

**บทบาทของการเคลื่อนย้ายของเงินทุน การเติบโต
และพัฒนาเศรษฐกิจเอเชียก่อนวิกฤตการณ์ พ.ศ. 2540**
**The Role of Capital Flows, Asian Economic Growth and
Development before the Crisis 1997**

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บทคัดย่อ

บทบาทของเงินทุนไหลเข้าต่อการพัฒนาเศรษฐกิจเป็นประเด็นที่ได้รับความ
ถกเถียงอย่างคึกคัก เงินทุนจากต่างประเทศเพิ่มทุนทรัพยากรที่สามารถนำไปใช้ได้ให้กับ
ประเทศ แต่ผลกระทบของมันต่อการลงทุนและการพัฒนาเศรษฐกิจยังคงได้รับการถกเถียง
วิพากษ์วิจารณ์ ถ้ามีการนำเงินทุนไปใช้อย่างสูญเวบคอบ น่าจะเป็นผลบวกต่อการเติบโต
ทางเศรษฐกิจผ่านการลงทุนที่สูงขึ้นและการถ่ายทอดทางเทคโนโลยี อย่างไรก็ตาม เป็นไป
ได้เช่นเดียวกันที่เงินทุนไหลเข้าจากต่างประเทศอาจไม่เกิดผลบวกนัก ความหลากหลายของ
ประสบการณ์ว่าด้วยการพัฒนา เงินทุนจากต่างประเทศไม่ได้มีข้อจำกัดเพียงเรื่องความไม่
พอเพียงของทรัพยากรเพื่อการลงทุน แต่เป็นผลมาจากความอ่อนแอของระบบสถาบันและ
นโยบาย อันนำมาสู่การใช้ทรัพยากรทั้งภายในและภายนอกอย่างไม่มีประสิทธิภาพ

มีสำนักคิดจำนวนหนึ่งที่ได้พยายามอธิบายการเติบโตอย่างรุ่งเรืองของ
เศรษฐกิจเอเชียตะวันออกช่วงก่อนเกิดวิกฤตการณ์ ปี พ.ศ. 2540 และได้มีนำเสนอใน
บทความนี้โดยสังเขป

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Abstract

The role of foreign capital inflows in economic development is an issue that has provoked debate. Foreign capital augments the total availability of resources of a country, but its impact on investment and economic development is still controversial. If judiciously used, it could have a favorable effect on economic growth through higher investment and technology transfers. However, it is equally possible that foreign capital inflows might not yield any fruitful results. The diversity of development experience indicates that foreign capital is neither necessary nor sufficient for economic development: growth attainable is constrained only partly by inadequacy of investment resources but to a greater extent by weak institutions and poor policies which contribute to inefficient use of both domestic and external resources.

There are at least four explanations of the factors that high economic growth in East Asia and ASEAN. Neoclassical approaches have emphasized outward orientation and macroeconomic discipline. Structuralist theories have singled out government leadership in industrial policy. Culturalist explanations have focused on governance and societal characteristics and interaction effects (contagion). These four theories will be described briefly.

This paper defines foreign direct investment (FDI) as a category of international investment in which "a resident entity in one country (direct investor) acquires a lasting interest in an enterprise resident in another country (the direct investment enterprise)".¹ The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise. In terms of having influence on that enterprise, in general, any investment in Asia that nonresident/direct investor owns in share of 10% or more will be treated as foreign direct investment or FDI. The components of FDI data flows to each country, which is officially released by the Central bank of each country, consist of equity investments and loans from parent companies or affiliates, excluding transactions between affiliated financial institutions operate their business as wholesalers. While, foreign portfolio investment (FPI) is defined as a component of the financial account covering transactions which relate to direct investment or reserve assets components of the financial account. It covers both short and long-terms. Normally, a nonresident holding less than 10% of the shares of an enterprise will be treated as foreign portfolio investment or FPI. The components of FPI include equity securities and debt securities, both usually traded and tradable in organized and other financial markets. Debt securities are subdivided into bonds and notes, and money market instruments. Both FDI and FPI data are recorded at the time of foreign exchange transaction (average). Short-Term Foreign Borrowing (STFB) is defined as external short-term debt that has maturity of less than one year.

In regard to analytical aspect, FDI could be classified into 2 main categories; namely, real investment (green-field investment) and financial investment (most of which is in the form of M&A). Green-

field investment is direct investment that directly affects economic growth as by nature it is the type of long-term funds that directly goes into real productive sectors; for instance, building or setting up a facility in manufacturing sector. On the other hand, M&A could occur in both financial as well as non-financial sectors. They have only a short-term stabilization effect on the recipient country since they support the balance of payments needs by the recipient country.

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Neoclassical Explanations: Right Fundamentals

Early analyses of the East Asian economic growth emphasized neoclassical causes by arguing that the NICs "got the fundamentals right" in several key policy areas. In this view, East Asian economies succeeded because they came close than other developing countries to providing a stable macroeconomic environment and strong connections to global trade and technology. Modern versions of this approach place somewhat more emphasis on the government's market-friendly support of investment, especially in human capital (World Bank 1991). In this view, East Asia's economies, successful because pursued conservative macroeconomic policies, adopted an outward oriented trade strategy, invested vigorously in human capital and maintained competitive market for factors.

Structuralist Explanations: Directed resources into targeted sectors

Structuralist interpretations of East Asian success emphasize that policy regimes in many East Asian countries departed significantly from market-oriented norms. In the structuralist view, these interventions are seen as remedies for market failures in capital market (Stiglitz 1989) and externalities in the development of new industries (Pack and Westphal 1986). To overcome these common problems of early industrialization, East Asia directed resources into targeted sectors and it was the targeted sectors that offered strong opportunities for growth and productivity.

Culturalist Explanations: Confucianism

This approach argues that East Asia's cultural traditions positively affected the behavior of individual economic agents and economic organizations and methods of governance. Confucian traditions may have been responsible for East Asia's unusually high propensities to save and educate and for its strong, publicly motivated bureaucracies. Four institutions and cultural practices rooted in the Confucian tradition but adopted to the needs of an industrial society – a meritocratic elite, an entrance exam system, the importance of the group, and the goal of self-improvement have ignited the greatest burst of sustained economic growth the world has yet seen (Vogel 1991, 101).

Interaction Effects: Contagion

The most obvious common feature of the East Asian miracles is geography. East Asian development patterns are also more alike than they might have been. This suggests that East Asian economic

growth may have been shaped by regional contacts - including flows of goods, investments, technologies, aspirations, and ideas about governance. Empirical studies show that physical distance is an important correlate of economic integrated through trading, investment, and migration relationships (Petri).

Foreign direct investment (FDI) has appeared increasingly attractive to developing countries facing declining domestic investment and higher costs of foreign borrowing. Furthermore, as the World Bank (1993, 3) claims, there may be dynamic benefits: "Foreign direct investment is a large and growing source of finance that may help developing countries close the technology gap with high-income countries, upgrade managerial skills, and develop their export markets."²

In the developing world, FDI has been heavily concentrated among a small number of countries; over 90% of FDI inflows to developing countries in 1990 was received by only 18 countries. Half of this total flowed to eight East Asian developing market economies-Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. Given that neither Korea nor Taiwan has shown strong interest in attracting FDI, it may seem surprising that these economies feature in this group of developing countries. Their appearance in this list may support the view that explicit incentive packages are not the key determinants of FDI inflows. Without doubt, a much more important determinant in these countries has been their superlative investment climates (Fry 1991).

