Ratchanee Wattanawisitporn

Foreign Direct Investment in Thailand

With Special Reference On European Foreign Direct Investment in the Thai Manufacturing Sector

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Ratchanee Wattanawisitporn

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Dedication

This dissertation has been dedicated to my parents, all relatives and friends in- and outside Thailand, who supported and encouraged me throughout the period of my study in Germany and to the loving memory of my brother, Chusak Triphuwanath, who encouraged me through his memorising words ***"be always patient, cool, calm, and careful"***, but passed away because of lung cancer a few weeks before starting my oral defence of dissertation 23 February 2005. With this hard moment in time and with all successes I achieved, he was the one and always with me.

Map and Thailand in Brief

Country Overview

Country: Kingdom of Thailand
Chief of State: King Phumiphon Adunyadet (since 6/9/1946)
Prime Minister: Thaksin Shinawatra (since February 2001)
Independence: 1238 (traditional founding date)
Population: 64.3 million (2004)
Location: South-Eastern Asia
Size: 514,000 square kilometres (198,455 square miles)
Capital City: Bangkok
Language: Thai, English, ethnic and regional dialects
Ethnic Groups: Thai (75%), Chinese (14%), other (11%)
Religions: Buddhism, 95%; Muslim, 4%; Other, 1%

Economic Overview

Currency: Baht (Bt)
Exchange Rate (28/10/04): US$1 = Bt41.02
Euro1= Bt52.33
GDP (2002): $126.5 billion, **(2003):** $140.1 billion
Real GDP Growth Rate (2002): 5.3%; **(2003):** 6.4%
Inflation Rate (consumer prices) (2002): 0.6%; **(2003):** 1.8%
Current Account Balance (2002): $7.6 bil.
Exports (2002): $66.8 billion
Imports (2002): $57.0 billion
Trade Balance (2003): $9.8 billion
Major Export Products (2003): Textiles, canned food, integrated circuits, rice, tapioca, rubber, maize, precious stones
Major Import Products (2003): Food and beverages, household appliances, chemicals, base metals, machinery, fuel and lubricants
Major Trading Partners (2003): Japan, United States, Malaysia, Singapore, EU
External Debt (2002): $52.3 billion

Source: Adapted from various sources (i) Country Analysis Briefs, cited from http://www.eia.doe.gov/emeu/cabs/thailand.html (22.08.2004); (ii) Thailand in Brief, cited from http://www.frangipani.com/huahin/brief.htm (22.08.2004); and (iii) The World Factbook: Thailand, cited from http://www.cia.gov/cia/publications/factbook/geos/th.html (22.08.2004)

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Abbreviations

AD	Anti Dumping
ADB	Asian Development Bank
APEC	Asia Pacific Economic Corporation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
ASID	ASEAN Supporting Industry Database
BIBF	Bangkok International Banking Facilities
BOI	Board of Investment
BOP	Balance of Payments
BOT	Bank of Thailand
BUILD	Unit for Industrial Linkages Development
CVD	Countervailing Duties
EC	European Commission
ECGD	Export Credits Guarantee Department (of the United Kingdom)
EDB	Economic Development Board, Singapore
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Areas
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIZ	General Industrial Zone
GNP	Gross National Product
GSP	Generalised System of Preferences
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communication Technology
IEAT	Industrial Estate Authority of Thailand
IFCT	Industrial Finance Corporation of Thailand
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ISDN	Integrated Services Digital Network
JCC	Joint Co-operation Committee
JVs	Joint-Ventures

LFS	Labor Force Survey
M&A	Mergers and Acquisitions
MFN	Most Favored Nation
MIGA	Multilateral Investment Guarantee Agency
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NAFTA	North American Free Trade Agreement
NEAC	National Economic Advisory Council (of Republic of Korea)
NESDB	National Economic and Social Development Board
NIEs	Newly Industrialising Economies
NRB	Non-Resident Baht Account
OBOI	Office of Board of Investment
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturing
OPIC	Overseas Private Investment Corporation (of the United States)
OSCE	Organization for Security and Co-operation in Europe
PCD	Pollution Control Department
PI	Portfolio Investment
PSE	Economic Solidarity Pact (Pacto de Solidaridad Económica), Mexico
R&D	Research and Development
RIA	Regional Integration Agreements
RIS	Research and Information System
SA	Special Area for Dyeing
SEZs	Special Economic Zones
SOEs	State Owned Enterprises
TRIMS	Trade-Related Investment Measures
TTODM	Technology Transfer from Opening Domestic Markets
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax
VMC	Vendors Meet Customers Program
WIDER	World Institute for Development Economics Research, Helsinki
WIR	World Investment Report
WOS	Wholly Owned Subsidiaries
WTO	World Trade Organisation

Preface

The attraction of foreign direct investment has been an important factor in the developing process of developing countries throughout the world. In the course of liberalization of international trade and capital flows foreign direct investment increased with two-digit growth rates over the last decades. International production became the dominant expression of economic globalisation. The fall of the Iron Curtain and the opening of several formerly closed economies to the world market once again pushed international investment and international production of multinational firms. However, this also intensified the international competition of nations to attract foreign investment. Also countries like Thailand and others with a long tradition as host countries for foreign direct investment have to adapt their policy to optimize their investment promotion activities. Although there is a large volume of literature analysing the reasons why firms engage in other countries and on the impact of foreign direct investment on the host country there is only limited research on the role of investment promotion in order to attract foreign direct investment, one of the main topics of this study.

This study offers a serious discussion of the impact of foreign direct investment on the development process and the role of the investment promotion activities in Thailand. The study becomes even more important for policy advice by a comparative analysis of experiences from the promotion activities of other developing countries. The empirical investigation of European investment in the Thai manufacturing industry offers a wealth of information on motives of investors and their rating of location factors and investment incentives. The empirical investigation of linkages with the local industry yields profound information and enlarges our knowledge on a topic where – due to limited empirical research - more or less nebulous views and speculation exist.

I hope that this valuable contribution to the literature on foreign direct investment and investment promotion will not only be of scientific interest but also helps to optimise the foreign investment promotion policy in practice.

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This PhD dissertation would not have been possible to complete without the involvement of help, interest, and support of many individuals. Since I value these people more highly than any amount of writing, my own or others', it is suitably iconic to express my gratitude to the following people at the very beginning of this Thesis for their support and assistance in continuously contributing to this publication.

Above all, I am especially grateful and thankful to Professor Dr. Axel Sell, my doctoral supervisor, who introduced me to the subject and gave me very much encouragement, support, useful comments at various stages and helpful advice throughout this study for the whole period of time of my residence in Bremen, Germany. I could not have imagined having a better supervisor and mentor for my PhD, and without his common-sense, knowledge, and perceptiveness I would never have finished. I wish also to express my warmest thanks to his wife and three wonderful daughters for giving a chance to understand and experience German culture and life.

I am greatly indebted to Professor Dr. Karl Wohlmuth, my doctoral study co-supervisor, who was helpful beyond description. I also owe a debt of gratitude to Prof. Dr. Gerhard Leithäuser and Prof. Chunji Yun (Yamuguchi University, Japan) for their valuable time as members of a supervisory committee of my doctoral defence.

I cannot leave Bremen without mentioning Mr. Tobias Schauf, Mr. Arne Meyer-Ramien and all members of Institute for World Economics and International Management (IWIM), University of Bremen, who helped and accompanied me to live in Germany. Without your support and friendship, I would not have been able to concurrently explore new environment and myself.

My thanks also go to the following persons: Mrs. Carmen Ohlsen, staff of Office of Doctorate Committee, Examination Office, who helped and guided me how to process my dissertation; Mrs. Beate Heitzhausen, consultant for international student, International Student Office, who provided me useful information about living in Bremen and advised me to join the program "Home in Bremen", for the propose of exchanging culture between foreign student and German family. Last but not least, my deeply special thank goes to Mrs. Elka Burbach, my DAAD consultant in Bonn, for her enormous help and advice throughout researching time.

A special thank is due to all the European business people, who consented to participate in my field survey and the representatives of the various government officers for their willing corporation and their valuable time during 3 months in Thailand.

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Much respect to my colleagues and all best friends, Wanpen Saisuriya (Ta), P'Tik, P'Oy, P'Anong, Bum, Um, Penny, Tui, Aom, Tuk, Pui, and Ek for putting up with me for almost two years. Last but not least, Dr. Temesgen Kifle, Mr. Abdulnaser Khalaf, and Ms. Mareike Meyn made me a happy person and gave me strength, motivation and help to get thing done.

My research study in Germany from October 2002 to December 2004, was financially supported by DAAD (Deutscher Akademischer Auslausch Dienst or German Academic for Exchange Service), and data base of the field research in Thailand was partly supported by Office of the Board of Investment. I gratefully acknowledge the support of these institutions.

Finally, I must express my thankfulness to my parents in Thailand for always being at my side, listening to me and giving me encouragement and support during this difficult period. Without their words through regularly call, this work would have been impossible. During the difficult time of this study, I'm always with God, therefore I would like to thank him for giving me a powerful spirit and strong healthy throughout the study.

I'm sure I've forgotten someone. I assure you that this is a shortcoming on my part and not on yours. I beg you to forgive me for my oversight.

As is customary and proper, I fully accept the responsibility for any shortcomings and errors found in this research thesis.

Ratchanee Wattanawisitporn

University of Bremen, Germany
March 2005

Part I
Introduction

CHAPTER 1

Introduction

1.1 Introduction

The terms of foreign direct investment (FDI) is frequently considered as concurrently being one of the consequences and drivers of globalisation which result from the existence and actions of multinational corporations (MNCs). In the process of opening up economies to participate in some of the positive impacts of globalisation, most of the countries position themselves in respect of attracting foreign direct investment. Besides, the power to attract investment from abroad and its positive impact in improving economies is valued as an important ingredient of the path to successful economic growth and development. The major reason supporting the importance of FDI as a factor in economic growth, particularly in developing countries, is that it can bring to the host economy a number of benefits such as employment generation, business culture, technology transfer, and capital formation.

Thailand has not been an exception. FDI has played an important part of the economic transition, business liberalisation, and macro-economic growth story in Thailand for over two decades up to the onset of the Asian financial crisis in the middle of 1997. At least three major trends were clearly evident in investment patterns. First, Thailand was one of the world's fastest growing economies and, since the 1960s, it has been one of the most successful developing countries.[1] Second, remarkably high real growth rates of 8-9 per cent were maintained almost 30 years.[2] Third, first formulating the Promotion of Investment Act in 1972 focusing on labor-intensive industry has driven Thailand more successful in attracting FDI inflows into manufacturing sectors, especially export-oriented industries such as clothing, textiles, footwear and toys, including labour intensive assembly activities in electronics and electrical goods industries.

[1] OECD Proceedings (1999b), Foreign Direct Investment and Recovery in Southeast Asia, Centre for Co-Operation with Non-Members, Paris, France, p. 207.
[2] Pakkasem, P. (1974), Development Planning and Implementation in Thailand, in Baldwin, W. L., Maxwell, W. Davis, The Role of Foreign Financial Assistance to Thailand in the 1980s, Lexington Books, Lexington, Massachusetts, Toronto, London, pp. 6-19.

Thailand has started industrialisation under the conditions of shortages in capital, technology, and skill manpower since 1960s. During the same period, the agricultural sector expanded much more slowly. This changed the structure of the Thai economy from dependence on agriculture to dependence on industries and services. A dramatic change occurred in the economic relations between Thailand and foreign nations. International trade expanded, and foreign investment rapidly increased, especially investment from the United States and Japan, major investing countries.

In terms of economic growth in Thailand as mentioned earlier, it is important to know that this rate of growth did not happen in short period of time, but had started in the late 50's, building up the economic progress for over 30 years. Thus, Thailand used direct investment as a driving force to economic growth, obtaining linkages with global and regional production networks, shifting the economy away from agriculture towards manufacturing and within manufacturing, away from textiles into electronic goods.[3] Thailand's industrial structure then has been crucial changed through FDI. In particular, foreign affiliates have dominated production and sales in many manufacturing industries in Thailand and have contributed significantly to the growth of exporting industries. It is undoubtedly that FDI has been a dynamic force in the development of Thai industries, then gave Thailand the necessary technology and capital, which lead to direct inward investment, thus came close to the level that are referred as NIEs countries .

Given the growing role of foreign direct investment and multinational corporations (MNCs) in developing countries in the age of globalisation, its contribution is expected to continue playing an important element of Thai economic development process. The question is still not only that FDI is needed, but how foreign capital and technology should be put to work in the Thai economy and such transfers can be accelerated and enhanced through FDI promotion policies and can keep Thailand as an attractively investing location.

This study examines the impacts of FDI on economic growth and related policies at the macro-level as well as the promotion activities at the micro-level in order to synthesize and provide key lessons from the Thai experience on utilizing FDI as a tool of economic development. A special reference is made to conduct a survey on the factors affecting FDI

[3] OECD Proceedings (1999b), Ob cit., p. 249.

from European Enterprises in Thai manufacturing sector dealing with the technology transfer and exports relationship with FDI in Thailand.

1.2 Background to the Study

In this era of increasingly globalised world economy, FDI is a particularly significant driving force behind the interdependence of national economies. In other words, FDI plays a key role in the globalisation process, generating both challenges and opportunities for several countries. As mentioned earlier, Thailand has not been an exception. Since first formulating the Promotion of Investment Act in 1972, Thailand has been very successful in attracting FDI inflows into this developing, transitional economy. Indeed, FDI has been an important part of the economic transition, business liberalisation, and macro-economic growth story in Thailand over the last decade or so.

In today's highly competitive international economic environment implies that it is difficult to build up an industrial capacity behind closed doors. The establishment of high policy standards and an attractive environment for FDI has become a necessity. FDI, together with trade, are the main vehicles for globalisation since the absence of transborder discrimination, complete freedom of establishment and national treatment for foreign affiliated of MNCs is comprised.[4] Failing to attract FDI causes the risk that a country, however economically successful in the past, may be deprived of the main sources of economic growth, namely capital, managerial and production capacity, jobs competitiveness and productivity. For this reason, many developing countries have now included FDI in their development strategies, as a means of fostering industrialization and enhancing the integration of their economies into the global economy and their trade competitiveness. Host countries expect that the diffusion of knowledge and technology controlled by TNCs will exert a positive impact on the upgrading of local capabilities and add to the dynamic efficiency and competitiveness of their economy. The amount of knowledge diffusion depends partly on the extent to which foreign affiliates establish and deepen linkages with local enterprises.

As with other countries actively involved in the world economic system, Thailand needs to set the conditions right to harness and promote her competitive advantage. By encouraging and

[4] Gray, H.P. (1995), The Modern Structure of International Economic Policies, Transnational Corporations, Vol. 4, no. 3, December 1995, UNCTAD, United Nation, Geneva, pp. 49-66, here p.51.

seeking to improve its attractiveness to foreign direct investment, the policy challenge for governments is to identify ways to promote the use of local firms in such a way that it contributes to a strengthening of the local enterprise and sector. In the context of development planning, the government ought to influence the performance of FDI, but in carry out this task, it is important that foreign investors, big or small, play a part in the renewal and expansion of economic activities and work hand in hand with local enterprises toward this end.

On the other hands, Thailand should be aware of the potential contribution of FDI because the foreign investor has less commitment to the host economy and is also more mobile. But most of developing countries attract MNCs to invest because they are relying on managerial and technology transfer through direct investment. Also, these types of transfer cause a spill-over effect which regards as external effect and growth in productivity in invested countries.[5] With this in mind, direct investment plays a major role in economic growth and that why it is important for Thailand, especially policymakers who put policy into practice, to analyze the country and the way to economic development in aware of the need to maintain the economic attractiveness and find out the best-practice policies to make openness work for development, including the role policies towards FDI plays in enhancing economic growth.

1.2.1 A Question of Definition: What is Foreign Direct Investment?

It is crucial to note the principle used in distinguishing between FDI and portfolio and other types of foreign investment. Base on the definition of FDI given by World Investment report, this definition specifies that:

> "Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by the resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among

[5] Blomstroem, M. and Sjoeholm, F. (1998), Technology Transfer and Spillovers: Does Local Participation with Multinationals Matter?, Working Paper 6816, National Bureau of Economic Research, Cambridge, p.1.

affiliated enterprises, both incorporated and unincorporated. FDI may be also undertaken by individuals as well as business entities."[6]

The general feature of the above definition lies in terms like long term relationship, lasting interest and control which distinguish FDI from foreign portfolio investment in international stocks and bonds and other financial instruments, since the last type of investment does not search for those terms as above defined. In keeping long-lasting relationship between foreign countries, FDI must consists of three possible components; setting up new equity from parent company to a subsidiary company or branch, expanding or taking full control of existing enterprise; reinvested profit of a subsidiary company; and long or short term loans (5 years or more) from the parent to the subsidiary.[7]

Generally, a direct investment enterprise is defined as an incorporated and unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.[8] However, sometimes, the 10 per cent limit should be treated with flexibility as other factors can also be taken into consideration to determine a direct investment relationship such as a representation on the board of directors, participation in the policy-making processes; material inter-company transactions; interchange of managerial personnel, provision of technical information, or provision of a long-term loan with preferential interest rates.

Though, it is hard to define how much property ownership one has in terms of the amount of stock each own, usually having 10 per cent or more of the total stock or share is considered as ownership of assets and management which gives foreign affiliates an effective authority on the management of the enterprises.[9] The majority of MNCs are of this type which they have the right to control the production and sell the product across the nations. In the case of Thailand, this specific perspective has been adopted as well. Practically, at least 10 per cent of

[6] World Investment Report (2002), Transnational Corporations and Export Competitiveness, UNCTAD, United Nation, New York and Geneva, p. 291. This general definition of FDI from WIR is based on OECD, Detailed Benchmark Definition of Foreign Direct Investment, Third Edition (Paris, OECD, 1996) and International Monetary Fund, Balance of Payments Manual, Fifth Edition (Washington, D.C., IMF, 1993)
[7] South Centre (1997), Foreign Direct Investment Development and the New Global Economic Order: A Policy Brief for the South, Atar, Geneva, p. 27.
[8] Bellak, C. J. (1993), Effekte aktiver Direktinvestitionen im Ursprungsland, Europäische Hochschulschriften, Verlag Peter Lang GmbH, Frankfurt am mein, p. 23, from: "Summary of OECD Detailed Benchmark Definition of Foreign Direct Investment".
[9] Framework for the Collection, Compilation and Dissemination of Foreign Direct Investment Statistics. [Online] Available: http://www.fias.net/html/services_framework.htm (14.04.2003)

foreign equity that companies participate in the registered capital is known as foreign affiliates and taken into account as FDI.

1.2.2 Overview of FDI in Thailand

Thailand is an open economy which has significantly received an increased share of FDI. In the 1960s and 1970s, FDI flow were mostly channelled into import completing industries such as textiles, automobiles, and chemicals., but in the 1980s following the Thai government's policy of promoting manufactured export, more export-oriented industries were induced to the country such as clothing, textiles, footwear and toys. More recently, labour intensive assembly activities in electronics and electrical goods industries have been the main attraction to foreign investors. In the late 1980s, after the realignment of major world currency and rapid depreciation of the Japanese Yen, FDI inflow to Thailand increased sharply. Much of these inflows had been channelled to intermediate and capital goods industries such as electrical appliances, and electronic parts and components. FDI has therefore contributed to the rapid increased in manufactured exports and also to the deepening of industrial structure in Thailand. FDI is therefore necessary for country's industrialisation.

Table 1.1: Foreign Direct Investment Net Inflows in Thailand During the Period of 1970-2002

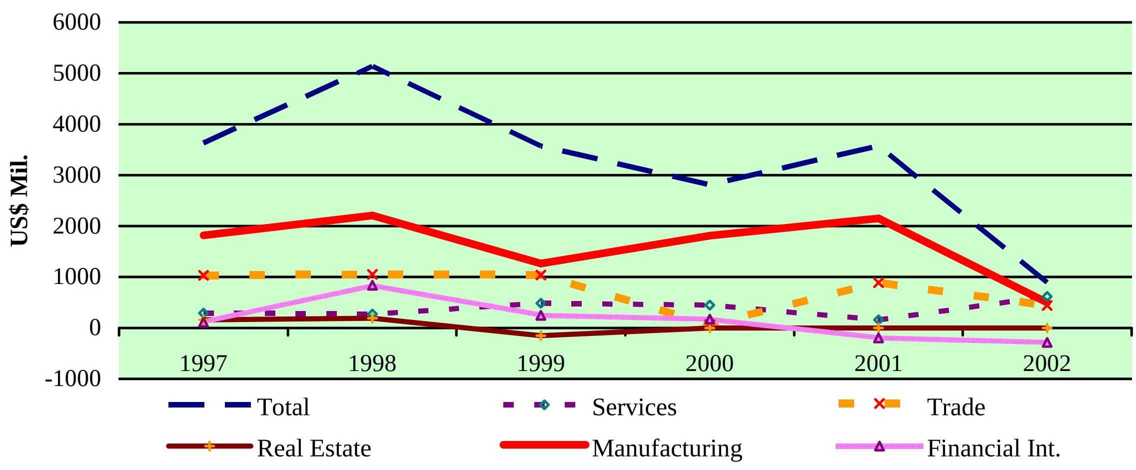
Period	Value (U$ Million)	% Manufacturing FDI of Total FDI
1970-1974	416	30
1975-1979	382	39
1980-1984	1,487	31
1985-1989	3,687	44
1990-1994	3,174	30
1995-1999	6,565	37
1995	567	28
1996	708	31
1997	1,859	50
1998	2,165	43
1999	1,267	36
2000	2,813	64
2001	3,759	57
2002	899	56

Source: Adapted from Bank of Thailand, Table 63.1: Net Flows of Foreign Direct Investment Classified by Sector (Yearly 1970-2002). Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Down load/Tab63-1.xls (21.04.2003)

Statistically, inflows of FDI to Thailand increased from around US$ 400 million during the period of 1970-74 to over US$ 14,031 million during the period of 1995-2002 (see Table 1.1).

Moreover, the share of total FDI mainly comes into the manufacturing sector over the years. During the early 1970s, manufacturing sector accounted for 30 per cent of total inflows. This increased to about 44 per cent in the period of 1985-1989. There was a mild decline in the share to around 38 per cent in the latter half of the 1990s. This was mostly due to reduced profitability in domestic market oriented investment following the on-set of the currency crisis in late 1997. However, the inflows of foreign direct investment have increased significantly, and contributed not only the foreign capital needed to manage outstanding debt, but also the technical and managerial skills needed for the restructuring of operations.[10] In 2002, the share of FDI in manufacturing sector was increasingly up to 56 per cent of its total amount.

Figure 1.1: Net FDI Inflows Classified by Sector



Source: Adapted from Bank of Thailand, Table 63.1: Net Flows of Foreign Direct Investment Classified by Sector (Yearly 1970-2002). Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Down load/Tab63-1.xls (21.04.2003)

As Thailand has been a favourite location for foreign firms escaping appreciating currencies and escalating labour costs. The flow of foreign firms has been matched by local investors who, stimulated by lower interest rates and a booming economy, have also increased investment activities. Manufacturing has been the longest recipient of FDI. Despite a decline in other sectors, FDI in manufacturing continues to expand (Figure 1.1) with various types of industrial activity such as food and sugar, textiles, electronical machinery and appliances, machinery and transport equipment, chemical, petroleum products, construction materials and so forth.

[10] Kokko, A. (1999), Thailand After the Crisis: challenges and opportunities., no page number. [Online] Available: http://www. ekh.lu.se/ac/Abstracts/Kokko.html (20.02.2003)

1.3 Theoretical Background of Foreign Direct Investment

1.3.1 FDI and Its Determinants

To understand the nature of FDI as well as its determinants is necessary for government and policy makers to improve the attractiveness of their locations to FDI. As the global situation has rapidly changed, the nature and attitude of FDI might change also. In providing and implementing the right policy to attract FDI inflow, the determinants of FDI, especially the factor affecting their decision making in choosing one particular location and not the others, are still the most essential issue till the present time. There are many theories explaining about FDI determinants. OLI approach proposed by Dunning has been mostly employed, including this study, since it is able to provide the understading of the determinants of FDI. This theory roughly lists three advantages explains how these three factors create the enterprise to direct investment. First, there must be advantage in ownership of particular assets. This means that enterprise can overcome disadvantage problem in abroad by having special assets such as technology, business management, and name of brand, investing in the ease condition of taking profit in abroad. Second, there must be the advantage of condition of location meaning that doing business abroad has more advantage than home country. And finally, there is internalisation advantage. This occurs when the transaction of special assets between the corporations become difficult to carry out by a cause of market failure. Therefore, the transaction becomes internalized within the same production or business group, avoiding the loss from the market and creating a benefit to direct investment.

1.3.2 FDI and Its Effects

In the current process of globalisation, multinational corporations play significantly a starring position. The share of international capital flows accounted for by FDI of multinationals has been increasing in recent decades. UNCTAD (2001) reports that from 1986 through 2000, worldwide cross-border outflows of FDI rose at an annualised rate of 26.2 per cent, versus a rate of just 15.4 per cent for worldwide exports of goods and non-factor services. In the second half of the 1990s this difference widened to 37 per cent versus just 1.9 per cent.[11]

As mentioned earlier, the term FDI has distinguished itself from other types of international capital such as portfolio investment or dept purchases due to the connection of some degree of

[11] UNCTAD (2001), World Investment Report 2001: Promoting Linkages, United Nations Conference on Trade and Development, United Nations Publication, New York and Geneva. p. 10, table I.1.

ownership control. In the light of the new economic growth theory, FDI is defined as an important factor which contributes to economic growth through technology transfer, efficiency improvement, and its intricate link with trade flows and foreign exchange demands in a country.[12] More specific to conclude, FDI can affect economy through a variety of channels. The following effects contributed by FDI are literally considered. [13]

(i) It helps in transfer of technology and skills.

(ii) It provides management and training of local managers.

(iii) It can help in the training of local manager and the creation of the indigenous skills in administration, marketing, and other business techniques.

(iv) In appropriate forms and with appropriate safeguards; it can contribute to the growth of local entrepreneurship.

(v) It may by changing the market structure, contribute to more vigorous competition.

(vi) It helps in establishing contacts with overseas banks, capital markets, markets for products; sales organisations and other institutions and it opens a previously closed society to world wide influences.

(vii) It may also contribute directly to filling the savings and the foreign exchange gaps by contributing to tax revenue.

(viii) It may create, directly and indirectly, employment opportunities.

(ix) It may raise domestic wages, or improve the terms of trade.

In addition to the clear effects of FDI, economic growth is also dependent on the set of conditions in the local economy. Thailand’s economic growth over the past few decades has been built on relatively low-tech industrial development dependent on a cheap and efficient labour force. Therefore, the development path of Thailand was successful in shifting resources from traditional agriculture to labor-intensive manufacturing and huge amounts of FDI helped fuel the Thailand economic growth.

Within FDI, there are often trade-offs between different benefits and objectives. Countries may, for instance, have to choose between investments that offer short as opposed to long-term benefits. In this circumstance, foreign firm involvement may lead to static gains but not

[12] Sun, H. (1998), Foreign Investment and Economic Development in China: 1979-1996, Ashgate Publishing Ltd., Aldershot, England, p. 3.

[13] Sell, A. (1983), Resourcenallokation und Technologietransfer, Verlag V. Florentz GmbH, Muenchen, Germany, p. 8. See also Streeten, P. (1971), New Approaches to Private Overseas Investment, in Peter Ady [Ed.], Private Overseas Investment and the Development World, New York, p. 51-85, here p. 59.

necessarily to dynamic ones, such as infrastructure and living standards. A large inflow of FDI can add to investment resources in a host economy but it may discourage the development of local firms. The desire to generate employment may lead governments to favor labor intensive, low technology investments, while promotion of technology development may favor more sophisticated investors. Similarly, the desire to upgrade technology may call for a heavy reliance on technology transfer by foreign investors, while to promote local innovation may require more emphasis on arm's length transfers to local firms. There can be many such trade-off, and there is no universal answer to how they should be made. Thus, there is no ideal policy on FDI, which applies to all countries at all times.[14]

Rather than determining whether FDI is good or bad for economic development, the focus should be on ensuring that it contributes in a balanced and sustainable way to the reasonable aspirations of host countries. Some foreign investors acknowledge that investment decisions and performance in host countries could have both positive and negative impacts on the local economy depending on policies of host countries.[15] Therefore, government and policy makers need to be careful in selecting policy in order to capture the benefit, to avoid the danger and to maximise the distribution of FDI.

1.3.3 Empirical Analysis of FDI and Growth

The relationship between FDI and growth is a subject of strong attention, especially for developing countries. A theoretical framework from various studies[16] has been developed for the empirical analysis of the relationship between FDI and economic growth. A number of studies have argued that one potential engine of economic growth is FDI. It is considered as an engine, not only for providing financial assets, but also for transferring highly developed technology, managerial skill, international marketing network, and innovative products. The latter are considered as "spillover" effects which can be gained through technology improvement or innovation helps promote economic growth and the "spillover" effects of FDI could certainly be a source of such technology development.

[14] Soontiens, W. and Haemputchayakul, S., Sustainable Globalization and Emerging Economies: The Impact of Foreign Direct Investment in Thailand, Curtin University of Technology, Australia, pp. 371-384, here p. 372, from: OECD (1999), Foreign Direct Investment, Development and Corporate Responsibility Organisation for Economic Co-operation and Development, OECD Publications, Paris, France.
[15] Soontiens, W. and Haemputchayakul, S., Ibid., pp. 372-373, from IFC (International Finance Corporation) (1997), Foreign Direct Investment: Lessons of Experience, International Finance Corporation and Foreign Investment Advisory Services, Washington, D.C.
[16] See Romer, P.M. (1990); Aghion, P. and Howitt, P. (1992)

Chen, et al. (1995) investigates the role of FDI in the economic development of China after the adoption of the “open-door” policy in 1978. They argue that FDI inflows are positively correlated with the post-1978 economic growth in China by contributing to capital formation, export earnings, and bringing about advanced managerial skill. The authors find that a 1 per cent rise in FDI lag leads to a 0.635 per cent increase of GDP in the current year.

The result of Blomström, et al. (1992) can be given similar results. He focuses on growth in real income per capita for 78 developing countries by employing time series and panel data from 1970 to 1990 for his study. One of the study’s focal points is the effect of FDI and trade on economic growth which FDI by multinationals is found to be positively associated with per capita income growth in the long run through technological upgrading and knowledge spillovers from foreign to local firms.[17]

It is sometimes argued that the impact of FDI on economic growth depends on the characteristics of different countries. Agrawal (2000) focuses on five developing South Asian countries (India, Pakistan, Bangladesh, Sri Lanka, and Nepal) and tests the impact of FDI on economic growth in these five countries over the 1965-1996 periods. He argues that FDI inflows in developing countries could possibly have two impacts on growth. On the one hand, FDI promotes growth through different channels, such as capital inflows, and technology transfer. On the other hand, multinational firms might take profits out of the developing countries, which will lead to a negative impact on economic growth. He found that the impact of FDI inflows on economic growth in these five Asian countries is negative prior to 1980, positive in the early eighties and gets increasingly positive since then. Agrawal believes this result is driven by the fact that these five Asian countries adopted less open policies prior to the 1980s, but they gradually switched to more open international trade policies.

Borenzstein, et al. (1998) focuses on the effect of FDI on economic growth in a cross-country framework. Their study focuses on FDI inflows in 69 developing countries from OECD countries over the period of 1970 through 1989. FDI is considered an important vehicle for technology diffusion and is found to contribute to host country’s economic growth. However,

[17] Blomstöm, M., Lipsey, R.E. and Zejan, M. (1992), What Explains the Growth of Developing Countries, Working Paper No. 4132, National Bureau of Economic Research, Cambridge, USA. p. 23.

the authors find that FDI can increase host country's economic growth only when the host country's human capital level achieves a certain threshold stock.

Balasubramanyam, et al. (1996) investigate the effect of FDI inflows in export promoting (EP) and import-substituting (IS) countries. "EP strategy is one which equates the average effective exchange rate on exports to the average effective exchange rate on imports," and "IS strategy is one where the effective exchange rate on imports exceeds the effective exchange rate on exports." The authors try to test the hypothesis proposed by Bhagwati (1978), which states that countries adopting the EP strategy are likely to attract more FDI than countries adopting the IS strategy. Moreover, the EP strategy promotes a more efficient utilization of FDI inflows. They conduct panel regressions using annual average data relating to 46 developing countries over the period of 1970-1985 are conducted. The ratio of imports to GDP for each country is used to distinguish EP and IS countries. The authors argue that the elasticity of output with respect to FDI is significantly positive in EP countries, while not statistically different from zero in IS countries. Moreover, the elasticity is significantly greater in EP countries than in IS countries. They confirm that in EP countries, FDI inflows promote economic growth and EP countries utilize FDI more efficiently compared with IS countries.

There is ample evidence of a positive impact of FDI on economic growth in developing countries, while the evidence of the contribution of FDI inflows to the economic growth of developed countries is mixed. Blomström, et al. (1992) argued that FDI not only contributes to the economic growth of developing countries, but also has a significantly positive impact on the group of countries that includes an additional 23 developed countries.

Brimble, P. (2002) studied FDI in Thailand and found that foreign firms on average utilized labor and capital 50 per cent more efficiently than Thai firms, although a group of highly productive Thai firms also performed as well as their foreign counterparts. This indicates strongly the critical role that FDI can play in contributing to overall productivity as well as economic growth.[18] It has also been found that foreign enterprises in Thailand are becoming

[18] Brimble, P. and Sibunruang, A. (2002), Foreign Direct Investment: Performance and Attraction: The Case of Thailand, Paper prepared for a workshop on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos and Vietnam in Hanoi from August 16-17, 2002, p. 17, from: Dollar, D., Hallward-Driemeier, M., Iarossi, G. and Chakraborty, M. (1998), Short-term and Long-term Competitiveness Issues in Thai Industry, in Competitiveness and Sustainable Economic Recovery in Thailand, edited by Witte, J. and Koeberle, S. (1998), The World Bank. [Online] Available: http://www.imf.org/external/pubs/ft/seminar/2002/ fdi/eng/pdf/brimble.pdf (06.07.2003)

more involved in innovative programs to train and to undertake technological activities. He further argued that FDI has made important contributions to the Thai economy beyond simply generating new employment. It saved many jobs during the crisis by helping to capitalize failing local industries. Other less evident benefits include bringing in new technology and industries to stimulate competitiveness, improving corporate governance and standards for working conditions, strengthening local capabilities through linkages, and assisting with policy reforms and industrial restructuring.

1.4 The Purpose of Study

The increasing role of foreign direct investment as well as multinational corporations (MNCs) in developing countries resulting from the popularity of globalisation, especially the nature of its impact on the growth and development has made government and policymakers in recipient countries more active, even more competitive in capturing the benefit and avoiding the danger in order to maximise the contribution of FDI. The objectives of this study which will further lead to better understanding for improving the investment promotion planning process and regulate the policy on how to induce more FDI, especially from EU and maintain country as an attractive location are identified as the following conceptual frameworks.

(1) To conduct a survey on foreign direct investment in Thailand focusing on the key determinants and impacts on Thai Economy including personal interview with some European enterprises.

(2) To find out and examine the key determinants for driving European FDI into the Thai manufacturing sector as it is a major target investing group for Thai investment promotion plan based on the result of Survey.

(3) To investigate the impact of FDI on Thai economic development by providing additional empirical investigation.

(4) To find out the specific policy measures in promoting and upgrading manufacturing sector.

(5) To examine policy options, investment activities and investment strategies provided by Thai governmental authorities such Office of the Board of Investment, Ministry of Industry, as is responsible for dealing with multinationals and attracting inward FDI into country.

(6) To consider best practice experiences of selected countries as useful case studies for Thailand.

1.5 Hypotheses

According to the complexity of the real world situation reflecting from the increasing function of FDI and MNCs in developing countries, this study is going to highlight on four central hypotheses which can be distilled out in order to analyse in the context of Thailand. Those hypotheses are:

(1) The economic development in most developing countries is restrained by the shortage of capital both financial and physical, technology, skilled labour and management expertise and foreign exchange. Based on the modern theories of economic growth, technological progress, capital deepening, export expansion and employment creation and development strategies are believed to be critical factors influencing economic growth.

(2) The factor affecting FDI can be changed as the economic environment evolves over time. It is important to know that FDI is treated as a dependent variable of the system. This means that FDI is determined by various independent variables. These determinants depend on the type of FDI classified by motives of MNCs: market-seeking, resource/asset-seeking and efficiency-seeking. Such independent variables are, for example, size of a market and per capita income, wage rates, exchange rate risks, etc. Therefore, in order to estimate any determinants of FDI, these independent variables need to be taken into account.

(3) Thai manufacturing has been the longest recipient of FDI. With the growing importance of industrial competitiveness in an increasingly competitive global marketplace and the potential of the relationship between FDI and technological upgrading, government can also act as facilitators and catalysts to encourage and support foreign affiliates and domestic firms to strike up and deepen linkages through FDI promotion policies. In fact, the more linkage

promotion policies go hand-in-hand with targeted FDI promotion policy, the more they are like to be successful.

(4) In any attempt to attract FDI, the role of investment promotion agency plays a very important role. Besides, policy suggestion should be geared not only to enhance the contribution of FDI to growth, but also to improve the capacity of Thailand to participate in a proactive manner in a regional and international negotiation on a possible multilateral framework for investment. Best practice policy from different countries in terms of which policies deserve special emphasis in what type of countries under what circumstances will be useful case studies because some regions and countries might do better than others in this process.

1.6 The Scope of Study

Before we go further, it is necessary and in fact important to scope and define area of this study.

1.6.1 What are Exactly Multinational Corporations?

Multinational Corporations (hereafter, it shall be used the short form MNCs from time to time) are said to exist in all places, that their study has been taken up by researchers from various disciplines, and they are continually refers to by the government, the mass media and the general public, however, there is no general consensus on the use of the term MNCs.[19] In lieu of using ‘MNCs’, multinational enterprises (MNEs), transnational corporations (TNCs), and international corporations are generally used in some books. The United Nations Conference on Trade and Development (UNCTAD), for example, prefer to use TNCs instead of MNCs and MNEs. The term TNCs has the advantage that it has a general connotation of referring to activities taking place across national borders. In the case of the use of MNCs, one might question how many subsidiaries overseas a firm has to set up before it multinational corporation. In fact, the number of countries is not the key issue, though it nonetheless could affect the characteristics and behaviours of the company.[20]

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[19] Chen, E.K.Y. (1983), Multinational Corporations, Technology and Employment, The Macmillan Press Ltd., Hong Kong, p. 3.
[20] Chen, E.K.Y. (1983), Ibid., p. 3.

In the present study, the term multinational corporation will be used in the more general way as those firms which have a parent firm in a home country and subsidiaries in one or more host countries. In the subsidiary, some production processes take place in the sense that it is not just a sales office or the like. Foreign firm operating in Thailand or other host countries are not necessarily subsidiaries or affiliated of multinational corporations. It is often seen that foreign individuals doing business in Thailand do not have parent company elsewhere. Investment of this kind is foreign direct investment which is more general than multinational activities. In this case, these two types of investment shall be grouped together and call foreign enterprises.

