Foreign Direct Investment Operations and Exchange Rate Pass-Through Strategies: An Analysis from Spatial Panel Data

Piriya Pholphirul

School of Development Economics
The National Institute of Development Administration (NIDA)

Serithai Road, Klong-Chan
Bangkapi, Bangkok
Thailand, 10240
Email: piriya.p@nida.ac.th
Tel: 66-02-585-5356
Fax: 66-02-911-0838

Abstract

Exchange Rate Pass-Through and Pricing-to-Market behavior is an important consideration in International Economics and Industrial Organization Theory. The goal of this paper is to justify empirically the definition of Foreign Direct Investment (FDI) effect on extent of exchange rate pass-through. We estimate the model of exporters with multi-destination by observing samples of five U.S. exporting industries based on 4-digit SIC index. We approach the ideas of spatial econometrics with belief that disturbances terms are possible to spatially correlate across countries, based on geographic proximity measurement. The estimated results show that all type of foreign direct investment affect on lowering degree of pass-through while *Joint Venture* generate the most significant prediction and *Division* generate the least. The effect of having the first foreign operation in local markets is not significant to the degree of pass-through.

JEL classification: F23; F31; L11; M31

Keywords: Exchange Rate Pass-Through, Foreign Direct Investment, Spatial Panel Data