There are two arguments for capital account liberalization. First, it is an inevitable step towards increased investment. Second, free capital movements can lead to a more efficient global allocation of

savings and investment. Both effects raise welfare and economic growth.

By the 1980s most of the Asian countries had implemented exchange liberalization to allow for greater economic efficiency in the financial systems. However, there were distinct differences in the implementation of liberalization programs. Indonesia, Malaysia and Thailand were pace-setters; by the 1970s, in these three countries, most of the controls on the current and capital accounts had already been dismantled. In contrast, the Philippines only launched its liberalization program in the 1990s but it was done swiftly. In a span of only two years, almost all foreign exchange restrictions were completely removed. Presently the degree of liberalization is at par with, if not surpassing that, of Indonesia and Malaysia. On the other hand, Korea and Taiwan adopted a cautious and gradualist approach. Like the Philippines, their liberalization efforts only took off in the 1990s. Their concern over rapid liberalization is best illustrated by Shih (1996), who concludes that a hasty relaxation of controls may eventually lead to the re-imposition of such controls and thereby create uncertainty about future rules and regulations.³

The level of financial liberalization in ASEAN countries is different before, during and after the crisis. Inflows of direct investment were an important influence on growth rate for higher income Asian economy. Net private long-term capital flows to the four Southeast Asian Countries increased from 3.3% of GDP in 1990 to 8.3% of GDP in 1996. These capital inflows were part of a wave of capital flows to developing countries, which increased more than six folds between 1990 and 1997, rising from 1.0% of developing country GDP to 4.1%. Nearly 4 out of 5 middle-income countries saw the net flow of long-

term private capital between 1990 and 1996, and this increase was substantial for the majority of countries.

While the importance of FDI in ASEAN's increase in its share in the global FDI that increased from 4.4% in 1988 to almost 9% in 1994 (Table 1). Thus, it is not surprising to find the ASEAN-4, that is Singapore, Malaysia, Indonesia and Thailand listed among the 10 largest host economies for both FDI flows and stock in 1993.

Within ASEAN, Singapore is the largest recipient of FDI inflows, followed by Malaysia, Thailand, Indonesia and the Philippines. In the context of the supply of capital to a particular location, such as the ASEAN countries, location advantages play an important role in explaining the choice of these countries over other developing countries (or LDCs). Location advantages cover a multitude of factors that can influence the choice of locations. However, they can be grouped into five main categories: 1. Macroeconomic and political stability. 2. Infrastructure conditions. 3. Availability and cost of specific inputs. 4. Market size and 5. FDI and trade regulatory measures. While the first two factors affect the inflow of FDI in general, the last three categories of location factors can influence the type of investment entering a host economy.⁴

Indonesia, Malaysia, the Philippines and Thailand also implemented similar market-oriented policies to attract FDI. Many other factors were responsible for the surge in FDI, among with was the availability of a large pool of skilled and semi-skilled labor force at relatively low cost. Perhaps more importantly, stabilization and structural reforms had been successful. On the other hand, the huge current account surplus of Japan and the appreciation of the Japanese yen saw a shift of Japanese investment towards the South East Asian

countries. The yen appreciated by more than 50% against the US dollar, making Japanese investments in the region very attractive.

The financial and economic crisis that started in Thailand in July 1997 quickly engulfed East Asia, sending currencies, stock markets, real estate prices tumbling. Many financial institutions and corporations went bankrupt with huge external debts in Thailand, Indonesia and other ASEAN. The liquidity crunch and severe economic contraction were common features in these countries in 1996-1998.

Can the economy of a region go from miracle to meltdown in a few short months? Are the excesses of the free market responsible for the meltdown? Are hedge funds' currency attacks responsible for the crisis? Are some economic fundamentals responsible for the crisis? The Asian crisis of 1997-1999 and its reverberations in financial markets of emerging markets around the world have intensified the debate over the nature of the crisis and what is the economic impact of this financial crisis. There is an important issue of what should come first, financial development or financial liberalization. As many emerging markets experiences show, opening capital account in a weakly regulated financial system may exacerbate the problem of lack of regulation with the consequent effect on the ability of the financial system to perform adequately its role of credit allocation.

There are unproductive activities that are related to excessive capital inflows and financial liberalization in these emerging market economies. The study also analyze the failure of monetary and exchange rate policies during 1991-1998. In Thailand case, when capital flows were liberalized and Bangkok International Banking Facility licenses were given out during that time, then should have a

considerable review of the impacts of this policy on financial system and the whole economy. They (monetary authorities) did not really acknowledge that the liberalization of financial and capital markets was a fundamental reform of the money and foreign exchange markets but they still maintained fixed exchange rate regime (peg exchange rate system) with aggressive financial liberalization. The crises between 1996-1998 clearly indicated that the old regime along with financial liberalization had really destroyed competitiveness of Thai economy, encourage speculative activities in the economy. The major factor of the problem is the weakness of the structure of the Thai economy. And this has been aggravated by the tardiness of applying measures to address economic problems that have accumulated, so much so that the problems have worsened to a point where damage was inflicted on the Thai economy. Among these adverse factors were the pegging of the baht to a basket of currencies, which have not been adjusted to provide sufficient flexibility, the mistakes in addressing financial institution problems, and the weakness of the basic economic structure due to the chronic trade and current account deficits. Since the mid of 1996, the value of baht which fixed at 25 baht against dollar was unquestionable overvalued compare to its weakening economic fundamentals. The currency war has been beginning since the early of 1997. The disastrous attempt at defending the baht among heavy attack from hedge funds completely depleted the country's US\$30 billion foreign exchange reserves and plunged Thailand into an unprecedented economic crisis. We try to find out that for a set of major Asian countries were hit by financial crises while others were slight hit. We also try to find at that in many cases alternative

hypotheses that have been put forth to explain such crises are not supported by the data.

The preceding argument points to three measures of "fundamental risks" in currency markets to explain why some countries were more likely than others to suffer a financial crisis in the aftermath of the baht devaluation. First, a real exchange rate appreciation during the capital flow period relative to past average values indicated a greater risk of currency depreciation in 1997-1998. Second, a very rapid increase, prior to 1996, in commercial bank lending to the private sector also indicated a greater risk of crisis in 1997. Presumably, the prior banking lending boom indicates greater weaknesses in bank balance sheets and, therefore, more vulnerability to reversals of investor confidence. Third, when capital inflows suffered a reversal, not only did gross inflows dry up, but also holders of liquid domestic liabilities tried to convert them into foreign exchange and fled the country.

There are some common features of East Asian countries before the crisis as follows:

Higher investment and consumption financed by inflows

Whether widening current account deficits reflect higher investment or lower savings is important. An increase in unproductive investment and consumption financed by inflows is unsustainable; only that associated with higher permanent income growth, made possible, for example, by investing the inflows, can be sustained.

Weaker monetary control and rising or sustained high inflation

To the extent that capital inflows do not leave the country through a widening of the current account, large inflows can push up

monetary aggregates and derail inflation targets. Prices of financial assets and real estate also are frequently affected.