1.6.2 Why European MNCs Are Selected as a Special Reference?

In this study, European MNCs are taken to consider particularly because recently the Thai government has been interested in promoting economic ties with Europe prior to its attractiveness as an export market. Moreover, Europe is the largest home region for foreign direct investment in the world, interestingly however the proportion of net flows of FDI in Thailand from European economic group is less than net inflows from Japan and the United States. Therefore, partly explored study will find out what determinants have affected the decision-making processes of foreign firms, particularly EU firms, when selecting and investing in Thailand as their location for manufacturing bases. The result can provide a fundamental idea for setting FDI policies in order to induce more FDI into Thailand.

1.6.3 Why the Manufacturing Sector and not Others?

Foreign investment in Thailand is considerable in all sectors of the economy. More recently, the contribution of foreign investment in services has been increasing very rapidly. Nevertheless, the manufacturing sector is the case in point in this study. It is not only that manufacturing sector has long been the longest recipient of FDI in Thailand, also instrumental in the economic growth of most countries both developing and developed. Besides, this sector seems to gain the benefit from FDI more than other sectors. FDI in the primary sectors, for example, do not provide the host country with the same benefits as manufacturing or even services. Therefore, to evaluate such a sector that plays a vital role in the economy will help provide the proper inputs for policy reformation and implementation.

1.7 Methodologies

This research study uses the following methods.

Firstly, descriptive or quantitative method, this will include an analysis of primary source documents specific to the Thai government-MNCs project of interests (e.g. financial and economic data). Research of secondary sources will include an evaluation analysis of opinion and current thinking in foreign direct investment literature as it relates to the proposed topic.

Secondly, survey, this method is to find the key determinants of FDI in order to attract FDI to Thailand by sending a questionnaire to conduct a survey on foreign investor confidence in Thailand in conjunction with the Office of the Board of Investment (BOI). The selected of sample companies targeted 400 European invested companies in Thailand, defined as firms with at least 10 per cent foreign capital. The majority of the participating firms are BOI-promoted companies with more than half of their shares held by foreigners. The Questionnaire will be mailed and faxed to selected sample companies. Besides, personal interview with some European companies, mainly German firms, who might be already invested or interested to invest in Thailand shall be made. This is to provide such additional information for capturing some opinions, whether Thailand is still an attractive location for investment, which is relatively concerned, but it is also important for policy making.

The survey aims to explore the following issues:

- Motivations for investment in Thailand: Why Thailand is chosen to invest?
- Principle market supplied: Does the enterprise supply the local market, regional market, market in the rest of the world or some combination?
- Mode of Entry: What the initial investment Greenfield or Mergers and Acquisitions?
- Ownership structure: Is the enterprise wholly owned by the parent firm or partially owned? Are partners local or foreign?
- Level of employment: local and expatiate?
- Has the enterprise expanded or downsized in the past five years?
- Have there been changed in employment in the past five years?
- What are plan for the next five years, expansion, downsizing?

- How do economic policy issues affect the enterprises: trade barriers, foreign exchange arrangements, tax and investment incentives?
- What are the main sources of country risk in Thailand?

To this questionnaire, we expect the result that will indicate;

- whether European investors still have confidence in Thailand as an investment market;
- whether Thailand is an ideal location for European investors;
- whether Thailand provides a good business environment and what are the major features among them and;
- whether they satisfy with concerned government agencies' services such as BOI, The Industrial Estate Authority of Thailand and the Department of Commercial Registration and other government agencies.

1.8 Structure of the Research

As a contribution to build up a framework for undertaking this research study, the Thesis is divided into four main parts. Part I gives an overview of issues and outline the research question. The focus of the study is narrowed down and the question clarified, including a theoretical and methodological discussion which constitutes the foundation for the study and some theoretical discussion to highlight the crucial role of FDI. Part II presents the key determinants and economic impacts of FDI in promoting economic growth and employment of Thailand under diverse macroeconomic conditions. Then, the illustrative case study of European foreign investment in Thai manufacturing is presented. Part III focuses mainly on investment promotion activities and policy issues. Such conditions and policy framework in encouraging FDI inflows in Thailand established by Investment Promotion Agency (IPA) including its role will be considered. In stead of paying attention only to those policies aimed at increasing the volume of FDI in Thailand, as is normally done by the national investment promotion agency, policy suggestions in enhancing the contribution of FDI to growth as well as improving the capacity of the nation based on experiences of some developed and developing countries will be examined also. This is because some countries might do better than others and these policy options in attracting FDI might assist and provide Thailand some useful lessons to avoid costly mistakes and gain the benefit from FDI.

In detail, this Thesis is divided into 8 chapters. The main aim of this first Chapter is to present an overview of some important aspects concerning the background of this research. This first section in this chapter states the background of this research. The methodologies and research structure are stated in the following sections. The analysis of this Chapter is intended to provide a starting point for the research topic, particular the determinants of FDI and the role of investment promotion agency.

In Chapter two, a structured review of literature will be provided, which attempts to explain the determinants of FDI and aims to build a theoretical foundation upon which this research is based by reviewing the relevant literature to identify research issues. This is mainly to focuses on a review of FDI determinants and its impacts on the economy through a variety of channels. A large number of factors that determine FDI inflows into a given geographical location will give investors the confidence needed to invest in those selected foreign markets. The list of these determinants may be very long, but not all determinants are equally important to every investor in every location at all times. Some determinants may be more important to a given investor in a given location at a given time than to another investor. In this study, the factors that would motivate or attract a multinational corporations (MNCs) from European countries to invest in Thailand after making the decision to go multinational are needed to find out. Since these are the factors that give the investors the confidence to commit their normally massive, expensive and scarce resources in a given foreign destination. Besides the determinants of FDI, its impacts that are likely to benefit or cost the host country will be also provided since FDI by multinationals can bring not only capital but also new technologies and managerial skills and know-how to the local enterprises and also some negative impacts that may essentially reduce the national product of the host country.

In Chapter Three, recent developments of FDI from European countries into Thailand will be presented in order to examine the relationship between EU and Thailand in terms of trade and investment in some particular industrial sectors. As Thailand increasing recognises the role that foreign direct investment, both inward and outward, can play in economic development. Foreign investors represent a source of long-term capital, employment, technology and know-how. Thailand has been highly successful in pursuing a development strategy based on European foreign investment in her economy. In these cases, FDI from EU has been associated with rapid industrialisation and a concomitant expansion of increasingly technologically sophisticated manufactured exports. The first part of this Chapter will consider the trade relationship between EU and ASEAN before examining a trade pattern between EU and Thailand in particular. However, ASEAN is also here taken into account as inevitably, as shown in the second part, the facts of EU's FDI in the world economy will be presented. In terms of Thailand, beginning in the third section of this Chapter is the discussion of total FDI into Thailand. Also roles of EU countries as investors in Thailand will be shown in the next part. Finally, conclusion of this Chapter will be presented.

In Chapter Four and Five, we will examine the impacts of foreign direct investment on Thai economy by emphasising on the key determinants driving these impacts. The analysis in Chapter 4 draws on a survey conducted in Thailand. The majority of the participating firms are European BOI-promoted companies with more than half of their shares held by foreign investors. This survey aims to explore the following issues: motivation for investment, the market orientation of subsidiaries, decision on expansion versus reduction and implications for employment, the ownership structure of investments, the method of entry into Thailand, and the impact of economic policy on operations and perceptions of risks. According to the data collected by mailing a question, the estimation of these data will be checked in order to be able to identify the characteristics of the investment project by considering location, the mode of entry, ownership and market orientation which some particular projects might fall into. Then we turn to the next section by taking a close look what are the economic impacts on Thai economy in Chapter 5, which are in at least five areas to be clarified: impact of FDI on Export Performance, Balance of Payments, Employment, Technology and Environment.

In Chapter Six, the role of government and investment policy framework will be explored in order to know what factors influences. In line with positive attitude of the Government of Thailand, the Board of Investment Promotion, which is the main government body responsible for providing incentives to stimulate the investment in Thailand, declares at home and abroad its determination to strengthen the action for increasing foreign direct investment in Thailand. The objective of the Thai Government is to orient the country towards a more active role in the world economy. Increased FDI is a key to an improved industrial policy that is concentrating on improving weaknesses in some sectors and targeting a more sophisticated local industrial structure. What is the current update policy? In particular, policy now is focused on attracting major investment, especially those that seek to promote skills enhancement, technology and innovation. These foreign investments are highly encouraged by the government. Moreover, in some sectors where the domestic industry is weak as well as investment in large knowledge industry projects, the government is now providing greater incentives for investment in those high-tech sectors and R&D projects. Inside the country, in order to support the process of internationalisation of the Thai economy, the promotion of exports and the attraction of investments and the laying out of the corresponding policies and strategies are needed to work through. There are two governmental bodies that have been delegated the authority to grant business incentives intended to encourage both foreign and local investment. First, the Board of Investment (BOI) of Thailand grants general investment privileges based on the location of the enterprise. Presently, there are three general regional zones that contain different levels of investment privileges. The government is attempting to decentralise investment and thus the farther an enterprise locates into the rural areas the greater are the incentives attached to that regional zone. The other governmental body is the Industrial Estate Authority of Thailand (IEAT) which has been delegated the authority to grant investment privileges to enterprises that are located specifically within industrial estates that have been developed either by the IEAT or as a joint venture between the IEAT and a private entity, including incentives Under the Petroleum Laws, which is newly presented. Finally, some FDI policies to enhance technology transfer and current legislative regime will be presented.

In Chapter Seven, we synthesis several case studies: Mexico, Indonesia, Singapore, South Korea, Brazil, China and Vietnam. This chapter explores the experiences from host-country FDI policy and macroeconomic conditions by examining the interaction between policy and macroeconomic variables to explain the role FDI. These case studies will help Thailand to learn such useful strategies and policies in catching up the flow of FDI. Singapore, for example, has a very unique and proactive policy by focusing on the cooperation between the public and private sectors through a variety of channels such as technological upgrading, and human development. Korea has moved the country to a new dimension based on the concept of knowledge economy by concentrated on the quality of human capital and the development of infrastructure and technology. In this chapter, China and Vietnam have been also investigated due to their outward attractiveness and fast growing economy. These are recently important issues in a global world, which are related to the role of FDI. But the main task for Thailand at this moment is not to pick the winners, but rather to provide such proper investment policies and strategies and to create an environment in which enough winners to pick Thailand.

The Last Chapter has laid the conclusion and lessens which has been learned from this research problem and research questions. The result of questionnaire as well as its fact finding will be presented, including some policy recommendations. The clearest conclusion for this chapter is to illustrate literature critique, the remaining core chapter of 3, 4, 5, 6 and 7 are lightly linked through economic impact and promotion activities, through questionnaire regarding to the key factors determinants on European FDI decision making and as well as officials from concerned organisations which can lead to the ways of attracting more inwards foreign direct investment.

CHAPTER 2

Determinants of FDI and Consequences on Economy: Issues and Theoretical Concerns

2.1 Introduction

Given the growing role played by Multinational Corporations (MNCs), it is possible to say that a result of its actions can change the nature of national and international economic system, whereby the countries, regions and localities of the world are homogenized by changing economic, social, political and technological forces. Prior to this complicate process, policy makers need to understand the nature of MNCs which is a key actor driven FDI in order not to be eager to attract this type of inflows and at the same time, not slow down to meet their country needs. In order to establish an appropriate economic policy for FDI as well MNCs, government and policy makers must understand this interplay between MNCs and host country. This is because FDI may not only contribute its business strategy to 'economic development and modernisation, income growth and employment'[21], but may also have negative effects on the host economy in some situations. In fact, MNCs may gain the same, more or less value-added activity from different country locations.[22] As far as the government and policymakers in any particular location concerned in formulating policies to capture inbound investment, it is necessary to understand how and why MNCs choose particular investment location and how they affect the host country economy. The purpose of this chapter will survey a number of adequate theories which are useful to assist a country's assessment of it position on the matter of increasing role of FDI and its policy stand with regard to the current drive for a global regime to attract FDI inflows.

2.2 The Issue of FDI in Thailand in the Age of Globalisation

Thailand is described as an open economy which has significantly received an increased share of FDI since 1960s. Thailand has started industrialisation under the conditions of shortages in

[21] OECD (2002), Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs, Policy Brief (October 2002), OECD Observer, p.1. [Online] Available: www.oecd.org/publications/Pol_brief (23.04.03)
[22] Dunning, J.H. (1993), Multinational Enterprises and the Global Economy, Addison-Wesley Publishing Company., New York., p.3.

capital, technology, and skill labor. This changed the structure of the Thai economy from dependence on agriculture to dependence on industries and brought a dramatic change in the economic relations between Thailand and foreign countries. International trade expanded, and foreign investment rapidly increased, especially investment from Japan and the United States. FDI has therefore contributed to the rapid increased in manufactured exports and also to the deepening of industrial structure in Thailand and stimulating economic development.

Since FDI has played a key role in the globalisation process, generating both challenges and opportunities for more and more countries undertaken by MNCs. Thailand has not been an exception, despite the fact that FDI is an important part of the Thai economic transition, business liberalisation, and macro-economic growth story. Its potential induces Governments to liberalize trade and investment policies. Thailand always encourages and seeks to improve its attractiveness for foreign direct investment. The policy action is considered as an essential factor for making country more attractive and competitive. Globalisation has direct implications for both the activities of MNCs in the developing countries and the objectives that governments have to seeking to attract them.[23] Since globalisation has increased the mobility of capital, it might be easier for a potential investor to play potential host governments off against one another in their bids to attract a major investment project.[24] Since FDI has become a major challenge for all countries, it is therefore not surprising to see that competition amongst governments to attract FDI has heated up in recent years.[25] However, the benefit of FDI should be well assessed by policy makers as Dunning states that:

> "Policy makers should be cautious about expecting easy generalisation about the consequences of FDI. Not only will its effects vary according to the kinds of FDI undertaken, but they will depend on the economic and other objectives set by governments, the economic policies pursued by them, and the alternatives to FDI open to them." (Dunning, J.H., 1997, p. 214)

Perhaps, the most important for government and policy makers at the moment is to provide an appropriate business environment and policies for maximising benefits from FDI, since the factors attracting the MNCs' choice of location in the international investment process relate

[23] Agosin, M.R. and Prieto, F. J. (1993), Trade and Foreign Direct Investment Policies: Pieces of a New Strategic Approach to Development?, in: Transnational Corporations, vol. 2, no. 2 (August 1993), Department of Economic and Social Development, Transnational Corporation and Management Division, pp. 63-86, here p.64.
[24] Oman, C. (2000), Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract FDI, Development Centre Studies, OECD, Paris, France, p.16.
[25] Oman, C. (2000), Ibid., p. 7.

increasingly to efficiency and competitiveness.[26] It is accepted that the institution of state has direct responsibility to lie down rules of the game even for MNCs to upgrade and improve the competitiveness of the country.

2.3 What Determines the Composition of FDI? : Theoretical Considerations

Prior to the role of FDI in the new world system, where trade and exchanges are increasingly open, integrated, and borderless international economy and MNCs play major role in this stage, regardless of their nationalities. All nations have considered FDI as a main source of valuable funds to contribute a growth of the country. The opening point here is the common question why firms undertake investment in a foreign country to produce the same goods as they produce at home, so what exactly determines where FDI goes? There are, of course, a number of different potential determinants of FDI flows. To answer this question, several numbers of developed theories are sought to explain the phenomena of FDI in terms of its determination. To drive theoretical concerns of foreign direct investment, a number of competing and complementary theories have been mentioned to explain the nature, causes and possible economic consequences of the rapid growth of FDI.

2.3.1 The Neoclassical Theory

To understand FDI, one must trace the origins of international trade starting with comparative advantage theory, which views trade from the viewpoint of perfect competition, to the new classical theories that focus on imperfect markets. Since the traditional trade theories have outdated to provide an explanation of FDI phenomenon because goods are assumed to be absolutely mobile while factors of production are not. Regarding to a perfectly competitive world with no barriers to trade, the international transaction of goods and services will make certain optional allocation of resources. Therefore, FDI would not be occurred because there are no incentives for FDI in the sense that the classical theory of trade does not necessitate any trade in factor inputs. Therefore, to understand the growing role of FDI, the neo-classical theory is quite useful here to address since the real world is not perfect, and countries differ in the resources that are available for the production of goods. Prior to Hecksher-Ohlin-Samuelson (HOS) model, international movement of factors of production, including capital

[26] Lall, S. (2000b), FDI and Development: Policy and Research Issues in the Emerging Context, Working Paper Number 43, Queen Elizabeth House, University of Oxford, p. 9.

movement or foreign investment, are determined by the different proportions of the primary production inputs available in different countries. Ideological concept of this international capital movement refers to a flow of investment funds from countries where capital is relatively abundant to countries and where capital is relatively scarce.[27] In other words, capital moves effectively from countries with low marginal productivity of capital to countries with high marginal productivity of capital.[28] It can be argued that a country's comparative factor endowments of capital and labour and natural resources are basics capable of influencing the location decision in foreign direct investment.

2.3.2 Industrial Organisation Theory

It can be said that the first developed theory after the failed explanation of international capital movement theory is industrial organisation theory or oligopolistic theory developed by Stephen Hymer (1976) which was the pioneer in the study of multinational enterprises (MNEs). He separated FDI from other capital movement by the word "control" or ownership. Further he indicated that control of foreign enterprises was essential in order to appropriate fully the rents or returns on advantages the firm processed, which can be achieved through international horizontal and vertical integrations.[29]

To control and operate an enterprise in foreign countries in the conceptual idea of Hymer is possible since the world market is imperfect; therefore, the procession of monopolistic advantage is a necessary condition for FDI. This is because foreigners involved in FDI had to incur additional costs when they entered into a new environment where scarcity of the host country's information, difficulty in communication, risk in exchange rates, and sometimes discrimination from government and people in that host country existed for them only. Thus, to own and control foreign value adding facilities for firms, they must process some kinds of innovation, cost, financial or marketing advantages specific to their ownership, which are sufficient to offset the disadvantages they faced in competing with indigenous firms in the country of production.

[27] Dunning, J.H. (1981), International Production and the Multinational Enterprise, George Allen & Unwin (Publichers) Ltd., London, UK, p. 21-22.
[28] Bos, H.C., Sanders, M. and Secchi, C. (1974), Private Foreign Investment in Developing Countries: A Quantitative Study on the Evaluation of the Macro-Economic Effects, D. Reidel Publishing Company, Dordrescht-Holland and Boston-USA, pp.118-137.
[29] Hymer, S.H. (1976), The International Operations of National Firms: A Study of Direct Foreign Investment, The MIT Press, Massachusetts, pp. 37-39.

This firms' ownership specific advantages have been identifies by various scholars on international production in 1960s and 1970s, notably Kindleberger (1969), Caves (1971, 1974), Johnson (1970). Hymer specified the ownership of a differentiated product or process as the advantage of the source-country firm. Kindleberger corroborated Hymer's research and illustrated these monopolistic advantages by citing four main sources of separate advantages as follows:[30]

1) The imperfect competition in goods markets, involving product differentiation, special marketing skills, retail price maintenance and administered pricing,
2) The imperfect competition in factor markets, involving the superior management skills, the existence of patented or unavailable technology, discrimination in access to capital,
3) Economies of scale, involving plant economies of scale and economies of vertical integration, and
4) Government intervention of the host country, particular those from restricting production of trade.

Caves (1971, 1974) has intensified Hymer and Kindleberger's approaches by considering FDI as market behavior. He investigated two forms of FDI: horizontal integration and vertical integration. Firstly, horizontal integration refers to the firms' main advantage enabling them to make horizontal investments to produce abroad the same line of goods as they produce in the home market that is the ability to differentiate a product. Such product differentiation is usually based on technology, design, brand name and subjective distinction created by advertising. Secondly, vertical integration refers to the firms whose production unit lie in different countries or produce abroad a raw material or other input to the production process at home. His reasons for these matters specified as follows: In the case of foreign investment in raw material in less developed countries, the reason might be shortages of local overhead capital and entrepreneurship in home country. But, in the case of vertical foreign investment among developed countries, two main motives are existed; the avoidance of oligopolistic uncertainty and the creation industry is handed by relatively few sellers. By controlling their

[30] Kindleberger, C.P. (1969), American Business Abroad: Six Lectures on Direct Investment, New Haven, Yale University Press, p. 14.

input sources, the existing firms may enjoy higher than competitive profit rates without attracting new rivals.[31]

The contribution by Johnson (1970), the transfer of knowledge is the heart of the foreign direct investment process.[32] Once new productive knowledge that is innovated, it has the character of a public good in the sense that there is no exclusion in exploiting it. Since the knowledge can be transmitted easily across national borders, it can be exploited by a subsidiary without additional cost for such knowledge, which provides a firm temporary monopolistic advantage over its competitors.

Moreover, Hymer's industrial organisation theory also explains why direct investment is preferred to exporting or licensing in exploiting such monopolistic advantages. The reason is profit maximisation. Exporting can be restricted by tariff and transport cost barriers, or other advantages of direct presence in the local market such as adapting a product to suit the local environment, stimulating the local demand. He further argued that, in the oligopoly market structure, licensing to a host-country firm causes some significant costs to MNCs. One arises from the market impurity, there is a difficulty of reaching an agreement between them. Another is the inconvenience of controlling price and output aboard. The other is that the licensee may discover a process that substitutes for the advantages, which in turn makes the licensor lose the advantages.[33] Therefore, in order to maximise profit or minimise cost, the owners of advantages should operate their own enterprises aboard.

Though the industrial organisation theory has a great contribution to elaborating on FDI, it is criticised by many economists in various aspects. Firstly, it ignores location factors in elaborating on international investment. It may answer the question of why firms decide to operate an enterprise aboard, but it fails to answer the question of why firms decide to locate their activities in one country rather than another. Secondly, the notion of ownership specific advantage explains FDI only in the short run when endowments of proprietary knowledge among firms are fixed. Thirdly, it concentrates mainly on the relationship between direct investment and local firms in the host country. Aliber argued that this advantage is not

[31] Caves, R.E. (1993), International Corporations: The Industrial Economics of Foreign Investment, in Dunning, J.H. (ed.), The Theory of Transnation Corporations, Routledge, New York, pp. 68-69.
[32] Johnson, H.G. (1970), The Efficiency and Welfare Implications of the International Corporation, in Kindleberger, C.P. (ed.) (1970), The International Corporation, The MIT Press, Massachusetts, pp. 35-37.
[33] Hymer, S.H. (1976), Op. Cit., pp. 49-51.

specific to individual firms, but to all firms based in a particular currency area.[34] Therefore, it is essential to take into account other theories that concern location-specific factors and develop a general concept of FDI.

2.3.3 Internalisation Theory

This theory developed by Hymer (1968) before it was extended and developed by several economists in 1970s and later, notably McManus (1972), Buckley and Casson (1976), and Rugman (1980).

These internalisation economists argued that there are imperfections in the markets for important intermediate products (intangible products); for example, innovated knowledge, human capital, marketing and management skill. These market imperfection stem from their appearance of natural and government induced externalities. Hence, linking different activities through these markets generates time lags and transaction costs to firms. Consequently, firms are induced to replace these external markets with their own internal market for these products. Once the firms internalise these intermediate product markets across national boundaries, this generates FDI. In addition, this internalisation is undertaken if and only its benefits outweigh its costs.

Buckley and Casson (1991) developed five significant advantages of internalisation as follows: [35]

1) It avoids time lags and increases the ability to create and control production.
2) It increases combined benefits by facilitating discriminatory pricing in an internal market.
3) It avoids an indeterminate or unstable bargaining situation that might be caused by a bilateral concentration of market power.
4) It avoids the uncertainty between buyer and seller caused by unequal knowledge or information of the nature or value of a product.
5) It minimises the impact of government interventions in international markets such as tariffs, restrictions on capital movements through transfer pricing.

[34] Aliber, R.Z. (1970), A theory of Direct Foreign Investment, in: Kindleberger, C.P., (ed.), The International Corporation, The MIT Press, Cambridge, Massachusetts, and London-England, pp. 17-34.
[35] Buckley, P.J. and Casson, M. (1991), The Future of Multinational Enterprise, The Macmillan Press Ltd., London and Basingstoke, pp. 37-39.

Internalisation is strongly induces as a response to market failure in various types of knowledge, involving management know-how, process technology, etc. The reason is that the knowledge bears a public goods character; once it is disclosed, others can utilise it with no additional cost. The markets for knowledge are highly imperfect because of the weakness in government enforcement in securing the knowledge, and high costs of enforcing rights and controlling information. As well, internalisation is likely to be advantages in other markets, namely perishable agricultural products, intermediate products in capital-intensive manufacturing processes, and raw materials whose deposits are geographically concentrated.[36]

2.3.4 Location Theory

Classical location theory has generally been concentrated with the optimum location of the firm within a country. It emphasises either cost minimisation or profit maximisation. Since MNCs differ considerably in characteristics and behaviour from domestic firms, the traditional location theory has been modified by researchers when it is used to account for the location of MNCs. In essence, location theory of FDI explains where MNCs of particular nationality produce in particular host countries. Dunning (1988) used the eclectic paradigm to explain the international hotel industries. He pointed out that for a country to be more attractive to FDI, the country should possess a number of location-specific advantages.[37] Several location-specific factors will determine the attractions of a particular country for FDI.

(i) Production Cost and Availability of Inputs

Prior to location theory, given transaction cost and a range of different factor endowments or factor prices, a rational firm will supply a given market goods and services which gives it the minimum cost of production.[38] Under this consideration of production cost, MNCs may be attracted to invest in LDCs because of cheaper labor, energy or raw materials. In the case of raw materials, the motive behind the foreign direct investment is to secure the sources which are very scarce at home country.

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[36] Buckley, P.J. and Casson, M. (1991), Ibid., p. 40.
[37] Dunning, J.H. (1988), Explaining International Production, Unwin Hyman Ltd., London, UK, pp. 242-265.
[38] Smith, D.M. (1971), Industrial Location: An Economic Geographical Analysis, John Wiley and Sons, Inc., New York, p. 14.

(ii) Marketing

Dunning (1981) postulated that MNCs may invest aboard in order to save marketing cost or service local market better.[39] Marketing in the sense of foreign market, especially export usually involves more marketing costs such as transport costs and tariffs from the site of production to the place of marketing. By establishing subsidiaries in the host country, transportation cost can be saved and tariffs can be avoided. Moreover, locating the production near to the market may also proved MNCs a better opportunity for on the spot marketing, after sales servicing and production adaption to the needs of local consumers. Unlikely, Lall and Streeten (1977) pointed out that marketing has, like technology, a number of functions.[40]

- *Market research.* This enables the firm to gain an understanding to buyers' needs as they evolve in various markets.
- *Advertising and promotion.* This refers to the imparting of information to buyers and reinforcement or creation of demand for particular products or brands. Theses two functions are distinct through intermixed: advertising and product differentiation may serve existing needs and evoke or create new and valuable needs, enriching human experiences. The effectiveness of advertising and promotion in maintaining and creating market power is hardly in doubt. However, its special place in the field of foreign investment is becoming obvious that where marketing can promote the brands of particular firms successfully, regardless of the technological intensify of the industry and the innovative prowess of those firms, the market power created serves as a powerful inducement to international expansion.
- *Distribution.* This means arrangements for getting products efficiently to their markets, for distributing them to wholesalers and retailers, for maintaining adequate stocks, rebound to the benefit of the large firms, or firms with multi-plant operations,[41] though it is more likely to serve as a consequential and accumulative benefit of transitional expansion.

(iii) Government Policies

One of the most important reasons for undertaking foreign investment is government policies in terms of tariffs or direct or indirect restrictions on imports and investment incentives. It is

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[39] Dunning, J.H. (1981), International Production and Multinational Enterprise, George Allen & Unwin Ltd., New York, p. 49.

[40] Lall, S. and Streeten, P. (1977), Foreign Investment, Transnationals and Developing Countries, The Macmillan Press Ltd., London and Basingstoke, pp. 66-80.

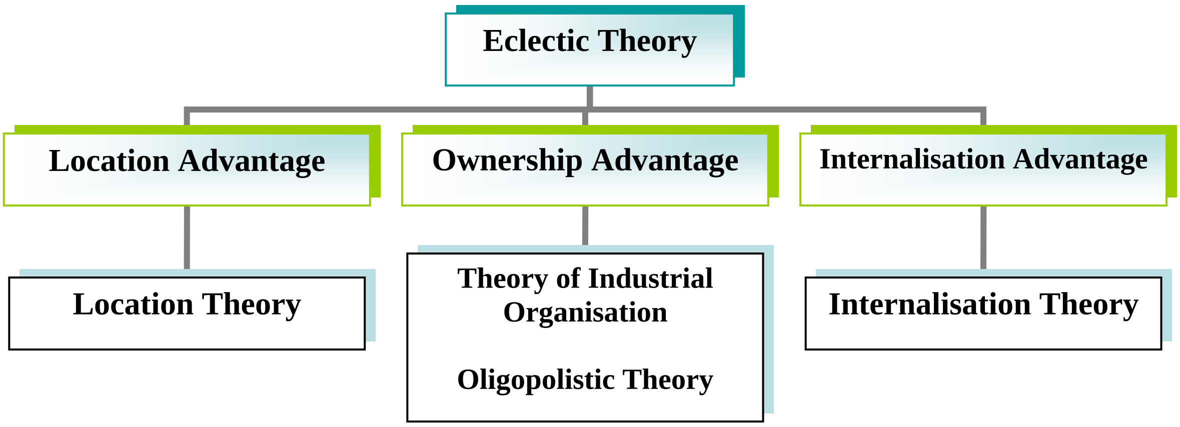
[41] Caves, R.E. (1974), The Cause of Direct Investment: Foreign Firms' Share in Canadian and UK Manufacturing Industries, Review of Economics and Statistics, Vol. 56, Aug., pp. 279-93.

generally accepted that the import substitution strategies followed by most LDCs have been largely responsible for inducing foreign firms that used to export to them from their home countries to set up manufacturing facilities there.[42] It is also mentioned that in order to avoid trade restrictions, MNCs set up subsidiaries in the country which is not yet subject to trade restrictions. The products produced by these subsidiaries are exported to those markets which have imposed restrictions on the exports of investing country.[43]

2.3.5 Eclectic Paradigm of International Production

Since it is impossible to rely on one particular theory to clarify the term of FDI, eclectic paradigm has been developed. This theory picked up ideas from variety strands of thinking, that why he used the word "eclectic" and combined them into a broader theory of FDI; the location theory, the industrial organisation theory and internalisation theory as mentioned before.

Figure 2.1: The Eclectic (OLI) Developed Model



Source: Adapted from Dunning, J.H. (1981, 1988)

The above exhibit is the most widely used theoretical framework which is well-known as the eclectic theory of international production or the OLI paradigm, developed in the work of Dunning.

As the globalisation of markets has heightened the importance of the determinants of FDI decisions, this paradigm offers a full explanation of 'why', 'how' and 'in what form' firms

[42] Lall, S. and Streeten, P. (1977), Ob cit., p. 30.
[43] Chen, E.K.Y. (1983), Multinational Corporations, Technology and Employment, St. Martin's Press Inc., New York, p. 26.

internalise their productive activities; and of 'why' and 'in what way' are countries increasingly dependent on international transactions to promote their economic objectives. According to Dunning[44], firm will consider producing aboard or engage in FDI which is commonly depends upon three sets of determining conditions; Ownership advantages, Locational advantages, and Internalisation advantages, detailed as follows:

1. *Ownership Advantages:* it is necessary for firms to possess net ownership advantages over their competitors in host country's market. These advantages mostly take the form of the privileged possession of intangible assets and should be able to compensate the foreign firm for disadvantages arising from operating abroad.
2. *Location Advantages:* it is necessary for firms to stem directly from the foreign market, when such low factor prices or customer access, together with trade barriers or transport costs make them more profitable than exporting.
3. *Internalisation Advantages:* it is necessary for firms to believe that their advantages can be better exploited by using location specific factors that are available in host countries than by exporting to foreign market.

All above conditions, WIR (1998) argued that the first and third conditions are firm-specific determinants of FDI, while the second is location-specific and it is only one condition that has a crucial influence on the host country's inflows of FDI. If only the first condition is met, firms will rely on exports, licensing or the sale of parents to service a foreign market. If the third condition is added to the first, FDI becomes the preferred mode of servicing overseas markets, but only in the presence of location-specific advantages.[45] With these three conditions, locational determinants are the only ones that allow the host governments to influence directly. Appendix 2.1 identifies variables thought to represent these OLI advantages.

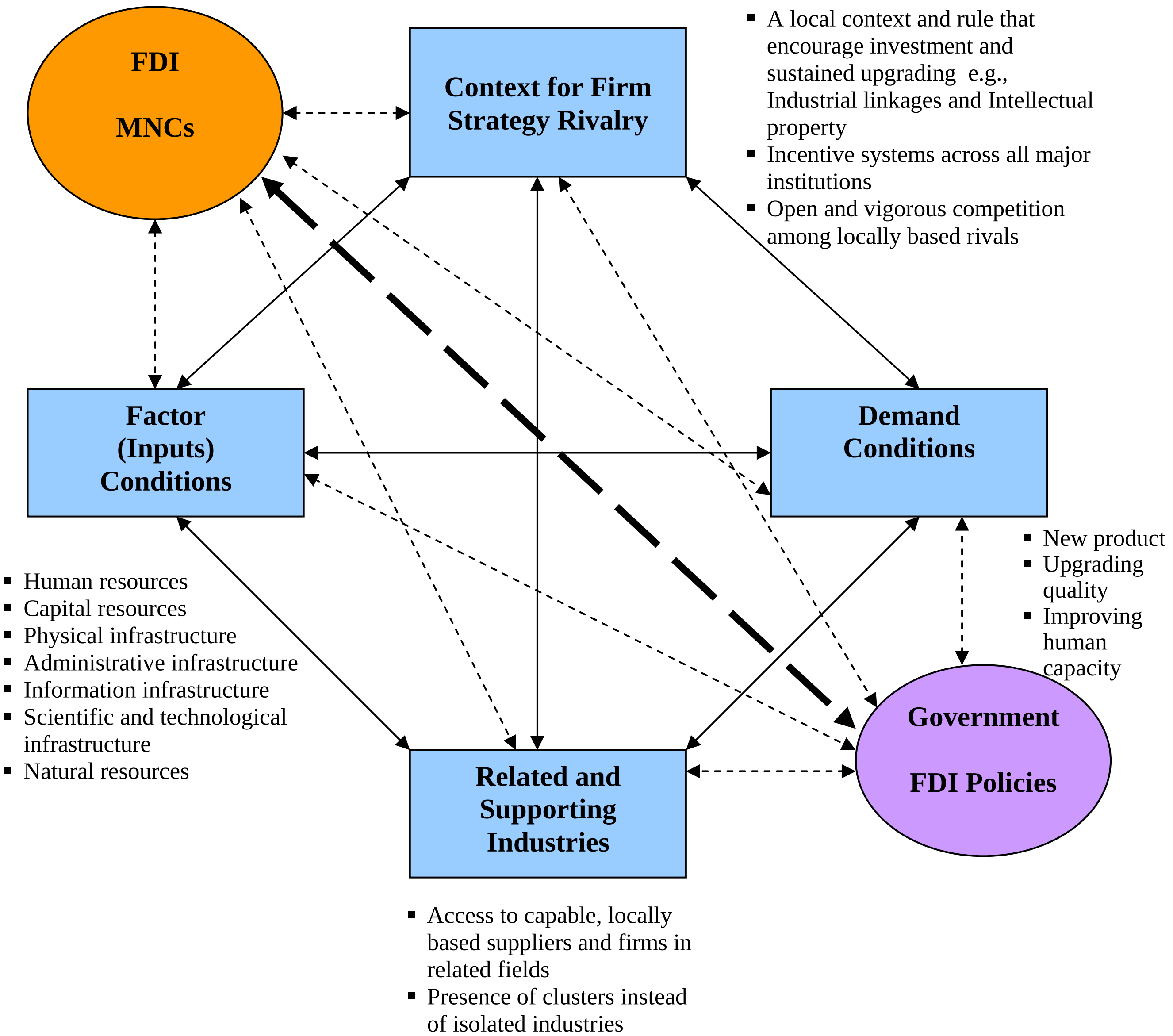
2.4 Competitiveness of Host Countries as Determinants of FDI: Analytical Framework

The analytical framework in this study is combined that of the eclectic paradigm and diamond of comparative advantage which will be used throughout the following discussion and analysis. This framework is useful to analyse the nature of MNCs and interplay between

[44] Dunning, J.H. (1988), Ob.cit., p. 26.
[45] World Investment Report (1998), Trends and Determinants, United Nation, New York and Geneva, pp. 98-99.

competitiveness advantages of countries and MNCs and the most useful case is the guideline to evaluate the inbound FDI whether it costs or benefits the country.

Figure 2.2: The Diamond of Competitive Advantage



Source: Adapted from Porter, M. (1990), pp. 71-129 and Dunning, J.H. (1997), p. 216.

According to figure 2.2, government and MNCs play different, but interrelated role in improving country's competitiveness. Dunning (1997) argued that the potential distribution of FDI should more or less help and benefit the countries to each of these following ways.

- To provide resources or capabilities at the higher cost.
- To steer economic activity towards the production of goods and services that deems most appropriate by international and domestic markets.

- To boost R&D, and introduce new organizational techniques.
- To accelerate the learning process of local firms.
- To stimulate the efficiency of suppliers and competitors, raise quality standards, introduce new working practices, and open up new and cheaper sources of procurement.
- To provide additional markets.
- To enable a host country to tap into the competitive advantages of other nations.
- To inject new managerial skills, professional excellence and entrepreneurial initiatives and work cultures.
- To encourage the formation of international co-operative alliances, technology systems and inter-firm networking.
- To foster the geographical clustering of related business activities.

