

## ABSTRACT

Foreign direct investment (FDI) has become increasingly important in terms of capital formation and share of total foreign capital inflows. Taiwan has become a major supplier of foreign capital in Southeast Asia. Taiwanese investment in Thailand was rather small in 1980. However, it has accelerated rather since 1985. It reached a peak in 2000 and started to decline. Among investor countries, Taiwan has ranked forth since the end of the 1990. Thus it has potential to contribute significantly to the Thai economy.

The study starts with a review of theories explaining the reasons for foreign direct investment (FDI); followed by a review of previous studies investigating factors affecting the decision to invest in foreign countries, and specifically in Thailand. In this study the researcher investigates the main determinants of FDI in Thailand by Taiwanese investors during the period from 1980 to 2002. The researcher focuses on five independent variables: Market Demand (GDP), Foreign Exchange Rate, Labor Cost, Inflation and Degree of Openness. One dependent variable is FDI in Thailand by Taiwanese investors.

The researcher builds the simple linear regression model and designs the sample period from 1980 to 2002. The regression results show that, Foreign Exchange rate is the most significant relationship between FDI in Thailand and Taiwanese investment by the Taiwanese, followed by GDP, which has significant relationship with FDI, followed by Degree of Openness, which has significant relationship with FDI and lastly labor cost. On the other hand, there is one factor which have no significant relationship with FDI in Thailand by Taiwanese Investors is Inflation Rate.

The study also investigates problems associated with the operation of Taiwanese firms in Thailand. An understanding of Taiwanese investment in Thailand gained by this study is expected to lead to the improvement of economic relationship between the two countries.