Real appreciation

Strong growth of domestic demand— whether consumption or investment — pushes up the real exchange rate. This is generally unwelcome because governments loathe to give up hard-won improvements in competitiveness and to risk an overshooting when they are uncertain about the likelihood of a reversal of the inflows and the sustainability of a real appreciation.

Vulnerability to reversals

If inflows reverse, a tightening — perhaps severe and disruptive — of financial policies or depreciation, or both, may be needed. Some countries are reassured by the Lawson doctrine, but most view surges in inflows as setting up a systemic risk, particularly to the banking sector.

There are many factors and conditions leading to a shift in the composition of capital flows and toward unhedged short-term debt. The surge in capital flows boosted domestic demand and, because of the more inelastic supply of non-tradable goods, raised the price of non-tradable relative to tradable goods encouraging the allocation of investment to non-tradable sector. This led to booming asset prices and perhaps contributed to the real estate bubble (although the real estate bubble in turn may have helped pull capital in). The result was that the ability to repay the short-term foreign-currency denominated debt was largely tied to the long-term performance of the non-traded sector. Private capital flows, although beneficial in net terms, posed

two types of challenges. First, large surges lead to economic overheating and the associated problems of the appreciation of the real exchange rate. Second, sharp reversals in capital flows could be potentially disruptive. Private capital inflows should, therefore, be managed with appropriate policy and institutional responses in the East Asian Countries. Failure to do so in the past, magnified the macroeconomic weaknesses and financial sector vulnerabilities led to a vicious circle between the two types of vulnerabilities and, eventually, precipitated the crisis. In other words, were it not for the mismanagement of private capital flows, the crisis could perhaps have been avoided altogether or else would have been of a smaller magnitude (ADB/WB 1998).

This study is concerned not with the determinants of FDI inflows to the Asian countries but rather with their effects. The effects of large capital inflows on the domestic economy depend very much on the exchange rate regimes (Table 3), level of liberalization, economic fundamentals and human capital in recipient countries. Under the Mundel-Fleming model of perfect capital mobility and a fixed exchange rate, the country cannot pursue an independent monetary policy. This is also known as the "Unholy Trinity" theorem, i.e. free capital flows, fixed exchange rates, and an independent monetary policy cannot simultaneously be pursued; only two (any two) can be. Free foreign capital flows impose a constraint on the implementation of monetary policy. Under the fixed exchange rate, inflows of capital would tend to lead to an increase in money supply and thus a reduction in domestic interest rates. Domestic absorption would increase, causing domestic prices to rise. The increase in the inflation rate would translate, *ceteris paribus*, into an appreciation of the real exchange rate. Under a fixed

exchange regime, intervention policy in the form of purchasing foreign exchange from the private sector. Intervention would then result in an increase in international reserves (the increase would not be a one-to-one relationship as the current accounts tend to deteriorate). This can make the money supply fully endogenous and rendering the domestic credit policy powerless to influence the money supply (but not its composition, as between the domestic and foreign components).

Table 3 Long-Run Effects of Capital Inflows with different Exchange Rate Regimes

Fixed Exchange Rates	<p>Increase money supply.</p> <p>Lower interest rates.</p> <p>Increase domestic prices.</p> <p>Appreciation of real exchange rates.</p> <p>Deterioration of current accounts.</p> <p>Increase in international reserves by amount of capital inflows.</p>
Floating Exchange Rates/ Managed Floats	<p>Appreciation of real and nominal exchange rates.</p> <p>More capital inflow if expectation of further appreciation of exchange rates.</p> <p>Current accounts may deteriorate.</p>
	<p>In the managed float, if partial monetary sterilization is implemented or nominal exchange rate is allowed to appreciate, the effect on the monetary base could be minimized. Effectiveness of sterilization depends on the degree of substitutability between domestic and foreign assets. Increase in international reserves by amount of intervention.</p>

Under a purely floating regime, the nominal exchange rate is allowed to appreciate (depreciate) in response to capital flows

(outflows). Thus, net foreign assets are constant, and the domestic credit policy fully determines the money supply. In a managed float system, the authority can resist appreciation (depreciation) of the exchange rate by intervening in the exchange rate market. In many cases, intervention is deemed necessary, as an appreciated exchange rate has adverse implications for export performance, except for a real appreciation induced by real factors such as technological progress and productivity improvements. This is particularly applicable to export-oriented economies; and export growth is an important determinant of long-term economic growth (Villanueva, 1997). In addition, a real exchange rate appreciation could lead to misallocation of resources, known as the "Dutch disease" problem. Currency appreciation lowers the supply prices of tradable goods, inducing a reallocation of resources to non-tradable goods. Moreover, allowing the currency to appreciate in response to transitory inflows would be risky as a sudden reversal could result in costly macroeconomic adjustments. Furthermore, even if the exchange rate appreciation may just be temporary, it may have permanent effects on trade and investments (IMF, 1995a).

The effects of capital inflows on the recipient country depend on the size and composition of the inflows, the foreign-exchange rate system, developments in domestic financial markets, and the availability and flexibility of economic policy measures. The surges of capital inflows has the following effects: increase in consumption and investment; rise in real money balances and foreign reserves; a real exchange rate appreciation; a larger external current account deficit; and higher price of domestic assets. This conclusion is broadly consistent with actual macroeconomic developments in several SEACEN countries during the 1990s (Table 4).

During the recent surges and up until the eruption of the financial crisis, Indonesia was operating a managed float exchange rate system whereby the central bank announced an intervention band and a conversion rate. In fact, Indonesia implemented a policy of targeting a depreciation of its currency (Koenig, 1996). In dealing with the episode of currency speculation, the central bank saw the merit of allowing greater flexibility of the exchange rate by widening the intervention bands several times. Up until the crisis, the rupiah appreciated every time the band was widened. The inflow-related appreciation was viewed as temporary and as such was likely to reduce short-term inflows by increasing the currency risk premium in local interest rates and at the same time avoiding disinvestment in the tradable sector (Reisen, 1996).

Table 4 Selected Macroeconomic Indicators, 1988-1996

Country	Year in Which the Capital Inflow Began	Cumulative	Annual Average from		
		Change from First Year of Inflows to 1996	Real	Prices	Money/Price
		Reserves (billion of U.S. Dollars)	GDP		
Indonesia	1990	12.8	8.0	8.6	15.3
Korea	1991	19.2	7.4	6.0	10.6
Malaysia	1989	19.2	8.8	3.4	14.4
Thailand	1988	28.2	9.5	5.0	13.0

Furthermore, a more flexible exchange rate can create an element of uncertainty, the easing of speculative pressures being equivalent to a Tobin-type transaction tax on foreign exchange (IMF, 1995a). The specific arrangement of crawling intervention band in Indonesia had worked well until the rupiah fell under extreme heavy selling pressure following the floating of the Thai baht in July 1997. Subsequently the central bank floated the rupiah in response to rapidly dwindling reserves, and to transfer a higher degree of risk premier to capital flows. In general, there were virtually no major restrictions on capital flows.