(Dunning, J.H., 1997, p. 215)

Some of these ways of FDI distribution affect not only the four sets of attributes of the diamond; (i) firm strategy and rivalry, (ii) factor conditions, (iii) demand conditons and (iv) supporting activities, but also the action of host government. The role of the government, as described by Porter, is a fashioner of it structure and efficiency. Government may directly impact the supply and demand of both immobile and mobile resources and capabilities affecting competitiveness of the nation. In other words, government needs to shape the framework and system to control or determine whether national competitiveness is improved or not by their regulation and policies towards FDI.[46]

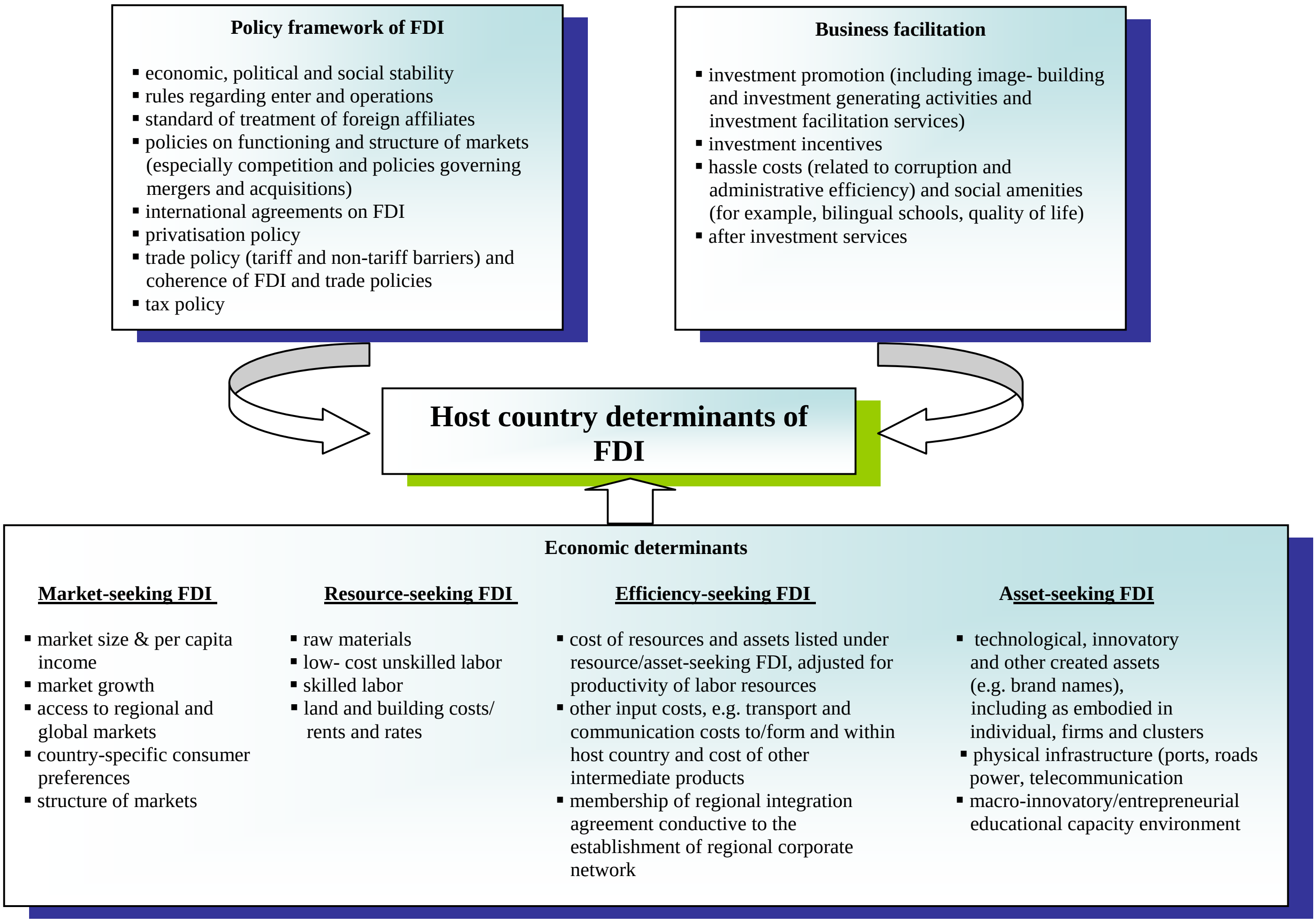
2.4.1 Host Countries Determinants of FDI: Types of FDI

Prior to figure 2.2, one factor opposite to government is FDI, especially those which arise from the multi-nationality of the investing companies. By examining the location of FDI flows and the formulation of policies to capture inbound investment, it is necessary to understand why MNCs decide to invest in one location and not the others which later in this paper, Thailand will be focused.

[46] Dunning, J.H. (1992), The Competitive Advantage of Countries and the Activities of Transnational Corporations. In Transnational Corporations ,Vol.1, no.1 (February 1992), UNCTAD, United nation, Geneva, pp. 135-168, here p. 141.

Figure 2.3 provides a full range of host country determinants of FDI that will be used in this study, especially for a field survey in Thailand. Following this figure, the type of FDI classified by motives of MNCs can be seen in four major categories; market-seeking FDI, resource-seeking FDI, efficiency-seeking FDI and created-asset-seeking FDI. The first two main motives represent for an initial foreign entry by a firm, while the latter two embrace the two main modes of expansion by established foreign investors.[47]

Figure 2.3 Host Country Determinants of FDI



Source: Based on Dunning, J.H. (1997), p. 219 and UNCTAD, WIR (1998), p. 91, Table IV.1.

This explanation can be good applied to the case of Thailand and European firms to find out such characteristics of Thailand and how these locational advantages influence European companies' motivation of FDI and location decision, including types of investment.

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[47] Dunning, J.H. (1997), Alliance Capitalism and Global Business, Routledge, London and New York, pp. 218-219.

2.4.2 Measuring the Consequences of MNCs Activities

As mentioned before, policy action by host countries is believed to be one important factor to attract FDI. This lies down on the fact that FDI cannot take place except it is allowed to enter a country.[48]

Most developing countries consider FDI a vital resource for development. However, the economic effects of FDI are very difficult, if not impossible, to be measured accurately.[49] The consequences of FDI derived from MNCs, either good or bad, can be forever discussed as long as most developing countries try to shift in their economic policy regimes either by lowering the role of the state [50] throughout liberalising their trade regulation and investment restrictions, or privatising their public enterprises in welcoming and competing to attract MNCs.

2.5 FDI and Its Overall Impacts

The view on impacts of FDI can be considered 2 sides; as just there are benefits, there may be cost also. The research outcome taken by academic economists has been differently subjected from time to time. In the 1950s and 1960s, the net outcome of FDI was considered to be more negative than positive, while in the 1970s and 1980s remained all positive.[51]

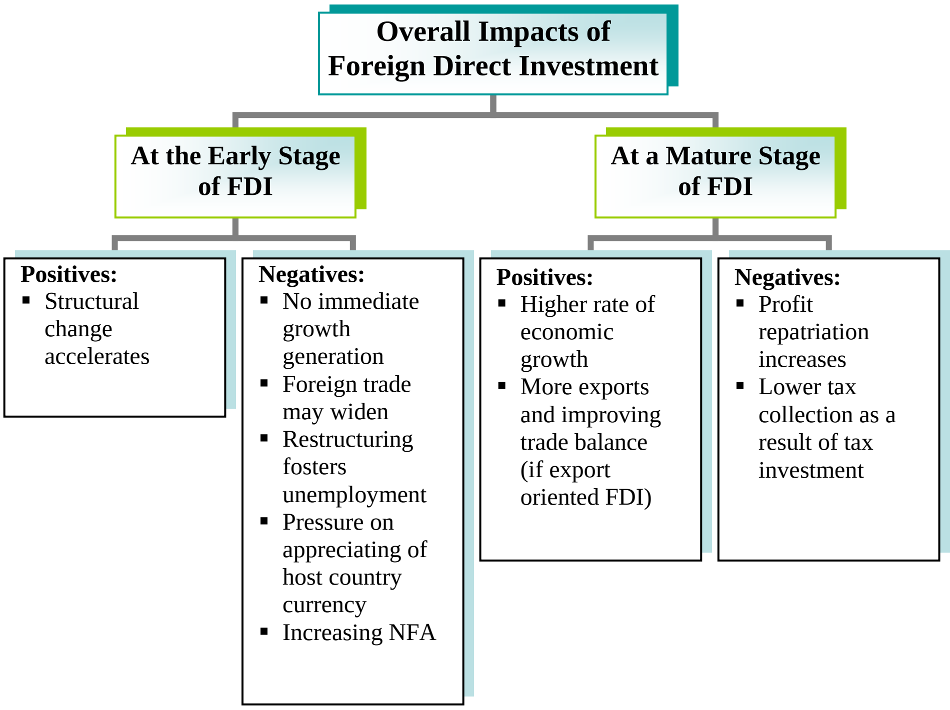
Though, FDI might benefit host countries, policymakers should assess its potential impact carefully and realistically, since the net outcome may be measured different economic activity. Theoretical approach of FDI prior to the impacts of FDI suggests that overall impacts of FDI on economy are divided into 2 stages: the early stage and mature stage as shown in figure 2.4.

In general, most countries look for only the positive impacts of FDI as they believe that this type of investment can bring in capital, technology, skills and management techniques, marketing strategies and modern environment management system and so on. However, the

[48] Dunning, J.H. (1997), Ibid., p. 93.
[49] Lall, S. (2000b), FDI and Development: Policy and Research Issues in the Emerging Context, Working Paper Number 43, Queen Elizabeth House, University of Oxford, p. 5.
[50] Savitsky J.J. and Burki, S. J., Globalization and the Multinational Corporation, Paper#3, The Japan Program's Working Paper Series on Globalisation, p. 1.
[51] South Centre (1997), Foreign Direct Investment, Development and the New Global Economic Order: A Policy Brief for the South, Geneva, p. 15.

dark side of FDI should not be abandoned as it can also effect the country's development and growth through various economic aspects. In the ongoing examination of FDI impacts, at least 5 distribution areas associated with FDI in Thailand will be investigated trade performance, balance of payments, employment, technology, and environment.

Figure 2.4: FDI and Its Overall Impacts



Source: Based on Foreign Direct Investment: Theoretical Approach, from Hunya, G. and Poeschl, J. (2001), cited from http://www.newton.cz/redsys/docs/analyzy/macroanalyses/0104_FDI___Theoretical_Approach.pdf (02.12.2002)

2.6 The Application of the Theories and the Consequences of Globalisation

The emerging nexus of globalisation has brought new dynamics within countries characterized by the increasing amounts of free flow of goods, services and capital. The theories of FDI can guild and provide the understanding of nature of MNCs why they do exist, however, the theories of FDI generate only a few focus principles for government policies with respect to magnitudes, economic sectors, technologies, and foreign and domestic markets, especially in a fully integrated world. One general lesson to be drawn from the theories is that there is no guarantee that FDI will contribute to national welfare unless decisions between MNCs and host country are made. Porter's diamond of competitive advantage has provided the floor for government action in stimulating its country more attractive and more competitive. This might be the most important point for government and policy makers before establishing any kind of FDI promotion policies, the examination of its policies toward international investment, perhaps that it must face is whether FDI is helpful or harmful in the development process and competitiveness of the nation is the net outcome of country's success. The consequences of globalisation are by no means restricted to reform economic and political activity within the country, but rather to improve and be cautious with attracting this kind of international investment.

In Thailand, attracting foreign direct investment has been a strategic economic policy adopted to upgrade technology and boost economic growth. However, one major consideration of economic policy in an ongoing of globalization at the moment subjects to income distribution which is a part of improvement economic growth and indirectly increases in per capita income. So far as the distribution of income between countries is concerned, standard theory would lead one to predict that all countries will benefit.[52]

Several literatures have developed various hypotheses to explain why FDI may potentially boost the growth rate of per capita income in the recipient country. First, FDI is one of the main vehicles of advanced technology from developed countries to developing countries.[53] Second, FDI may also raise the quality of domestic human capital and improve the know-how and managerial skills of local firms that have an opportunity to increase their efficiency by learning from and interacting with foreign firms. Moreove, FDI may ease the exploitation and distribution of raw materials that are produced in the host country, by improving the network of transportation and communication. Finally, FDI may as well have a positive impact on the productive efficiency of local frims. [54]

Consistently, FDI inflows affect both host and home countries. Further analysis in this study will be focused only macroeconomic impacts of FDI inflows on the host country's economic growth, Thailand mainly. Therefore to study how and to what extent FDI affects the

[52] Williamson, J. (1998) Globalization: The Concept, Causes and Consequences, Keynote address to the Congress of the Sri Lankan Association for the Advancement of Science Colombo, Sri Lanka (December 15, 1998), Institute for International Economics. This speech was given while he was the Chief Economist for the South Asia Region at the World Bank, no page number. [Online] Available: http://www.iie.com/publications/papers/williamson1298-2.htm (05.04.2003)
[53] Borensztein, E., De Gregorio, J. and Lee, J.W. (1995), How does Foreign Direct Investment affect economic growth?, NBER Working Paper no. 5057, March 1995, Cambridge, p. 1.
[54] Bengoa, M. and Sanchez-Robles, B., Does Foreign Direct Investment Promote Growth? Recent Evidence from Latin America, Universidad de Cantabria, p. 2, cited from http://www.ecomod.net/conferences/ecomod2003/ecomod2003_papers/Sanchez-Robles.pdf (29.04.2003)

conditions and determinants of economic growth and development will help host country government to provide an appropriate policy. Nevertheless, the effect of FDI on economic growth is an empirical question, as it seems to be dependent upon a set of conditions in the host country economy. Recently, a number of theoretical and empirical studies have been published.[55] Some may complement or contradict each other and the results may be positively or negatively given depending on the type and nature of the investment, the economic conditions and characteristics of the host country and the macroeconomic and organisational strategies and policies pursued by host country government.

2.7 Conclusions

In closing, it could be useful to review the major themes covered in this chapter. This chapter surveys a number of adequate theories of foreign direct investment which are useful to assist a country's assessment of it position on the matter of increasing role of FDI and its policy stand with regard to the current drive for a global regime to attract FDI inflows. Eclectic paradigm proposed by Dunning is the most useful one since this theory picked up ideas from variety strands of thinking and combined them into a broader theory of FDI; the location theory, the industrial organisation theory and internalisation theory in the way that how and why MNCs choose particular investment location and how they affect the host country economy. These theories of FDI are not intended to give details only the condition where capital moves abroad but also the welfare consequences of such movements. The theories of direct investment by multinational corporations, in particular, are essentially stories since many reasons have been described why firms prefer to integrate their operations across national boundaries. The reasons may have their sources in the riskiness associated with the enterprise, problems of assembling information, and making complete contracts, as well as various distortions in the structure of the firms and the economic sectors in which they operate as mentioned before.

The analytical framework in this study is combined that of the eclectic paradigm and diamond of comparative advantage together. This framework is found to be useful to analyse the nature of MNCs and interplay between competitiveness advantages of countries and MNCs, including giving some guidelines to examine the way in which the effects of FDI associated with the MNCs, especially on the host country, are conditioned by the underlying

[55] Lists of these empirical studies is provided in Appendix 2.2.

determinants of that investment. In particular, a framework has been developed within which the government can directly affect the supply and demand of immobile and mobile resources and capabilities affecting competitiveness by regulation and policies towards FDI. Therefore, the role of Investment Promotion Agency should be focused since it is directly responsible for foreign investment.

Several studies of cost and benefit of FDI reveal that there are likely benefits to the host country from foreign direct investment. It can bring not only capital but also new technologies and managerial skills and know-how that might not otherwise be available locally. However, this analytical survey indicates the various ways in which distortions and imperfections can lead to FDI that may essentially reduce the national product of the host country. In terms of how to govern multinational corporations, how to attract productive investment and how to help build strong home grown corporations, this is the responsibility of government to set the rule of the game and control the signals that activate a response by firms, which in turn, determine whether national welfare is advanced or not.

Part II
Determinants and Economic Impact of FDI
With Special Reference on European FDI in the Manufacturing Sector

CHAPTER 3

European Multinational Corporations, Trade and Foreign Investment in the Thai Manufacturing Sector

3.1 Introduction

In the face of increasing importance of globalisation, the linkages between trade and investment of home and host countries are, as has been noted by several literature, generally substitution or complementary.[56] In addition, trade and investment have always reflected the real core of economic partnerships on both sides driven by MNCs which are the main actors in the brave new world of globalised international economic involvement'.[57] FDI by MNCs has the potential rapidly to restructure industries at a regional or global level and to transform host economies into prodigious exporters of manufactured goods or services to the world market. In doing so, FDI can serve to integrate national markets into the world economy far more effectively than could have been achieved by traditional trade flows alone.[58] This main change, of course, has formed new factors and new actors, shaped within the new world order. EU and Thailand are amongst those where the global context of this changing atmosphere will certainly bring a direct impact on their international economic relationships.

The purpose of this chapter is to analyse the development process in dealing with the situation of Thailand's trade and investment patterns since trade and investment are connected. However, in elaborating the partnerships on trade and investment between Thailand and the EU, it should go beyond the bilateral trade relationships. Therefore, trade perspectives between EU-ASEAN need to be discussed as well as the trend of FDI, in order to show a general view of the relationship between EU and neighbouring countries in the same region of Thailand before focusing on Thailand in manufacturing industry in particular. Trade and investment aspects will be analysed separately, before looking at both together. Besides, an overview of industrial evolution, as a preface to a more detailed examination of the specific

[56] See Mundell, R.A. (1957); Baldwin, R.E. and Seghezza, E. (1996)
[57] Gray, H.P. (1999), Global Economic Involvement: A Synthesis of Modern International Economics, Copenhagen Business School Press, Denmark, p. 53.
[58] OECD (1998), Foreign Direct Investment and Economic Development: Lessons from Six Emerging Economies, Paris, p. 8.

role of FDI in the manufacturing will be necessarily provided, before finally focusing on the role of European countries in this sector.

3.2 The Importance of FDI and Trade

To form the new policy to attract FDI, government and policy makers need to understand the relationship between trade and investment. As countries develop and come close to industrialised country status, inward FDI contributes to their further integration into the world economy by generating foreign trade flows.[59] Theoretically, trade and FDI by multinational corporations have been tightly connected since recent efforts by international trade economics have led to the integration of the theory of multinational enterprise into the theory of international trade.[60] Through this theoretical combination, the earlier pattern of shallow integration where MNCs were typically stand-alone and only weakly integrated at the production level with Northern counterparts is becoming increasingly replaced by 'deep' integration in which MNCs are turning their geographically dispersed affiliates and fragmented production systems into regionally or globally integrated production and distribution network.[61] The product produced by MNCs is the complex bundle of inputs, produced in a variety of locations, assembled in host or home countries for sale in those countries or anywhere in the world. Therefore, to identify such a product with a single country becomes less and less meaningful.[62]

It is now clear that FDI and trade are interrelated due to a distinctive effect of MNCs activity on the structure of trade of both home and host countries resulting from their capability and motivation to internalise cross-border business. Therefore, this will influence the value added activity both within a country and between countries.[63] This effect of MNCs activity, of

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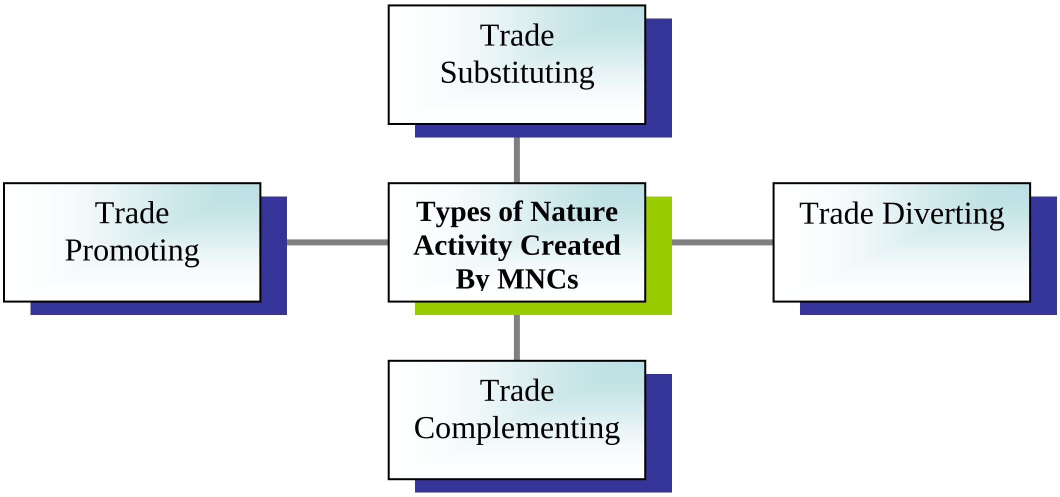
[59] OECD (2002), Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs, Policy Brief (October 2002), OECD Observer, p. 2. OECD (2002), Foreign Direct Investment for Development: Maximising Benefits, Minimising Costs, Policy Brief (October 2002), OECD Observer, p.1. [Online] Available: www.oecd.org/publications/Pol_brief (23.04.03)
[60] James R. Markusen (2000), Foreign Direct Investment and Trade, Policy Discussion Paper No. 0019, University of Adelaide, Australia, p.1.
[61] UNCTAD, World Investment Report (1994), Transnational Corporations, Employment and the Workplace, United Nations, New York, p. 138.
[62] UNCTAD, World Investment Report (1994), Ibid., p. 140.
[63] Narula, R. (1996), Multinational Investment and Economic Structure: Globalisation and Competitiveness, Routledge, London and New York, p. 99., from: Dunning, J. H. (1993), Multinational Enterprises and the Global Economy, Addison Wesley Publishing Company Inc., New York.

course, depends on the nature of its activities relative to the structure of home and host countries' market environment.

According to figure 3.1, four types of nature activity addressed by Narula are; i) trade substituting when FDI is aimed at supplying domestic markets; ii) trade promoting when FDI is aimed at acquiring offshore production facilities to supply other markets; iii) trade complementing when FDI is directed towards rationalised production and provides backup and intra industry support facilities in export markets; and iv) trade diverting when FDI is aimed at taking advantage of unfilled quota under preferential arrangement.[64]

Figure 3.1: Types of FDI Activity



Source: Adapted from Narula, R. (1996), p. 100.

These forms of activity by FDI, of course, have brought these changes, where the existence of networks of multinational hierarchies vastly improves the international flow of information within corporations[65]. The issue of the inter-linkages between FDI and trade has indefinitely been discussed due to its important role stimulating growth and development at any level of economies as 'they are able to secure basic needs, education, health, a comfortable standard of living and freedom for themselves and future generations'[66]. In other words, growth, trade and FDI are reinforced each other, helping to stimulate a long and broad economic development. Behind this implication, 'FDI and trade have long been suspected to be major conduits of

[64] Narula, R. (1996), Ibid., p. 100.
[65] Gray, H.P. (1999), Global Economic Involvement: A Synthesis of Modern International Economics, Copenhagen Business School Press, Denmark, p. 95.
[66] World Trade Report (2003), World Trade Organisation, Geneva, Zwitzerland, p. XVII.

international technology transfer'[67], changing the structure of economy from industry based on primary products to high-technology products. Since FDI and trade are both handmaidens of growth and development, it is important to understand the inter-linkages between the two.
This argument is strongly supported by UNCTAD (1996) for four major reasons concerning to this correlation. Firstly, the role of trade and investment as enhancing growth and development has long been recognised in trade and investment policies. FDI is described as the principle manner of delivering products and services to global markets, and the principle factor in the organisation of international productions, that ever more affects the size, trend and composition of world trade. Secondly, the role of FDI is now mainly reflected in FDI policies. Trade and trade policies can exercise various influences on the size, trend and composition of FDI flows. Thirdly, aside from the autonomous effects of trade and FDI on growth and development, there are inter-linkages between the two which may reduce the developmental contribution of each or may create synergies with broader growth and development implications. Finally, to understand the interrelationship between FDI and trade can help in the formulation of policies for FDI and trade in that they support one another in terms of policy objectives and their efficient implementation.[68]

3.3 EU and ASEAN

Before starting to examine Thailand in particular, it is important to begin with the trade regime between EU and ASEAN in order to show a general view of the relationship between EU and countries in the same region of Thailand, since the dramatic increase in globalisation has included the growing numbers of Regional Integration Agreements (Free Trade Areas), both within and outside ASEAN.

3.3.1 The Development of Relationship between ASEAN and EU

The relationship between two regions has long been continuing since ASEAN founded in 1967, ten years after the idea of European integration has gained further momentum.[69] The founding of the European Economic Community was not only an important step for Western

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[67] Keller, W. and Yeaple, S.R. (2003), Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the United States, NBER Working Paper Series No.9504, National Bureau of Economic Research, Cambridge, p. 1.

[68] UNCTAD (1996), World Investment Report 1996: Investment, Trade and International Policy Arrangements, United Nations, New York and Geneva, p. 9.

[69] Schröder, H.J. (1993), ASEAN and the European Community 1967-1993, Journal of European Studies, Chulalongkorn University, Vol.1 Special Issue, pp. 23-28.

European development, but it was also an important success for the inspiration of economic integration.[70] Specified the importance of both regional groupings, ASEAN as well as European Union, it is no doubt that ASEAN-EU relation have often been discussed by the economists, political scientists, historians and politicians, in Asia as well as in Europe. Schröder (1993), for example, has divided the consequent relationship of their developing partnerships as follows.

The First Phase:

This phase covers the years 1967 to 1972, which is not yet characterised by a clear cut policy between the two regional groupings. Disputes within the ASEAN states should be mentioned as well as the fact that the European Union focused primarily on Africa and the Caribbean Basin. Nevertheless, ASEAN, from its very beginning, sought cooperation with the European Community. The Declaration of Bangkok (1967) demanded close cooperation with international organisations as well as with regional economic groupings. This means de facto that ASEAN has always focused on the European Community.

The Second Phase:

The year 1972 marked the beginning of the second phase of EU-ASEAN relations. Two factors should be mentioned; i) the establishment of direct contacts between the two groupings and ii) Great Britain's entry into the European Community. Former British colonies (Malaysia and Singapore) feared the loss of Commonwealth preferences when Britain joined the EC. This problem was solved by an EC declaration to the effect that Brussels undertook to settle this issue in an appropriate manner to the benefit not only of Malaysia and Singapore, but of all ASEAN nations.

The Third Phase:

The beginning of this phase was marked by the conclusion of the ASEAN-EC cooperation agreement of March 7, 1980, on the occasion of the second meeting of Foreign Ministers of both communities. This cooperation agreement brought about an impressive stimulus in ASEAN-EC trade. The growth rates were spectacular. Within the first years after the Cooperation Agreement, EC exports to ASEAN rose by nearly 90 per cent, exports from ASEAN to the EC increased by 50 per cent.

[70] Schröder, H.J. (1993), Ibid., p. 24.

The Current Phase:

This phase was started in September 2001, when the EC-ASEAN Joint Co-operation Committee (JCC) undertook a thorough review of EC-ASEAN cooperation, particularly the difficulties encountered in implementing some fundamentals of the 1999 Work Programme. However, implementation of already agreed cooperation projects has been considerably advanced. Six projects are now underway, with a total EC financing commitment of around 63.5 million euro, supporting EC-ASEAN co-operation in energy, environment, university networking and intellectual property rights. Another two programmes to the amount of 13 million euro are launched in 2003 on standards, quality and conformity assessment, and a programme to strengthen the capacity of the ASEAN Secretariat to develop regional policy initiatives.[71]

3.3.2 Pattern of Trade between EU and ASEAN

Following the historical development path of two-way partnerships, the relationship between EU and Thailand can be positively seen from a rapid growth in EU-ASEAN trade. The following selected data in figure 3.2 (a-e) provided by European Commission can give an overview of pattern of European and ASEAN trade. In 2001, the EU was ASEAN's second largest export market and the third largest trading partner after the United States and Japan. EU exports to ASEAN were estimated at 42.7 billion euro, while EU imports from ASEAN were valued at 66.2 billion euro, demonstrating that the EU maintained its commitment to keeping its market open to ASEAN after the 1997 Asian financial crisis, firstly taken place in Thailand and spread out to other neighbouring countries.

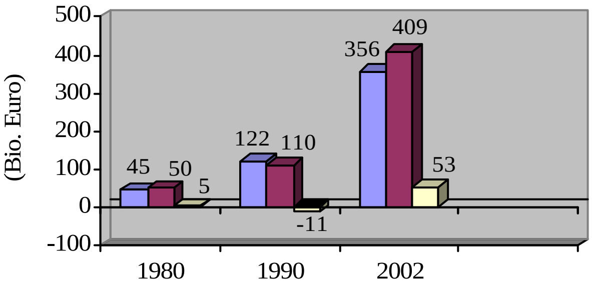
In the year 2002 ASEAN's imports and exports amounted to 356 and 409 billion euro respectively, representing 6.7 per cent and 8.3 per cent of the world flows. The EU occupies rank number four in ASEAN's imports and rank number four in its exports (Figure 1:a-b). From 1980 to 2002, EU imports from ASEAN grew by 10.35 per cent on average per year, and EU exports by 8.49 per cent. Trade with ASEAN accounts for 6.3 per cent of total EU imports and 3.94 per cent of total EU exports. ASEAN has gained its balance trade with EU in those exporting products such as machinery, textiles and clothing, and agricultural products, accounted for 12.26 per cent, 8.5 per cent and 7.51 per cent correspondingly. Major importing products from EU are those in chemical products and transport materials, accounted

[71] More details can find in EU-ASEAN Co-operation. [Online] Available: www.europa.eu.int (23.03.2003)

for 3.56 per cent and 1.89 per cent respectively (Figure 3.2: c). In the year 2001, EU imports were 10.78 and 9.07 billion euro, representing 3.61 per cent and 2.96 per cent of world flows correspondingly and exports of services from and to ASEAN (Figure 3.2: d-e).

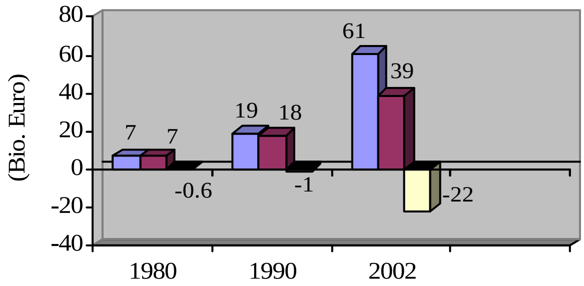
Figure 3.2: Selected Data - Trade Relation between ASEAN and EU

a) ASEAN Merchandise Trade with the World



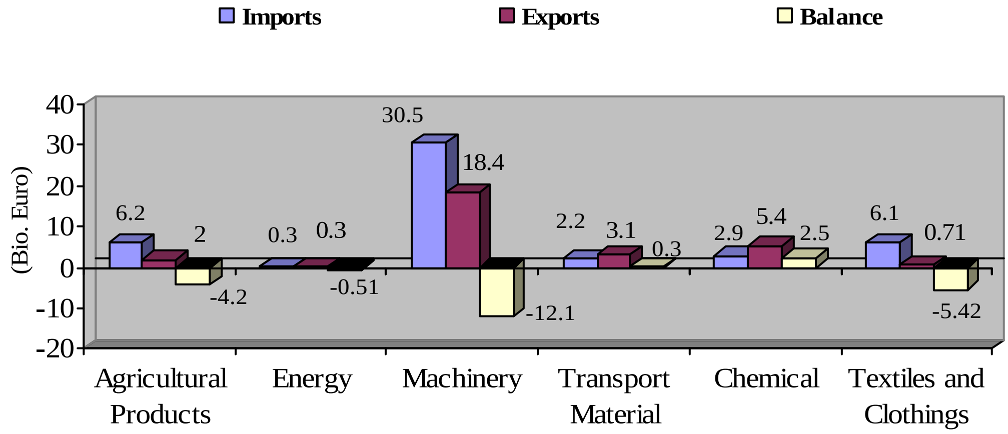
Share of the World (%)	1980	1990	2002
Imports	4.2	6.1	6.7
Exports	4.9	5.9	8.3

b) EU Merchandise Trade with ASEAN

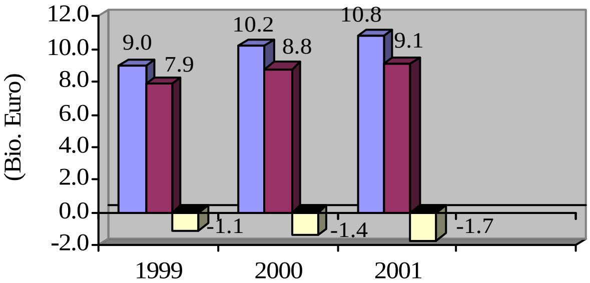


Share of EU Total (%)	1980	1990	2002
Imports	2.7	4.2	6.3
Exports	3.1	4.5	3.9

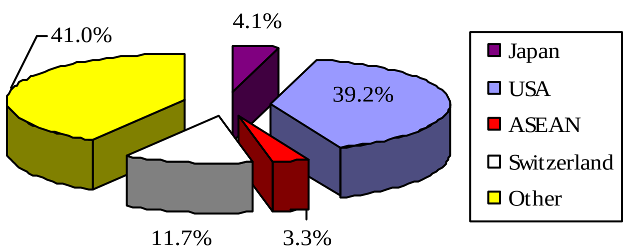
c) EU Merchandise Trade with ASEAN by Products, 2002



d) EU Trade in Services with ASEAN



e) ASEAN Share of EU Trade in Services



Source: Communication from the Commission: A New Partnership with South East Asia, p. 8, annex I. [Online] Available: http://europa.eu.int/comm/ external_relations/asia/doc/com03_sea.pdf (23.05.2003)

As a region, ASEAN has significantly benefited from the EU's Generalised System of Preferences (GSP). ASEAN countries such as Thailand and Indonesia have graduated a number of sectors where they have become competitive in the last few years, losing the benefit of the GSP for important products, especially, fishery products for Thailand. Singapore, due to its advanced level of development, is excluded from the system. The new European Commission Communication on the GSP for the period 1995 to 2004 contains proposals concentrating on the application of the GSP to encourage importers in seeking their supplies from those developing countries that have the greatest need. The proposals also contain a special incentive to encourage improved practices in the social and environmental fields. The new scheme maintains the regional cumulative provisions, of which the ASEAN countries are one of the main beneficiaries.

In lieu of consuming benefit from GSP and now is over, EU and ASEAN are working together to increase trade and investment between these two regions by sponsoring a number of economic cooperation programs. One good sample is European Business Information Centres (EBIC), which have been operated in Bangkok, Jakarta, Kuala Lumpur and Manila. These centres provided useful information to investors on business environment and market conditions in both European Union and ASEAN countries. In addition, these business centres are founded as complement activities of existing bilateral Chambers of Commerce and Industry. This relationship and cooperation has not limited itself only at regional level through ASEAN-EU, ASEM, ASEAN regional forum or ARF[72], and OSCE[73]. The European Union have also had cooperation at the bilateral level, especially Thailand, which will be discussed further in the next section.

[72] The ASEAN Regional Forum (ARF) is the principal forum for security dialogue in Asia. It draws together 23 countries which have a bearing on the security of the Asia Pacific region. The first ARF meeting, in 1994, brought together Foreign Ministers from Australia, Brunei, Canada, China, European Union (Presidency), Indonesia, Japan, Laos, Malaysia, New Zealand, PNG, Philippines, Republic of Korea, Russia, Singapore, Thailand, USA and Vietnam. The ARF's membership now stands at 23, with the inclusion of Cambodia at ARF2 in 1995, India and Burma at ARF3 in 1996, Mongolia in 1999 and the DPRK at ARF7 in 2000.

[73] The Organization for Security and Co-operation in Europe (OSCE) is the largest regional security organization in the world with 55 participating States from Europe, Central Asia and North America. The OSCE approach to security is comprehensive and co-operative: comprehensive in dealing with a wide range of security-related issues including arms control, preventive diplomacy, confidence- and security-building measures, human rights, democratization, election monitoring and economic and environmental security; co-operative in the sense that all SCE participating States have equal status, and decisions are based on consensus.

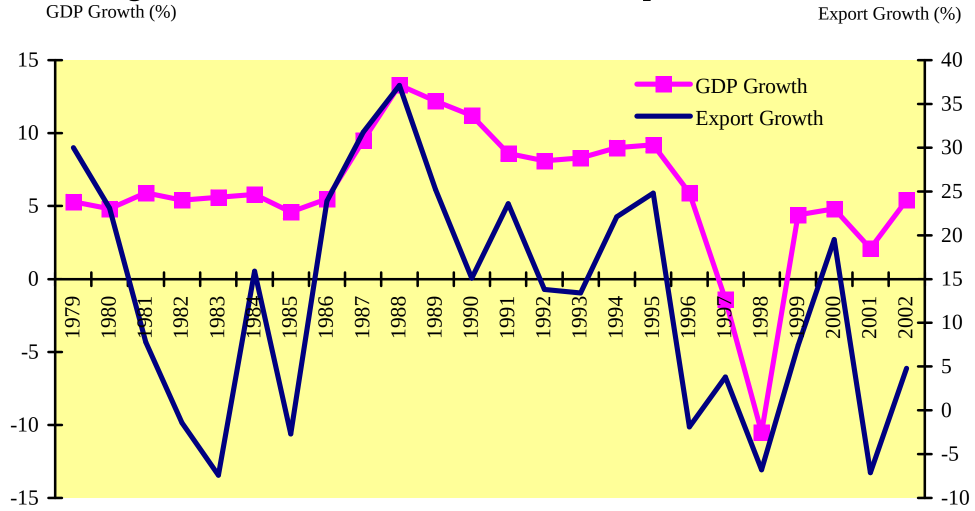
3.4 Pattern of Trade between EU and Thailand

To begin the examination of FDI in Thailand without the discussion about international trade could bring difficulties for further analysis. As mentioned earlier, the current trend towards globalisation, productions and markets are largely driven by booming foreign direct investment at a worldwide level and at the same time, without the open door to trade, investment expansion could not be easy to take place. This is because 'the opportunities for trading with other economies influence the process of economic growth'.[74] Thailand, like other ASEAN nations, practices an export-oriented industrialisation which requires an open international trade and investment. Though, Thailand was not among the first to benefit from globalisation. Besides her major role with regard to international trade development, she has also become a major actor with respect to FDI, that shall be examined later in this chapter.

3.4.1 Specific Trade Performance

The increase of foreign trade is considered crucial amongst the factors that contributed to Thailand's economic growth resulting from the government policies that began to lay emphasis on export-led growth in the 1970s. These measures were only moderately effective till the 1980s, however, it was the boom in exports that create the economic miracle of the late 1980s and brought up the GDP and export growth rate higher than ever before (Figure 3.3).

Figure 3.3: GDP in Constant Prices and Export Growth in US$

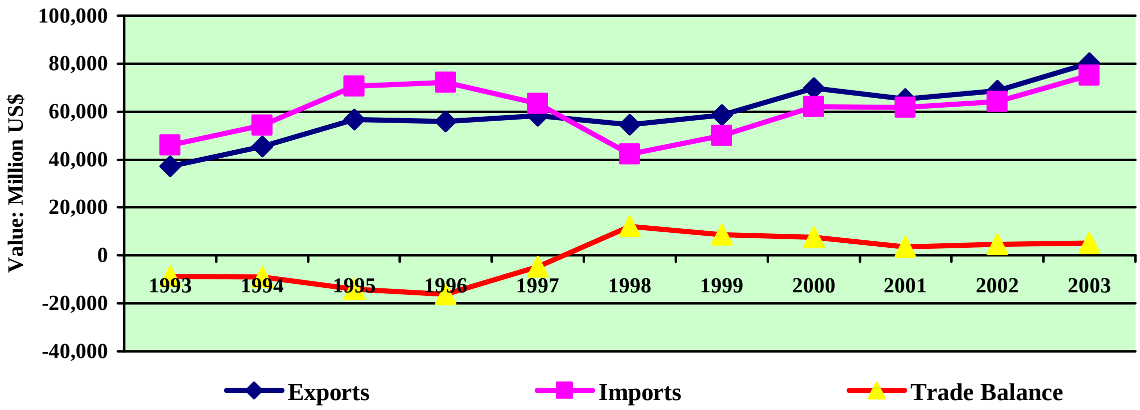


Source: Bank of Thailand, Thailand's Key Economic Indicators. Online Databank: http://www.bot.or.th/bot homepage/databank/EconData/ Thai_Key/Thai_KeyE.asp (11.04.2003)

[74] Chaudhuri, P. (1989), The Economic Theory of Growth, Harvester Wheasheaf, NewYork, London, Toronto, Sydney and Tokyo, p. 128.

