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# **Impact of Foreign Direct Investment on Thailand's Trade and Domestic Private Investment**

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## ABSTRACT

Foreign investment not only brings along the direct benefits to the host country in the form of technological progress, but it also stimulates domestic activities through the linkage effects. This study investigates the impact of foreign direct investment (FDI) on Thailand's imports, exports, and domestic private investment, covering the period 1965 to 1997. By using the method of autoregressive distributed lag (ARDL) that minimises the possibility of estimating spurious relations while retaining long-run relationship information, the empirical results indicate that FDI does have significant effects on imports and domestic private investment, but not on exports. The vector error correction model (VECM) analysis, variant of the vector autoregression (VAR) analysis, is applied to investigate the inter-relation between trade (imports and exports), domestic private investment, and FDI. Through the impulse response approach, the results show that an increase in one variable does have an impact on others. On average, the impact will last for eight years. The empirical results from forecast error variance decomposition analysis also indicate that imports, exports, domestic private investment, and foreign direct investments have inter-relations between themselves.

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# LIST OF ACRONYMS

2SLS:	Two-Stage Least Square
3SLS:	Three-Stage Least Square
ADF:	Augmented Dickey-Fuller tests
AIC:	Akaike Information Criterion
ARDL:	Auto Regressive Distributed Lag
Baht:	Thai currency unit
BIBF:	Bangkok International Banking Facilities
BOI:	Board of Investment
BOP:	Balance of Payment
BOT:	Bank of Thailand
DF:	Dickey-Fuller
DGI:	Domestic Public Investment
DPI:	Domestic Private Investment
EU:	European Union
FDI:	Foreign Direct Investment
FEV:	Forecast Error Variance Decomposition
FPI:	Foreign Portfolio Investment
GDI:	Gross Domestic Investment
GDP:	Gross Domestic Product
GNP:	Gross National Product
I:	Investment
IMF:	International Monetary Fund
IRF:	Impulse Response Function
LDCs:	Less Developed Countries
M:	Import
MFA:	Ministry of Foreign Affairs
MNEs:	Multinational Enterprises
NIEs:	Newly Industrialising Economies
NESDB:	National Economic and Social Development Board

NSO:	National Statistics Office
OLS:	Ordinary Least Square
SCB:	Schwartz Bayesian Criterion
UK:	United Kingdom
UN:	United Nations
US:	United States of America
VAR:	Vector Autoregression Analysis
VECM:	Vector Error Correlation Model
X:	Export