In the Philippines, as early as 1977, a number of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units (FCDUs) were set up to facilitate capital flows. However, it was the exchange liberalization of 1992 that explicitly removed most major restrictions on capital flows. Among the restrictions lifted were the repatriation by foreign investors under the debt-to equity conversion program and the remittance of profits. In 1996, the Foreign Investment Act was amended to further liberalize foreign investment by increasing the scope of opportunities in the Philippines. In Thailand, the First and Second Three-Year plans implemented measures to liberalize exchange rate controls and reduce restrictions on capital flows in the early 1990s. These measures included free repatriation of investment funds. In 1993, the Bangkok International Offshore Banking Facility (BIBF) was set up as a vehicle to introduce new financial instruments into the domestic markets as well as to effectively mobilize funds from abroad (Nijathaworn, 1995).

The immediate increase in growth was greatest in ASEAN during the inflow episode, absorption outpaced output, and the current

account deficit widened sharply. Fiscal adjustments and structural reform played a relatively large role in attracting the inflows, the surge was accompanied by an increase in output, albeit with some lag in some countries. Inflows also raised supply (through higher investment). Thailand was particularly impressive in this regard: the investment ratio rose almost 15% points above its average before the inflow episode. However, while it was tempting to disregard increases in the current account deficit matched by a strengthening of investment, there were at least two sources of concerns: first, the likelihood of incoming capital (often bank deposits) and the gestation period of investments; and second, uncertainties about the foreign exchange earning potential of investments. The latter was the genesis of concern about real appreciation and its effect on the allocation of investment. The widening of the current account deficit and the sustainability of the inflows were a serious concern when falling domestic savings were the cause.

TABLE 5 Net Private Capital Inflows in Selected SEACEN Countries, 1988

Country	Inflow Episode	1988	1989	1990	1991	1992	1993	1994	1995	Cumulative Flows/GDP at end of Episode	Mean Ratio	Coefficient Variation
Indonesia	1990-95			2.5	1.9	1.3	0.2	1.1	3.6	8.3	1.8	0.66
Korea	1991-95				2.6	2.5	0.6	2.4	3.5	9.3	2.3	0.45
Malaysia	1989-95		2.9	5.7	11.1	15.3	23.2	1.2	6.6	45.8	9.4	0.82
Philippines	1989-95		2.1	3.9	4.4	2.3	4.4	7.9	5.2	23.1	4.3	0.45
Sri Lanka	1991-95				3.9	5.3	8.2	6.5	3.6	22.6	5.5	0.36
Thailand	1988-95	7.4	10.4	12.3	12.3	8.6	7.7	8.3	12.1	51.5	9.9	0.21

Foreign Capital, Capital Formation and Growth

Voivodas (1973) and Go (1985) have analysed the relationship among foreign capital inflows, capital formation and growth. They have estimated an investment function where foreign capital is one of the independent variables, Stoneman (1975), Papanek (1973), Dowling and Hiemenz (1983) and Gupta and Islam (1985) have estimated a neoclassical production function of the type $Y = f(K_d, K_f, L)$, where Y denotes output, K_d domestic savings, K_f foreign capital and L labor force. These studies using pooled cross-section time-series data have found that foreign capital is associated with rapid capital formation and growth in developing countries. Go has estimated an equation of the type $I = f(\text{GNPR}, F, \text{OF})$, where I denotes the investment rate, GNPR real GNP, F net foreign flows and OF investment outflows. Her results using data from the Asian countries indicate that a 1% increase in foreign capital inflows increases the investment rate by two-tenths of 1%. The growth rate of real GDP is basically determined by the level of investment and its efficiency. Foreign capital inflows can affect the growth rate through its effect on both the level of investment and the efficiency of investment. It can be shown that as long as foreign capital is not entirely consumed, the direct effect of foreign capital inflows on the volume of total investment is always positive. However, the indirect effect of foreign capital inflows on the volume of investment through its effect on the propensity to save out of GDP may be either positive or negative. Thus, the total effect on the volume of investment, i.e., the direct volume effect plus saving propensity effect, could be either positive or negative. We, therefore, cannot rule out the possibility that the amount of foreign capital that is used to finance investment is more than offset by a decrease in the saving out

of GDP due to unfavorable effects of foreign capital inflows on the propensity to save. In such an extreme case, an inflow of foreign capital would reduce the total saving (domestic saving plus foreign saving).

Chenery and Carter (1973) suggested that countries that are seen to be effective users of foreign capital have had high incremental output-capital ratio (IOCR), tend to be favored by both private lenders and official aid donors. Therefore, we may posit that a high IOCR will attract more foreign capital inflows. However, from the demand side, a high IOCR may have a negative effect on foreign capital inflows since, for a given target growth rate, less investible resources are required and therefore for a given amount of domestic saving the need for foreign capital inflows will be smaller. Consequently, the combined effect of both volume and efficiency effects of foreign capital inflows on the growth rate can be either positive or negative.

Foreign Capital and Efficiency of Investment

Foreign capital can improve the productivity of factors in the recipient countries through the introduction and spread of new technology through training and managerial and other improvements. Improvements in factor productivity in turn play a major role in growth. On the other hand, foreign capital can also support inefficient resource allocation with adverse effects on growth. Using the incremental output-capital ratio as a proxy for efficiency of investment and pooled data from 20 developing countries, Voivodas (1973) found that foreign capital tended to reduce the efficiency of investment. In the case of Asia, however, Go's findings suggest otherwise - foreign capital inflows appear to have increased efficiency of investment.

The improvement in the efficiency of investment, which is assumed to be constant in both the Harrod-Domar and traditional two-gap models, has been found to be a vital factor explaining the rapid economic growth of many developing countries in Asia. Foreign capital inflows can have both positive and negative effects on the efficiency of investment. Many developing economies are constrained by shortages of technology and skills as well as financial resources. Private foreign capital inflows, in particular private direct investment, may improve the efficiency of domestic investment by mitigating or solving such problems. In addition, the efficiency of investment may be improved by official lenders' insistence on certain minimum levels for the rate of return on projects they will finance. Foreign capital inflows can also have a negative effect on IOCR. For instance, foreign aid is often allocated to economic infrastructure, or health and education projects which do not have an immediate positive impact on investment efficiency (Griffin and Enos 1970). Furthermore, capital goods purchased from donor countries under "tied" loans can be more costly and probably less suitable for the specific purpose than those available elsewhere on a commercial basis (Yeats 1982).

Interest Rates and Asset Prices

Surges in capital flows should ease domestic money market conditions and lower domestic interest rates. This is true almost regardless of the causes of the inflows, although when changes in real domestic economy. Small open economies are small relative to the pool of foreign capital, regardless of the reason these flows are coming in. They can find capital rushing in at very rapid rates, and rushing out at even more rapid rates. In the observation of the ASEAN

experience suggests two other general policies toward capital flows. First, many of the rapid capital inflows into ASEAN, especially in the form of short-term debt, were the result of domestic distortions that artificially lowered the price of foreign, short-term borrowing either to tax incentives or more lax regulations. The most flagrant example of these distortions the BIBF which were set up in 1993 with the goal of attracting relatively unregulated capital requirements for banks, for instance, incentives for holding certain assets and liabilities will be distorted. Second, these measures may not go far enough, especially once it is recalled that corporate exposure may itself give rise to vulnerabilities. (In the case of Indonesia, two-thirds of the foreign indebtedness was corporate.) And the systematic risks to which such exposure can give rise provide ample justification for taking further measures. Among the ideas currently under discussion are inhibitions on capital inflows - essentially a tax on short-maturity loans.

