THE DETERMINANTS AND IMPACTS OF FOREIGN DIRECT INVESTMENT IN THE THAI MANUFACTURING SECTOR: A THREE-WAY FIXED EFFECTS APPROACH

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ABSTRACT

This study investigates the determinants of inward FDI in the Thai manufacturing sector. The data of industrial FDI are obtained from 14 source countries and 9 manufacturing industries during 1990 – 2008. The panel data analysis through a three-way fixed effects approach is employed to obtain consistent estimation. The results of an analysis of the aggregate manufacturing level suggest that source country GDP, industrial production, FTA, infrastructure, economic stability, and government policies for both industrial and investment incentives have positive influence on industrial FDI inflows. In contrast, the geographic distance and total bilateral trade between source countries and Thailand has negative influence on inward FDI. Additionally, a dual approach to growth accounting is employed with a panel Granger causality test to analyze the impacts of inward FDI on the economic growth of Thailand. The empirical analysis finds the evidences indicating that the inward industrial FDI increases Thai real wages and support total factor productivity of Thailand.