic savings, foreign capital inflows give a positive effect to Thailand's economic growth. The effect of domestic savings on growth is bigger than the effect of foreign capital inflows. The results of the study also show that domestic savings and foreign capital inflows has a significant negative relationship which is to say they are substitute. Other variables of interest in the study are human capital and interest rate. The analysis showed that, human capital and interest rate provide very useful results in explaining their contribution to Thailand's economic growth. The role of human capital is very crucial. Human capital is positively and significantly affects the growth. These findings seem to support the validity of the endogenous growth model for the economy. The interest rate seems to influence domestic savings significantly. This finding, particularly on human capital has some policy relevance at the macro development perspective. The economics shock from financial crisis for the period of 1997-1999 gave significant effects to domestic savings and foreign capital inflows. The results of analysis indicated that it has negative to domestic savings but positive effect to foreign capital inflows, this results also indicates a substitution between this two capitals.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND

Foreign capital inflows (FCI) play an importance role in economic growth in Thailand and the other four Asian developing countries (Tamajai, 2000; and Ahmad & Marwan, 2006). Thailand generally achieved high economic growth rates, during the past two decades and there is a generally agreement that this high economic growth rate mainly because of the high and rising investment rates and prudential management of economic policies (Bhaopichitr, 1999). The success also due to policies of macroeconomic stability, human resource investments, and outward orientation with trade and financial liberalization to welcome FCI. Domestic resource mobilization is another regional strength for Thailand, fostered by high private savings as well as fiscal prudence, and with generated increasing public savings is another dimension that contributes to economic growth.

Thailand has experienced surges in capital inflows during financial liberalization period, from late 1980 to 1996 before of crisis, especially in early 1988 and 1997. The large inflows were not simply an independent and isolated macroeconomic shock but rather the manifestation of structural changes in the world economic environment and in Thailand itself.

FCI, particularly in the form of foreign direct investment (FDI), has been promoted actively since 1987. The large inflows of the capital began as early as 1988, Thailand had undergone successful structural adjustment programs to set

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