Inflation and Exchange Rate

Usually, a surge in capital inflows causes the nominal and the real value of the currency to appreciate and the current account to deteriorate. It may also lead to an expansion of monetary aggregates, thus giving rise to increased inflationary pressure. The actual data of average consumer price inflation and the rate of real effective currency devaluation in selected Asian countries in this study during the first half of 1990s when these countries witnessed a surge in foreign capital flows is higher than during the second half of the 1980s. Inflation increased in all six countries in the 1990s

Compared to the previous period, however, this was not necessarily a result of foreign capital inflows. Obviously, a more

sophisticated and extensive econometric study is required to establish the causality between a higher rate of inflation and foreign capital inflow in these countries. The difference in the movement of real exchange rates is closely related to the composition of aggregate demand.

The stability of these countries' real effective exchange rates in the 1990s has also been greatly affected by the steep nominal appreciation of the yen against the US dollar. This brought about a sharp nominal depreciation of their currencies against the yen. Given that Japan is a major trading partner, this generated substantial downward pressure on their real effective currency values. By contrast, these developments were only a minor influence on the real effective exchange rates of Latin American countries, as their trade with Japan is relatively less important.

The results do not show clear evidence that exchange-rate volatility increased during the period of capital inflows to earlier period. This is presumably due to the exchange-rate policies adopted: the policy response has been to maintain the international price competitiveness of exports by preventing a rapid nominal appreciation of the currency or even inducing depreciation through intervention in the local foreign-exchange market. The fact that the movement of the won-dollar exchange rate has become more volatile since early 1995 could be explained by the fact that the Government of the Republic of Korea refrained from intervention in the foreign-exchange market, suggesting that volatility may have been suppressed by intervention until 1994. The rupiah-dollar rate exhibited high volatility from the second half of 1990 through the first half of 1991, because the Indonesian government pursued depreciation of the rupiah more

actively than before, as the current-account deficit increased rapidly during that period. The increased volatility of the ringgit-dollar rate in early 1994 was closely related to capital inflows. The Malaysian government imposed several direct measures in early 1994 to curb the inflow of speculative short-term capital. This prompted foreign investors to withdraw investments from Malaysia. The result was a large depreciation of the ringgit over a short period of time.

Volatility of domestic financial markets

The movement of foreign capital in massive amounts may increase the volatility of domestic financial markets, including the foreign-exchange market. To examine whether financial markets have become more volatile compared to the pre-capital-inflow period. Financial volatility may also arise in response to an increase in foreign participation in the stock market (Folkerts-Landau et al., 1996; and IMF, 1995a). Domestic investors in emerging markets sometimes follow the strategies of foreign institutional investors who are considered to have more advanced skills in stock investment, thereby amplifying volatility. However, there is no strong evidence that the opening of stock markets or the inflow of capital during the 1990s resulted in increased volatility. The estimates do show that the presence of more foreign capital can weaken the stability of a stock market for at least a short period of time. In late 1993 and early January 1994 massive capital inflows contributed to a rapid rise in stock prices on the Kuala Lumpur Stock Exchange, and in the first half of 1994 an outflow of foreign capital led to a rapid fall in stock prices. These flows thus resulted in increased volatility of stock returns in Malaysia. The Thai stock market saw a sudden outflow of foreign funds (related to Gulf War) in the

second half of 1990, and the Thai and Malaysian stock markets in early 1995 witnessed quick withdrawals of foreign investment prompted by the Mexican crisis. Such flows caused an increase in volatility of stock returns.

Capital Flows, Output, Domestic Investment, Saving, Consumption and The Current Account

In the Asian countries, investment as a share of GDP generally showed a rising trend during the period of capital inflows. In Latin America, investment fell and consumption rose, especially during 1990 and 1991. Differences in the behaviour of government consumption have also been a factor (Khan and Reinhart, 1995; Leiderman, 1995; and Calvo et al., 1993). The Asian countries managed to maintain fiscal discipline in the face of rising capital inflows. Usually, public consumption is more oriented than private consumption towards non-traded goods.

In this section, we also examine the current account deficit and its association with cross-country capital inflow ($-CA/Y$) and investment booms. The current account reflects the interaction of all major macroeconomic variables. If a country faces current account imbalance, and the government reacts to trade deficits induced by an increase in investment by cutting government expenditure, or raising taxes in this case, national saving and investment will be correlated for reasons having nothing to do with capital mobility. In addition, the behavior of the disturbances over the cross-sectional units (households, states, and countries) is clearly different from the behavior of the disturbances of a given cross-country unit over time. In this research project, since we are dealing with the structural determinants of

current account variabilities, it is essential to have some specific information on time series properties of major macroeconomic variables in this context. The current account and investment regression equation could be written as

$$(CA/Y)_t = a_i + b_i (GDP/Y)_t$$

for all $i = 1, \dots, 100$

Where $(CA/Y)_t$ is the value of the total current account and income share for i th country in period t (1960-1992). CA is the current account balance after the official adjustments. GDI/Y is the domestic investment and income share for i th country in period t (1960-1992). It is rightly explained as the following: "Under perfect capital mobility conditions and fully flexible exchange rates, given the prices are fixed, fiscal and monetary policies could work effectively without any market intervention under an open economy. Since, under fully flexible exchange rates, the absence of intervention implies a zero balance of payments. Any current account deficit must be financed by private capital inflows and a surplus by capital outflows. Adjustments in the exchange rate ensure that the sum of the current and capital accounts is zero."⁵ Many studies have found that current account deficits are associated with strong capital inflow $(-CA/Y)$ and investment booms.

The roles of capital inflow in economic development

An obvious role of capital inflow in the development of the country is as a source of financing. Most developing countries, including Thailand, need external resources to fill their savings-investment gaps (resource gaps). However, the role of foreign capital flow in a host country is more than just the filling in a resource gap. Foreign capital flow also brings in production technology, managerial

skills, employment and the opportunity for accessing international markets. These roles are discussed below.

Foreign capital and structural transformation

Foreign capital has played a major role in the development of developing countries by helping it to make the transformation from an essentially agricultural to an agro-industrial economy. Foreign capital flow in the form of direct investment in Asean has been going mostly to the manufacturing, services and real estate sectors. Only a small part of the capital has been going to agriculture. The reasons why most of foreign capital has gone to manufacturing and services are that these sectors have higher rate of return. That government policy had encouraged foreign capital into the manufacturing sector. The surge in foreign capital to manufacturing and services has been associated with very strong growth in these sectors.