Exports continued to be the main factor preventing the Thai economy from declining. Thailand experienced an economic growth boom that to a considerable extent was linked to exceptionally high growth rates in manufacturing export using high technology, including electronics and automobile products, and agricultural exports, such as rice and canned fish. From 1986 to 1995, the annual growth rate in manufactured export was almost 25 per cent - making Thailand the fastest growing exporter among leading developing countries.[75] The growth, nonetheless, decreased afterward due to the slowdown of the global economy and financial crises in Asian countries. For the first time in almost a decade, GDP growth fell below 7 per cent.[76]

Figure 3.4: Thailand's Total Exports, Imports and Balance of Trade 1993-2003



Source: Data for the year 1993-2002 based on Trade and Commerce Statistics of Thailand 2002, Ministry of Commerce, Online Databank: http://www.ops2.moc.go.th/meeting/eibus.xls (11.06.2003); and data for the year 2003 based on Thailand's Key Economic Indicators, Bank of Thailand, Online Databank: http://www.bot. or.th/bothomepage/databank/ EconData/ Thai_Key/Thai_KeyE.asp (11.04.2003)

Similarly in 2000, Thailand's exports dropped by 7.1 per cent, while imports decreased by 2.8 per cent, bringing the trade surplus down to $3,000 million. The rate decline was caused by the unanticipated weakening of the global economy resulting from the 11 September attacks and economic weakness worldwide. However, the trade situation has better improved again in 2003, exports increased by 16.6 per cent while imports increased by 16.8 per cent, bringing the trade surplus up to $5,215 million or 13.9 per cent (Figure 3.4).

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[75] Lall, S. (2003), Investment and Technology Policies for Competitiveness: Review of Successful Countries Experiences, paper prepared for United Nations Commission on Science and Technology for Development, United Nations Conference on Trade and Development (OECD), Technology for Development Series, United Nations, New York and Geneva., p.56. [Online] Available: http://www.unctad.org/en/docs//iteipc20032_ en.pdf (21. 05.2003)

[76] UNCTAD (1997), World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy, Nations United Nations Conference on Trade and Development, United Nations Publication, New York and Geneva, p. 91.

3.4.2 European Trading Partner

Term of globalization has been previously addressed in this study, however, it has been noticed not only by change in the things that are traded, but by change in who is trading them. Europe is one of Thailand's biggest trading partners, together with the USA, Japan and ASEAN. The EC-ASEAN Cooperation Agreement of 1980 has brought EU-Thailand economic relations which are characterised predominantly by the aspects of trade, investment and cooperation.[77]

Seen from Thailand's perspectives, the international trade flows of the country have increased strongly, especially in the second half of the 1980s when the overall growth of the economy was strong.

Table 3.1: Major Thai Exports to EU, 1981

Items	Value (Million of Baht)	Share (%)
Total Exports	**33,170**	**100**
Agricultural products (9 items)	20,812	63
- Tapioca	13,586	41
- Tin	4,627	14
- Canned fish, crustaceans, moll uses	790	2
- Fresh, chilled or frozen cuttlefish, squids and octopus	567	2
- Canned pineapple	479	1
- Tobacco leaves	570	2
- Fresh, chilled or frozen shrimps, prawns and lobster	193	1
Manufacturing products (10 items)	2,511	8
- Textile	1,016	3
- Garments	453	1
- Ruby, Opal	741	2
- Electronic integrated circuits	122	0.4
- Plastic products	179	1

Source: Chirathivat, S. (1993), The New Global Context of EC-Thailand's Trade and Investment Relations, Journal of European Studies Vol.1, Special Issue, European Studies Programme, Chulalongkorn University, p. 82, table 4, from Department of Business Economic, Ministry of Commerce.

The export structure of Thailand, linked to the EU market, was clearly reflected in the changing structure of the 1980's. Agricultural products were the major export goods. In 1981, agricultural exports to the EU accounted for 63 per cent of the total exports or a value of almost 21 billion baht consisting mainly of tapioca accounting for 41 percent and tin for 14 per cent. Ten major manufacturing exports accounted for only 8 per cent of the total exports,

[77] Chirathivat, S (1993), The New Global Context of EU-Thailand's Trade and Investment Relations, Journal of European Studies, Vol. 2, Special Issue, European Studies Programme, Chulalongkorn University, Bangkok, Thailand, pp. 67-91, here p. 69, from Pelkman, J. (1990), ASEAN and EC-1992, National Institution Economic Review, No. 134, November 1990, pp. 99-109.

of which textiles and clothing represented 1 billion baht or 3 per cent of the total exports (see table 3.1).

Thailand's trade statistics are impressive as Thailand and EU have enjoyed excellent trade relationships in the past. According to the current data provided in table 3.2, the volume of its trade with European Union has grown steadily over the years, even after financial crisis. The annual average total trading volume between Thailand and EU was generally around $17,400 million in the past. In recent year, Thailand enjoyed a comfortable trade surplus of $4,338 million. Thai exports to EU are unquestionable and estimated at $9,675 million for 1998, continuously to $9,845 and $10,877 million in 1999 and 2000 respectively before gradually declined in 2001 and 2002 due to the instability of global situation. Having considered the proportion of total trade value between Thailand and EU is approximately 15 per cent of the total value of Thai-World trade and continuously remains at the similar level. Nevertheless, Thailand has still enjoys trade surplus recently, import growth rate has been increased while decreased in export.

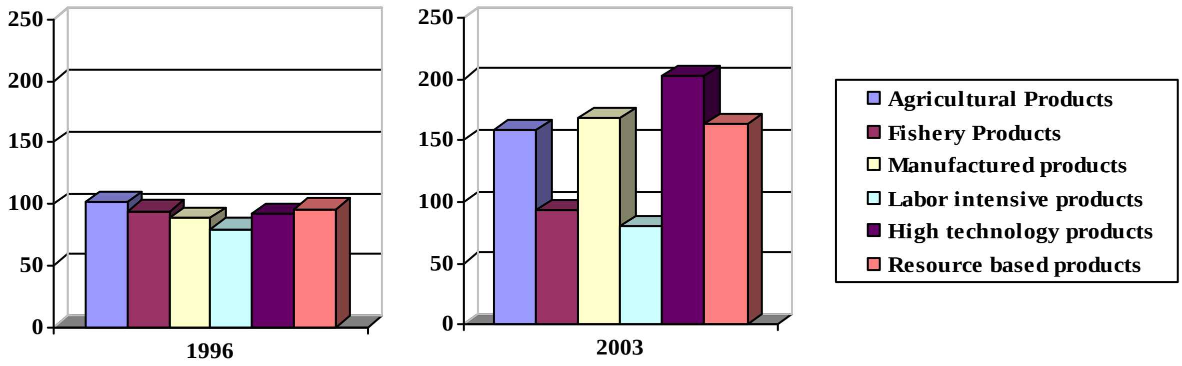
Table 3.2: Current Trade Balance and Growth of Thailand-EU

	Value (Million of dollars)					Growth Rate (%)			
Item	**1998**	**1999**	**2000**	**2001**	**2002**	**1999**	**2000**	**2001**	**2002**
Thailand-World									
Trade value	97,597.4	108,845.1	130,884.7	127,168.2	133,571.3	11.5	20.2	- 2.8	5.0
Export	54,489.3	58,495.0	68,961.3	65,111.5	68,850.6	7.4	17.9	- 5.6	5.7
Import	43,108.1	50,350.1	61,923.4	62,056.7	64,720.7	16.8	23.0	0.2	4.3
Trade balance	11,381.2	8,144.9	7,037.9	3,054.8	4,129.9	- 28.4	- 13.6	- 56.6	35.2
Thailand-EU									
Total Value	15,010.6	15,751.0	17,176.8	18,103.1	17,316.2	4.93	9.05	5.39	- 4.35
Export to EU	9,674.4	9,844.8	10,876.6	10,505.2	10,207.0	1.76	10.48	- 3.41	- 2.84
Import from EU	5,336.2	5,906.2	6,300.2	7,597.9	7,109.2	10.68	6.67	20.60	- 6.43
Trade balance	4,338.2	3,938.5	4,576.4	2,907.3	3,097.9	- 9.21	16.20	-6.47	6.55
Trade Proportion									
Trade value	15.4	14.5	13.1	14.2	13.0				
Export	17.8	16.8	15.8	16.1	14.8				
Import	12.4	11.7	10.2	12.2	11.0				

Source: Computed from UNCTAD Handbook of Statistics Databank. Online Available: http://www.unctad.org/Templates/Page.asp?intItemID=1890&lang=1 (23.05.2003)

Main Thai exports to Europe included machinery, garments, motor vehicles and parts, and electronics. Imports consist mainly of machinery, electrical items and parts. One major benefit which Thailand gained from trade as EU's business partner is Generalised System of Preferences (GSP). Approximately 74 per cent of Thai exports to the EU fall under this system and 7 per cent fall under special arrangements[78] or are exempted from duties. However, use of existing preferences has been fairly low. In an average is less than half of Thai exports take advantage of the existing preferences. In 1997, Thailand was graduated in 9 sectors, and has since then been requesting strongly that the EU regrant GSP privilege for at least some of these groups, in particular prepared food and fisheries products. For example, the export of fishery products from Thailand to the EU market registered negative growth of 48.49 per cent and 8.34 per cent in 1999 and 2000 respectively.[79]

Figure 3.5: The Change in Composition of Export Volume, 1996 and 2003



Source: Adapted from Table 50.5: Export Indices by Product Group (Non Seasonal Adjusted), Bank of Thailand, Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/ Tab50-5.xls (12.09.2003)

It is important to note that the export growth in terms of volume has been accomplished by a change in composition. There has been a distinct trend towards manufactured products away from raw materials. This reflects the shape of economy, lead to a new version of trade pattern from primary goods depending on labor-intensive and natural products available within the country to high technology goods. Figure 3.5 illustrates the composition change of export volume between 1996 and 2003.

3.5 Foreign Direct Investment in Thailand: Increasing Role of Manufacturing Sector

3.5.1 Overview of Foreign Direct Investment: Structural Change

With the emergence of more liberal attitudes and changes in government policy in Thailand and some ASEAN countries like Indonesia and the Philippines, the late 1960s marked the

[78] Two categories of export products are the subject of specific bilateral trade agreements: textile and tapioca.
[79] See European Commission, External relations: The EC-Thailand Country Strategy paper 2002-2006.

start of a new attitude to FDI and the opening of significant trade and economic growth. Linkages with global and regional production networks obtained throughout trade and FDI have been a key to the change in Thai industrial structure.

Thailand has received significant amounts of FDI since 1960 after the first development plan was implemented. The government has supported private enterprise and limited government involvement in the economy to the key utility and infrastructure sectors and to maintaining an incentive structure to encourage the private sector.[80] After that Industrialisation has been started under the conditions of shortages in capital, technology, and skilled manpower.[81] Thailand has been quite successful in opening up its economy. One of the major reasons for this increased attention was the drastic flows with an unprecedented economic boom in 1987-1999 when gross domestic product (GDP) growth reached highs of 9.5-13.3 per cent.[82] However, FDI flows and GDP growth rates have declined somewhat in the early 1990s, but remain at relatively high levels. However, this success lies in its special ability to develop trade and financial relation with the rest of the world also.

It is important also to keep in mind that the rate of growth in Thailand did not happen in a short period of time, but it started in the late 50's, building up the economic progress for over 30 years.[83] Originally, Thailand was mainly an agricultural country, but the expansion of farmland slowly came to a limit by deforestation. Since agriculture could not cover the whole increase in population and number of labor, the economic shifted to industrialization. As a result, industrialization gave Thailand the necessary technology and capital, which lead to direct inward investment, thus came close to the level that are referred as NIEs countries. Industrialisation brings significant economic change, far surpassing agricultural land. As the World Bank[84] phrased it in its East Asia Miracle Report, "Getting the basics right", meant essentially getting the financial climate right to both build domestic savings and investment and attract foreign investment. However, based on the topic "Foreign Direct Investment in

[80] Brimble, P. (2002), Foreign Direct Investment: Performance and Attraction, Presented Paper for Workshop on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos and Vietnam in Hanoi from August 16-17, 2002, p. 9.
[81] Meephokee, C. Foreign Direct Investment in Thailand's Manufacturing Sector, p. 1. [Online] Available: http://www.boi.go.th (15.03.2003)
[82] National Economic and Social Development Board (NESDB), Thailand (1988, 1992, 1993)
[83] OECD Proceedings (1999b), Foreign Direct Investment and Recovery in Southeast Asia, Centre for Co-Operation with Non-Members, Paris, France, p. 207.
[84] World Bank (1993), The Making of the East Asia Miracle, World Bank Policy Research Bulletin, Vol. 4, No. 4., August-October, 1993. Online Avaliable: http://www.worldbank.org/html/dec/Publications/Bulletins/PRBvol4no4.html (17.011.2003)

Thailand", it is necessary to put the spotlight also on the impact of FDI on Thai economy and discuss its problems in the next chapter.

3.5.2 Industrial Revolution in Thailand: Policy Importance

Investigation of Thai structural change finds that government policy has played a vital role in stimulating this transformation. The most important key in the rapid growth of manufactured production and exports is policy steering the shift from import substitution to greater focus on export promotion. Report from World Bank[85] suggests that there are three distinct stages of development in Thailand, however, based on this own survey, six stages are briefly summarised, together with major highlight of policies causing change in different certain time provided in table 3.3 afterwards.

Period 1: 1940s to early 1950s

During this period, Thailand had a monoculture economy formed by rice and rubber. The industrialization began with The Promotion of Industrial Act which was aimed to develop government-oriented industries.[86] But it failed because of absence in foreign capital, failure in developing private industries, and inefficiency in national enterprise.

Period 2: End of 1950s to 1960s

In 1958, Saritte administration[87] was established so that The Promotion of Industrial Act for 1954 could be revised based on introducing industrialization and foreign capital.[88] At this point, policy for import substituting industry was taken in, and in 1960s, Promotion of Industrial Investment was enacted after the incentive program first launched by the government in 1959. The major principles of industrial investment promotion were a combination of guarantees, permissions and incentives in the form of tax exemptions and income tax relief.[89] The latter included exemption from or reduction of import duties on imported machinery and imported raw materials and components, exemption from export duties; and income tax holidays. Lately in 1962, this act was revised focusing mainly in

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[85] OECD (1999b), OECD Proceedings: Foreign Direct Investment and Recovery in Southeast Asia, OECD Publications, France, p. 219, from: World Bank (1993), East Asian Miracle, Oxford University Press, Oxford.
[86] Maryouk, G. A. (1972), Economic Development and Policies: Case Study of Thailand, Rotterdam University Press, Rotterdam, the Natherlands, p. 197.
[87] This was marked as the beginning of modern economic development in Thailand.
[88] Yoshihara, K. (1978), Japanese Investment in Southeast Asia, The University Press of Hawaii, Honolulu, p.58.
[89] Lauridsen, L.S. (2003), The Role of the State In linkage Formation Between TNCs and Local Thai Enterprises, paper to be presented at the Workshop on 'Understanding FDI-Assisted Economic Development' 22-25 May 2003, TIK-Centre, University of Oslo, p. 10, from IFCT (The Industrial Finance Corporation of Thailand) (1991), Industrial Development in Thailand. Bangkok, Thailand, September 1991.

import of foreign capital. Also, Thailand expected the initiative from private sector in industrialization, which led to maintaining social capital in public sector. Consequently, the maintenance in social capital advanced while the share in import of consumption goods gradually decreased and on the other hand, expansion of imports in machinery equipment, raw material, and intermediate goods caused a deficit in balance of payments.

Period 3: 1960s to early 1970s

During this period, growth was driven by export primary and agricultural products derived from its rich natural resources such as rice, teak, tin and rubber. More than 80 to 90 per cent of total exported products running from the 1920s to the 1950s fall into these categories.[90] However, till the early 1970s, growth was largely based on exports of agricultural goods, while manufactured goods played a small importance. Against this background, trade was seriously controlled, especially rice exports that were under the control of a state monopoly and were discouraged by export taxes. Although, industrialisation occurred during this period, but the share of industry was below 16 per cent by 1969.[91]

Period 4: End of 1970s to 1980s

In this period, export promotion policy had begun, focusing on labor-intensive industry, but the role was limited by industrial policies favoured large-scale manufacturers in capital intensive and import substituting industries, mainly textile, automobiles and pharmaceuticals. From the late 70s, Thailand aggressively imported foreign capital to overcome the problems in cumulative debts and depression in employment expansion. In addition, the second oil crisis weakened world economy making BOI admit 100 per cent of the investment in foreign capital and curtailing industrial protection policy. This foreign capital policy in the middle of 1980’s caused Thailand to accept FDI which started the accurate export promotion in industrialization.

Period 5: End 1980s to 1996

This time, import institution was away from export promotion, in parallel with the baht devaluations. The restriction of government policies was reduced by lowering tariffs and relaxing other protective measures including price control. BOI policies were also changed by

[90] OECD (1999b), OECD Proceedings: Foreign Direct Investment and Recovery in Southeast Asia, Ob cit., p. 219.
[91] OECD (1999b), Ibid., p. 220.

granting more incentives in order to favour export-oriented projects. As a result, more manufacturing exports started to flow in the early 1980s. Particularly during 1984-88, the export boom was triggered by currency devaluation with sustainable capital from Japan and Taiwan for developing export industries.

Period 6: 1997s - Financial Crisis and Afterwards

This was the booming time for Thailand since industrial development strategies in 1987 were introduced; 27 years after the country first implemented its first economic development plan in 1961. These strategies have principally focused on promoting large-scale industries operated by MNCs, offered with tax incentives, tariff protection, and infrastructure facilities.[92] The increasing role of FDI in manufacturing industry has been continuously remarked.

Table 3.3: The Synopsis of Main Development Policy in Thailand

Major Strategies	Significances
(A) Agriculture-led growth	
1960s-the early 1970s	▪ Growth mainly based on agricultural export, 8 per cent annually ▪ Trade heavily controlled ▪ More economic infrastructure concentration
(B) Import-substitution maintained	
Early 1970s	▪ The start of policy to reduce Thailand's reliance on imports of overseas goods ▪ Favoured large scale producers in capital intensive and import substitution
Late 1970s	▪ Import substitution extended to capital and intermediate goods
1977	▪ Surcharge allowed to promote firms through BOI policy
1980s	▪ Baht devaluation resulting from the widening savings-investment gap causing the current account deficit
(C) Export-led growth	
1980s-1986	▪ Exports promoted through exemption from import duties on machinery and raw materials used only for export production
1985	▪ First time excess of manufactured exports over agricultural exports
After 1985	▪ Sharp improvement of Thai export performance resulting from the change in investment incentives, both in form and implementation
1984-88	▪ Exchange rate devaluation brought more FDI from Japan and Taiwan for developing export industries
1987	▪ Development policy concentrated on industrial decentralisation because of regional inequalities
1990	▪ Exports driven by labor-intensive industries and high technology goods

Source: Adapted from various sources (i) OECD (1999b), OECD Proceedings: Foreign Direct Investment and Recovery in Southeast Asia, pp. 219-224; (ii) Viravan, A. (1972), in: Drysdale, P. (1972), Direct Foreign Investment in Asia and the Pacific, p. 231; and (iii) Ministry of Foreign Affairs Business Handbook (2000), p. 6.

[92] Hassarungsee, R., The Global Markets and (Their Downsides on) Thailand, p. 1, cited from http://www.cusri.chula.ac.th/network/social/eng2002.pdf (23.03.2003), from: Phuaphongsakorn, N. (1999), Thailand's Industrial Development and the Idea of Self-Sufficient Economy, an article presented to the 1999 Annual Conference of Thailand Development Research Institute on Selfsufficient Economy, held on 18-19 December 1999.

3.5.3 Importance of FDI in Thai Manufacturing

3.5.3.1 FDI Performance in the Overall Economy

The significance of FDI in the Thai economy is unquestionable. It is very high, if the inward FDI as percentage of gross fixed capital formation is taken as the measure, for example. It is FDI divided by the total fixed asset investments made by foreign and domestic entities in a given year. This ratio tells something about the relative important of FDI to the country's economy which is conceptually driven by the willingness on the part of foreign investors to invest in the country relative to the willingness on the part of local investors to do the same.[93]

Table 3.4: Thailand's FDI Key Indicator

Key Indicator	1985-95	1998	1999	2000	2001	2002
FDI inflows (Million dollars)[a]	1,426	7,491	6,091	3,350	3,813	1,068
FDI outflows (Million dollars)[b]	213	132	349	-22	162	106
Inward FDI stock (Million dollars)[c]	981	8,209	17,452	24,468	29,158	30,226
Outward FDI stock (Million dollars)[d]	13	404	2,173	2,439	2,601	2,707
Growth of FDI inflows (annual, %)[e]	-	93.0	-18.7	-45.0	13.8	-72.0
FDI stock as percentage of GDP (%)[f]	3.0	n/a	9.6	20.3	25.3	23.9
FDI flows as percentage of gross fixed capital formation (%)[g]	4.2	8.0	23.0	12.4	14.4	3.7
FDI flows per capita (Dollars)[h]	-	122.4	98.6	54.1	61.2	17.3

Source: Based on WIR (2003), (a) Annex table B.1, 255; (b) Annex table B.2, p. 255; (c) Annex table B.3, p. 259; (d) Annex table B.4, p. 264; (f) Annex table B.6, p. 286; (g) Annex table B.5, p. 275; (e&h) Own computed [Online] Available: http://www.unctad.org/wir or http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1 (02.02.2004)

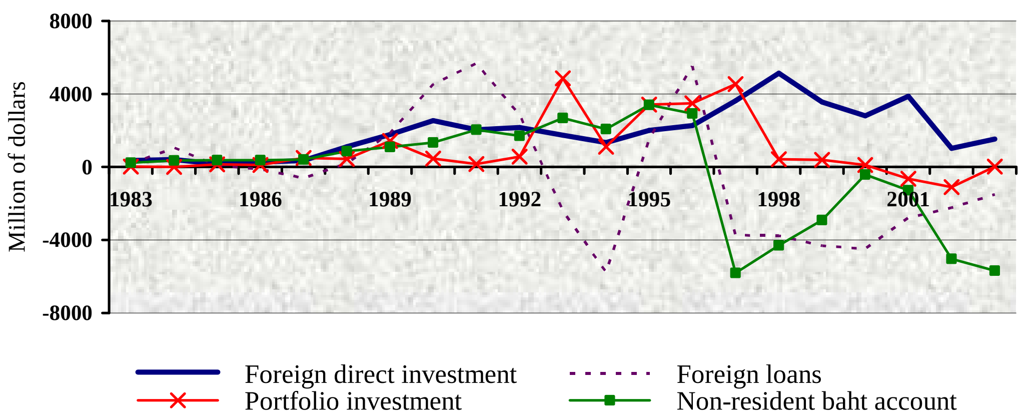
According to table 3.4, FDI was relative high, accounting for 23 per cent of the total gross investment in 1999 before slightly declined in the following years. Most severely, FDI inflows which were well performed after crisis were down by 4 per cent in 2002. Driving the most significant downturn, this is mainly due to external negative factors including a possible war in the Middle East and anticipated surging oil prices, and the slowdown in key global economies, particularly Japan and the United States. In order to see the relative size of FDI without domestic investment consideration, the FDI stocks/GDP can help to explain more clearly. By this measure, during 1985 to 1995, FDI stocks/GDP was only 3 per cent and rapidly increased to more than 20 per cent within five years.

[93] Huang, Y. (2002), The Benefits of FDI in a Transitional Economy: The Case of China, in: OECD Global Forum on International Investment: New Horizons for Foreign Direct Investment, OECD, p. 141.

It can be said that foreign capital has played a much more important role not only in the overall economy, but also in the manufacturing sector which is an outstanding part of Thai economic structure. The changing context in driving these flows to occur is notably caused by government policy. Even an increasingly important feature of the ongoing process of globalisation where technology is claimed as a key factor for country development process, this must be accompanied by a fundamental change in the policy environment for FDI.[94]

To compare the net FDI inflows[95] with other private capital, it is remarkable to understand that the net Inflows of private capital in Thailand are divided into two categories, bank and non-bank. Bank consists of commercial bank and Bangkok International Banking Facilities (BIBF) which went into effect after 1993, while FDI, loans, portfolio investment (PI), and non-resident baht account (NRB) are concluded in the non-bank. FDI is the only major source of private capital in Thailand which shows less fluctuates comparing with those, portfolio and foreign loans. On the opposite, it was quite established and even grew to a remarkable degree in 1997-1998 after the baht was floated (Figure 3.6). Apart of this stable inflow was dominated by foreign investment mainly from Japan, Hong Kong, Singapore and USA which most of those FDI were absorbed by the manufacturing sector, especially in electrical and chemical industries.

Figure 3.6: Net Flows of Private Capital, 1983-2003



Source: Bank of Thailand, Table 57: Net Flows of Private Financial Account (US$). Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab57.xls (21.04.2003)

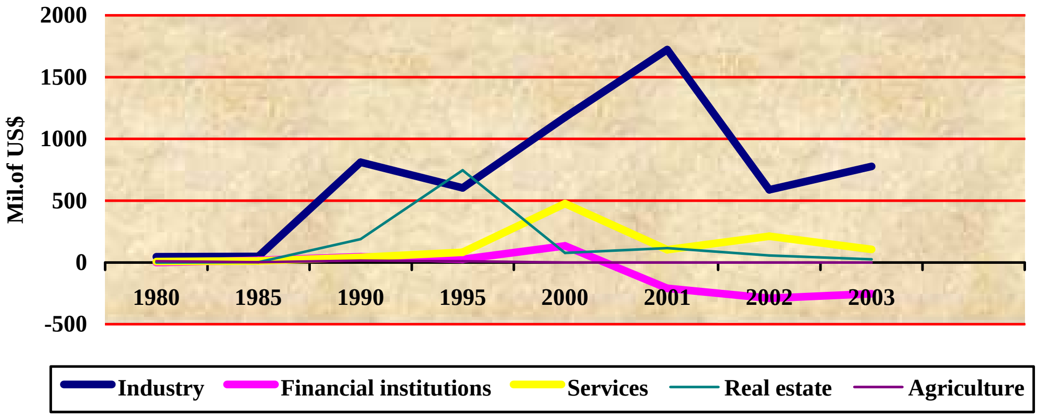
94 Hanson, G.H. (2001), Should Countries Promote Foreign Direct Investment ?, UNCTAD, G-24 Discussion Paper Series, No. 9, Feb. 2001. [Online] Available: http://www.unctad.org/en/docs//pogdsmdpbg24d9.en.pdf (05.06.2003)

95 Two government agencies track FDI data in Thailand, the Board of Investment (BOI) and the Bank of Thailand (BOT). The BOT's net foreign direct investment figures account for both the inflows and related outflows of foreign investments, while the BOI tracks inward investment on a project-by-project basis.

3.5.3.2 FDI in Thai Manufacturing

Following the Thai revolution, FDI in Thailand has been a major contributor to Thailand's economic growth[96] resulting from the development in industry. One of the main reasons behind industrial growth in Thailand is the active response of the domestic and foreign investors to the investment incentive program launched in 1959.[97] Nevertheless, manufacturing-related FDI by industrialised nations in Thailand began in the 1960s and 1970s, the establishment of these manufacturing facilities by foreign enterprises during this period of time was typically part of an import substitution strategy before moving forward to adopt a process of export oriented strategy. There was also a great deal of protectionism and thus the outputs of these manufacturing operations were mostly bound for the Thai local market. The main industrial sectors that received significant FDI were electronic goods, textiles, food processing, and automotive assembly.[98] In the late 1980s, FDI was to a large amount in the area of labor intensive and export-oriented industries.

Figure 3.7: Major Sector Distributions



Source: Bank of Thailand, Table 63.1: Net Flows of Foreign Direct Investment Classified by Sector. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab63-1.xls (21.04. 2003)

An analysis of the sectoral distribution of FDI in Thailand shows a net decline of the primary sector and a sharp increase of manufacturing geared towards exports, about 50 per cent of FDI inflow went to the manufacturing sector. Despite this Thai industry became less competitive

[96] Indian Oceans Rim Network (2000), Country Profile of Thailand: Economic Growth and Foreign Direct Investment, [Online] Available: http://www.iornet.org/newiornet/thiland5.htm (07.08.2001)

[97] Viravan, A. (1972), Foreign Investment in Developing Countries: Thailand, in: Drysdale, P. (1972), Direct Foreign Investment in Asia and the Pacific, The Third Pacific Trade and Development Conference Sydney 1990, Australian National University Press, Canberra, Australia, pp. 227-241, here p. 232.

[98] Delios, A. and Keeley, T.D. (2004), Japanese Foreign Direct Investment in Thailand: Characteristics and Performance of Japanese Subsidiaries, p. 6.

during the 1990s, the real estate sector boomed and investment in private infrastructure increased in 1993.[99] This structural change shifted FDI from manufacturing to real estate and infrastructure. During 1994 to 1996, almost 40 per cent of net FDI in Thailand went to real estate, but this dramatically change could not keep on longer, when the Thai financial crisis started in 1997, the FDI inflows shifted back to the manufacturing sector significantly (Figure 3.7).

This was derived largely from foreign business partners adding more capital to existing companies faced with financial problems. Moreover, several Thai firms decided to sell off some of their non-core business activities to boost their competitiveness, which in sequence created more opportunities for foreign partners to play a bigger role in the Thai economy. The FDI flow in 1998 was fuelled largely by the acquisition of existing Thai and joint venture companies by foreign firms, especially in the banking sector. The high level of investment in financial institutions in 1998 was principally due to liberalization measures, came to force in late 1997, allowing foreigners to hold a majority of registered capital shares in Thai financial institutions for up to 10 years.[100]

Table 3.5: Cumulative FDI Inflows in Manufacturing Sector

(Million of Dollars)

Manufacturing Sector	1970-79	1980-89	1990-94	1995-99	2000	2001	2002	2003	1970-2003	%
Food & sugar	**29**	**174**	**257**	477	94	108	-72	97	**1,164**	7
Textiles	**103**	**152**	**199**	274	29	55	25	31	**868**	5
Metal & non-metallic	**13**	**263**	**406**	1,026	93	354	91	116	**2,362**	13
Electrical machinery & appliances	**56**	**814**	**1,207**	1,768	298	662	-72	-117	**4,616**	26
Machinery & transport equipment	**17**	**118**	**304**	1,705	667	433	222	114	**3,580**	20
Chemicals	**33**	**271**	**620**	673	383	57	77	60	**2,174**	12
Petroleum products	**10**	**73**	**54**	-65	30	277	32	5	**416**	2
Construction materials	**-5**	**7**	**30**	80	58	-3	22	-39	**150**	1
Others	12	398	409	635	161	280	189	281	2,365	13
Total	**268**	**2,270**	**3,486**	**6,573**	**1,813**	**2,223**	**514**	**548**	**17,695**	**100**

Source: Bank of Thailand, Table 63.1: Net Flows of Foreign Direct Investment Classified by Sector. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab63-1.xls (21.04. 2003)

[99] Commonwealth of Australia (2000), Transforming Thailand: Choices for the New Millennium, Department of Foreign Affair and Trade, Australia, p. 103.

[100] Soontiens, W. and Haemputchayakul, S., Sustainable Globalization and Emerging Economies: The Impact of Foreign Direct Investment in Thailand, Curtin University of Technology, Australia, p. 376.

According to data from Bank of Thailand (BOT), FDI inflows to Thailand have spread out to various manufacturing industries. Of manufacturing sectors, electrical machinery and appliances attract a significant share of FDI since 1980, accounting for almost 40 per cent of total cumulative FDI in this sector. Machinery and transport equipment, in particular from the mid 1990's, was also a part of most attractive industry, accounting for almost 30 per cent, followed by chemical industry, accounting for almost 20 per cent of the total. In terms of cumulative FDI inflows from 1970-2003, electrical machinery and appliances continuously attract more flows, accounting for almost 30 per cent. Apart from this sectoral growth rate was driven by Japanese investors, dominating in automobile industry (see Table 3.5).

3.5.3.3 Foreign Direct Investment by Source Countries

Who are the major investors? Despite the attention given to FDI in Thailand, there have been a few points to ascertain the composition of all foreign investment by country of origin. Normally, the most easily accessible inward flow data can be taken from two major sources of the country; Bank of Thailand (BOT) and Board of Investment (BOI). Data on inward flow recorded by BOT are divided into two separate groups: geographical origin and industrial sector. Net equity inflows and intra-company loans[101] are also covered in reported data, excluding reinvested earning. At least 10 per cent of foreign equity that firms participate in the registered capital is known as foreign affiliates. While BOI, the central investment promotion authority, complies inward flow data on an approval and start-up basis, and by country of origin. In calculating the total number of FDI from individual country, derived from the total investment of projects, at least 10 per cent of foreign equity participation in the registered capital from that country is taken into account as FDI. For any foreign investors participating in manufacturing projects primarily for the domestic market are permitted a maximum ownership stake of up to 49 per cent of registered capital, excepted for projects located in the northern part of the country where majority or wholly owned projects are allowed. Where at least 50 per cent of output is exported, foreign nationals may hold a majority of the shares, while wholly foreign owned are allowed for projects exporting at least 80 per cent.[102]

[101] Intra-company firms are defined as loans from parent companies to their foreign affiliates.
[102] World Investment Directory (2000), World Investment Directory: Volume VII-Part 2 Asia and the Pacific Foreign Direct Investment and Corporate Data, United Nation, New York and Geneva, p. 575.

Though the primary focus of this chapter is on European direct investment, however, it will be useful initially to look at the country shares for Thailand as a whole, and then BOI by narrowing the focus on EU only. To begin with the data derived from BOT, FDI in Thailand is predominantly derived from six countries; Japan, USA, EU, Singapore, Hong Kong and Taiwan (Table 3.6). The movement of FDI inflows has varied from time to time and in most cases, more fluctuated.

Table 3.6: Share of FDI in Thailand by Major Investors (Period Average in Percentage)[a]

	1070-79	**1980-84**	**1985-89**	**1990-94**	**1995-99**	**2000-03**
Japan	39	26	44	25	27	39
USA	52	28	15	14	20	3
EU	18	17	9	10	18	3
Singapore	49	8	4	11	11	41
Hong Kong	26	10	12	19	9	7
Taiwan	0	0	10	6	4	5
Others	-84	11	8	14	11	3
Total	100	100	100	100	100	100

Note: a) Investment in non-bank sector only.
Source: Bank of Thailand, Table 62.1 : Net Flows of Foreign Direct Investment Classified by Country. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab62-1.xls (21. 04.2003)

In terms of cumulative inflows of FDI classified by each country during 1970-2003, Japanese and US multinationals account for almost one half of the total inflows, with Singapore and Hong Kong presenting another 17 per cent and 12 per cent and the top five European investors only 13 per cent (Table 3.7).

Table 3.7: Cumulative FDI Inflows Classified by Country, 1970-2003 (Million of Dollars)

	1970-79	**1980-89**	**1990-94**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**1970-2003**	**%**
Japan	317	1,978	2,482	557	523	1,348	1,485	489	869	1,377	632	687	**12,744**	31
USA	426	931	1,383	260	429	780	1,284	641	617	57	-239	-179	**6,390**	15
Germany	23	126	157	38	42	59	101	289	104	33	11	76	**1,059**	3
France	14	47	260	72	30	2	277	241	27	103	-11	33	**1,095**	3
Natherlands	21	166	87	87	-40	156	133	644	-73	-375	-744	-12	**250**	1
UK	65	143	388	55	57	123	103	183	401	329	223	-78	**1,992**	5
Australia	6	28	103	25	34	120	35	13	30	6	-13	6	**393**	1
Switzerland	25	133	146	16	52	120	73	60	34	38	17	49	**763**	2
Singapore	398	276	1,038	137	275	271	541	537	358	1,627	1,234	561	**7,253**	17
Hong Kong	211	572	1,831	279	215	444	395	233	333	162	24	131	**4,830**	12
Taiwan	1	363	609	97	138	133	106	122	159	116	77	83	**2,004**	5
Others	-721	268	1,182	377	488	37	333	94	-60	369	-252	111	**2,226**	5
Total	**815**	**5,096**	**9,783**	**2,004**	**2,271**	**3,627**	**5,143**	**3,562**	**2,813**	**3,873**	**1,023**	**1,526**	**41,536**	100

Source: Bank of Thailand, Table 62.1 : Net Flows of Foreign Direct Investment Classified by Country. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab62-1.xls (21. 04.2003)

In 1998, Japanese and US investors maintained their shares of total inflows, but declined afterward. In 2001, Singaporean firms increased its share rapidly, accounting for 42 per cent of the total inflows, while Japan and USA could maintain only 37 per cent of their combining shares together. The significant increase of FDI share by Singaporean companies resulted from the capitalisation on their relatively stronger financial position during the financial crisis to expand within the region. After that Singapore becomes one among major investing countries in Thailand.

3.6 European Foreign Direct Investment: Global Importance

With the increasing globalisation and liberalisation of capital markets, investment policies have become even more important for attracting attention from foreign investors. MNCs from Europe are among the major investors in developing countries, and the EU is an important source of Foreign Direct Investment (FDI). The countries of the European Union are together the largest suppliers of FDI in the world.

Table 3.8 Geographical Concentration of Outward FDI
Total World Stocks in Percentage

Source	1980	1985	1990	1995	1998	1999	2000	2001	2002
EU	40.6	41.4	46.0	45.6	47.2	48.9	52.1	52.5	50.0
USA	42.0	35.5	25.1	24.3	24.1	22.6	20.8	21.1	21.9
East Asia	4.7	7.6	14.1	14.6	14.1	14.7	14.2	13.6	8.9
Japan	3.7	6.2	11.7	8.3	6.6	5.0	4.7	4.6	4.8
Total	**87.3**	**84.5**	**85.2**	**84.5**	**85.4**	**86.2**	**87.1**	**87.2**	**85.6**

Total World Flows in Percentage

Source	1989-1994 annual everage	1995	1998	1999	2000	2001	2002
EU	46.1	44.8	63.8	71.6	67.2	58.8	60.9
USA	21.5	25.9	18.4	14.2	12.1	18.4	18.5
East Asia	21.7	18.1	7.6	5.7	10.1	11.1	5.3
Japan	13.0	6.3	3.4	2.3	2.9	6.1	4.8
Total	**89.3**	**88.8**	**89.8**	**91.5**	**89.4**	**88.3**	**89.5**

Source: World Investment Report (2003), UNCTAD, United Nations, 2003 (pp. 255-258, Annex table B2 and pp. 262-265, Annex table B.4).

