

## Chapter 6

### Summary and conclusion

#### 6.1. Purpose of the study

Many Southeast Asian countries experienced rapid economic growth and at the same time gained rapid growth of inflows of capital specifically foreign direct investment in the last three decades. This situation encouraged the researchers to investigate what factors might influence to determine FDI inflows in this region, which may be very important for policy purpose. Therefore the main the purpose of this study is to find out the key determinants of FDI in Southeast Asian region. The strength of such forces and the future trend of FDI inflows in this region are also very useful for policy matters related to FDI promotion. Hence this study focused to achieve these purposes.

#### 6.2. The issues analyzed

When the factors influencing foreign direct investment decision were discussed, many researchers have followed Dunning's (1988) and others view that explains the firms' advantages over FDI decisions described under the three categories, ownership, location, and internalization. In many studies, various factors have been analyzed under these categories, which were treated as determinants of FDI. However one of the features of many factors is the difficulty of quantify them. Another feature is that some factors are interrelated. Considering these limitations, key variables in reduced form were used as

possible factors of determinants of FDI in Southeast Asian region in this study, based on the theoretical guidance of the outcome of the previous studies.

### **6.3.Procedure of the study**

For the purpose of finding out the key determinants of FDI inflows, an econometric model with FDI inflows as the dependent variable and with several factors as independent variables was formulated and it was regressed using the OLS. The significant variables were treated as the determinants of FDI inflows of the region of Southeast Asia. Estimated values of the parameters provided the information about the strength of these determinants. To achieve the objective the objective of project the future FDI inflows in this region estimated regression model and the average growth rates of actual values of the explanatory variables, which relate to the study period were used to forecast future FDI inflows. Selected countries' data pertaining to the variables of the model were aggregated in an appropriate way for the region of Southeast Asia to apply to the model.

### **6.4.Findings of the study**

Results of the analysis of the regression model used in this study suggest that the size of the market represented by GNP has positive effects on FDI inflows as in many previous studies. But GNP has no strong effects on FDI according to the results. Some previous studies have shown that the growth of the economy represented by change of GNP has significant positive effects on FDI inflows specifically in developed countries and newly industrializing countries. However the evidence of this study suggest that this variable is not a significant factor in relation to Southeast Asian region. Although

Indonesia, Malaysia, Thailand and Singapore can be considered as newly industrializing countries Philippines is not fallen into that category.

According to findings of this study, exchange rate does not indicate a significant effect on FDI as many of the previous studies revealed. However volatility of the exchange rate has negative and significant effects as expected. But these effects are not strong. Foreign investors of this region are more concern about the uncertainty than the growth of the economy. The findings of this study suggest that the strongest factor that influence FDI is the domestic investment. It has positive effects suggesting that the domestic investment serves as a complimentary factor with FDI inflows confirming the evidence of many recent studies. This feature is common to this region although the domestic investment can act as a substitute to FDI in some countries of regions. When the model was formulated, openness was used as an explanatory variable initially. But it was dropped out from the model later to form a statistically better model considering that it interrelates to some other variables used.

### **6.5. Policy suggestions**

Findings of this study may be very useful to policy makers of Southeast Asian countries. Average growth rate of FDI inflows of the region for the period from 1970 to 1999 is quite high. But a severe falling of average growth rate of FDI inflows can be expected during the period from 2000 to 2005. Therefore the macroeconomic policies related to promotion of FDI should be focused on the strategies to prevent this growth rate from falling.

According to the findings of the study, the key determinants are the size of the market or economy, the ratio of domestic investment to GNP, and the volatility or fluctuation of the exchange rate. Hence the policies are required to be targeted on these factors. Stable economy with a higher GNP growth has to be maintained. Therefore the policy strategies needed to be implemented to achieve this objective. Another important Policy strategy is to take necessary measures to maintain stability of the exchange rate. It will reduce the risk of foreign investments. Since domestic investment is a key complementary factor to FDI inflows of this region, the policies that help to enhance domestic investments are very important. Increasing public investments and reducing interest rate may have effects for this purpose.