Foreign capital flow and exports

Agarwal et al. (1991) found a strong impact of German exports on German foreign direct investment outflow. The relationship between foreign direct investment and trade can also be investigated in the host countries (foreign capital recipient countries). Foreign direct investment can induce or reduce exports from the host countries. Fry (1993) found that there was an immediate negative effect of an increase of FDI on exports from the host countries. This negative impact could be explained by the diversion of resources from exports to additional investment or by trade barriers. In the long-run (i.e. after five years), he found that foreign direct investment increased exports although the effect was small. These findings suggest that foreign

direct investment has been directed successfully towards export-oriented activities. In the case of Thailand capital inflow, particularly in the form of foreign direct investment, has assisted in strengthening the industrial base with new technologies and modern plants. FDI helps improve physical and financial structure as well as the standard of manpower and management training. FDI also help facilitate world market access through parent companies. This is of importance in enhancing export competitiveness, investment climate and economic growth and development in Asean countries. In the case of Thailand⁵, to see the relationship between foreign capital and Thai exports, we refer to an empirical study by Rojanathamrong (1991). In his study, Thailand's exports were regressed with FDI and others explanatory variables. The model was estimated using annual time-series data from 1977-1990. The results are:

$$\text{EXPT} = 49697.9 + 3.41\text{FDI} - 1316\text{PCOMP4} + 273.3\text{QNONP}$$

$$(0.53) \quad (6.1) \quad (-1.0) (5.22)$$

$$R^2 = 0.987 \text{ D.W.} = 1.57$$

Where EXPT is the value of exports from Thailand, FDI is foreign direct investment, PCOMP4 is a measure of costs in Thailand relative to those in Thailand's major trading partner and QNONP is the demand for non-oil imports by Thailand's major trading partners. The figures beneath the estimates are t-statistics. From the above multiple regression, the FDI's coefficient is positive and statistically significant. Thus, increases in FDI to Thailand imply increases in Thai exports.

The literature on trade versus aid has proceeded along two directions. Thirlwall (1976) and Yassin (1982) argue that while aid provides resources directly as well as indirectly (by saving the excess cost of import substitution), trade provides resources only indirectly (by

the opportunity provided to transform resources into goods and services more cheaply than if the transformation had to be done domestically). Focusing on direct effects, they show that a dollar of aid is always more valuable than a dollar of exports. Several other studies (Cohen 1968, Yeats 1982; Massel, Pearson and Fitch 1972) have evaluated the trade versus aid controversy by using a multiple regression approach. These studies, unlike those of Thirlwall and Yassin, capture both direct and indirect effects of trade and aid on economic growth. Cohen has estimated an equation in which GDP growth is a function of foreign investment and increase in exports (both expressed as a ratio of GNP) using data from 27 developing countries during the periods 1956-1969 and 1960-1965. He found that in both periods the regression coefficient for foreign investment was considerably smaller than that for increased exports and therefore concluded that a dollar of extra export earnings had contributed more than a dollar of foreign capital to development. Although the focus of his paper is slightly different, Yeats (1982) too has estimated an equation in which growth is explained by increased exports and aid. His results support Cohen's findings.

Foreign capital inflows and Domestic savings⁷

One of the key questions explored in the literature on the impact of foreign capital on growth is its relationship to domestic savings. A number of authors, Rahman (1968), Areskoug (1973) and Griffin and Enos (1970), estimated a saving function in the form $S = f(Y, F)$, where S denotes the domestic saving rate (obtained by expressing an indirect estimate of domestic saving as percentage of GDP), Y the growth rate, and F the foreign capital as a percentage of

GDP, using cross-section data. They found the estimated coefficient of the variable was negative but less than unity in absolute terms, and so they concluded that foreign capital substantial partly for domestic saving.

Similar conclusions were reached by Weiskopf (1972) who estimated an ex ante saving function using both cross-section and time-series data from LDCs. Papanek (1972) improved on the earlier studies by disaggregating financial flows into three components, but the results of his regressions using pooled data relating to the 1950s and 1960s showed that all three components had a negative effect on the domestic saving rate. Although most studies have found a negative relationship between foreign capital and domestic savings, only a few of these studies have found that the coefficient of the foreign capital variable is less than minus unity and that foreign capital reduces total savings. These findings, therefore, suggest that when analyzing the impact of foreign capital on economic growth, a more pragmatic approach should be taken. While a portion of foreign saving is used for consumption and may substitute for domestic saving, the remainder augments capital formation and growth. Two different authors have attempted to estimate the relationship between savings and foreign capital in the Asian region. Fry (1984) using time series data from 1960-1980 found that in all four countries in his sample (Bangladesh, Republic of Korea, Nepal and Thailand) foreign capital had a negative effect on domestic saving. Only in one country (Bangladesh), however, was the substitution effect less than minus unity. Gupta and Islam (1983) using cross-section data from 18 Asia countries (including Japan) have found that while foreign private investment has had a favorable effect on the Asian saving rate, and

that AID has had a highly substitutive effect. The magnitude and sign of the aid variable in the Asian case, however, come as a surprise because they find it to be positive in other developing regions. They, however, offer no explanation. When the authors estimated a saving function with total financial flows as the explanatory variable, they did not find a substitutive effect. The traditional two-gap Model and estimate of foreign resource requirement based on it typically assume that inflows of foreign capital are entirely used for investment. However, the assumption is unrealistic. If consumption and saving are determined by a comparison of the current benefits to be derived from investment resulting from saving, there is no reason to believe consumption will always be sacrificed for investment. If this is the case, when additional resources are made available by an inflow of foreign capital part of the resources will be consumed (Weisskopf 1972; Areskoug 1976; Griffin and Enos 1970), so that foreign capital inflows (Ft) will have negative impact on domestic saving. We shall refer to this as the "consumption effect" of foreign capital inflows on domestic savings. Some authors claim that this consumption effect is simply a result of the convention used in national income accounting of assuming that all foreign capital inflows as dissaving is justified in accounting terms, it does not reflect the effect foreign capital inflows and domestic saving is predictable from the national income accounting identities, it does not necessarily follow that there is a causal relation between the two variables in the sense that an increased inflow of foreign capital leads residents of the recipient country to decide to save less. However, such claims can be questioned. Newlyn and Thirlwall seem to overlook the fact that an inflow of foreign capital lifts the ceiling on current consumption and

investment set by the level of current GDP and makes the stream of future GDP available for the current expenditures. To the extent that foreign capital inflows create a claim on future savings, the part of consumption financed by an inflow should be treated as dissaving for it involves a conversion of future domestic saving into current consumption. The consumption effect therefore implies that foreign capital inflows influence the level of domestic saving. To examine the possible effect of foreign capital inflows on the propensity to save out of current GDP. This may be increased or reduced by an inflow of foreign capital. It will be increased if foreign capital creates more profitable investment opportunities which can be matched by domestically mobilized resources and/or if foreign capital inflows are allocated to projects that increase disproportionately the income of groups whose propensity to save are substantially higher than the national average. It will be reduced, on the other hand, if foreign capital inflows substitute investment opportunities for domestic capital and/or if saving out of current GDP is substantially determined by government policies which set fixed growth and investment targets. In the latter case, government efforts to save will be less vigorous if more foreign capital is available. The "saving propensity effect" of foreign capital can therefore be both positive and negative, and we cannot exclude the case where the combined effect of the consumption and saving propensity effects are positive, although the former is negative.

Foreign capital and employment generation

Even though FDI has caused economic transformation away from labour-intensive activities towards capital intensive activities, it has been found that FDI also has a positive influence on employment.

FDI projects promoted and operated during 1987-1990 were estimated to have contributed about 63,000 new jobs in Thailand economy (Pupphavesa, W. in: the FDI Relations between the OECD and the Dynamic Asian Economies: The Bangkok Workshop, 1993).