Reported by World Investment Report (2003), total FDI continues to be dominated by the EU, USA and East Asia. The three economic regions account for almost 86 per cent both of outward stocks and of outward flows, a share that has remained extremely stable for two decades. The EU is clearly the dominant region for outward FDI with more than 50 per cent of both stocks and flows. They have accounted for over half of global FDI outflows, as compared to the US share of 18.5 per cent and Japan's share of about 4.8 per cent. However, a significant share of EU countries' FDI goes to other EU countries. However, when intra-EU investment is excluded, the EU remains the world's greatest source of FDI (see Table 3.8).

3.7 European Direct Investment in the Thai Manufacturing Sectors

3.7.1 European's Direct Investment: Industrial Investment Status

So far, the overall picture of Thailand in terms of trade and investment has been discussed. Apart from these analyses, the EU countries have been active trade partners with Thailand. The emphasis of this part is shifted to examine the role of investment contributed by European firms, employing some useful statistics from Board of Investment of Thailand (BOI) that report all FDI application, approvals and start-ups, requested BOI promotion. It is notable that a majority of promoted investment projects are exported-oriented due to the investment promotion policy provided by BOI that has always been a favoured scheme to export-stimulating incentives, basically due to benefits offered to investors. According to the increasing role of EU in the regional and global economy but still questioning that how important role would EU play in a small economy like Thailand in terms of investment? Various dimensions of the EU presence direct investment in Thailand through BOI statistics is now moving forward to be examined.

Table 3.9: Approval of Investment Project Classified by Country

Country	No. of Projects						Investment (Billion Baht)					
	1997	1998	1999	2000	2001	2002	1997	1998	1999	2000	2001	2002
Japan	219	157	185	282	272	221	146.7	54.0	27.0	107.4	83.4	38.4
Europe	94	109	73	134	79	65	84.2	132.7	36.4	28.7	23.0	16.3
Taiwan	56	69	86	120	54	40	12.0	10.0	8.0	17.6	6.8	2.7
U.S.A.	60	62	52	72	42	46	89	18.6	46.2	37.8	40.1	11.1
Hong Kong	10	15	35	29	21	6	5.4	1.8	3..9	4.5	9.0	11.5
Singapore	43	49	52	84	57	44	59.0	10.6	7.0	20.0	9.0	13.1
others	385	186	197	393	294	299	161.1	59.6	33.8	63.3	94.6	69.4
Total	**867**	**647**	**680**	**1,114**	**819**	**721**	**468.4**	**287.3**	**162.2**	**279.2**	**266.0**	**162.5**

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

Analysed by the level of approved projects, the level of approved European direct investment has surged significantly. But the rate of growth has not been sufficient to prevent a fall in Europe's relative share, because investment by other East Asian countries; Japan and Singapore has increased at a much faster rate. Considering the statistics of BOI, FDI continues to be dominated by Japan, EU, USA, Singapore and Taiwan. Amongst these major investors, Japanese MNCs have gone so far in number of approved projects and amount of investment (see Table 3.9).

3.7.2 Investment Breakdown of Country Member

Table 3.10 provides an accumulated record of promoted investment project based on promotion certificates issued from 1985 to 2003. From more than twenty different countries which take part in the industrial development of Thailand as foreign investors. The previous examination of the pattern of investment within manufacturing by country of origin based on data from BOT, the shares of major countries and regions are broadly similar to those for all BOI sectors.

Table 3.10: Promoted Investment Classified by Nationality

Rank	Country of Ownership	Total Registed Capital*		Percentage by Country	EU Rank
		No. of Project	Amount (Mil. Baht)		
1	Japan	2,937	998,142	40.1	
2	U.S.A.	577	354,674	14.3	
3	**The Netherlands**	**162**	**211,110**	**8.5**	**1**
4	**UK**	**274**	**168,934**	**6.8**	**2**
5	Singapore	525	162,889	6.5	
6	Taiwan	1,145	154,748	6.2	
7	Hong Kong	326	104,370	4.2	
8	Malaysia	255	64,512	2.6	
9	**Germany**	**182**	**62,889**	**2.5**	**3**
10	Korea	261	40,951	1.6	
11	Canada	52	36,707	1.5	
12	Australia	122	30,114	1.2	
13	**Switzerland**	**130**	**28,073**	**1.1**	**4**
14	India	86	17,165	0.7	
15	**France**	**123**	**16,574**	**0.7**	**5**
16	**Belgium**	**61**	**16,522**	**0.7**	**6**
17	P.R.C.	63	12,671	0.5	
18	Indonesia	25	11,768	0.5	
19	**Italy**	**38**	**9,445**	**0.4**	**7**
20	Philippines	4	245	0.0	
	Total	**7,190**	**2,488,374**	**100.0**	

Note: */ Based on promotion certificates issued from 1985 to 2003
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

The leading investing countries are Japan, the United State, the Netherlands, United Kingdom and Singapore as in ranking order. Most European investment[103] in Thailand comes from

[103] Based on BOI's data, European Union countries consist of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden, and United Kingdom.

Netherlands, United Kingdom, Germany, Switzerland, France, Belgium and Italy and its source of FDI inflows has been changed amongst them. The numbers of project and investment value have recently decreased. One amongst major reasons of this decline is the increasing interest in investing in China and Vietnam which causes Thailand to become less competitive to the eyes of foreign investors.

More detailed about EU projects, most of European investment in promoted manufacturing has taken place in the form of wholly-owned enterprise or 100 per cent of share owned by foreigner. However, the recent trend has shown some sign that the form of joint-ventures has attracted more European investors to come resulting from the current policy which try to encourage more joint ventures on a more equal basis as the local manufacturing sector to become stronger (see Table 3.11).

Table 3.11: European Union Investment Projects Approval

EU Investment Projects Approval	1998	1999	2000	2001	2002
Total investment (no. of projects)	647	680	1,114	575	721
Total Investment value (Mil. baht)	287,327	162,232	279,229	209,622	162,532
Total foreign investment (no. of projects)	483	513	761	315	483
Total foreign investment value (Mil. baht)	254,864	141,489	212,649	106,679	99,617
Total European Union investment (no. of projects)	109	73	134	79	65
Total European Union investment value (Mil. baht)	132,688	36,440	28,768	23,019	16,259
Ownership					
-100% European Union (no. of projects)	58	53	96	65	25
-100% European Union (investment value)	27,932	31,776	15,636	19,800	1,949
- Joint-Venture (no. of projects)	51	20	38	14	40
- Joint-Venture (investment value)	104,756	4,664	13,132	3,219	14,310

Note: 1) European Union investment projects refer to projects with European Union capital of at least 10%.
2) Joint-venture projects refer to joint projects between local Thai investors and foreign partners with European capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

3.7.3 Sectoral Distribution European FDI

Thailand has become a major destination for FDI inflows in the developing world, ranking eighth in terms of inflows in the 1990s.[104] However, European investors have not traditionally played a predominantly role in the Thai economy, except in certain manufacturing sectors.

The cumulative European investment projects approved by BOI, classified in accordance with the activities receiving investment promotion, has shown that in recent years, European

[104] OECD (1999b), Ob cit., p. 210.

Investments are concentrated in electric and electronic products and services, accounting for almost 50 per cent of the total projects approval and 70 per cent of the total amount of investment (Table 3.12).

Table 3.12: Cumulative European Investment Projects Approval by Sector, 1998-2002

Sector	2001		2002		1998-2002		1998-2002	
	No. of Projects	Investment (Mil.Baht)	No. of Projects	Investment (Mil.Baht)	No. of Projects	Investment (Mil.Baht)	No. of Projects (%)	Investment (%)
Agricultural Products	3	162	8	1,393	**41**	**9,786**	9	4
Minerals and Ceramics	2	2,188	2	134	**15**	**3,318**	3	1
Light Industries/Textiles	10	2,470	7	343	**70**	**13,613**	15	6
Metal Products and Machinery	8	844	13	1,684	**72**	**8,193**	16	3
Electric and Electronic Products	27	6,479	15	911	**115**	**44,212**	25	19
Chemicals and Paper	15	8,728	5	635	**48**	**36,484**	10	15
Services	14	2,149	15	11,159	**99**	**121,569**	22	51
Total	79	23,019	65	16,259	**460**	**237,175**	100	100

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

According to the activities under this category, parts or components for industrial goods such as Integrated Services Digital Network (ISDN Card) are the most favoured one because of the relative lower wages and skills of Thai labours, followed by the activity in services, especially trade and investment support offices in accordance with the support of head office and affiliates in overseas through a variety of business areas. The chemical industry is another potential manufacturing sector that attracts the largest share of European firms, including petroleum products industry such as plastics. While French companies are active in the area of construction materials, such as cement and plaster, and services and utilities such as electrical energy.

Table 3.13: Cumulative European Investment Projects Approval by Size, 1998-2002

Application Approved by Size	1998-2000		2001		2002		1998-2002		1998-2002 (%)	
	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)
<50	155	2,417	36	512	30	531	**221**	**3,460**	48	1
50-99	42	2,771	10	686	10	626	**62**	**4,083**	13	2
100-499	79	20,181	22	5,158	24	5,102	**125**	**30,442**	27	13
500-999	18	11,732	4	2,382	0	0	**22**	**14,114**	5	6
>1,000	22	160,795	7	14,281	1	10,000	**30**	**185,076**	7	78
Total	**316**	**197,897**	**79**	**23,019**	**65**	**16,259**	**460**	**237,175**	100	100

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

According to the size of investment, European firms usually invest in a huge project, mostly involving wholly owned enterprise. From 1998 to 2002, the total cumulative investment by European firms, invested more than 1,000 million baht, account for almost 80 per cent of the total share, but still less in number of approved projects (Table 3.13).

Most of European investment projects are almost approved under new projects, accounting for more than 60 per cent of the total number of projects during 1998-2000, while the rest are expansion projects which refer to the existing projects, to be changed in production capacity or factory size (Table 3.14). These new or expansion projects guarantee that at least 25 per cent of the total investment of project start-ups or business expansions will comes from outside the country or from country of origin according to the investment promotion criteria.

Table 3.14: Cumulative European Investment Projects Approval by Type, 1998-2002

Application Approved	1998-2000		2001		2002		1998-2002		1998-2002 (%)	
	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)	No. Of Projects	Investment (Mil. Baht)
Expansion Projects	113	60,005	37	16,068	27	3,087	177	79,160	38	33
New Projects	203	137,891	42	6,951	38	13,173	283	158,015	62	67
Total	316	197,896	79	23,019	65	16,260	460	237,175	100	100

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

More details of statistics related to project apply and approval classified by sector, investment size, type and export-oriented investment of European Union can be seen from the additional tables in Annex I attachted in this study.

3.8 Conclusion

This chapter, so far, has examined a number of key aspects of the role of trade and investment in Thailand in an ongoing of globalisation. The analysis suggests that economic relations with foreign partners have played an important role in Thailand's decade-long transformation. Owing to increased contacts in the fields of trade and investments, Thailand's presence in the global economy has been more active, even if it still remained highly unsatisfactory. The opening up to the outside world made possible a natural verification of the Thai economy's competitive strength and its capability to join the economic integration with neighbours.

Apart of growth in manufacturing sector, trade policies and investment promotion policies were the main instrument utilised by the government to stimulate local investments as well as to attract FDI.

Through the process of globalisation where linkages with global and regional production networks obtained through FDI, Thailand has been crucially affected through her economic structural change, shifting away from a mono-crop economy to one based on a dynamic manufacturing industry. Despite the diminished role of FDI, government policy remains centred on promoting foreign investment, especially in the manufacturing sectors of the economy. This is because the hope that FDI will continue its importance as a generator of employment and income, as a vehicle for technology transfer, and as a stage for continuing growth in this sector.

Base on the facts on EU-Thailand’s trade and investment relations, the two economies have long established close relations and good cooperation and have not limited itself only at the bilateral level, but also at regional level through ASEAN-EU, ASEM, and ASEAN regional forum. However, in spite of the well-built relations between Thailand and the EU, there are several areas, mainly trade and investment, which are needed to be more improved. Despite the fact that there may have some differences, from the previous analysis, the overall trade volume between both partners has been increasing satisfactory, nevertheless, some concerns on EU’s trade measures still remains, especially on anti-dumping (AD) and countervailing duties (CVD) which have a negative impact for small and medium enterprises and the employment situation in Thailand. Against this background, it is no doubt that Thailand has enjoyed benefit under the EU's GSP scheme. However, it is evident that EU’s GSP cut has created severe negative effects on exports of some certain groups of Thai commodities to the EU market as statistically mentioned before.

With respect to investment, although the EU’s investment in Thailand is still existed but the Thai side is of the view that there is still great potential of increasing the EU’s investment in Thailand from European multinationals. In order to provide an appropriate investment policy as well as to improve investment climate and regulations for any multinationals in which they can carry out their business advantageously and without incurring unnecessary threat, the most important factors considered by investors as they decide on investment location are important for policymakers to understand in order to put the right policies into an action and to promote and guide the industrial structures toward their natural comparative specializations.

In recent year, in response to the Fourth Ministerial Conference in Doha, Qatar, and the new round, the Thai government has agreed to take part in new issues and one of those lies down in the area of trade and investment as Thailand adopts a policy of foreign direct investment promotion. Therefore, it is rational to support trade and investment negotiations. An appropriate investment promotion policy is essential needed to fill the gap of unpleasant economic environment which will carry out later in this study. Despite the fact that, FDI may cause the country impacts, the question is not whether foreign investment is needed but how foreign capital and technology should put to work in the economy of Thailand and strengthen the competitiveness of the nation.

CHAPTER 4

Determinants of European Direct Investment in Thai Manufacturing: Survey Evidence

4.1 Introduction

The significance of globally marketing linkages has increased interest in the determinants of foreign firms' decisions. By explanation of trade and investment linkages between Thailand and all involved MNCs from different nations, including European Multinationals from previous chapter has moved this study to another step for more actual examination on determinants of European FDI in Thailand. This is important for government and policy makers to identify the motives and attributes of foreign investors that influence the volume and pattern of FDI and to reorient FDI policy or investment promotion plans that seek to capture inbound investment.

The main objective of this chapter is to find out what types of foreign investors do exist and what are the country's characteristics influencing the investment decision or what are the main FDI determinants, particularly the determinants of motivations by EU multinationals in the Thai manufacturing sectors. A large information and data base is obtained from a survey conducted in Thailand. Though, foreign investment surveys are claimed to be limited in the information they capture and the sample is restricted, this survey is considered an important source of information to Thai government which desires to make FDI attracting policy for proactive targeting of investors, both by sectors and by economic regions. This approach shall not only help the government and policy makers to understand why foreign firms choose Thailand as investment location, but it can support future policies and offer guidelines to the government that has not yet made specific policy reforms. Such investigation will make it possible to forecast the effect of several economic and political decisions on the flows of European FDI.

This chapter is structured as follows. After the introductory section, first there is given a short view of earlier theoretical research in this area, including the evidence from various studies regarding to some major indicators for further analysis in this study. The second part of this chapter gives an assessment of FDI determinants, by using the foreign investors survey of the

347 European investments carried out in Thailand during October to December 2003 in accordance with the increasing role of European multinationals as a main targeting investors, including interviews and discussions with some of these European firms. A summary of the findings follows in the forth section before closing this chapter with the conclusion and outline of implications for further study.

4.2 Determinants of Foreign Direct Investment

4.2.1 Theoretical Considerations

The previous research of FDI determinants, as heavily mentioned in chapter 2, is almost based on the market imperfections hypothesis. One major reason to depend on this hypothesis is that imperfections characterise the real world. Theories based on perfect market have great difficulties to explain the determinants of international capital movement. If markets were perfect, there would be little incentive for firms to undertake the risk and expense of setting up an international business.[105] However, in the reality, markets are completely imperfect because of the difference between costs and benefits in doing business aboard. Once firms have interacted with other agents, in this process they can lose the skills and knowledge which have been accumulated. All these features can be described as 'market failure'[106] as firms have to face extensive coordination problems, externalities, missing markets and accumulative effects.

What are characteristics of the host country in attracting FDI? To answer this question, the motives or objectives of foreign investors must be taken into account. The most commonly used eclectic approach of Dunning as explained in chapter 2 provides the understanding of 'characteristics and elements of strategic decision making'[107] that FDI is allowed to take place when three sets of determining factors exist concurrently. They can be divided into three main groups: (i) national FDI policy framework, (ii) business facilitation, and (iii) economic motives which are enormously explained by Dunning (1997) and UNCTAD (1998).[108]

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[105] Jenkins, C. and Thomas, L. (2002), Foreign Direct Investment Southern Africa: Determinants, Characteristics and Implications for Economic Growth and Poverty Alleviation, October 2002. [Online] Available: http://www.csae.ox.ac.uk/reports/ pdfs/rep2002-02.pdf (12.03.2003)

[106] Stiglitz, J.E. (1996), Some Lessons from the East Asian Miracle, The World bank Research Observer, Vol. 11(2), August 1996, pp. 151-177.

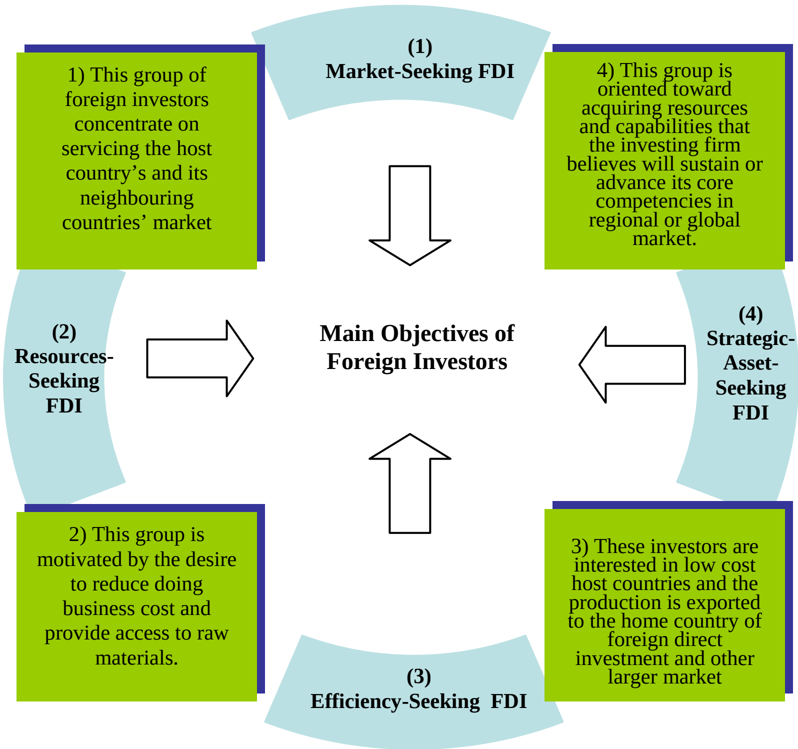
[107] Szanyi, M. (2001), Privatisation and Greenfield FDI in the Economic Restructuring of Hungary, Transnational Corporations, Vol. 10, no. 3 (December 2001), pp. 113-129, here p. 27.

[108] More detailed of these determinants can be traced back to Chapter 2.

UNCTAD argued further that FDI policy is considered as an important determinant because FDI can play a full role in the country, unless it is allowed to enter.[109]

However, to understand only the motives of potential investors might be not enough for government and policy makers, since the global economy has changed over time. It is, therefore, necessary to understand their business strategies also. The major strategy of MNCs for investing in any particular location can be identified into four groups: (i) resource-seeking, (ii) market-seeking, (iii) efficiency-seeking and (iv) strategic-asset- or capability seeking (Figure 4.1).

Figure 4.1: Strategic Objectives of FDI



Source: Adapted from various literature: Dunning (1994), p. 36; Brewer (1993), p. 105; Oxelheim (1993), p. 180; and UNCTAD (1998), p. 121.

With above objective of the foreign investors, all of the following factors are also needed to accentuate;

1) the type of FDI: greenfield, acquisition, merger, or joint venture,
2) the sector of investment: agriculture, services, or manufacturing and/or

[109] UNCTAD (1998), World Investment Report 1998: Trends and Determinants, UNCTAD, New York, p. 93.

3) the size of investment: small and medium enterprises (SME) or large multinational corporation, including
4) the strategic objectives: market-seeking FDI, resource-seeking FDI, efficiency-seeking FDI and strategic-asset-seeking FDI.

(World Investment Report, 1998, pp. 90-91)

Though, the investment type of foreign investor according to their strategic objectives is the most discussed one. The analysis of FDI determinants in this chapter will emphasis on different types of FDI as mentioned earlier. As shown in figure 4.1, FDI strategic objectives is classified into four main groups, of which have been broadly distinguished by a large number of important determining factors of locational decisions.

4.2.2 Determinants of Locational Decisions

According to the host country determinants, the following objectives in table 4.1 are some major determinants which base on the macro level presented by the different FDI theories.

Table 4.1: Strategic Objectives of Host Country Determinants

Strategic Objectives	Economic Determinants	Political Determinants	Other Determinants
Market-Seeking FDI	▪ Nominal GDP ▪ GDP per capita ▪ GDP growth rate ▪ Real wage ▪ Production costs ▪ Transportation costs ▪ Infrastructure ▪ Tariffs and other import restrictions	▪ Ownership policies ▪ Price control ▪ Convertibility of foreign exchange ▪ Performance requirements ▪ Market access constraints ▪ Sector-specific controls	▪ Geographical proximity ▪ Culture ▪ Languages ▪ Population ▪ Local content requirement ▪ Country-specific customer preferences
Resource-Seeking FDI	▪ Inflation ▪ Exchange rate ▪ Real wage ▪ Saving rate ▪ Domestic investments ▪ Production costs ▪ Infrastructure ▪ Transportation costs ▪ Previous FDI	▪ Market access constraints ▪ Ownership constraints ▪ Taxes/subsidies ▪ Price controls ▪ Performance requirements ▪ Foreign investment's incentives ▪ Trade agreements ▪ Requirements of environmental protection	▪ Geographical proximity ▪ Available ability of suitable workforce ▪ Existence of suppliers
Efficiency-Seeking FDI	▪ Prices of raw materials compared to world markets ▪ Infrastructure ▪ Transportation costs ▪ Domestic investments	▪ Foreign investment's incentives ▪ Investment promotion (including image- building and investment generating activities and investment facilitation services) ▪ Foreign investment's restrictions ▪ Sector-specific controls	▪ Existence and quality of raw materials
Strategic-Assets-Seeking FDI	▪ Existence and quality of physical infrastructure (port, road, power telecommunication) ▪ Intensify of R&D activities ▪ Technology, innovatory and other created assets (e.g. brand names)	▪ Protection of immaterial property ▪ Foreign investment's incentives or restrictions in using the host country's resources ▪ Level of riskiness ▪ Innovation policy	▪ Existence of patent, trade marks, etc.

Source: Adapted from Dunning (1994), pp. 36-41; Dunning (1998), pp. 49-53; The South Centre (1997), p. 64; WIR 1998, pp. 91, 106-108; Contractor (1990), p. 35; and Reiljan (2001), pp. 39-40.

Considering the above table, the concentration on analysing FDI determinants selected from various literature can possibly help to understand why MNCs engage in FDI. However, the outcome of empirical studies, either survey or econometric studies, resulting from the question why they invest in this location is not easy to finalise the proper answer because some determinants may be more important to a given investor in a given location at a given time than to another investor. In a review of empirical studies which examine the determinants of flows of FDI to developing countries and countries in transition process, some particular discussion factors might be counted to be significant but not significant in other studies with respect to the same factor. Some of these critical independent factors can be viewed as followed.

- **GDP, GDP Growth Rate and GDP Per Capita:** This is the most important indicators describe the market characteristics and identify the type of market-seeking FDI and also the most discussed indicators for FDI determinants, mentioned in several studies. Stevens (1972) shows that FDI is positively related to the lagged sales of foreign affiliates. Scaperlanda and Balough (1983) and Culem (1988) show that for most countries, lagged real gross national product (GNP) is a good proxy for sales.[110] Wheeler and Mody (1992); Cheng and Kwan (2000), Petrochilos (1989); and Lipsey (1999) have found that GDP and GDP per capita are significant determinants of FDI both in developing and developed countries. GNP, therefore, is also a good proxy for market size, a variable that has been documented as being an important determinant of FDI. However, the significance of GDP growth rate in determining FDI has yielded various outcomes.

- **Labour Cost:** In choosing a host country for FDI, labor cost is another factor which is predominantly undertaken by manufacturing foreign firms from countries with high real labor costs. However, the availability of skill labor is more recently considered by investors.[111] Though, the level of labor cost is significant, the effectiveness of workforce is taken into account as well.[112] Study of Fung et al (2002), for example, indicated the evidence that labor costs has a significant positive impact on the developing countries,

[110] Beer, F. M. and S. N. Cory (1996), The Locational Determinants of U.S. Foreign Direct Investment in the European Union, Journal of Financial and Strategic Decisions, Vol. 9, No. 2, Summer 1996, pp. 43-53, here p. 45, from: Stevens, G. (1972), Scaperlanda, A. and Balough, R. (1983) and Culem, C.G. (1988).
[111] Brewer, T.L. (1993), Foreign Direct Investment in Emerging Market Countries, in: Oxelheim, L., ed., (1993), The Global Race for Foreign Direct Investment: Prospects for the Future, Springer-Verlag, Berlin, Heidelberg, Germany, pp. 177-203, here p. 182.
[112] UNCTAD (1998), World Investment Report 1998: Trends and Determinants, New York, United Nations 1998, p. 108.

especially China. While the insignificance of labor costs is found in the investigation of Moore (1993) and Mariotti et al (1995).

- **Infrastructure:** This factor is important due to the fact that MNCs's activities alone cannot be completely integrated without infrastructure. The ability to link specialized affiliates in mutually supporting networks of activities through adequate infrastructure facilities is the most wanted.[113] Samples of such facilities include telecommunication network, availability of transportation systems, especially for foreign investors that are part of "just-in-time" production systems and for distribution centre and international procurement office, including regional headquarters.

- **Political Stability:** Several studied have supported that political stability has played a big role in location decision of FDI. Aharoni (1966) showed that executives rank political stability as the most important variable. The analysis of fifty eight developing countries by Root and Ahmed (1979) found that "the number of regular (constitutional) changes in government leadership between 1956 and 1967" was significant. While the analysis of Schneider and Frey (1985) found a negative relationship between the number of political strikes and riots in host countries and the inflow of foreign direct investment.

- **Incentives:** In order to attract FDI, many developing countries have offered various incentives. However, incentives might be seen as a minor determinants of FDI decisions compared to the others. Kokko argued in his study that incentive has became an important determinant of foreign investment decisions since globalisation has came to force.[114] Study of UNCTAD (1996) summarised that "there is overwhelming to suggest that incentives are a relatively minor factor in the locational decision of MNCs relative to other lacational advantages".[115]

4.2.3 Investment Promotion Policy: Does Industrial Linkages Matter?

In reference to the above determinants, some of these were claimed as traditional FDI determinants and the types of FDI associated with them have been reduced their importance

[113] UNCTAD (1998), Ibid., p. 115.
[114] Kokko, A., Globalisation and FDI incentives, Stockholm School of Economics, no page no., cited from http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Ari+Kokko/$File/ARI+KOKKO.PDF (23.8.2003)
[115] Bora, B. (2002), Foreign Direct Investement: Research Issues, Routledge, London and New York, p. 56, from: UNCTAD (1996), Incentives and Foreign Direct Investment, Geneva.

in a globalizing economy.[116] These changes in location factors create essential policy challenges for developing countries. Such a risk can be arrived from FDI because policy cannot meet the new requirements for attracting high quality FDI. Just opening an economy is no longer enough. There is a need to develop attractive configurations of locational advantages.[117] UNCTAD (2001) suggests that the current challenge for developing countries is first to adopt policies to deepen the developmental effects of FDI by attracting MNCs willing to forge such linkages and then to undertake measures to promote such linkages between MNCs and local enterprises, especially the manufacturing sector which has a wide range of linkage-intensive activities.[118] A firm in any location has three options for obtaining inputs whether to import, to produce or to procure them locally or globally. European firms have recently become more dependent on a set of "global suppliers"[119] increased their direct involvement in Asian production and Asian markets. In the progress of globalization process, new rules of competition are leading to a reorientation of corporate production strategies. Therefore, policy makers have to act, to attract FDI and to extract the maximum benefits in terms of technology, skills and market access, striking backward linkages and leveraging foreign assets to reach competitive positions in global markets.[120] For that reason, such a policy in terms of industrial linkages should be able to attract the flow of FDI. In Thailand, industrial linkage policy has been introduced since 1997. However, the level of linkages which Thai manufacturing can determine from European investors is needed to examine in the next following sub-sections by using UNCTAD guideline as a criteria and asking investors to measure their relationship with domestic manufacturers or suppliers.

4.2.4 Previous Empirical Analysis of FDI in Thailand

Most empirical studies of FDI determinants in Thailand have made use of survey methodology which makes it possible to examine the roles of a much wider range of variables. Among these previous studies are summarised in table 4.2.

[116] UNCTAD (1998), World Investment Report 1998: Trends and Determinants, United Nation, New York, p. 108.
[117] UNCTAD (2001), World Investment Report 2001: Promoting Linkages, New York, United Nations 2001, p. 122.
[118] UNCTAD (2001), Ibid., p. 138.
[119] Sturgeon, T.J. and Lester, R.K. (2003), The New Global Supply-Base: New Challenges for Local Suppliers in East Asia, Paper Prepared for the World Bank's Project on East Asia's Economic Future, Industrial Performance Center, Massachusetts Institute of Technology, Cambridge, February 2003, p.2.
[120] UNCTAD (2001), Ob cit., 1, p. 13.

Table 4.2: FDI Determinants in Thailand: Previous Studies

Researchers	Year	Multinationals	Main Findings of Determinants
Michener and Ramstetter	1990	U.S. Firms	1) access to factors of production 2) market access especially size and growth 3) Thailand's general economic characteristics
Industrial Market Services	1986	105 U.S. Firms	1) expansion of business activities 2) investment incentives 3) economic and political stability
Toyo Keizai	1981, 1985, 1989 and 1993	Japanese Firms	1) expansion of sales in local market 2) Thai policies and protectionism
BOI	1997-2003	BOI and Non-BOI firms	1) political and social stability 2) Technological infrastructure 3) Government's economic policies

Source: Trade and Investment Division (1995), Sectoral Flows of Foreign Direct Investment in Asia and the Pacific (1995), United Nations, New York, pp. 148-150; and BOI Confidence Survey from various years (Unpublicised).

Amidst these surveys, BOI surveys are the most outstanding. Though, the surveyed questions have not mentioned directly to the motivation of FDI, but the general view of different foreign investing groups subject to overall investment climate by assessing the level of foreign investor confidence in Thailand as an investment market, the directions and trends of foreign investment, and the foreign investors' problems and needs, can help understand FDI determinants. Table 4.3 summarises the main findings of this survey obtained in 2003.

Table 4.3 Main Findings of Foreign Confidence Survey

Key investigated factors	BOI's survey for overall investors (1,210 respondents: BOI and Non BOI firms)
▪ Most important FDI decision	1. Political stability 2. Technological infrastructure (e.g. telephone, computer, internet) 3. Government's economic policies 4. Social stability 5. Overall physical infrastructure (e.g. railroads, roads, electricity, water)
▪ Most important motivation for business expansion	1. Political and social stability 2. Expansion of domestic market 3. Competitive wages and salaries 4. Government's economic policies 5. Attractive investment policy and incentives
▪ Most important motivation for business reduction	1. Intense international competition 2. Uncompetitive wages and salaries 3. Investment policy and incentives 4. Insufficient domestic demand 5. Shortage of raw materials
▪ Problems in doing business	1. Corruption 2. Bureaucratic red tape 3. Scientific infrastructure (e.g. R&D expenditure, R&D personnel)
▪ BOI Services	1. Use of incentives 2. Information services 3. Services pertaining to obtaining licenses and permits
▪ Other governments' satisfactory	1. Department of Export Promotion 2. the Industrial Estate Authority of Thailand 3. Ministry of Labor

Source: Own interpretation based on BOI confidence survey, 2003 (Unpublicised).

In reference to all above said surveys, the evidence on survey of European investors in Thailand alone has not been found, but the econometric study on determinants of European FDI in Thailand has been recorded. The study of A. Bende-Nabende and J. R. Slater builds on the determinants of FDI from location factors which are influenced by four broad categories of factors namely, the cost-related factors, the investment environment improving factors, other macro-economic factors and the development strategy of the host country.[121] They investigate the short-term and long-term determinants of European FDI into the Thai manufacturing sector from 1969 to 1997. The results of investigation have provided evidence that infrastructure improvement has been the most consistent determinant of the European direct investment in the short-run. Considering for the long-run dynamics, openness showed a more consistent relationship with FDI followed by human resources. Moreover, there is evidence to suggest that the Thai manufacturing sector may be losing its cost-related comparative advantage. This should be enough reason for Thailand to embark on upgrading their production techniques.

4.3 Assessing the Investment Determinants

In this section, the main analysis of FDI determinants, as noted in the introduction, focuses mainly on a survey conducted with European firms operated in Thailand by investigated the major motivations for investment in Thailand and whether the characteristics of foreign direct investment influence its developmental effects in Thai manufacturing sector, especially the creating and deepening industrial linkages with local firms. Besides, the role of government agencies in providing services is also questioned. European multinationals have been selected for reasons as mentioned before in Chapter 1. The obtained outcome is finally the input for further consideration of government and policy makers in formulating and implementing the foreign investment policy and most important thing is to understand more the characteristic of multinationals.

The survey aims to explore the following issues:

- Motivations for investment in Thailand?: Why Thailand is selected to invest?

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[121] A. Bende-Nabende and J. R. Slater, European foreign direct investment determinants in the ASEAN manufacturing sectors: A comparative case study for Thailand, 1969-1997, Birmingham Business School Working Paper Series, [Online] Available: http://business.bham.ac.uk (16.06.2002)

- Principle market used: does the firm use Thailand as the local market, or export-based market to the rest of the world?
- Mode of Entry: what is the initial investment Greenfield or Mergers and Acquisitions?
- Ownership structure: is the enterprise wholly owned by the parent firm or partially owned? Are partners local or foreign?
- How do investment promotion policy issues affect the enterprises: industrial linkages?
- Experiences with government services: BOI and other government agencies
- What are the main sources of country risk in Thailand?

By analysing foreign firms in Thai manufacturing sector, it is important to note that, besides the nationality of foreign ownership, manufacturing firms are classified into two types; promoted and non-promoted firms. Promoted firms whether foreign or domestic are firms which enjoy special incentives or privileges from the Board of Investment (BOI) under the Investment Promotion Acts. Incentives are announced in the Investment Promotion Act (1977), as amended by the Investment Promotion Act (1991: Revision 2) and the Investment Promotion Act (2001: Revision 3). The main propose of this act is to guarantee the promoted firms immunity from nationalisation, competition from state enterprises, and price controls.[122] To measure the importance of the various elements in connection with the European FDI in Thailand, 400 major European multinational corporations with production facilities in Thailand were surveyed by sending the questionnaires. Since some of the companies failed to answer the entire questions, out of these, the overall members of the cases is 347 companies that responded by providing most of the information required for the examination.

4.3.1 Methodology

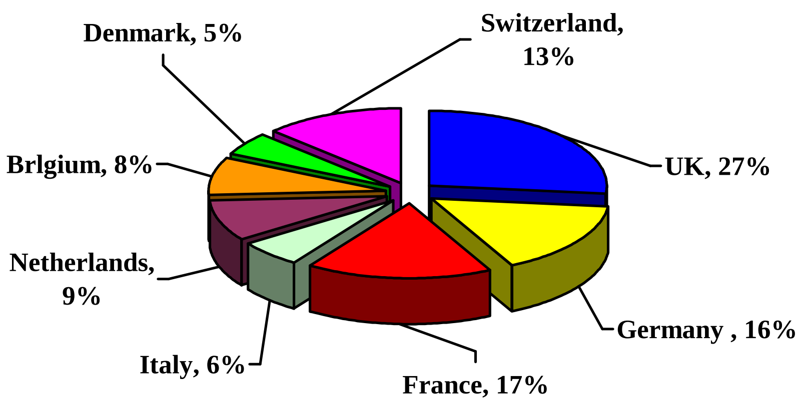
4.3.1.1 The Sample

The sample for this research based on database of Office of the Board of Investment (BOI) consisting of more than 9,000 European-BOI promoted firms since 1985. A simple random sampling method was used to obtain the sample. Four hundred manufacturing firms from eight EU countries; United Kingdom, Germany, France, Italy, the Netherlands, Belgium, Denmark and Switzerland were chosen for contracts. Generally foreign firms promoted by BOI are defined as firms with at least 10 per cent foreign capital according to IMF's

[122] More detailed about special privileges will be discussed in Chapter 6.

suggestion[123]. This survey yielded 347 firms or around 86.7 per cent of the targeted firms. The following figure provides the percentage share from these MNCs classified by nationality.

Figure 4.2: Nationality of the European Firms



Total 347 Companies

Source: Own Survey

There were no firms chosen from other European countries (Austria, Greece, Ireland, and Portugal) according to a small amount number of investment in Thailand. Firms in all business types promoted by the BOI were chosen. Questionnaires were distributed via e-mail, facsimile and through the direct interview. To guarantee the accuracy of the information, it was requested that the questionnaire should be filled in by managers who were involved in entry mode decisions on business in Thailand. The data was collected in the final period of 2003.

4.3.1.2 The Instrument

A questionnaire was selected to be the best research instrument in this study because it was the only method able to respond effectively as it scattered around the target. The questionnaire was written in English, and all respondents received this English version, though company's partners are Thai. The reason why no translation was made is that there is strong evidence that senior managers in European MNCs can understand English without any difficulty, and the fear that translators may misinterpret the meaning of questions, posing later on during the data analysis. Finally, a questionnaire of 400 items was sent to EU firms operated in Thailand.

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[123] IMF suggests that a threshold of at least 10 per cent of equity ownership will qualify an investor as foreign direct investors.

4.3.1.3 Effective Measures

The previous literature reviews were instrumental in designing the operational measures for the study. Most of the scopes identified in the questionnaire are continuous variables measured by a 5 point scale ranking from ‘1’ to ‘5’ depending on the set of variables. Three possible scale rankings are; (i) variables in terms of FDI motivations are measured from ‘1’ (no influence at all) to ‘5’ (a very strong influence), (ii) variables in terms of experiences with government agencies are measured from ‘1’ (unsatisfactory) to ‘5’ (very efficient), and (iii) variables in the scope of problems in doing business in Thailand are measured from ‘1’ (not important at all) to ‘5’ (very important).

4.3.1.4 Scope of the Survey

The survey was conducted on the basis of interview and a structured questionnaire covering the following subject matters: (i) factors influencing the initial decision of European firms; (ii) The availability of endowment of factors of production in Thailand; (iii) the importance of industrial linkages; (iv) factors influencing the motivations behind the expansion; (v) experiences with government agencies; and (vi) problems in doing business activity in Thailand. The questionnaires used were designed along the lines of the (i) host country determinants emphasised in the existing literature prior to Dunning’s strategic objectives; (ii) guideline for industrial linkages measurement in reference to UNCTAD, WIR (2001); and (iii) BOI’s confidence survey for attitudes towards government regulations and agencies, including problems in doing business in Thailand.