Another important characteristic of private capital flows to East Asia was that, unlike Latin America, it was preceded rather than followed by a surge in investment (table 5). In the second half of the 1980s and the early 1990s, the bulk of the increase in investment was financed by a corresponding increase in national savings. During the more recent period, however, a higher fraction of the increase in investment was financed abroad. Nevertheless, the magnitude of private capital flows was much higher than the amount of foreign savings absorbed, leading to substantial reserve accumulation. There was considerable variation, however, at the individual country level: Malaysia and Thailand received the largest magnitude of capital inflows, cumulative in excess of 30% of GDP; the Philippines also received substantial inflows during 1993-96; but Korea did not receive more than 15% of GDP. In contrast, in Latin America there has not been an investment boom—the investment ratio has remained constant since the mid-1980s—but a decrease in savings, although again important differences among countries exists.

The macro-economic effects on employment vary with macro-economic policies, cyclical conditions, institutional frameworks and micro-economic factors particular to sector, industries, and firms. The micro-economic effects depend on the motivations and corporate strategies underlying the decision to invest abroad. The available empirical evidence shows that the prospect of investment significantly to reducing unemployment in host countries is not good.

Foreign direct investment affects the level of employment in multinational corporations with the reference of such characteristics as scale, concentration, foreigners, and transnationality. The large scale and the technological base of subsidiaries result in a decrease in the relative usage of workers. The overall employment effect of the activities of multinational corporations on the host countries has been very small. Evidence shows that in the late sixties the "total labor force of the transactional enterprises' subsidiaries in the manufacturing minerals and commodities sectors in all the developing countries is less than four million people and more likely it should be around to two and a half million marks.

Improved penetration of markets and customer services in the host country could then translate into increasing demand for the whole range of products of the investors, creating employment not only abroad but also in the home country through increased production for export. The effects of FDI on employment in the auto parts producers in the US primarily supply the Japanese auto makers located in the US. The commission has concluded that presently there has been a net gain in auto part employment. While the FDI employment has grown rapidly in China, in 1993 six million Chinese were employed in foreign manufacturing up from close to zero in 1987.

Lee and Ramteller wrote about the effects of foreign direct investment on employment in Korea over the period of 1974-1986. They stated that the contribution to value added share of foreign firms employment in total Korean employment gradually increased from 1% to 3% over the period mentioned above.

Clear understanding of the implications of FDI for employment is limited. Few studies have been undertaken to gauge their relation

by the lack of data in most countries. Certain studies carried out for individual firms do not provide a proper answer as to whether or not the net effect is beneficial on labor market performance for individual countries.

Table 5 Magnitude and Composition of Capital Inflows (% of GDP)

	LAC			ASEAN-4		
	85-88	89-92	93-96	85-88	89-92	93-96
Net long-term capital flows	1.3	1.7	4.3	2.0	4.8	6.9
- Net official flows	0.5	0.3	0.0	1.2	1.3	0.4
- Net private flows	0.8	1.4	4.4	0.8	3.5	6.6
Bank/trade lending	0.3	0.0	0.5	-0.3	0.9	0.8
Portfolio bond	-0.2	0.2	1.2	0.2	-0.1	1.4
FDI	0.7	0.9	1.6	0.9	2.3	2.4
Portfolio equity	0.0	0.3	1.1	0.1	0.4	2.0
IMF credit	0.0	0.0	0.1	-1.0	-0.1	0.0
Other private flows	-0.7	0.7	-1.0	0.3	2	-0.1
Short-term debt	-0.1	0.7	0.6	0.1	2	2.3

Table 6 Investment, Savings and Capital Flows (%of GDP)

	<i>LAC</i>			<i>ASEAN-4</i>		
	<i>85-88</i>	<i>89-92</i>	<i>93-96</i>	<i>85-88</i>	<i>89-92</i>	<i>93-96</i>
Investment	20.5	20.6	20.1	25.7	32.6	35.0
National Savings	20.6	19.6	17.6	23.9	28.6	30.3
-Private	16.5	16.2	15.1	13.2	20	20.1
-Public	4.1	3.3	2.5			
Current Account Deficit	1.0	1.1	2.4	1.1	3.8	4.6
Total Capital Inflows	0.7	2.4	3.5	2.2	6.7	6.8
Reserve Accumulation	-0.3	1.3	1.0	1.0	2.9	2.2

ASEAN 4 = Indonesia, Malaysia, Philippines and Thailand

Source: World Bank Data

During the inflow periods, macro-economic policies in most East Asian countries shared three broad elements in common. First, many adopted an exchange rate regime oriented toward enhanced competitiveness, i.e., the achievement of a real exchange rate target to complement the outward orientation embodied in structural policies. This policies was implemented through step devaluation in several countries in the region during the mid-1980s, followed in some countries by continuous depreciation in some cases more than offsetting the differential between domestic and foreign inflation. In East Asia, therefore unlike in many countries of Latin America, nominal exchange rate management during the capital inflow episode was not primarily devoted to the establishment of a nominal anchor. This exchange rate policy indeed seems to have been

relatively successful in avoiding currency overvaluation from the mid-80s to the mid-90s.

Second was the adoption of a tight medium-term stance for fiscal policy. Overall public sector budgets in the region, which had exhibited deficits not out of line with those of other middle-income developing countries at that time, moved steadily into surplus after the mid-80s.

By the late 1980s, several countries in the region had achieved sizable fiscal surpluses². As the economies of these countries grew and the tight fiscal stance restrained and at times reversed the growth of public-sector debt, public-sector-debt-to-GDP ratios fell throughout the region. As a result, by the mid 90s several countries in East Asia had achieved ratios of debt to GDP substantially below those of many industrial countries. This fiscal stance also promoted the depreciation of the real exchange rate, and helped prevent the emergence of exchange rate misalignment.

Third, especially once the sizable fiscal surpluses were achieved in the early 1990s countries began to rely more on monetary policy to prevent overheating. Countries placed heavy reliance on monetary policy as a short-run stabilization instrument, varying the intensity of sterilized intervention in the foreign exchange market in accordance with domestic macroeconomic needs. On the structural side, the economies of East Asia continued in the 1990s the process of liberalization that had begun in the mid 80s. Trade liberalization, capital account liberalization, and especially financial sector liberalization, all proceeded during the inflow period.

This mix of structural and macroeconomic policies provide both attractive to foreign capital and, in combination with tight fiscal

policy, was largely successful in preventing macroeconomic overheating, at least early in the inflow period. The World Bank (1997) found that countries that relied more on fiscal policy to prevent overheating during the capital-inflow period were also more successful in avoiding excessive real exchange rate appreciation and achieved a mix of aggregate demand oriented toward investment rather than consumption. This link can be interpreted naturally as the outcome of the policy mix undertaken. Since the effects of tight money tend to fall disproportionately on investment, an outward-oriented strategy in which tight fiscal policy supports a depreciated real exchange rate exerts a systematic effect on the composition of aggregate demand favoring investment over consumption. During this period, East Asian countries saw sharp increases in their investment rates (Figure 5). For example, in Indonesia investment/GDP rose from an average 25 percent during 1985-89, to 32 percent during 1990-96, while in Korea the investment rates rose from an average of 30 percent to 37 percent during the same period. Malaysia and Thailand saw even larger increases—from 26 percent to 40 percent, and from 30 percent to 42 percent of GDP, respectively.