4.3.2 Survey Results

4.3.2.1 Key Features of the Sample

The key features of surveyed firms can be classified into 7 categories; nationality, ownership, export-oriented project, type of businesses, size, location and project status as shown in table 4.4. Most of the favourite form of firm-entry is joint-venture, accounting for more than 80 per cent of the total respondents. A large majority of surveyed firms are export-oriented projects and 66 per cent export more than 80 per cent of their sales. The surveyed firms were covered in all business types promoted by BOI. Almost three-fourth of the respondents is in the category of light industry (i.e. manufacturers of gemstone and jewellery, textile printing), agriculture and agricultural products (i.e. manufacturers of Modified Starch, Frozen Seafood, and canned fruit or fruit juice) chemicals, paper, and plastics, and Metal products, machinery, and transport equipment.

Table 4.4: Key Features of the Sample of European Investment Projects

	Characteristics	**Percentage of sample**
1) European Surveyed Firms:	UK	27%
	France	17%
	Germany	16%
	Switzerland	13%
	Netherlands	9%
	Belgium	8%
	Italy	6%
	Denmark	5%
2) Ownership	100% Foreign	16%
	Joint Venture	84%
3) Export-Oriented Projects	0%-29%	28%
	30% - 79 %	6%
	80% - 100%	66%
4) Type of Businesses:	Agriculture and agricultural products	14%
	Minerals, metals, and ceramics	8%
	Light industry	28%
	Metal products, machinery, and transport equipment	12%
	Electronic and electrical products	2%
	Chemicals, paper, and plastics	13%
	Services	11%
5) Size:	<= 20 Million Baht	28%
	21 - 200 Million Baht	46%
	201 -500 Million Baht	12%
	501 - 1,000 Million Baht	5%
	> 1,000 Million Baht	9%
6) Location Distribution*		
Zone 1	Bangkok and 5 Metropolitan areas	50%
Zone 2	12 Provinces	21%
Zone 3	58 Provinces	29%
7) Project Status		
	New	88%
	Expanding	12%

Note: * Location distribution in Thailand is divided into 3 investment zones; zone 1 includes Bangkok and Metropolitan areas; zone 2 includes 12 provinces; and zone 3 consists of the remaining 58 provinces, including 18 least developed provinces with description of low income and less developed infrastructure.
Source: Own Survey

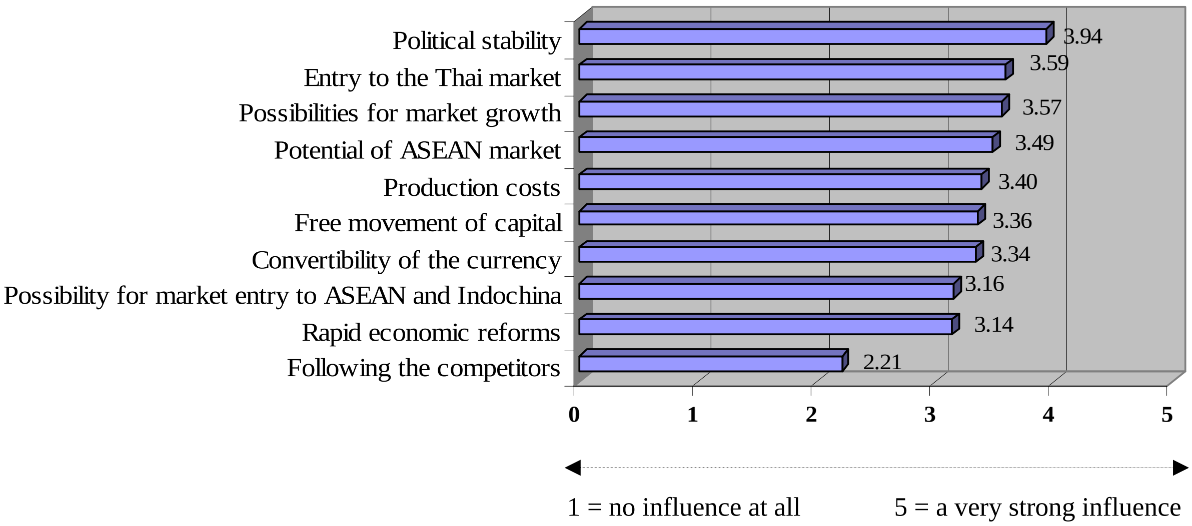
The investment size of these firms was largely ranking from 21 million baht to 200 million baht, accounting for 46 per cent, while the largest investment size with more than 1,000 million baht accounted for only 9 per cent of the total respondents. Fifty per cent of these firms locate in Bangkok and Metropolitan areas which are considered as zone 1 according to high rate of income and well-developed infrastructure, however, they cannot enjoy all the benefits and privileges of BOI. In other words, the more developed areas investors are, the less investment privileges investors enjoy. (See “BOI Investment Zone” in Appendix 4.1)

4.3.2.2 Motivations of Investment

4.3.2.2.1 Motivations of Initial Decision

The below figure summarises the result from this survey. It shows the average score for each factor. A high score means a very strong influence of those factors on the firms' investment decisions. Many factors have been provided in the following figure and the most top five ranking that have influenced the primary decision of European MNCs doing business in Thailand are political stability, entry to the Thai market, possibilities for market growth, potential of ASEAN market and production costs which scored at 3.94, 3.59, 3.57, 3.49 and 3.40 respectively.

Figure 4.3: Factors Influencing the Initial Decision to invest in Thailand



Source: Own Survey

This should be of little surprise to know that political stability is the most primarily concerned factor for investors since Thailand has adopted the democratic system for almost six decades. Through this long process, Thailand has undergone a long process of improvement and reconceptualisation in order to adjust the democratic system to the specific needs of the country. This result responded to the new finding of WIDER (2003) which found that democratisation increases FDI inflows in developing countries.[124] The study has further

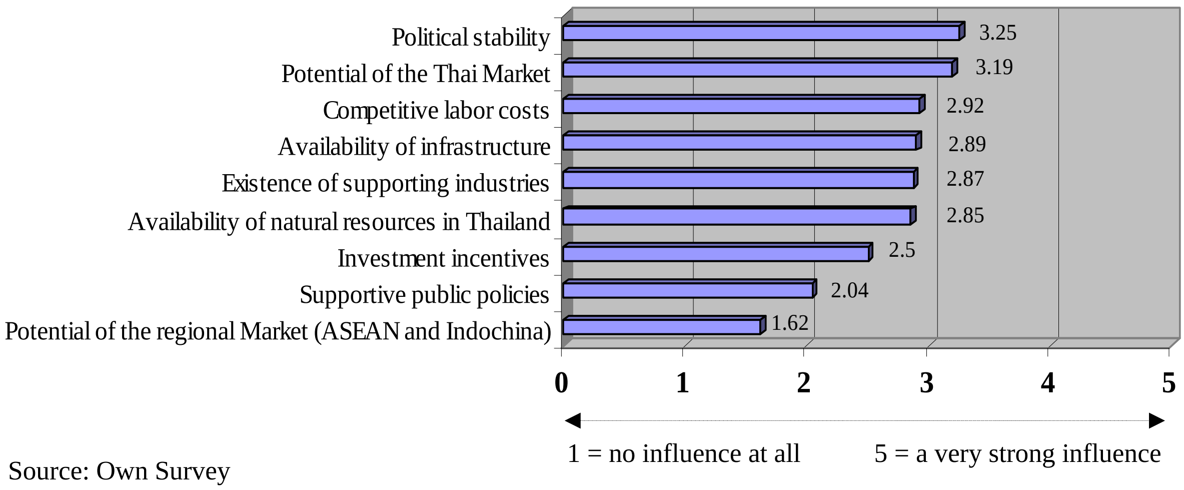
[124] Addison, T. and Heshmati, A. (2003), The New Global Determinants of FDI Flows to Developing Countries: The Importance of ICT and Democratization, Discussion Paper No. 2003/45, UNU/WIDER (World Institute for Development Economics Research), Helsinki. [Online] Available: http://www.wider.unu.edu/publications/dps/dps2003/dp2003-045.pdf (9.02.2003)

explained that foreign investors increasingly take note of whether or not a country is a democracy, in part because of the trend towards corporate social responsibility, and also because of indications that well-functioning democracies pursue better economic policies such as the stimulation of market reforms, the encouragement of stable policy environment for investors through parliamentarians and civil society, and last but not least, the stimulation of legal reforms that protect the property rights of all investors, including foreign investors.

4.3.2.2.2 Motivations of Investment Expansion

By motivating to expand investment in Thailand, 12 percent of the surveyed firms has been already expanded their projects (see Table 4.4). Nevertheless, all firms were asked to score their interest to expand their investment in Thailand.

Figure 4.4: Factors Influencing the Motivations Behind the Expansion



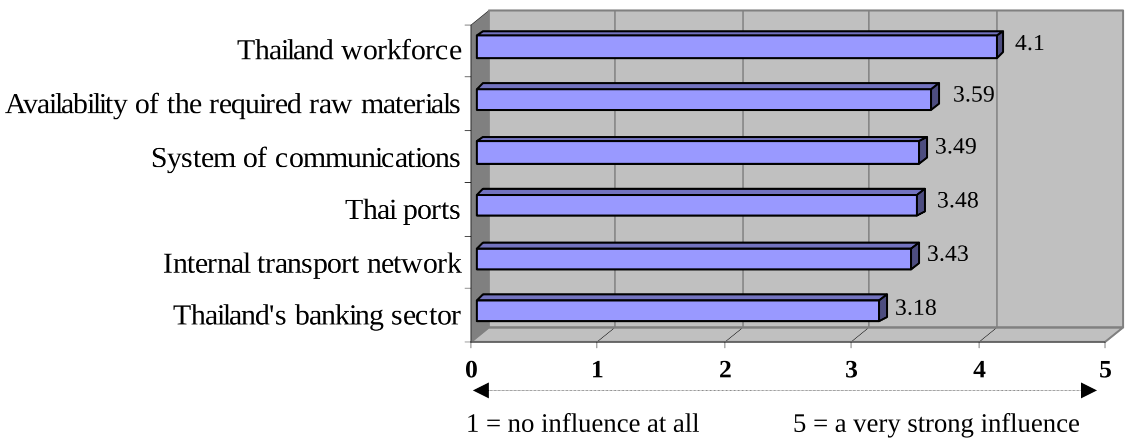
Source: Own Survey

The result from figure 4.4 shows that the three main factors influencing the decision making of investors to expand their projects are political stability, potential of the Thai market and competitive labor costs. However, Thailand might be no longer a very cost competitive location to foreign investors as China and Vietnam are presently getting much more publicity as a low-cost option for some manufacturing sectors. While essential to the ASEAN and Indochina markets and supportive public policies are less important factors in influencing European investors to expand their projects. Nonetheless, Thailand is still the production base and export platform for their products reflecting to the characteristics of manufacturing projects which are commonly export-oriented type.

4.3.2.2.3 Endowment of the Factors of Production

According to Dunning's OLI hypothesis, locational advantages are considered as a major determining condition of foreign firms to produce aboard or engage in FDI. A term of locational advantages here reflects to the quality of a country where endowment of the factors of production is taken into the firm's decision making process. The quality of the country normally referes to endowment of natural resources, its production costs, the accessibility and the quality of its infrastructure, the supply of skilled human resources which are potential for firms to gain the profit. This implies that foreign firms must make their decision about the procurement of the production inputs of land, raw materials, labor and capital in relation to the sources of the various inputs and to market opportunities for their goods and services.[125] Based on the above said features, surveyed firms were asked to measure the locational factors which determine the choice of decision of these investing firms. According to this survey, skilled manpower is responded to be the most important concern, followed by the accessibility of required raw materials and a set of physical infrastructures; system of communications, ports, and domestic transportation networks.

Figure 4.5: Ranking of Locational Factors Influencing the Initial Investment Decision



Source: Own Survey

Based on this surveyed result, this could provide an indication that the strategic objectives of most European firms are naturally two types of investment. The first type is the resource seeking which its nature of investment is motivated by the desire to reduce doing business cost and provide access to the required raw materials. The second type is efficiency-seeking

[125] Luckas, M.R. (1991), Economic Activity, Longman Modular Geography Series, Longman, London and Newyork, p. 113.

FDI which are interested in low cost host countries and the production is exported to the home country of foreign direct investment and other larger market. The availability of physical infrastructure such as port, road, and power telecommunication are partly their business requirements.

With this investment choice, workforce as well as human resources is theoretically regarded as a factor of importance in the investment decision process of foreign firms because it is one of the most wanted resource endowments (natural resources and human resources).[126] A study done by A. Bende-Nabende and J. R. Slater (2002) has also obtained a similar conclusion as this survey with regard to human resources. They sought to find out European FDI determinants in ASEAN countries by focusing on Thailand mainly. The result concluded that human resources in Thailand are important for a long term relationship with European FDI and for long-run dynamics. Currently, workforce is also one particular area which Thai government gives an attention and realises the importance of human resources as the centre for the economic development particularly, in the area of enhancing the skill and preparing the workforce in accordance with demand by business sectors. As Thailand has moved into the age of globalization, it is unavoidable to boost competitiveness without focusing on human resources development.

4.3.2.3 Mode of Entry and Ownership Structure

The mode of entry into the Thai country is also essential to mention since it involves with managerial control over foreign operations, degree of technology transfer, investment cost concerned and resource promise required.[127] Before the transitional period of Thailand, Joint-Ventures (JVs) are frequently the only way for foreigners to do business in Thailand, however, numbers of foreign shareholders are restricted under the Alien Business Law[128]. According to this law, there are certain sectors of the economy which are reserved entirely for local investors, the most important of which are agricultures, retail trading, construction

[126] Balasubramanyam, V.N. (2001), Foreign Direct Investment in Developing Countries: Determinants and Impact, OECD Global Forum on International Investment: New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century, 26-27 November 2001, Mexico City, Mexico, p. 2.
[127] Zhao, H., Luo, Y. and Suh, T. (2004), Transaction Cost Determinants and Ownership-Based Entry Mode Choice: A Meta-Analytical Review, Journal of International Business Studies 2004, Palgrave Mcmillan Ltd., pp. 1-21, here p. 1.
[128] The Alien Business Law adopted in 1972 primarily serves to define and narrow the scope of foreign participation in Thai business activities that fall under three categories: A, B and C, described as negative list. Though, the Alien Business Law has been replaced by a Foreign Business Act (1999), some areas appear to be more restive.

industry and some manufacturing sectors. These sectors are set out on a 'Negative List' under the Thai Alien Business Operation Act, 1972. However, these have been progressively reduced as the Thai economy becomes more international in outlook. Therefore, a new act was passed and entitled the Foreign Business Act adopted in 1999. Recently, foreign affiliates are allowed to own directly more shares in some manufacturing sectors due to the change in government policy which aims to improve the competitiveness of local firms. Moreover, manufacturing is the preferred sectors for investment. The importance of FDI in the Thai manufacturing sector can be seen from the percentage share of foreign affiliates that are allowed to participate in each industrial sector (see Table 4.5). Compared to other LDCs, Thailand seem to be more open and less control in several key industries such as metals, mechanical equipment, chemicals, electrical and electronic equipment and transportation equipment. This has a strong implication that local enterprises have self confidence and the ability to compete with foreign investors in these industries.

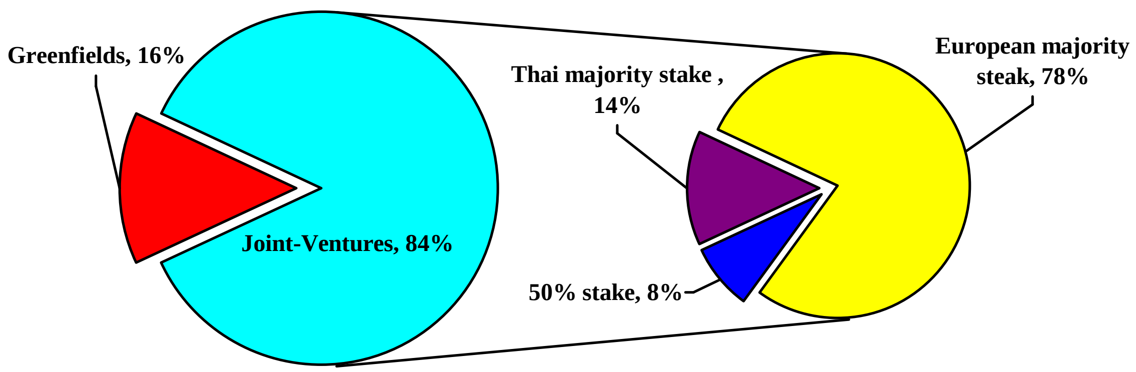
Table 4.5: The Importance of FDI in Thai Manufacturing Sectors Compared to Other LDCs

Industry/Sector	Percentage of Foreign Share in Thai Manufacturing Sectors			
	1-5%	6-10%	11-50%	51-100%
Textile, apparel and leather	Bolivia (4); Mexico (5); the Republic of Korea	Uruguay (6); Colombia (7); Peru (10)	Argentina (14); Brazil (13); Philippines (13); Malaysia (44); **Thailand (46)**	
Food, beverages and tobacco	Bolivia (2); Taiwan (4); the Republic of Korea (5)	Colombia (8)	Uruguay (12)' Mexico (16); Brazil (19); Argentina (19); Hong Kong (26); Malaysia (25); **Thailand (25)**; Peru (27); Philippines (30)	
Paper	Taiwan (0.1); Bolivia (1); the Republic of Korea (3)	Malaysia (10)	Mexico (19); Brazil (15); Columbia (17) Argentina (12); Hong Kong (12); **Thailand (24)**; Philippines (14)	
Metals	Taiwan (3); Bolivia (5);	Philippines (6); the Republic of Korea (8)	Hong Kong (12); Malaysia (18); Uruguay (21); Brazil (29); Argentina (33)	**Thailand (61)**
Mechanical equipment	Hong Kong (2)		Philippines (11); Argentina (33); Brazil (45)	Mexico (66); **Thailand (80)**
Chemicals		Taiwan Province of China (5); Bolivia (7); the Republic of Korea (7)	Malaysia (17); Uruguay (27); Columbia (32); Argentina (33)	Brazil (51); Hong Kong (51); Peru (55); Philippines (61); **Thailand (72)**; Mexico (78)
Electrical and electronic equipment			Bolivia (21); Taiwan (29); Uruguay (29); Columbia (32); Brazil (49)	The Republic of Korea(56); Peru (61); Mexico (64); Philippines (66); Hong Kong (87); Malaysia(87); **Thailand (89)**
Transport equipment		Bolivia (8)	Uruguay (14); Malaysia (18); Philippines (22); Columbia (25), the Republic of Korea (27)	**Thailand(60)**; Mexico (66); Brazil (67)
Total manufacturing	Bolivia (2)	Taiwan (6)	Uruguay (14); the Republic of Korea (14); Hong Kong (17); Columbia (18); Mexico (30); Brazil (33); Malaysia (38); Philippines (41); **Thailand (49)**	

Source: WIR (1995), pp. 230-31.

According to The World Investment Report (2000)[129], mergers and acquisitions (M&A) dominate direct investment inflows into the developed countries and are also now observed as an important method of entry for foreign companies into developing economies. In Thailand, the increase of FDI in M&A has become larger after financial crisis as foreign companies took over Thai companies that faced harsh liability and liquidity problems, however, hard statistics on this change are not available under the umbrella of BOI.

Figure 4.6: Ownership Structure of European FDI



Source: Own Survey

Figure 4.6 shows the ownership structure of European FDI based on the total sample of European projects covered in the survey. Around 16 per cent of the original investments can be described as pure Greenfield investment or establishment of new enterprises financed by foreign owner. The rest consisting of 84 per cent of projects are described as JVs that were started up by the foreign investor and/or the domestic partner and with a foreign ownership share in the start-up capital of less than 100 per cent. It would appear therefore that JVs investment has been the most common method of entry into Thailand for European investments.

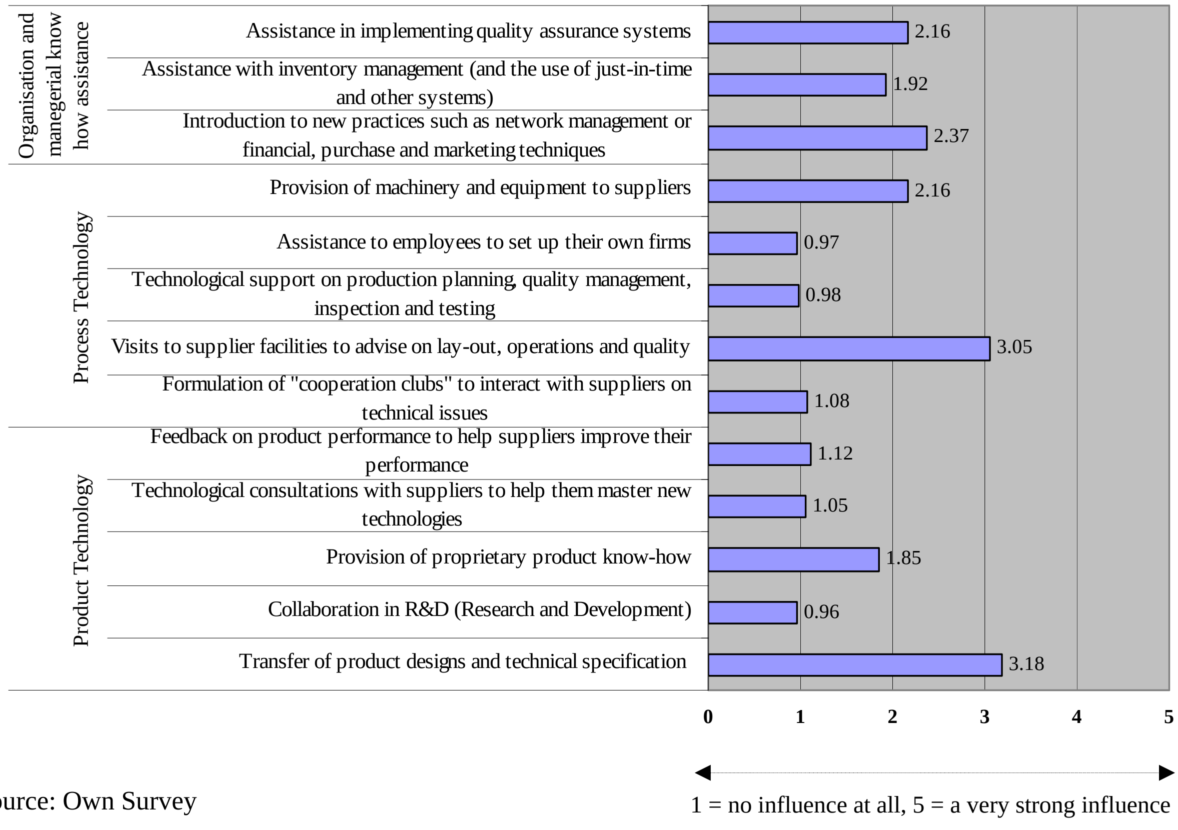
4.3.2.4 Industrial Linkages in Manufacturing Sector

Based on guideline of UNCTAD (2001), the industrial linkages can be measured by three dimensions; (i) product technology; (ii) process technology; and (iii) organisation and managerial know-how assistance.[130]

[129] UNCTAD (2000), World Investment Report 2000: Cross-border Mergers and Acquisition and Development, Division on Transnational Corporations and Investment, United Nation, New York, p. XX.
[130] UNCTAD (2001), WIR 2001: Promoting Linkages, United Nations, New York and Geneva, p. 214.

Table 4.7 shows the great importance of product technology by giving a high score for transfer of product designs and technical specifications, scored at 3.18, followed by the provision of proprietary product know-how (1.85) and the feedback on products performance in helping suppliers to improve their performance (1.12) with a rather low score, while collaboration in research and development is even less importance in creating and deepening linkages with local firms. The overall result implies that the relationship between European and local firms in respect of supporting industrial linkages through product technology, process technology; and organisation and managerial know-how support has not gone too far. Nevertheless, transfer of product design and technical specifications should be noted as one of the main channels for technology transfer to local suppliers in the Thai manufacturing sector, while the other areas of linkages in transferring and sharing their skills, information and technology with each other in order to improve their profitability are deeply required.

Figure 4.7: Forms and Importance of Linkages with Local Firms



Source: Own Survey

In terms of technological process, the importance of visits to supplier facilities to advice on lay-out, operations and quality has the highest score of 3.05, followed by the provision of machinery and equipment for suppliers, scored at 2.16, while the rest of the factors have shown less significant to local suppliers. The last dimension of measurement is organisation and managerial know-how assistance which consists of (i) introduction to new practices such as network management or financial, purchase and marketing techniques, (ii) assistance with inventory management (and the use of just-in-time and other systems) and (iii) assistance in implementing quality assurance systems. The result shows that introduction to new practices such as network management or financial, purchase and marketing techniques is the most standing out, rating at 2.37.

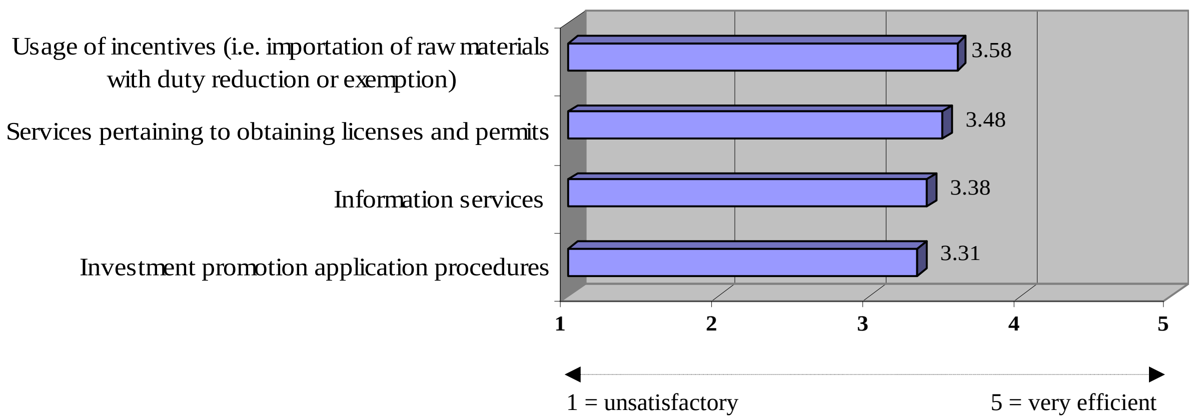
Generally, the average score for all measured factors in the area of organisation and managerial know-how assistance is more likely to show a significant positive sign and strong point of linkages between European and local firms than the others. This result is quite important for Thai policy makers to know that the areas of process technology and product technology are the weakest points which technology cannot be transferred to Thai manufacturing effectively. Therefore, such an effective policy implication for strengthening the upgrading industrial relation for both foreign and local enterprises is the most wanted.

4.3.2.5 Role of Government Agencies

4.3.2.5.1 Experiences with BOI's Services

Prior to the major role of the BOI, to promote the establishment of private-sector investments, mainly foreign firms, it is also important to ask the firms about their satisfaction with BOI services.

Figure 4.8: Experiences with BOI - Thai Investment Promotion Agency



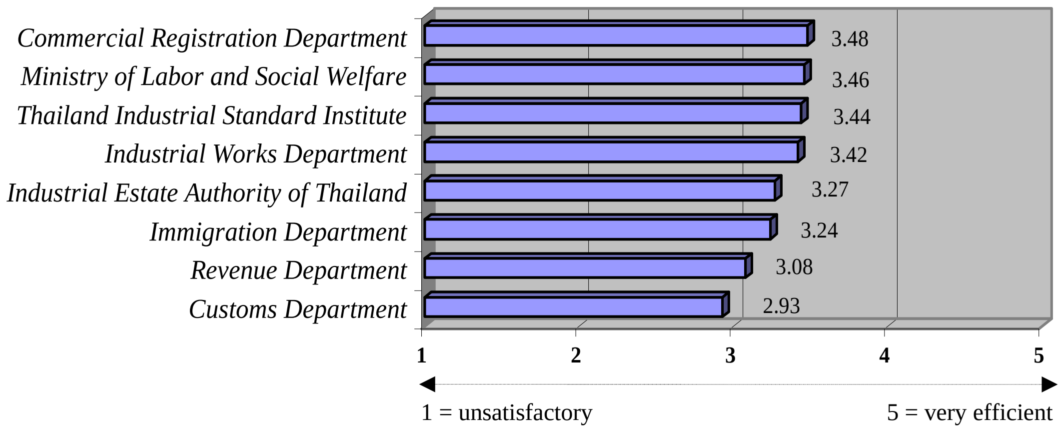
Source: Own Survey

Overall picture, firms have positively experienced and satisfied with BOI services. Usage of incentives ranked the highest score at 3.58, followed by services pertaining to obtaining licenses and permits (3.48), information services (3.38), and investment promotion application procedures (3.31) respectively.

4.3.2.5.2 Experiences with Other Government Agencies

Still being with firms' experiences in dealing with Thai government agencies, firms were asked to evaluate the satisfaction with other government agencies. The highest score were Commercial Registration Department, Revenue Department Ministry of Labor and Social Welfare scored between 3.46-3.48. While Customs Department and Revenue Department received the lowest satisfaction compared with other agencies according to complaints about inefficient bureaucracy and corruption which lies always on the top of complaint list.

Figure 4.9: Experiences with Other Government Agencies



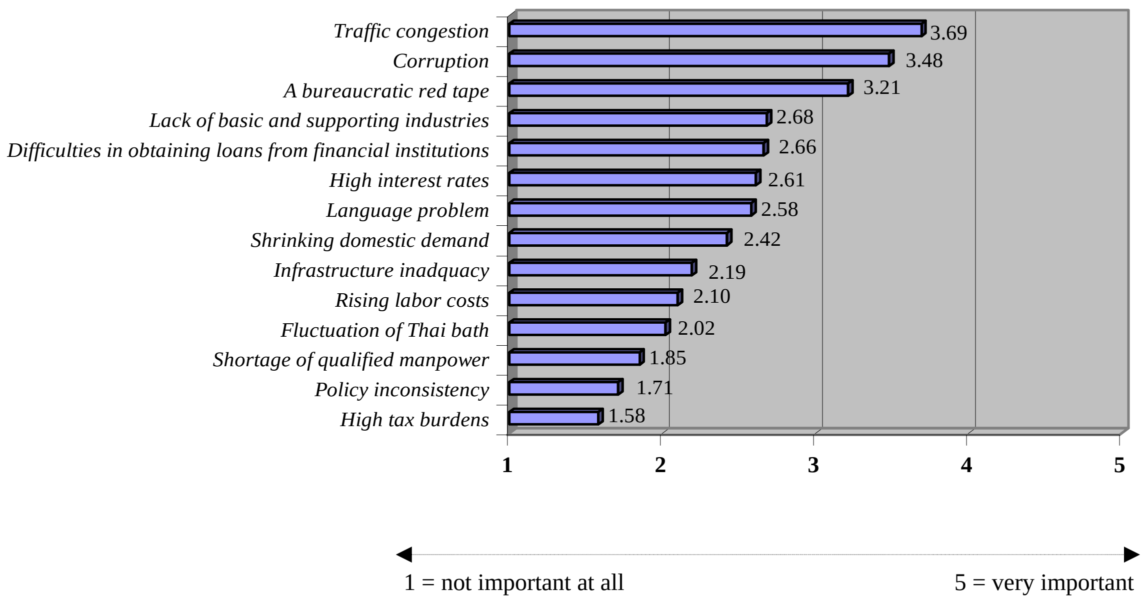
Source: Own Survey

4.3.2.6 Sources of Country Problem

According to Figure 4.10, respondents were asked to identify the main sources of country problems in Thailand. A higher score implies a more severe constraint. The results show the average score of firms that identified a factor as a constraint of their business.

In this ranking, three points stand out from the figure. Traffic congestion ranks very high on the list of obstacles, followed by corruption and a bureaucratic red tape. Lack of basic and supporting industries is also a major problem. Traffic congestion gives an indication for the most serious problem, especially Bangkok's traffic situation is now critical. European firms complained that they found it more difficult to use the roads or to travel by cars, especially in Bangkok and metropolitan. If the location of the surveyed firms is taken to consider, fifty per cent of these firms are located in these problematic areas where realistic measures for a system to reduce traffic problem have not been drawn up yet. In terms of industrial linkages, the forth ranking problem, this could be an indication that the cooperative relationship between foreign affiliates and local firms in their business transactions is taken a long distance; however, the details of this contributed effect shall be comprehensive analysed in the next chapter. While, high tax burdens, policy inconsistency, and shortage of qualified manpower are relatively less problematic and no strong deterrents to FDI to Thailand.

Figure 4.10: Problem in Doing Business in Thailand



Source: Own Survey

4.3.3 Determinants Based on Interviews and Discussions

Besides the questionnaire used, survey interviews were used as additional instrument in this analysis to obtain answers from European investors as well. These answers can reflect their actual attitudes, opinions and behaviours which cannot be obtained from questionnaire. Though, the interviews has not contained much in numbers due to companies' available time and appropriate schedules, approximately 19 interviews of both in- and outside Thailand have been conducted, of which 9 firms were made in Thailand during October-December 2003. The remaining firms were interviewed in some countries within Europe, i.e. Germany, France, and the Netherlands in different times and some firms that have not yet made their decisions whether their business activities should be located in Thailand or somewhere else.

These various persons have been asked what would be the main cause that would lead them to invest or alternatively what would discourage them from doing investment in Thailand. The factors mentioned are very similar to those listed in the previous section, as coming out of the research on this issue: the political stability of the country, its government policy with regard to foreign investment, the quality of the infrastructures, and the effectiveness of the administration.

Table 4.6: Main Findings from Interviews with European Firms

	Main findings	No. of responses
▪ Most important factor in investing in Thailand	1. Political stability	8
	2. Infrastructure	5
	3. Entry to the Thai market	3
	4. Incentives	4
	5. Possibility for market entry to ASEAN and Indochina	2
	6. Possibilities for market growth	2
	7. Production costs	3
	8. Good living environment	3
▪ Investment obstacles	1. Corruption	6
	2. Red tape	5
	3. Traffic congestion	2
	4. Communication networks	1
	5. Low quality and high costs of raw materials	1
	6. Inadequate information about investment regulation	2
	7. Lack of qualified suppliers	1
▪ Suggestions	1. Policy formulation	7
	2. Provide more incentives	4
	3. Improve infrastructure	5
	4. Provide business consultant with expertise	1
	5. Provide useful information through seminars or meetings	1

Note: Some factors are double counted.
Source: Own Interviews and Discussions

Some following comments are particularly selected for proper explanation.

- Infrastructure is one major factor for attracting more FDI and even in several survey articles on determinants of FDI in developing countries[131], this view has been supported. This was fascinatingly commented by French firm that

> *"A good location for investment should provide and facilitate a good infrastructure for investors, since infrastructure is capable of facilitating the efficiency of the production function and*

[131] See South Centre, p. 64; and WIR (1998), p. 89.

distribution process of goods and services…[]…investors cannot respond, if country doesn't take any action.

- One German firm commented on government policy in providing such an incentive quite interesting that

  "…my company launched in Thailand is not because of incentives, but economic and political stability in turn. As many countries offer almost the same package of incentives, therefore there is no mean to choose the country which provides more incentives".

- Unlikely, another German company located in Bremen commented that

  "I would like to invest in the place where there is no corruption because this is out of my financial control and excess all business costs I suppose to pay. So, I need corruption free government with business friendly environment. Any government should take a serious action on this problem, if they want to welcome and keep those investors with them".

- Another firm from the Netherlands, established an investment and supporting office under BOI promotion states that

  "I would like to describe Thailand as a foreigner-friendly investment climate. To say so, I've recognised the regulatory environment run through transparency and clarity; especially BOI's administrative process and bureaucratic system are efficient and effective. I do hope and really appreciate to see more improvement in other government agencies."

- Another German firms give an advise to the government policy regarding workforce such a remarkable suggestion that

  "I think the relationship between people in the organisation is the most important thing in running business. I myself give more attention to my staffs, who work with me…[]…not to ignore, but listen more…[]…Government should also create awareness among labor unions that sometimes their violence frightens foreign investors, and inversely cause damage to the country's reputation and improvement business structures."

4.4 Summary of the Findings and Policy Recommendations

4.4.1 Fact Findings: Base-Surveyed Analysis

Findings from survey of European investors within Thailand can be summarised as shown in the following table.

Table 4.7: Summary of FDI Fact Findings in Thailand Based on Survey Analysis

Key investigated factors	European investors' survey(347 respondents: BOI firms)
▪ Most important FDI motivations	1. Political stability 2. Entry to the Thai market 3. Possibilities for market growth 4. Possibility for market entry to ASEAN and Indochina 5. Production costs
▪ Most important motivation for business expansion	1. Political stability 2. Potential of the Thai Market 3. Competitive labor costs 4. Availability of infrastructure 5. Existence of supporting industries
▪ Importance of the creating and deepening linkages with local firms	1. Transfer specifications of product designs and technical 2. Visits to supplier facilities to advice on lay-out, operations and quality 3. Introduction to new practices such as network management or financial, purchase and marketing
▪ Importance of endowment of factors of production	1. Thailand workforce 2. Thai ports 3. Internal transport network
▪ Problems in doing business	1. Traffic congestion 2. Corruption 3. Red tape 4. Lack of basic and supporting industries
▪ BOI Services	1. Usage of incentives (i.e. importation of raw materials with duty reduction or exemption) 2. Services pertaining to obtaining licenses and permits 3. Information services
▪ Other governments' satisfactory rating	1. Commercial Registration Department 2. Ministry of Labor and Social Welfare 3. Thailand Industrial Standard Institute

Source: Own Survey

4.4.2 Policy Recommendations

The empirical study by using a questionnaire and interviews of foreign investors in this analysis provides a very useful package of recommendations and suggestions for Thailand, summarised as follows.

- On the policy front, the formulation of FDI policy is needed to optimise the FDI spillover effects and hence economic growth. To increase new foreign investors, it ought to formulate a bundle of policies that provides for the interests of all the potential investors from the different home countries.
- BOI as directly responsible for both local and foreign investors should focus more on the cooperative relationship between foreign affiliates and local firms in their business transactions which can probably bring technology spillovers to local firms.
- Since some opinions of interviewed investors have ignored the importance of incentives and the result of this questionnaire suggested that incentives is a rather minor factor in the locational decisions of European investments relative to other locational advantages such as political stability, potential of the Thai market, labor

costs and availability of infrastructure. This does not mean that Thailand should not pay attention at all to provide investment incentives. This opinion might be true when the effectiveness of any individual country's policies depends on other countries' reaction. Therefore, Thailand should not deny that to increase in incentives are more likely to be followed by competitors than are decreases. This offering more or less the same incentives could explain why firms so often say that investment incentives do not affect their location decisions, however, if one country alone were to ignore its incentives, there would be effects on the investment locations.

- To improve the investment climate, government needs to eliminate all major problems in doing business in Thailand, especially corruption which lower the country's image and reduce foreign investors' confidence, including stop new investors to come in.

4.5 Conclusion and Implication for Further Study

The investigation of FDI determinants based on survey study of 347 BOI promoted companies suggests that the most important motivation for investment decision-making of European investors in Thailand is 'the political stability'. This current finding is strongly supported by the annual result of BOI (Thailand) and other studies which were mentioned in the theoretical part. With more regard to European multinationals, the analysis suggests that the attractiveness of Thai location is likely to welcome the flow of resources-seeking FDI and efficiency-seeking FDI. The potential factors for welcoming these types of investors are workforces and ease of the required raw materials, while a package of well-performance of physical infrastructures such as system of communications, ports, and local transportation networks describe the motivation of all types of investors.

The most common method of entry into Thai manufacturing is Joint-Venture investment which each of major manufacturing sectors allows foreign investors to own the share more than 50 per cent in average according to the liberalising policy. The choice of ownership structure as well as the flexibility of shareholders is also another determining factor which is considered by European firms since it tends to reflect the preference of parent companies with respect to control of their foreign subsidiaries. With reference to the satisfaction of government services, especially investment promotion agency, the foreign investors have positive experienced and satisfied with all asking categories, while other government agencies' satisfaction rating were comparatively satisfied.

A part of this field survey, the relationship between European investors and local firms or suppliers was also measured by taking a consideration the importance of industrial linkages since it reflects to the opportunity to obtain technology transfer and possibility to gain knowledge and technical and managerial know-how from foreign firms. The obtained results are moderately low for almost variables. This considerable evidence implies that such a policy implication for strengthening the upgrading industrial relation for both foreign and local enterprises is critically required.

European investors have voiced serious complaints about traffic congestion and corruption, which are the most problematic factors identified. The government action is seriously needed to eliminate these problems because taking a quick action helps not only to improve the country's image, but also to enhance more confident about doing business in Thailand with ease and without barriers for existing firms and new comers. Concerns about the quality of government agencies, BOI has a well working performance covering a wide range of providing services such as usage of incentives (i.e. import of raw materials, equipments and machineries with duty reduction or exemption), services pertaining to obtaining licenses and permits and information services. However, BOI standing alone will not be able to achieve the target of country's development; the integration and coordination among agencies are necessarily needed to provide services and to improve the investment environment. Therefore, the need for policy coordination in attracting FDI should be emphasised.

CHAPTER 5

Evaluating the Impact of Foreign Direct Investment

5.1 Introduction

In previous chapters of this study, the fact has been stressed several times that FDI is an important element in the Thai economy. However, the question whether its impact on economic aspects is positive or negative always asked. FDI is often a controversial issue in the host economies, especially when the actions of government have been formulated to favour foreign investors by offering or providing more incentives. The argument currently comes from two sides. One side, the supporting group considers FDI as a catalyst to improve the balance of payments, to create new jobs, to transfer technological and managerial know-how and to create other benefits. Another side is a typical group, who criticises FDI as an unfavourable way as MNCs 'may contribute little to the economic development because of its low domestic input sourcing, or local content'.[132] Despite the voices of dissent and opposition to FDI, principally from the critics of globalisation, the challenges facing policy makers in developing countries are how best to attract substantial volumes of FDI and exploit it effectively in order to promote country's growth and development. Effective utilisation of FDI involves not only maximisation of the benefits of FDI but also minimisation of its costs, since FDI is not without social costs. [133]

For the purpose of this chapter, it will be much more useful to assess the impacts of FDI in the present circumstances of the world economy, in particular the recent and prospective situation of growing liberalisation and globalisation which Thailand is faced. This study will at least analyse the costs and risks associated with FDI in terms of import and export, balance of payments, employment, technology and environment in Thailand and the sum of all these effect. By and large, the impact of FDI on economic growth and development has to be estimated.

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[132] Radulescu, M. (1996), Towards a Strategy for Increasing Foreign Direct Investment (FDI) Impact on the Romanian Economy, Centre for Economic Reform and Transformation, Romania, p. 7.

[133] Balasubramanyam, V.N. (2001), Foreign Direct Investment in Developing Countries: Determinants and Impact, International Business Research Group, OECD Global Forum on International Investment, New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century, 26-27 November 2001, Mexico City, Mexico, p. 2, from: Hertz, Noorena (2001), Silent Takeover, Global Capitalism and the Death of Democracy, Arrow, London.

The structure of this chapter is provided as follows: after the introduction, an overview of theoretical costs and benefits of FDI is given in section 2. Then, we will discuss how to measure the impact of FDI on the economy in section 3, before beginning to assess the impact of FDI on Thai economy in section 4. We will use available data and results from different sources. The last section provides the summary and conclusion of those economic effects.

5.2 Theoretical Costs and Benefits of FDI in Developing Countries

From the point of view of host developing countries, there are both important benefits and possibly significant costs associated with FDI as noted before in chapter 2. FDI can positively impact the development through technology innovation, transfer of organisational skills, managerial practices and skills, human resources development, access to markets, and fostering forward and backward linkages with domestic enterprises.[134] In this way, FDI may enhance the international competitiveness of the host country through different dimensions and by this, FDI also create jobs among a wide cross-section of people in host countries. On the other hand, the costs of FDI cannot be neglected. It may cause an unwelcome impact on the environment, labor laws and working conditions and the overall area of economic development. However, it should be emphasized that many FDI impacts are inherently difficult to measure[135] and even the results are mixed. A number of studies in developing countries have been undertaken to find out whether FDI has a positive impact on economic growth and some studies concluded that country characteristics in which FDI takes place have played an important role.

Amongst several numbers of studies, Blomström et al. (1994) find that the positive impact of FDI on economic growth is confined to higher-income developing countries, while Borensztein et al. (1998) find that FDI boosts growth only in countries with a sufficiently qualified labor force. Balasubramanyam et al. (1996) express that openness to trade is essential for reaping positive growth effects of FDI. Regression analysis by Alfaro et al. (2001) suggests that FDI is associated with faster growth only in host countries with

[134] Williams, M. (2003), Is There a Constructive Development Role for a Multilateral Investment Agreement in the WTO?, International Gender and Trade Network, IGTN Monthly Bulletin March 2003, vol.3, no.3. [Online], Available: www.This Month's IGTN Bulletins.htm (11.12.2003)

[135] ADB (2004), ASIAN Development Outlook 2004, Oxford University Press, London, p.217. [Online] Available: http://www.adb.org/Documents/Books/ADO/2004/default.asp (11.03.2004)

comparatively well developed financial markets. Furthermore, De Mello (1997) concluded that FDI is an important channel of transfer of technology as effective engine for disseminating technology from developed to developing countries and are often the only source of new and innovative technologies, which are usually not found in the arm's-length market.[136] It can be concluded that the larger the technological gap between the host and the home country of FDI, the smaller is the impact of FDI on economic growth.

5.3 How the Impact of FDI on the Economy Can Be Measured?

As pointed out above, a large number of studies have tried to find out whether FDI cause positive or negative effects on the developing countries. The term "impact of FDI" on the host country's economy can be sub-divided into macroeconomic and microeconomic impacts.[137] The former concerns the impact of FDI on macroeconomic variables, such as GDP growth, total fixed investment, employment, exports and imports, aggregate consumption, government spending and tax revenue. The latter deals with the impact on the economic behaviour of individual units such as labor productivity, and technical and management efficiency of local firms.[138] The impact of FDI on the host country economy is often ambiguous, especially in terms of measurement. While some impacts of FDI can be quantitatively measured, others cannot. For example, the impacts of FDI on GDP growth, capital formation, employment, exports and imports are measurable, while technology transfer, technological spillovers, and environmental pollution are difficult to quantify. According to OECD (2002), the overall impact of FDI can be examined by using different parameters such as capital formation, backward linkages, employment, technology transfer, market access and knowledge spillovers.[139] However, the empirical evidence on this matter is sometimes mixed and such 'evaluating the overall impact of MNCs on the host country is a very complex matter'[140].

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[136] Nunnenkamp, P. (2004), To What Extent Can Foreign Direct Investment Help Achieve International Development Goals, Kiel Institute for World Economics, Blackwell Publishing Ltd., UK and USA, pp. 657-677, here p. 658, from: De Mello, L. R. Jr. (1997), Foreign Direct Investment in Developing Countries and growth: A Selective Survey, Journal of Development Studies, Vol. 34, pp. 1-34, here p. 1.
[137] Moosa, I.A. (2002), Foreign Direct Investment : Theory, Evidence and Practice, Palgrave New York, p. 70.
[138] Sun, H. (1998), Foreign Investment and Economic Development in China: 1979-1996, Ashgate Publishing Company, USA, p. 11.
[139] OECD (2002a), Foreign Direct Investment in Asia: How to maximise its Benefits? Views of a Civil Society Organisation, Global Forum on International Investment: Attracting Foreign Direct Investment for Development, Shanghai, 5-6 December 2002, p. 4.
[140] Dicken, P. and Quevit, M. (1994), Transnational Corporations and European Regional Restructuring, Netherlands Geographical Studies 181, Utrecht, the Netherlands, p. 39.

Whatever the overall evaluations, the conclusions are not easily accepted by either side of the debate.[141]

A study carried out by the Research and Information System for the non-aligned and other developing countries (RIS), India, got evidence that the impact of FDI on host countries is mixed. Taking a sample of 98 countries covering the 1980-98 periods, the results for Asian countries are summarised below.

Table 5.1: Impact of FDI on Host Countries Investment

Countries	Sign of Effect	Fact findings
India, Fiji, Papua New Guinea, Philippines and Singapore	-	FDI crowded out domestic investment.
Pakistan, China, Indonesia, Malaysia and Turkey	?	FDI flow has not had any effect on domestic investment.
Bangladesh, Korea, Nepal, Sri Lanka and Thailand	+	FDI has had a positive effect on FDI by crowding in domestic investment.
Of the 107 countries surveyed	+	FDI has had a positive effect on domestic investment in 22 countries

Source: Adapted from OECD (2002a), Foreign Direct Investment in Asia: How to Maximise Its Benefits?, p.4., from Nagesh Kumar and Jaya Prakash Pradhan (2002), FDI, Externalities and Economic Growth in Developing Countries, RIS.

The subject of FDI in terms of crowding in or crowding out domestic investment as the results provided in the above table, the total effect is a sum of the component effects and quite difficult to predict. Prior to a matter of facts, FDI might encourage local firms by creating a business environment favourable to it and, transferring technologies, know how and management techniques. In some cases, FDI might crowd out the local investment by displacing or reducing it. Though, the results of FDI impacts are mixed, FDI is still believed to play, more or less, an essential role for the country's economic growth and development.

5.4 Concepts of Measurement

The issues raised in the controversial attempts have been made to measure the impact of FDI in Thailand on the Thai economy. This was done by examining several aspects of impacts on macroeconomic variables such as balance of payments, imports and exports, technology, employment and environment with the latest data.

[141] Louis T. Wells, Jr. (1987), Evaluating Foreign Investment: With Special Reference to Southeast Asia, in: Robinson, Richard D., Ed. (1987), Direct Foreign Investment: Costs and Benefits, Praeger, New York, pp.17-39, here p. 18.

5.4.1 The Contribution to Economic Development and Growth

Thailand, as described by Tongzon (1998), is an export-oriented market-based economy with much emphasis on economic growth and it has dualistic economies with more than 50 per cent of their populations living in an agricultural and rural sector.[142] Furthermore, Thailand has pursued economic development and growth through international trade and investment. Over the past three decades, policy has changed considerably as was heavily discussed in Chapter 3.

Table 5.2: Key Macroeconomic Indicators

	1996	1997	1998	1999	2000	2001	2002
GDP (Million Baht)[a]	4,611.0	4,732.6	4,626.4	4,637.1	4,923.3	5,133.8	5,451.9
Real GDP Per Capita (%)[b]	4.8	-2.3	-11.4	3.4	3.6	1.0	4.8
Real GDP Growth (%)[b]	5.9	-1.4	-10.5	4.4	4.6	1.9	5.2
FDI to GDP ratio (%)[c]	2.0	3.1	4.4	3.1	2.3	3.0	0.8
Domestic investment to GDP ratio (%)[b]	41.8	33.7	20.4	20.5	22.7	24.0	23.1
Of which: Private investment (%)[b]	10.2	11.6	9.7	9.3	8.1	7.6	6.8
National saving to GDP ratio (%)[c]	34.3	33.1	31.8	30.1	31.6	30.4	34.3
Export to GDP ratio (%)[c]	39.3	48.0	58.9	58.3	66.9	66.1	64.8
Import to GDP ratio (%)[c]	45.5	46.6	43.0	45.7	58.2	59.6	57.5
Inflation rate (%)[c]	5.6	5.6	8.1	0.3	1.6	1.6	0.7

Source: (a) Bank of Thailand, Online Databank for Thailand's Key Economic Indicators; (b) IMF (2003), p. 3, Table 1; (c) Key Indicators 2003, Asian Development Bank, [Online] Available: www.adb.org/statistics (10.05.2003)

An increase of FDI was followed by the upward trends of private investment, imports, exports, and GDP growth as shown in table 5.2. The ratio of FDI to GDP rose from 2.0 per cent in 1996 to 3.1 per cent in 1997, 4.4 per cent in 1998 before slightly dropped down in the following years due to various external negative factors including a war in the Middle East and anticipated surging oil prices, and the slowdown in major global economies, particularly Japan and the United States. Regarding to domestic investment, this has been the traditional engine of Thai economic growth, of which private investment to GDP ratio increased from 10.2 to 11.6 per cent before steadily fell to 6.8 per cent in the corresponding period.

FDI is considered as an important source of growth, employment, technology transfer, high value-added economic activity and so forth. This may affect the important macroeconomic variables, however, in all views of the above section, it cannot be totally supposed that the net economic impact of FDI will be positive in all state of affairs because among other things, it

[142] Tongzon, J.L., (1998), The Economies of Southeast Asia: The Growth and Development of ASEAN Economies, Edward Elgar, Cheltenham, UK, p. 13.

also depends on the quality of FDI, domestic regulatory environment and the scope of time studied.

5.4.2 Impact on Foreign Trade: Export Growth

The theoretical discussion in chapter 3 indicates that FDI may play an important role in the foreign trade of the developing countries by increasing more trade opportunities. Besides, several empirical studies on the impact of FDI on the host country's foreign trade have finalized that the FDI contributes to the export growth of the host country.

Table 5.3: Degree of Openness of the Thai Economy (Million Baht)

Year	(1) Import*	%	(2) Export*	%	(1+2) Total Trade	(3) GDP**	(1+2)/3 Openness to Trade (%)
1993	1,170.8	13.3	940.8	14.1	2,111.6	3,165.2	66.7
1994	1,369.2	16.9	1,137.6	20.9	2,506.8	3,629.3	69.1
1995	1,763.5	28.8	1,406.3	23.6	3,169.8	4,186.2	75.7
1996	1,832.8	3.9	1,411.0	0.3	3,243.8	4,611.0	70.3
1997	1,924.2	5.0	1,806.6	28.0	3,730.8	4,732.6	78.8
1998	1,774.0	-7.8	2,248.0	24.4	4,022.0	4,626.4	86.9
1999	1,907.3	7.5	2,214.2	-1.5	4,121.5	4,637.1	88.9
2000	2,494.1	30.8	2,768.0	25.0	5,262.1	4,923.3	106.9
2001	2,755.3	10.5	2,884.7	4.2	5,640.0	5,133.8	109.9
2002	2,775.3	0.7	2,952.0	2.3	5,727.3	5,451.9	105.1

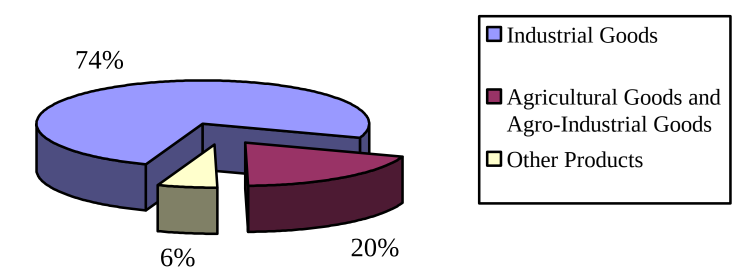
Source: Own computed based on data from (*) Ministry of Commerce, Online Databank for Thailand's International Trade: http://www.ops2.moc.go.th/meeting/eibthai.xls (07.04.2004); and (**) Bank of Thailand, Online Databank for Thailand's Key Economic Indicators: http://www.bot.or.th/bothomepage/databank/Econ Data/ Thai_Key/Thai_ KeyE.asp (11.04.2003)

An empirical investigation in the case of Thailand can be firstly considered from an increase in export by using current data of Thai trade balance. During the period from 1993 to 2002, for example, Thai export increased by 14.14 per cent annually. As a result, the degree of openness of Thai economy increased from 66.7 per cent in 1993 to 105.1 per cent in 2002 (see Table 5.3). According to the rate of openness of the economy, the definition of IMF (2002) suggests that there is no a priori critical level of openness. There are cases where the said ratio exceeds 100 per cent. But, central tendency for the emerging economies was found to be around 60 per cent.[143] The Thai economy by this definition can be classified as open, with its ratio of 66.7 per cent in 1993 and continuously increased its ratio to more than 100 per cent in the past few years.

[143] IMF (2002), Use of Balance of Payments Statistics: Case of Saudi Arabia, Fifteenth Meeting of the IMF Committee on Balance of Payments Statistics Canberra, Australia, October 21–25, 2002, no page number, cited from http://www.imf.org/external/pubs/ft/bop/2002/02-50.pdf (21.03.2004)

In 2002, Thailand's major export structure consisted of 74 per cent industrial goods, 20 per cent agricultural commodities and agro-industrial products, and 6 per cent other products. Agricultural commodities and agro-industrial products increased slightly to 20 per cent of the total export value, and export of industrial products rose 2.5 per cent from the previous year,[144] resulting from the recovery of the information technology sector (Figure 5.1). An impressive rate of export growth in Thai manufacturing sector per annum has also occurred for textile and garment, electronic equipment, frozen squid, canned pineapple, fish meal and canned marine products, gems and jewellery.[145]

Figure 5.1: Thailand's Export Structure in 2002

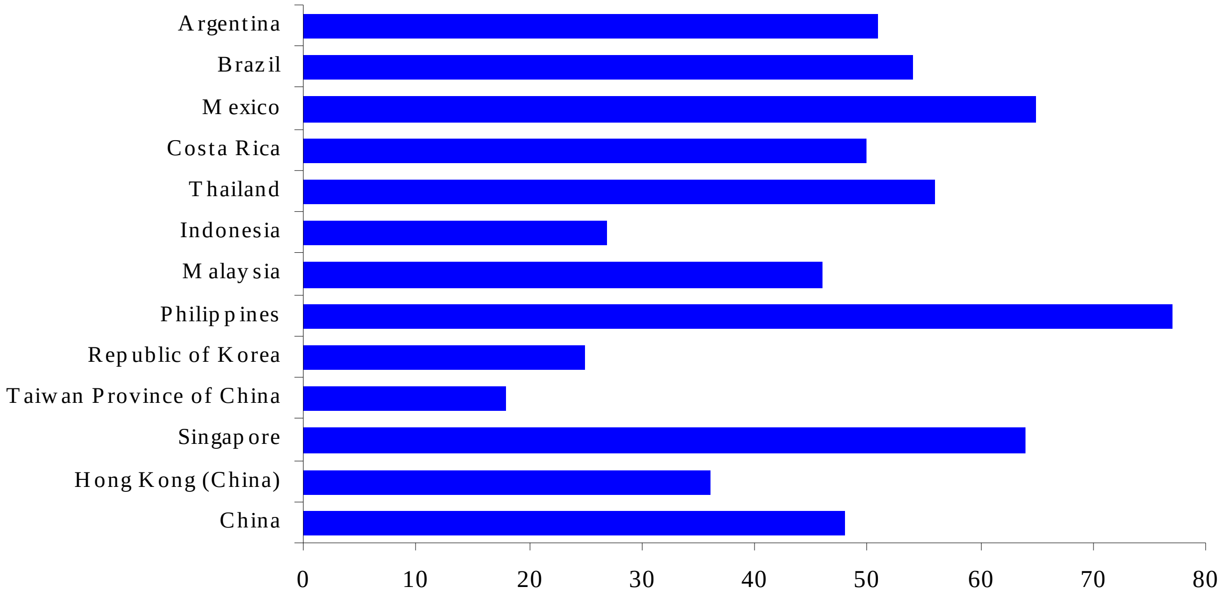


Source: Department of Export Promotion, Thailand's Export Structure During 1992-2003 (Jan.-Oct.), Ministry of Commerce, Thailand. [Online] Databank: http://www.ops2.moc.go.th/meeting/ExstrucB.xls (07.04. 2004)

With this high rate of exports, FDI is the key driver making Thailand more competitive in the world market. Reliance of exports on FDI differs sharply among the economies, Thailand belongs to the countries with very high reliance like the Philippines, Malaysia and Singapore. Based on data from UNCTAD, 2002, figure 5.2 illustrates that MNCs play varying roles in exports in different countries, including Thailand with more than 50 per cent contributed by MNCs.

[144] The total export of industrial products was 2,171,481.9 million bath in 2001 and 2,226,390.1 million bath in 2002.
[145] See Department of Export Promotion, 20 Important Export Products During 1992-2003 (Jan.-Oct.), Ministry of Commerce, Thailand. [Online] Databank: http://www.ops2.moc.go.th/meeting/X_com10B.xls (07.04. 2004)

Figure 5.2: Share of MNCs in Exports, Most Recently



Source: Adapted from WIR (2002), pp. 276-279, Annex table A.II.1.

5.4.3 Impact on Balance of Payments

An investment by foreign affiliates can affect the balance of payments of the host country in several ways. The most frequently used component of balance of payments performance is the merchandise trade balance, which is defined as the difference between a nation's exports and imports. Based on data of Bank of Thailand, during 1990-1996, the current account deficits rose steadily from 5.1 per cent in 1993 to 7.8 per cent in 1996, averaging at 6.8 per cent. Since 1998s, Thailand has consistently run up a surplus, which expanded rapidly after financial crisis in reference to the collapse in the value of the baht against other major currencies. As a result, Thai exports and services were made very attractive and reigned in spending on imports. Along with a sharp reduction in GDP, the current account moved away from a deficit of more than US$ 14 billion in 1996, 3 billion in 1997 to a current account surplus of more than US$ 14 billion in 1998 or around 12 per cent of GDP as exports reduced more slowly than imports. However, as the economy gradually recovered, the current account surplus has declined to just US$ 2.5 billion in 2001 or 5.4 per cent of GDP as import increased faster than exports (see Table 5.4 and Figure 5.3).

Table 5.4: Summary of Thai Balance of Payments, 1997-2003

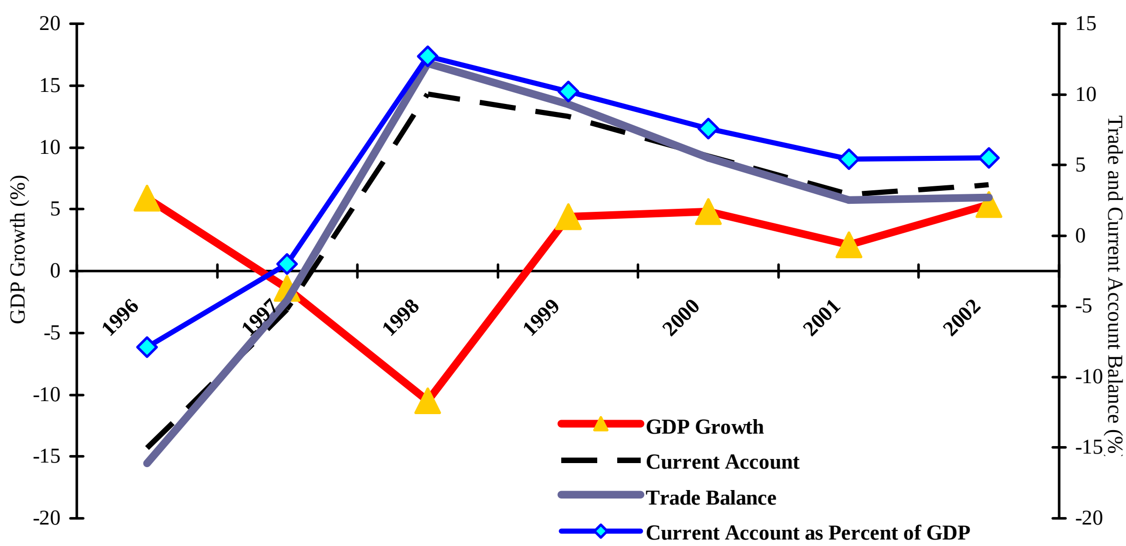
Unit: Million US$

Items	1997	1998	1999	2000	2001	2002	2003
Exports	56,725	52,878	56,801	67,889	63,070	66,092	78,416
(annual growth in per cent)	*(3.8%)*	*(-6.8%)*	*(7.4%)*	*(19.5%)*	*(-7.1%)*	*(4.8%)*	*(18.6%)*
Imports	61,349	40,643	47,529	62,423	60,576	63,353	74,214
(annual growth in per cent)	*(-13.4%)*	*(-33.8%)*	*(16.9%)*	*(31.3%)*	*(-3.0%)*	*(4.6%)*	*(17.1%)*
Balance of Trade	-4,624	12,235	9,272	5,466	2,494	2,739	4,202
Net Services and Transfers	1,514	2,056	3,194	3,862	3,711	4,269	3,773
Receipts	20,921	17,370	18,552	19,054	17,851	19,725	20,040
Payments	-19,407	-15,314	-15,358	-15,192	-14,140	-15,456	-16,267
Current Account Balance	-3,110	14,291	12,466	9,328	6,205	7,008	7,975
Capital and Financial Account	-4,343	-9,742	-7,908	-10,261	-4,833	-4,181	-8,604
Monetary authorities[a]	1,730	3,936	4,020	-150	-389	4,032	2,669
Government	1,738	578	1,346	138	318	-1,478	-608
Bank[b]	-5,717	-12,723	-10,617	-6,606	-2,031	1,765	-2,258
Others[c]	-2,094	-1,533	-2,657	-3,643	-2,532	-8,511	-8,246
Net errors & omissions	-3,196	-2,815	26	-684	-254	1,418	611
Balance of Payments	-10,649	1,734	4,584	-1,617	1,317	4,234	143

Note: a Including Bank of Thailand's borrowing and other offshore transactions.
b Starting from 2001 onwards, the items include also IBF's out-out transactions
c Including non-bank and state enterprises

Source: Bank of Thailand, Table 55.1: Balance of Payments. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab55-1.XLS (12.09.2003)

Figure 5.3: Current Account and GDP Growth, 1996-2002



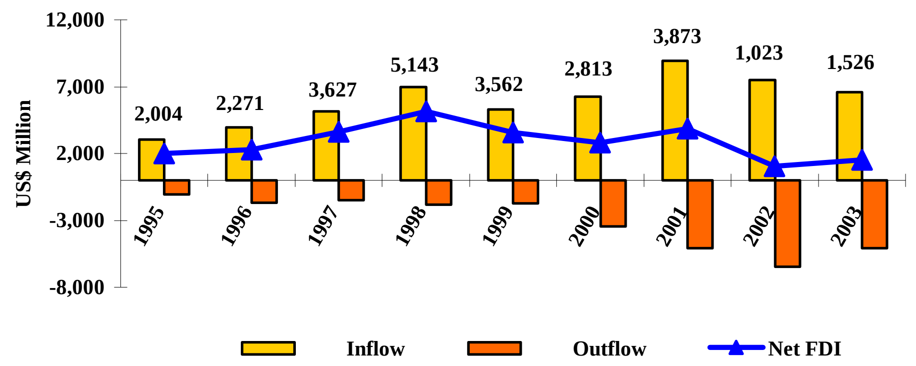
Source: Bank of Thailand, Thailand's Key Economic Indicators. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/ Thai_Key/Thai_KeyE.asp (11.04.2003)

As a matter of fact, the potential impact of foreign firms' activities on the Thai balance of payments goes beyond the contribution to exports. Foreign affiliates also import goods and services, as well as attract capital and repatriate interest, income and royalties. FDI in

Thailand is frequently accompanied by an increase in imports representing a large share of inputs from overseas. It is estimated that foreign investment activities account for 90 per cent of all machinery equipment and over 50 per cent of raw materials imports. This is particularly the case for export oriented investment where investors must secure competitively priced and high quality inputs to compete effectively in global markets.[146]

To consider FDI inflow and outflow is also important for evaluating the impact of FDI on balance of payments as the initial outflow of FDI from the home country to the recipient country will be recorded in the capital accounts of both countries, for example, an outflow from Germany and an inflow to Thailand. Payment of interest and dividends from the German subsidiary in Thailand to the parent company in Germany in consequent years will be recorded as an inflow on current account for Germany and a current account outflow from Thailand.

Figure 5.4: Foreign Direct Investment Trend



Source: Bank of Thailand, Table 57: Net Flows of Private Financial Account (US$), Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab57.xls (21.04.2003)

According to the current situation, net FDI inflows have shown a declining trend in 2002, reduced from US$ 3,873 million in 2001 to US$ 1,023 million in 2002 and slightly rose up to US$ 1,526 million in 2003 (Figure 5.4). The cause for this decrease was the result of rising FDI outflows in the form of loan repayments.

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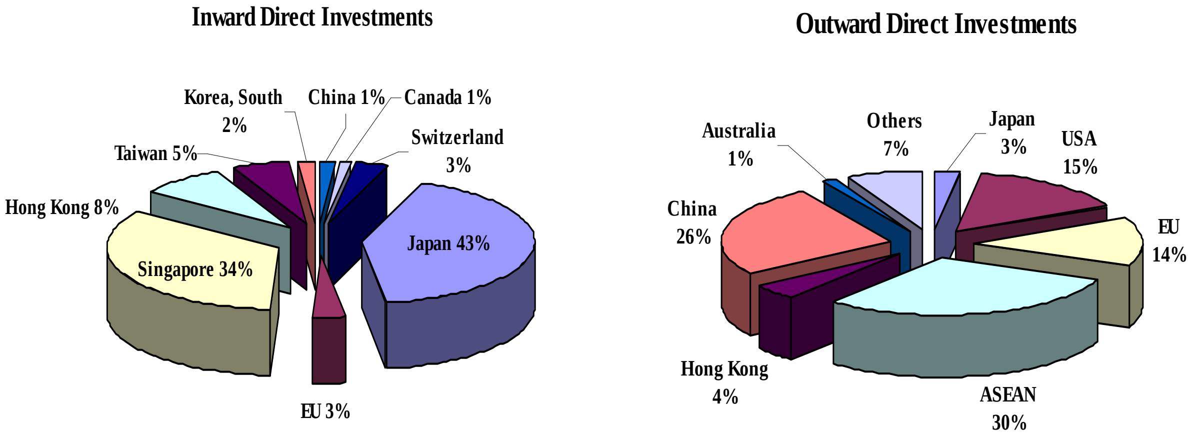
[146] Soontiens, W. and Haemputchayakul, S, Sustainable Globalization and Emerging Economies: The Impact of Foreign Direct Investment in Thailand, Curtin University of Technology, Australia, p. 378, cited from http://blake.montclair.edu/~cibconf/conference/DATA/Theme2/Australia1.pdf (22.08.2003)

Figure 5.5: Percentage of Inward and Outward Thai Direct Investments by Country/Region (FY2003)



Source: Bank of Thailand, Table 62.1: Net Flows of Foreign Direct Investment Classified by Country. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ& Finance/Download/Tab62-1.xls (21. 04.2003)

According to the Bank of Thailand's statistics, the increasing FDI may not be a good indicator for Thailand's improving status in attracting FDI. In closer detail, only Japan and Singapore made large investments into Thailand, therefore pushing the total net flows of FDI higher. Taking a close look at recent FDI data from Figure 5.5, net flows of FDI contributed by these two countries totalled US$ 1,248 million or 77 per cent of total net flows into Thailand. At the same time, FDI from other countries decreased. In addition, FDI outflows increased simultaneously with the rising inflow of FDI capital, which is a factor that should be investigated for its possible effects. FDI outflows were shown to be growing, which has obviously seen since the year 2000, when the ratio of outflow to inflow surged to 55 per cent, compared to an average of 40 per cent during the years 1986 to 2001.[147] In particular, during the first five months of 2002, this ratio jumped to 79 per cent.[148] Despite being a temporary situation and only preliminary data, it is significant, however, that in previous years, Thailand had high FDI inflows, which overshadowed the rising FDI outflows within net FDI flow statistics, which showed continuous expansion. Therefore, if FDI outflows continue to increase, it will signify that Thailand has to put more effort into attracting more FDI inflows in order to maintain positive FDI growth. The recent FDI outflows, therefore, have been an alarming sign indicating either that these flows are only adjustments on investments by foreign investors or only the beginning of a direction of lower investment preference toward

[147] Based on the data of BOT, the total amount of FDI inflow and outflow during the year 1986 to 2001 was US$ 61,046 and US$ 24,467 million respectively.
[148] The accumulated amount of FDI inflow and outflow during the first fiive months of 2002 was US$ 2,414 and 1,905 million respectively.

Thailand. If the latter is so, it is a very urgent issue for the Thai government to adopt measures to improve the investment climate and attract more FDI.

5.4.4 Impact on Employment

The impact of FDI on domestic employment is often regarded as being the most significant potential impact of all.[149] To measure the relationship between FDI and its effect on employment, the creation of employment and the wage that they pay is necessarily taken into account because this is 'one of consequences of the package of tangible and intangible assets'[150] such as the raising wage, and the increase of job opportunities that FDI brings to the host economy. This is considered by the Government as the most important benefit which people in the host countries should gain from foreign affiliates.

Table 5.5: The Range of Potential Effects of Inward FDI

Area of impact	Direct		Indirect	
	Positive	**Negative**	**Positive**	**Negative**
Quantity	Adds to net capital and creates jobs in expanding industries.	Foreign direct investment through acquisition may result in rationalization and job loss.	Creates jobs through forward and backward linkages and multiplier effects in local economy.	Reliance on imports or displacements of existing firms results in job loss.
Quality	Pays higher wages and has higher productivity.	Introduces practices in, e.g., hiring and promotion that are considered undesirable.	Spill-over of 'best practice' work organization to domestic firms.	Reduces wage levels slowly as domestic firms try to compete.
Location	Adds new and perhaps better jobs to areas with high unemployment.	Crowds already congested urban areas and worsens regional imbalances.	Encourages migration of supplier firms to areas with available labor supply.	Displaces local producers, adding to regional unemployment, if foreign affiliates substitute for local production or rely on imports.

Source: Adapted from UNCTAD (1994), p.167.

According to UNCTAD (1994) in relation with the quantitative effects on employment, foreign firms do not only create jobs directly inside their own foreign production bases, but also indirectly through forward and backward linkages and multiplier effects in the local economy (Table 5.5). Since there is no simple method to assess the effect of FDI on employment due to lack of data, however, such an assessment can be relied on aggregate data

[149] Dicken, P. and Quevit, M. (1994), Ob. cit., p. 25.
[150] Sauvant K.P., Mallampally, P. and Economou, P. (1993), Foreign Direct Investment and International Migration, Transnational Corporations, Vol. 2, No. 1, February 1993, United Nations, p. 46.

on the number of jobs offering in MNCs of those individual host countries.[151] For the case of Thailand, the impact of FDI on job creation will be further examined.

5.4.4.1 Structure of Workforce in Thailand

According to 2002 Labor Force Survey (LFS) conducted by the National Statistics Office, Thailand[152], Thailand has a labor force of 34.6 million workers out of a total population of 63.6 million. This figure includes all Thais fifteen years of age or older who are actively seeking work. The unemployment rate was 1.8 per cent during the last quarter of 2002, versus rates of 2.5 per cent during the same periods in 2001.[153] The decline in the unemployment rate in 2002 is explained by increasing economic growth, especially in the real estate, tourism, and retail trade sectors. Unemployment remains relatively high when compared with the level that prevailed before the 1997-98 financial crisis. However, since 1997, reduced access to capital however, had led to employment freezes in many sectors, while Thai affiliates of some multinationals have laid off employees as part of broader corporate restructuring plans.[154]

5.4.4.2 Employment Creation

By considering the case of Thailand, an increase of employment is partly a primary policy objective of the Ninth National Economic and Social Development Plan B.E. 2545-2549 (A.D. 2002-2006) in accordance with the poverty reduction and empowerment of overall Thai people. To achieve this target, the promotion of industrial projects with high job creation is requited. This condition also subjects to the policy of the Board of Investment in order to meet national economic development goals. To assess whether FDI helps create more job for domestic citizens, the available employment data base of BOI is presented with respect to FDI projects. Basically, the projects promoted by BOI are classified into four categories: (i) net application submitted, (ii) application apprived, (iii) promotion certificate issue and (iv) start-up operation. The projects are at this point considered only the started operation projects that data can be more reliable according to the requirement to report the operating business.

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[151] UNCTAD, World Investment Report (1994), Transnational Corporations, Employment and the Workplace, United Nations, New York, p. 169.

[152] National Statistics Office, Thailand, [Online] Available: http://www.nso.go.th/eng/stat/lfs_e/lfse.htm (05.04.2004)

[153] National Statistics Office, Thailand, Labor Force Survey, Table 1: Population by Labor Force Status for Whole Kingdom: 2001-2003, cited from: http://www.nso.go.th/eng/stat/lfs_e/lfse-tab1.xls (05.04.2004)

[154] U.S. Embassy in Thailand, 2002 Investment Climate Statement for Thailand, cited from http://www.usa.or.th/services/docs/reports/eco_monthly/2002/investclim02.htm (12.04.2003)

Table 5.6: Domestic Employment Shared in Started Operation Project by Ownership

Ownership	No. of Employment					% Change			
	1998	1999	2000	2001	2002	1999	2000	2001	2002
Wholly foreign owned	46,733	20,685	55,136	3,696	40,057	-55.7	166.6	-93.3	983.8
Joint venture 50%	1,148	393	56	956	235	-65.8	-85.8	1,607.1	-75.4
50 <joint <100	25,483	24,710	25,670	20,487	12,194	-3.0	3.9	-20.2	-40.5
Other joint venture	37,909	18,049	27,729	38,825	31,240	-52.4	53.6	40.0	-19.5
Total	**111,273**	**63,837**	**108,591**	**98,964**	**83,726**	**-42.6**	**70.1**	**-8.9**	**-15.4**

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

Table 5.6 shows the number of domestic workers employed by annual new foreign projects, classified by ownership. Wholly foreign owned projects have, by and large, generated more employment than other types of entry modes. In 1998, more than 46,000 workers have been employed by foreign promoted firms or approximately 42 per cent of the total employment created this year by FDI. By 1999, the employed number of worker gives a wrong impressive, only new projects are considered, thus additional jobs are created 20,685 workers, just under 55 per cent of the 1998 figure, before it again increased to more than 55,000 in 2000. This can be explained that employment effects over time may also differ and their contribution to employment creation has become important as the job availability has increased year by year in respect to the rapid expansion of foreign invested firms.