By 1994-96, however, the acceleration in the growth of domestic demand, that was accompanied by an increase in net capital inflows, led to the emergence of demand pressures in all the four countries that have been hardest hit by the crisis—Indonesia, Korea, Malaysia, and Thailand. In all four countries the acceleration in the growth of domestic demand reflected both the pickup in the growth of investment and to a lesser degree in consumption, although the relative mix differed across countries. But, in all four countries, with the sharp pick up in the contribution of domestic demand, the contribution of the external sector to GDP growth turned negative during the period.

Inflows of Foreign Direct Investment: 1981-1993

(Billions of dollars)

Years	World	Developed Countries		Developing Countries	
	Billions	Billions	Percent	Billions	Percent
1981-85	50	37	74	13	26
1986-90	155	130	84	25	16
1988	159	131	82	28	18
1989	196	168	86	27	14
1990	208	176	85	31	15
1991	162	121	75	39	25
1992	158	102	68	51	32
1993	194	109	56	80	45

Sources: United Nations, "World Investment Report", 1994.

Note: From 1981-85 and 1986-1990, FDI inflows is average per year.

Outflows of Foreign Direct Investment: 1981 - 1993

(Billions of dollars)

Years	World	Developed Countries		Developing Countries	
	Billions	Billions	Percent	Billions	Percent
1981-85	48	47	97.9	1	2.1
1986-90	168	163	97	5	3
1988	168	162	96.4	6	3.6
1989	222	212	95.5	10	4.5
1990	232	222	95.7	10	4.3
1991	192	185	96.4	7	3.6
1992	171	162	94.7	9	5.3
1993	195	181	92.8	14	7.2

Sources: United Nations, "World Investment Report", 1994.

Note: From 1981-85 and 1986-1990, FDI inflows is average per year.

Stock of Inward Foreign Direct Investment by Region

(1988 - 1992)

	Billions of Dollars					Total Percentage				
	1988	1989	1990	1991	1992	1988	1989	1990	1991	1992
World	1226	1442	1705	1856	1948	100	100	100	100	100
Developed Countries	961	1148	1374	1485	1520	78.4	79.6	80.6	80.1	78
Western Europe	447	561	745	825	838	36.5	38.9	43.7	44.5	43
North America	407	472	504	528	541	33.2	32.8	29.6	28.4	27.8
Other Developed Countries	106	116	125	132	141	8.6	8	7.3	7.1	7.2
Developing Countries	265	293	330	369	428	21.6	20.4	19.4	19.9	22
Africa	38	38	40	42	46	2.7	2.6	2.3	2.3	2.4
Latin America	98	105	116	131	14.9	8	7.3	6.8	6.9	7.6
East-South Asia	105	121	143	163	192	8.6	8.4	8.4	8.9	9.9
Western Asia	27	27	28	28	29	2.2	1.9	1.6	1.5	1.5

Sources: United Nations, "World Investment Report", 1994, p. 19.**Outflows of FDI From Five Major home Countries**

(1981 - 1993)

Countries	Billions of Dollars								Total Share in World				
	1981 1985	1986 1990	1988	1989	1990	1991	1992	1993	1981 1986	1986 1990	1991	1992	1993
World	48	169	168	222	232	192	171	195	100	100	100	100	100
France	3	17	14	19	35	24	31	21	6	10	12	18	11
Germany	4	16	13	18	29	22	16	17	9	9	12	9	9
Japan	5	32	34	44	48	31	17	12	11	19	16	10	6
UK	9	28	37	35	19	16	16	26	19	17	8	9	13
USA	11	22	14	34	24	33	33	50	23	13	17	19	25
Total	32	115	112	150	155	128	113	126	68	66	65	65	64

Sources: United Nations, "World Investment Report", 1994.

FDI Inflow In Twelve Asian Countries US\$ millions

Countries	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Indonesia	292	222	310	258	385	576	682	964	1482	1774
Korea	57	110	234	435	601	871	758	715	1116	550
Malaysia	1261	797	695	489	423	719	1668	2332	3998	5283
Philippines	105	9	12	127	307	926	563	530	544	228
Singapore	1134	1302	1047	1710	2836	3555	4212	4808	4395	5635
Thailand	350	401	136	263	552	1105	1177	2376	2044	2116

Footnotes

¹Balance of Payment Manual. Fifth Edition IMF 1993.

²Fry, Maxwell J. 1997 "Foreign Direct Investment in East Asia" Lessons from East Asia edited by Danny M. Leipziger: The university of Michigan Press 1997.

³Villanueva, Delano and Seng, Lim Choon "Managing capital flows in SEACEN countries: A Policy Agenda."

⁴Tham Siew Yean 1998, "Competition and cooperation for foreign direct investment: An Asean Perspective." Asia-Pacific Development Journal Vol. 5, No. 1 June 1998.

⁵Dornbusch and Fischer "Macroeconomics." 2nd edition

⁶Siksamat, Somsachee "A Multi-Regional Computable General Equilibrium Model of the Thai Economy: A Surge in Foreign Capital" Monash University March 1998.

⁷Lee, Jungsoo., Rana, Pradumna B., Iwasaki, Yoshihiro., Effects of foreign capital inflows on developing countries of Asia Asian Development Bank

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การลงทุนและผลตอบแทนการลงทุน แบบ Value Investing ในตลาดหลักทรัพย์แห่งประเทศไทย Investments and Investment Performances of an Value Investing in the Stock Exchange of Thailand

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บทคัดย่อ

กลยุทธ์การลงทุนแบบ Value Investing ในประเทศไทยมีจุดเริ่มต้นในสภาวะทางเศรษฐกิจและตลาดหุ้นที่คล้ายคลึงกับการก่อเกิดของแนวความคิด Value Investing ในสหรัฐ นั่นคือเริ่มในช่วงเวลาหลังการเกิดภาวะวิกฤติเศรษฐกิจครั้งใหญ่และดัชนีตลาดหุ้นตกต่ำลงอย่างมาก ซึ่งทำให้เกิดจำนวนบริษัทที่ราคาต่ำกว่ามูลค่าพื้นฐานของกิจการ หรือที่เรียกว่าหุ้น Value การศึกษาผลตอบแทนการลงทุนของหุ้น Value ยุคต้นของไทยโดยใช้เงื่อนไขการเลือกหุ้นที่จะถือลงทุนใน 1 ปี ที่มีค่าของราคาหุ้น/กำไรต่อหุ้น ไม่เกิน 10 เท่า ราคาหุ้น/มูลค่าหุ้นทางบัญชี ไม่เกิน 1 เท่า และเป็นผลต่อหุ้น/ราคาหุ้น ไม่ต่ำกว่า 3% โดยจัดหุ้นที่เข้าเงื่อนไขดังกล่าวเป็นพอร์ตโฟลิโอและจัดหุ้นใหม่ทุกปีในช่วงปี 2543-2548 แสดงให้เห็นว่า กลยุทธ์การลงทุนนี้ให้ผลตอบแทนทบต้นเฉลี่ยถึงปีละ 40.11% ในขณะที่ตลาดหุ้นให้ผลตอบแทนเพียงประมาณ 14.82% หรือ Value Stock ให้ผลตอบแทนสูงกว่าถึงปีละ 25.29% ในเวลา 4 ปี ในขณะที่ความเสี่ยงต่ำกว่าด้วย

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