Table 5.7: Distribution of Foreign Investment Project to Thai and Foreign Employment

Foreign Project	No. of Employee, 2000		No. of Employee, 2001		No. of Employee, 2002	
	Thai	Foreign	Thai	Foreign	Thai	Foreign
Japan	36,444	833	39,852	760	34,188	585
USA	10,576	214	6,815	162	6,267	143
EU	12,333	350	27,521	652	15,013	180
Netherlands	3,283	106	7,122	60	7,153	52
Belgium	944	17	153	2	566	9
UK	4,369	94	6,915	240	3,144	35
Germany	498	19	2,179	250	751	17
Switzerland	1,616	26	1,426	11	1,069	42
France	1,058	37	392	15	682	14
Italy	-	-	194	3	39	0
Denmark	303	6	373	7	178	6
Others	262	45	8,767	64	1431	11
Taiwan	11,874	279	16,374	479	11,044	271
Singapore	5,830	118	10,657	320	9,640	216
China	403	16	742	18	1,528	32
Others	43,812	813	17,009	404	20,034	405

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

Though, the number of job has been increased through FDI projects, internal debate over the role of MNCs in Thailand is still questioning, whether foreign workers might rely on expatriates from their own countries for staffing their business operations or the number of foreign worker might tend to increase and replace domestic worker. In aggregate terms, the number of expatriates working in foreign firms is not huge. Data from BOI in table 5.7 shows that the proportion of foreign employment is less than Thai employment as a whole. These foreign workers are generally managerial and technical staffs which are higher for new investments and are allowed only to work for their production projects under the conditions of investment promotion law.

Under the Investment Promotion Law, foreign expatriates are allowed to enter to Thailand only for conducting research in investment opportunities, or for other matters which might benefit investment. In this regard, the BOI will grant permission to stay in Thailand for not more than six months at a time. A promoted company will be allowed by BOI to bring in foreign workers as skilled technicians and experts together with their families. The duration of one year at a time for the work permit will be allowed except for positions, which have been approved to work in the promoted company for more than two years.[155] Therefore, a high share of foreign workers in average tends to decrease as foreign firms firmly settle down their business in the domestic market and their domestic employees get knowledge and working experience.

5.4.4.3 Wages and Earnings

In reference to the creation of new employment by FDI, a consideration of income effect as well as salaries or wages is often discussed. One side is that foreign enterprises are always assumed to pay higher wages for employees than local firms with similar qualifications. On the other sides, FDI tends to hire relatively skilled workers rather than unskilled workers. This assertion has been approved in some developing countries.

In reference to table 5.8, recent empirical evidence on wage differentials of manufacturing firms in developing countries finalises the conclusion that wage differentials or inequality are greater for non production workers or white collar than production workers or blue collar and

[155] BOI (2003), A Guide to the Board of Investment, Office of the Board of Investment, Royal Thai Government, Thailand, p. 16.

foreign firms pay higher wages for skilled and unskilled workers than domestic firms in manufacturing sector.[156]

Table 5.8: Wage Differentials between Foreign Owned and Local Firms in Developing Countries

	Major Study		
	Aitken, Harrison and Lipsey (1996)	**Mutsuoka (2001)**	**Lipsey and Sjöholm (2001)**
Country and Year of Study	Mexico (1984-1990) Venezuela (1977-1989)	Thailand, 1996 and 1998	Indonesia (1996)
Data Level	4 Digit ISIC Industry	Plant	Plant
Dependent Variable	Average Wage	Hourly Wage	Average Wage
FDI Variable	Equity of Employees in Foreign Owned Firms	Foreign dummy (plants with 1% or greater foreign ownership share)	Foreign dummy (plants with any foreign ownership share)
Control	Firms characteristics: industry, location and year dummies	Average labor productivity: industry, location dummies	Workers and Firms characteristics: industry, location dummies
Foreign Wage Rate	Skilled: 22% in Mexico 29% in Venezuela Unskilled: 3% in Mexico 22% in Venezuela	Non production: 20%, 1996 28%, 1998 Production: 8%, 1996 12%, 1998	White collar: 22% Blue collar: 12%

Source: Adapted from Velde, te D. W. and Morrissey, O. (2002), p. 4.

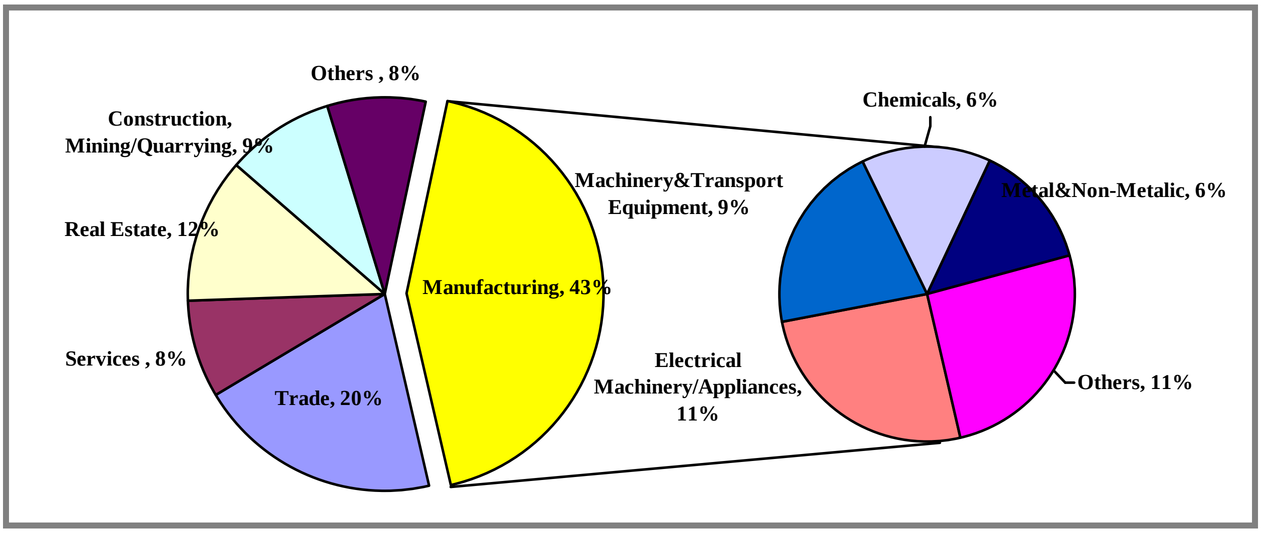
In the case of Thailand, Matsuoka (2002) finds the evidence that the foreign wage rate for Thai manufacturing firms is higher for non-production workers than for production workers. This result was based on 5,122 manufacturing plants in 1996 and 2,407 plants in 1998. Foreign enterprises paid 20 per cent more for non-production workers in 1996, and 8 per cent for production workers. In 1998, wage has been paid 28 per cent for non-production workers and 12 per cent for production workers. However, the labor productivity differentials between MNC and local plants were not found in his study after controlling other explanatory variables. Therefore, he further argued that wage differentials between foreign and local firms should be explained by labour market imperfections, with foreign multinationals dominating segmented labour market for particular skills. This implies that a higher wage premium for skilled workers in MNCs cannot be explained by the skill-specific technical change often associated with foreign ownership but by more effective bargaining by skilled workers.

To consider the relationship between FDI and wage at the country level, it is useful to look at the sector where FDI is directly involved and more concentrated. In Thailand, most FDI it has

[156] Velde, te D. W. and O. Morrissey (2002), Foreign Direct Investment: Who Gains?, ODI Briefing Paper, April 2002 (26 March 2002), pp. 3-4. [Online] Available: http://www.odi.org.uk/iedg/Meetings/FDI_who_gains/skills-wage-inequality.pdf (13.07.2003)

received was in manufacturing sector, particular in capital intensive and relatively skilled intensive such as electrical machinery and appliances, machinery and transport equipment and chemicals.

Figure 5.6: Distribution of FDI Stock in Thailand Classified by Sector, Accumulated Flow 1970-2003



Source: Bank of Thailand, Table 63.1: Net Flows of Foreign Direct Investment Classified by Sector. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/_Tab63-1.xls (21. 04.2003)

Figure 5.6 shows the distribution of FDI stock in Thailand classified by sector where the skill intensive sectors absorbed significant FDI flows. This implied that the impact of FDI composition is questionable to have reduced wage inequality since skills of worker differ across sectors. Therefore, wage differentials among plants may arise because of different skill mixes.[157]

Generally, wages have increased in most manufacturing sectors, but differ according to the type of activities. Table 5.9 shows average wages paid by private firms in the manufacturing sectors. From 1996-2002, overall wage in Thai manufacturing sector increased around 3.62 per cent per annum. Major industry, for example, textiles, wearing apparel, leather and leather products, wages were increased more than 3 times within 7 years, from 4,540 Baht in 1996 to 5,969 Baht in 2002 or from 9 to 30 per cent in the corresponding period. Most MNC

[157] Mutsuoka, A. (2001), Wages Differentials among Local Plants and Foreign Multinationals by Foreign Ownership Share and Nationality in Thai Manufacturing, The International Centre for the Study of East Asian Development (ICSEAD), Working Paper Series Vol. 2001-25, Japan, December, 2001, p. 3, from: Davis, S.J. and Haltiwanger, J. (1991), Wage Dispersion between and within U.S. Manufacturing Plants, 1963-86, Brookings Papers on Economic Activity: Microeconomics, 1991, pp. 115-200.

investment in Thailand, the wage rate is higher in export-platform activities, particularly in labor intensive products and hi-tech products where the higher skilled workers are needed.

Table 5.9: Thai Average Wages Categorised by Manufacturing Sectors, 1996-2002

Unit: Baht/ Month

Industry	1996	1997	1998	1999	2000	2001	2002
Manufacturing (Whole Kingdom)	**5,598.98**	**6,428.89**	**6,393.31**	**6,418.96**	**6,446.24**	**6,434.59**	**7,092.99**
1. Food, beverage and tobacco	5,009.18	5,469.40	5,432.87	5,303.84	5,859.32	6,575.28	6,348.06
2. Textiles, wearing apparel, leather and leather products	4,540.44	5,156.38	5,136.00	5,367.74	5,176.69	4,580.68	5,969.35
3. Wood and wood products including furniture	4,706.81	4,644.17	5,174.75	5,205.28	4,926.58	5,129.98	5,862.23
4. Paper and paper products, printing and publishing	6,990.83	9,855.60	6,982.29	7,583.81	6,844.38	8,312.24	8,670.24
5. Chemicals and chemical, petroleum, coal, rubber and plastic products	7,072.02	7,415.78	7,839.08	8,414.11	8,973.72	10,975.80	10,563.35
6. Non-metallic mineral products, except products of petroleum	5,788.57	6,195.66	7,349.07	6,872.68	7,748.33	6,560.53	7,942.93
7. Basic metal industries	6,606.13	6,585.21	8,598.78	7,013.50	7,105.72	6,388.05	6,719.87
8. Fabricated metal products, machinery and equipment	6,904.89	8,044.23	7,760.44	7,691.62	7,581.53	7,771.16	8,540.62
9. other manufacturing industries	5,852.84	7,166.14	7,139.27	6,964.19	6,692.44	5,898.50	5,863.84
Construction (Whole Kingdom)	4,427.56	4,951.26	5,133.06	4,893.98	5,069.62	5,547.30	5,783.81
Percent Change from Year Earlier							
Manufacturing (Whole Kingdom)	**0.6**	**14.82**	**-0.55**	**0.40**	**0.42**	**-0.18**	**10.23**
1. Food, beverage and tobacco	12.29	9.19	-0.67	-2.37	10.47	12.22	-3.46
2. Textiles, wearing apparel, leather and leather products	8.99	13.57	-0.40	4.51	-3.56	-11.51	30.32
3. Wood and wood products including furniture	16.92	-1.33	11.42	0.59	-5.35	4.13	14.27
4. Paper and paper products, printing and publishing	-3.89	40.98	-29.15	8.61	-9.75	21.45	4.31
5. Chemicals and chemical, petroleum, coal, rubber and plastic products	-33.99	4.86	5.71	7.34	6.65	22.31	-3.76
6. Non-metallic mineral products, except products of petroleum	8.07	7.03	18.62	-6.48	12.74	-15.33	21.07
7. Basic metal industries	-1.71	-0.32	30.58	-18.44	1.31	-10.10	5.19
8. Fabricated metal products, machinery and equipment	12.81	16.50	-3.53	-0.89	-1.43	2.50	9.90
9. other manufacturing industries	0.87	22.44	-0.37	-2.45	-3.90	-11.86	-0.59
Construction (Whole Kingdom)	-4.51	11.83	3.67	-4.66	3.59	9.42	4.26

Source: IMF (2003), p. 7, Table 5, from: Labor Force Survey 1996-2002, processed by Quality of Life and Social Development Office, NESDB.

5.4.5 Impact on Technology

5.4.5.1 Technology and Its Transfer

As far as the economic growth and FDI are related, technology is always taken into account to the main consideration as it is believed to be a predominant source of economic growth.[158] FDI is claimed to be the cheapest means of technology transfer, as the recipient firm normally

[158] Moosa, I.A. (2002), Foreign Direct Investment Theory: Evidence and Practice, Palgrave Macmillan, Hampshire, p. 86.

does not have to finance the acquisition of new technology. However, this could be the most enduring potential benefit to developing countries. Unlikely, exports can drive rapid economic growth over long period, but technology transfers can do much more to promote sustainable development by enhancing indigenous capabilities.[159]

Moreover, MNCs have the experience of other affiliates in the developing world to draw on, and can shift knowledge and personnel across countries to help with the upgrading of local capabilities, however, this lies 'in the long-term commitment of the foreign partner to the project and its ability to provide the elements needed to operationalize new technologies'[160]. Therefore, foreign investment is a very efficient way of transferring technology. Particular problem of FDI and technology is how foreign technology is transferred to an absorbed by the recipient country and how it affects that country's economy.[161] One possible benefits of FDI include the transfer of technology to local firms and technological spillover to wider economy.[162] Since all technologies need adaptation and improvement, foreign enterprises, with their base of high level management and technical skills, tend to be in the forefront of such activity in developing countries.

Technology might be diffused from FDI to domestic firms at least four ways: (1) demonstration - imitation effect, (2) competition effect, (3) foreign linkage effect, and (4) training effect. Not all spillovers are positive as FDI can generate negative externalities when foreign firms with superior technology force domestic firms to exit. These negative externalities are often called also competition effect, crowding-out effect or business-stealing effect.[163]

Studies attempting to measure technology transfers to Thailand resulting from FDI have tended to find that such transfers have generally been limited. Though, it is generally believed that FDI promotes technology development in host countries, the result of the survey studied

[159] South Center (1997), Foreign Direct Investment Development and the New Global Economic Order: A Policy Brief for the South, Atar, Geneva, p. 54.
[160] UNCTAD (2003), Investment and Technology Policies for Competitiveness: Review of Successful Country Experiences, United Nations Conference on Trade and Development, United Nations Publication, New York and Geneva, p. 11.
[161] Sun, H. (1998), Ob cit., p. 87.
[162] South Centre (1997), Foreign Direct Investment, Development and the New Global Economic Order: A Policy Brief for the South, Atar, Geneva, p. 36.
[163] Lutz, S.H. and Talavera, O. (2003), Do Ukrainian Firms Benefit from FDI?, Zentrum für Europäische Wirtschaftsforschung GmbH, Boston College, Discussion Paper No. 03-05 (16 January 2003), pp. 3-4.

in the last chapter has proved that the transfer of technology from foreign enterprises, especially European companies, to domestic firms has been rather moderate in Thailand due to the lack of industrial linkages between the foreign firms and domestic suppliers (backward linkage) and between the foreign firms and domestic customers (forward linkage).

Moreover, the Institute of Developing Economies, APEC Study Centre (1998) studied the direction of Thailand's science and technology development trends by identifying the obstacles in enhancing the technological level in Thai industry and found the evidences that:

- Thai industry utilises old technology which causes low efficiency, low quality and low profitability.
- Managers have insufficient knowledge about management, marketing and product innovation.
- The workforce has only an elementary education.
- Materials and parts or components for products are imported.
- Most Thai export goods are low and medium level products. Thai firms undertake subcontracting and have not yet established their own brand. [164]

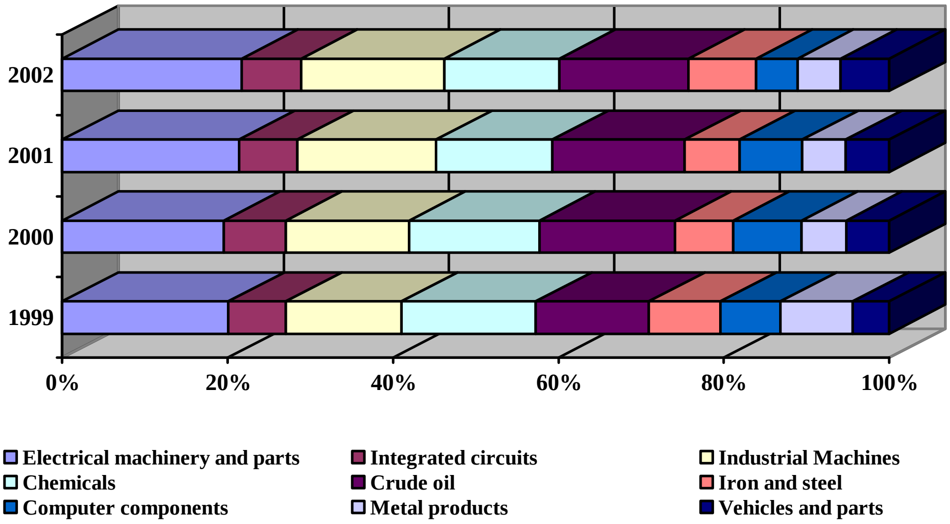
Drawing upon the role of FDI in Thai manufacturing, Tambunlertchai concluded that the overall development in Thai industry relies much on FDI and the technology brought in by FDI companies, especially in many technologically sophisticated industries such as computer parts, electronics, and automotive industries.[165] As a matter of fact, these industries are with substantial foreign investment, and also use, almost exclusively, imported technology. Electrical machinery and parts, vehicles, electronic integrated circuits, chemicals, crude oil and fuels, and iron and steel are among Thailand's principal imports resulting from the need to stimulate the production of high-technology items and vehicles (see Figure 5.7). While several industries with Thai majority share holders or owned by Thai investors are less imported machinery such as processed food, garments and jewellery.

The problem arising from the use of imported technology by foreign affiliates, Thailand compensates this use by providing favorable investment incentives and even sometimes protection to attract FDI to high technology industries such as electronics and automobile

[164] Itoga, S. (1998), The Challenge to Enhancement of the Technological Level of Thailand, IDE-APEC Study Center, Working Paper Series 97/98 - No. 2, March 1998, p. 8. [Online] Available: http://www.ide.go.jp/English/Publish/Apec/pdf/97wp_02.pdf (27.05.2004)
[165] Tambunlertchai, S. (2002), Tracking Manufacturing Performance: Towards an Early Warning Mechanism Geared to the Real Economy, UNIDO Integrated Programme for Thailand Component, 6 October 2002, p. 40.

with the expectation of mastering new technologies and skills eventually.[166] However, such low value added product lines and downstream production technologies are still located in Thailand.[167] In the case of European firms, for example, a large part of design and development of new products have been transferred to Thai affiliates, but the technical support on production planning, quality management, inspection and testing have not been transferred. In general, the technology transfer process in Thailand is considered slow and inefficient by foreign investors, partly due to a lack of supply linkages and skilled labour force.

Figure 5.7: Thai Major Import Products, 1999-2003



Source: Bank of Thailand, Table 47.1 : Imports by Economic Classification. Online Databank: http://www.bot.or.th/bothomepage/databank/EconData/Econ&Finance/Download/Tab47-1.xls (21.04.2003)

Kumar (1998) suggests that another way of capturing any potential beneficial effect of FDI is to assess whether inflows have been accompanied by industrial upgrading in the relevant sectors.[168] In the case of Thai manufacturing, this is relevant in the electronics and automobile sectors, two of the most important recipients of FDI. The entry of new foreign investments has benefited the country in terms of industrial growth, including diversification and

[166] UNCTAD (1999), World Investment Report 1999: FDI and the Challenge of Development, United Nations Conference on Trade and Development, United Nations Publication, New York and Geneva, p. 223.
[167] Tiralap, A. (1999), The Myths about The Sunrise Industry in Developing Countries: The Case of Electronics Industry in Thailand, King Mongkut's Institute of Technology Ladkrabang, Thailand. [Online] Available: http://www2.ucsc.edu/cgirs/publications/cpapers/tiralap.pdf (23.09.2003)
[168] Soontiens, W. and Siriporn H., Sustainable Globalization and Emerging Economies: The Impact of Foreign Direct Investment in Thailand, Curtin University of Technology, Australia, p. 379, from: Kumar, N. (1998), Globalization, Foreign Direct Investment and Technology Transfers: Impacts on and Prospects for Developing Countries, Routledge, New York.

integration of the local industry.[169] Although export growth was concentrated in high technology products such as computer components, automobile components and electrical goods, accounting for two third of all exports in 1999, for most of these products, Thailand was simply an assembly base.[170]

Tiralap, A. (1999) studied the case of electronics industry in Thailand and concluded that, high-technology production in Thailand is not associated with high value-added production. Rather, the high-technology character of Thai exports is a reflection of high-technology imported inputs. Assembly activities in the automobile industry may be seen as a first step to develop more advanced capabilities, but this has been a slow process given the lack of sufficient research and development (R&D) and relevant human capital. Problems of upgrading technology include the slow development of most capital goods industries such as iron and steel, non-electrical machinery, metal products and transport equipment as well as a heavy reliance on imports of both capital and intermediate goods.[171]

To solve the problem in this particular area, the poor technology transfer has been developed by the government agency through several programmes. A clearly example is the Unit for Industrial Linkages Development (BUILD) which is supported by BOI with the objective of enhancing local sub-contracting through the provision of information and technical assistance. Moreover, new national initiatives have been launched to promote technology transfer as part of the goals of the 8th National Economic and Social Development Plan (1997-2001). Support is granted to foreign investment in the production requiring highly developed technology, research and development. Nevertheless, these attempts are limited by the poor absorptive capacity of local management

5.4.5.2 R&D Oriented Technology Development by Private Sector

R&D is another area which helps a country to upgrade in technological level. Taking the expenditure on R&D by both state enterprises and private firms in Thailand as an example for considering the role of technology upgrading, in 1987, the total amount of public and private

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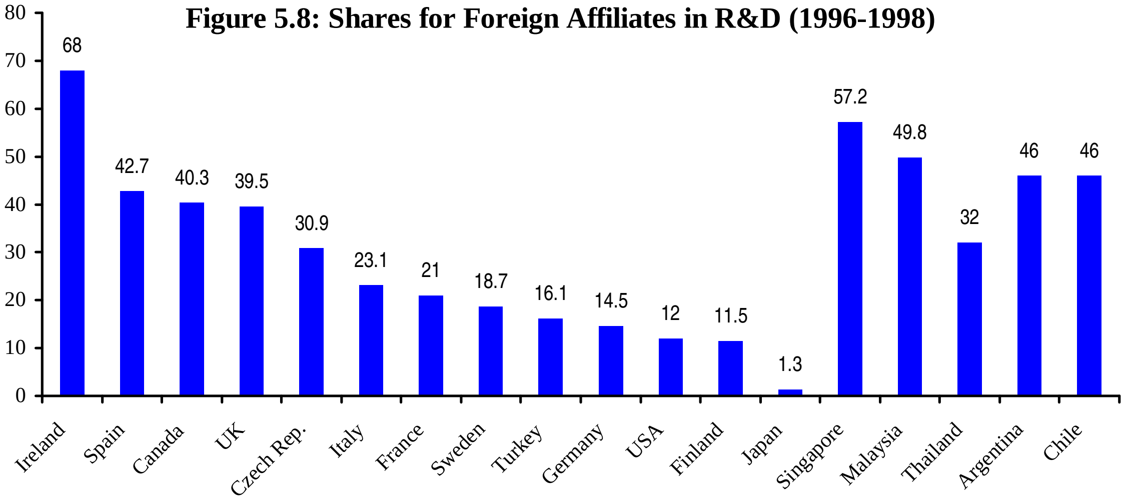
[169] South Development News (2000), FDI's Role in Industrial Competitiveness, no page number. [Online] Available: http://www.southcentre.org/info/southbulletin/bulletin04/bulletin04-01.htm#P72_12629 (11.09.2002)
[170] Soontiens, W. and Siriporn H., Ob cit., p. 378.
[171] Soontiens, W. and Siriporn H., Ibid., p. 379, from: Tiralap, A. (1999) The Myths about The Sunrise Industry in Developing Countries: The Case of Electronics Industry in Thailand, King Mongkut's Institute of Technology Ladkrabang, Thailand. [Online] Available: http://www2.ucsc.edu/cgirs/publications/cpapers/tiralap.pdf (23.09.2003)

sector expenditure on R&D accounted for only 277.24 and 181.56 million baht, or 10.41 and 6.81 per cent of total R&D expenditure respectively.[172] The private sector was much less than that of the public sector.

However, according to the relevant data which are available during 1996-1998 cited from UNCTAD (2003) as shown in figure 5.8, the share of foreign affiliates in R&D in some selected countries is enormous variation in both industrial and developing countries. In the industrial world, Ireland has an overwhelming share of affiliates in national R&D, and in Singapore there is a correspondingly high share. Both countries have very high FDI inflows relative to their economic size. They have sought to attract MNCs and brought them to upgrade not only their manufacturing activities from simple to complex progression, but also functions from manufacturing to design of new products and development. Both have used instruments of selective industrial policy attentively to achieve technological development and upgrading through FDI.[173] Though, the participation of FDI in technological upgrading in Thailand was not well performance due to the sluggish development of most capital goods industries, but the contribution of foreign enterprises in R&D has been received a high share which was relatively better than other countries.

Figure 5.8: Shares for Foreign Affiliates in R&D (1996-1998)



Source: UNCTAD (2003), p.13.

[172] Sripaipan, C. (1991), Technology Upgrading in Thailand: A Strategic Perspective, in Anne Johnson (ed.), TDRI Quarterly Review, Vol. 6 No. 4 (December 1991), Thailand, pp. 3-10.
[173] Lall, S. (2003), Investment and Technology Policies for Competitiveness: Review of Successful Country Experiences, Paper prepared for United Nations Commission on Science and Technology for Development, United Nations Conference on Trade and Development, Technology for Development Series, United Nations, New York and Geneva, p. 12.

In reference to technological upgrading, Lall (2003) argued that technological upgrading is possible through heavy reliance on MNCs, but this requires considerable policy intervention. The rapidity and depth of technology development may not match that of countries that effectively adopt more autonomous strategies for building technological capabilities in domestic firms.[174] In order to upgrade in the technological level through R&D, BOI provides incentives to R&D projects through exempting import tax on machinery and corporate tax, irrespective of the location of a project. So far, 54 projects have been given incentive privileges, with a total investment of 7,117.4 million baht. Sripaipan (1991), however, argued that such a promotion of R&D infrastructural activities amongst private companies in Thailand is not an easy task due to some of the following reasons.

- Firms are escalating production capacity to meet the growing demand due to Thailand's rapid economic growth. Therefore, they do not feel the pressure for innovation or differentiation of products.
- The number of companies is limited to enter into the different sectors, as a result, the competitive requirement to stimulate R&D activity is reduced.
- Import tax on R&D equipment and precision instruments remains prohibitively expensive for small- and medium-sized companies.
- The taxes on royalties and license fees increase costs of foreign technology.
- There is a need to improve the availability of technical consultancy services and information on S&T activities in the public sector.
- There is a clear shortage of technical manpower to satisfy the present demand for production engineers and technicians who can use and absorb imported technology. Although there is no obvious shortage of manpower for technology generation, this is due to too little activity in R&D rather than to an over supply of R&D personnel.
- Companies finance technology acquisition either by using internal resources or by raising loans from commercial banks as part of overall business development plans. Some financial assistance to small and medium enterprises does exist, but its effect has yet to be felt.

[174] Lall, S. (2003), Investment and Technology Policies for Competitiveness: Review of Successful Country Experiences, Ibid., p. 13.

5.4.6 Impact on Environment

Though FDI is a part of success of increased production, but the costs of production cause not only economic but also social and environmental. Environmental impact seems to be one of the most serious issues and a severe challenge in most developing countries. Evidence from Asian Development Bank (1997) indicated that pressure on the environment may be increased, if county lack of unregulated and unplanned economic growth.

Table 5.10 illustrates the relative significance and constraining problems which must be overcome in selected developing countries in Southeast Asia. Deforestation is the most serious problem for all Southeast Asian countries. In the case of Thailand, water and air pollution have reached alarming levels because of industrial growth, partly driven by FDI. This is because FDI has a traditional reliance on natural resource use and extraction, particularly agriculture, mineral and fuel production. Though this balance has shifted in recent years, the poorest countries still receive a disproportionate amount of investment flows into their natural resource sectors.[175]

Table 5.10: Relative Significance of Resource and Environmental Issues in Selected Developing Ccountries in Southeast Asia

Country (Ranking)	**Deforestation** [A]	**Land and soil resource problems** [B] **(desertification)**	**Urban congestion and pollution**	**Pesticides and fertilizers**	**Water resource problems** [C]	**Industrial pollution**	**Marine and coastal resource degradation** [D]	**Waste disposal** [E]	**Acid rain**	**Rising sea level**
Indonesia	⇧	⇔	⇧	⇔	⇧	⇔	⇔	⇩		⇔
Lao PDR	⇧	⇔			⇔		n/a			n/a
Malaysia	⇧	⇩	⇔	⇩	⇩	⇔	⇔			⇩
Philippines	⇧	⇧	⇧	⇔	⇔	⇔	⇔	⇩		⇔
Thailand	⇧	⇔	⇧	⇔	⇧	⇔	⇔	⇩	⇩	⇔
Viet Nam	⇧	⇔		⇩	⇔		⇔			⇩

Note: 1) A includes industrial wood production, fuel wood collection, watershed degradation, and loss of biological diversity.
B Includes desertification, stalinization, soil erosion, and other forms of land degradation such as water logging.
C Includes water shortages, groundwater depletion, flooding, and water pollution.
D Includes driftnet fishing, coral mining, and coastal development.
E Includes dumping of industrial and toxic waste.
2) ⇧ high priority, ⇔ medium priority, and ⇩ low priority

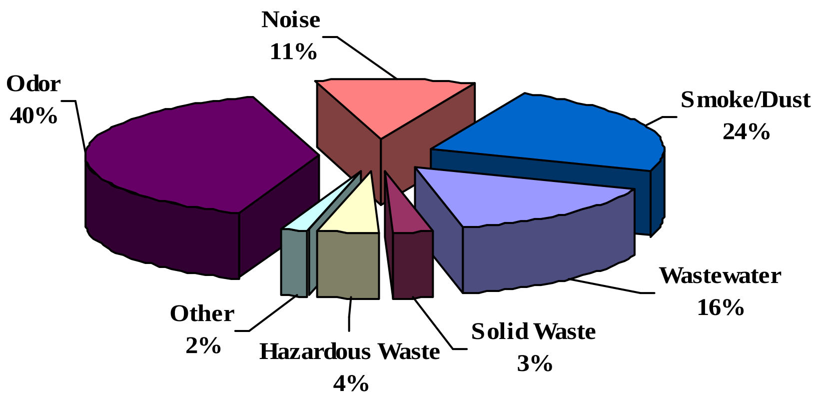
Source: Adapted from ADB (1997), p. 3.

[175] WTO (2000), Foreign Direct Investment and the Environment: from pollution havens to sustainable development, World Trade Organisation (WTO) ministerial conference Seattle, WA Nov 30-Dec 3, 2000. From Nick Mabey and Richard McNally, WWF-UK, Research paper; November 1999, cited from: http://csdngo.igc.org/finance/fin_index.htm (20.01.2004)

5.4.6.1 Location Distribution of FDI Projects

In year 2003, Pollution Control Department, Ministry of Natural Resources and Environment received 754 complaints about pollution problems from nationwide. The most concerned problem of those complaints was Odor, 40 per cent. Those ranked after Odor were Smoke/Dust, Wastewater, Noise, Solid Waste, Hazardous Waste and Other, respectively (Figure 5.9).

Figure 5.9: Number of Public Complaints Classified by Polution Contion Department, 2003



Source: Public Complaints Information Center, Pollution Control Department (PCD), Ministry of Natural Resources and Environment. Cited from http://pcdv1.pcd.go.th/Information/petition/stat_2003.htm (02.04.2004)

In comparison to the nationwide, there were 528 petitions from total of 754 or 70 per cent of public complaint on pollution were sent from these provinces respectively: Bangkok, Samutprakan, Nakhonpathom, Samutsakhon and Nonthaburi. (Table 5.11)

Table 5.11: Top Five Provinces of Public Complaints on Pollution

Province	Number of public petitions
1. Bangkok	307
2. Samutprakan	115
3. Nakhonpathom	41
4. Samutsakhon	37
5. Nonthaburi	28

Source: Public Complaints Information Center, Pollution Control Department (PCD), Ministry of Natural Resources and Environment. Cited from http://pcdv1.pcd.go.th/Information/petition/stat_2003.htm (02.04.2004)

According to table 5.12, there were 754 public compliant from the most concerned region which consists of Central Region, including Bangkok or 80 per cent of nationwide, followed by Eastern Region or 7.5 per cent, Northern or 2.2 per cent, Western Region or 3.4 per cent, Southern Region or 3.8 per cent, and Northeastern Region or 2.6 per cent respectively. Among those types of problem, odour was the leading problem in every region.

Table 5.12: Public Complaints on Pollution Categorised by Regions of Thailand, 2003

Regions	Number	Types							
		Odour	Noise	Dust/ Smoke	Waste-water	Solid Waste	Hazardous Waste	Others	Total
Central Region	605	403	106	244	127	30	32	19	961
% of typical impacts		**41.9**	**11.0**	**25.4**	**13.2**	**3.1**	**3.3**	**2.0**	**100**
Eastern Region	57	33	10	19	21	2	7	2	94
% of typical impacts		**35.1**	**10.6**	**20.2**	**22.3**	**2.1**	**7.4**	**2.1**	**100**
Northern Region	17	11	1	3	8	1	0	2	26
% of typical impacts		**42.3**	**3.8**	**11.5**	**30.8**	**3.8**	**-**	**7.7**	**100**
Western Region	26	14	1	4	10	3	5	0	37
% of typical impacts		**37.8**	**2.7**	**10.8**	**27.0**	**8.1**	**13.5**	**-**	**100**
Southern Region	29	19	0	7	19	0	1	2	48
% of typical impacts		**39.6**	**-**	**14.6**	**39.6**	**-**	**2.1**	**4.2**	**100**
Northeastern Region	20	10	8	7	8	0	0	0	33
% of typical impacts		**30.3**	**24.2**	**21.2**	**24.2**	**-**	**-**	**-**	**100**

Source: Public Complaints Information Center, Pollution Control Department (PCD), Ministry of Natural Resources and Environment. Cited from http://pcdv1.pcd.go.th/Information/petition/stat_2003.htm (02.04.2004)

In reference to the above current information of environmental impact on Thailand's provincial areas, though the data has not exactly identified the share of damage caused by FDI, the outcome can be assumed by considering the number of foreign companies promoted by BOI in terms of location distribution to individual manufacturing sector. Employed data from five years period (1997-2001) as shown in table 5.13, it can be analysed that most of the factory located in zone 3, accounting for 39.06 per cent, followed by zone 1 and 2, accounting for 30.52 and 30.42 per cent respectively.

Table 5.13: Foreign Investment Projects Classified by Factory Location and Sector, 1997-2001

Approved foreign Investment Projects	Year					(1997-2001)	
	1997	1998	1999	2000	2001	Total	%
Location Distribution							
Zone 1	96	173	192	229	193	883	**30.52**
Zone 2	128	119	143	219	271	880	**30.42**
Zone 3	291	193	182	313	151	1130	**39.06**
Total	**515**	**485**	**517**	**761**	**575**	**2893**	**100.00**
Manufacturing Sector							
Agricultural Products	52	56	55	72	50	285	**9.85**
Minerals & Ceramics	22	9	9	22	15	77	**2.66**
Light Industry/Textiles	40	68	66	112	60	346	**11.96**
Metal Processing/ Machinery	149	70	109	195	161	684	**23.64**
Electronics & Electrical	92	114	127	185	163	681	**23.54**
Chemical Plastic Paper	89	70	69	108	77	413	**14.28**
Services & Infrastruture	71	98	82	67	89	407	**14.07**
Total	**515**	**485**	**517**	**761**	**575**	**2893**	**100.00**

Note : Zone 1 = Bangkok, Nakhon Pathom, Nontaburi, Patumthani, Samut Sakhon and Samut Prakarn
Zone 2 = Rayong, Phuket and Others :- Samut Songkhram, Ratchaburi, Kanchanaburi, Suphanburi, Angthong, Ayuttaya, Saraburi, Nakhon Nayok, Chachoengsao, and Chonburi
Zone 3 = The 58 remaining Provinces divided into 18 provinces:- Sri Saket, Nongbua Lampoo, Surin, Yasothorn, Mahasarakam, Nakorn Panom, Roi Et, Kalasin, Sakolnakorn, Burirum, Amnatcharoen, Phrae, Payoa, Nan, Satul, Pattani, Yala and Narathiwat and the 40 remaining provinces

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Board of Investment, Thailand.

The majority of FDI projects concentrated on two main business activities; metal processing/machinery and electronics and electrical parts and components, totally accounting for 47.18 per cent. These two main manufacturing sectors are mostly located in zone 1 or the central region of Thailand consisting of Bangkok and metropolitans including Nakhon Pathom, Nontaburi, Patumthani, Samut Sakhon and Samut Prakarn where the most people makes a complaint. The major reason to locate their production facilities in these areas is due to the existence of good infrastructure and communication networks. This is the obvious evidence how the environment can be affected through the permission of government authority to locate their production facilities in these areas. It is ture that now the Thai government faces the dilemma of gaining the benefit from MNCs or destroying the country's environment and welfare of the people. Above all, the lack of stringent environmental damage requirements of the Thai government as well as negotiating power makes the country weak.

Table 5.14: List of Companies Entering Thailand and their Pushing/Selling Technologies

Name	Type of Business	Remark
Thammasorn Co., LTD.	Design, production and installation of MSW management system	Sells paralytic incinerator, mobile incinerator, cremator
GENCO	Service and treatment of industrial waste	Proposed to build hazardous waste incinerator
Consulectra Unternehmensberatung GmbH, Knoten Weimer and Electromac	Co-operation for pilot project of integrated waste treatment in Chonburi province	Includes a proposed incinerator in this project
Macro Consultant	F/S, EIA study for waste treatment system	
Saengvit Co.,LTD.	Import scientific instruments from USA and Europe	Sells so-called "Hitemp Technology" incinerator
Term Engineering Co., LTD.	Import various type of incinerators	Includes MSW, medical and industrial waste incinerators
Royal Equipment Co.	Sales of various kind of waste management equipment	Includes equipment for rotary kiln incinerator
Hitachi Zosen Corporation	Waste-to-energy company	Has 18 overseas offices, including Bangkok
Siam Cement Co.	Cement kiln	Its cement kiln has been used to burn industrial waste
EMCON/OWT/The IT Group	Solid waste management industry	Involved in Landfill Gas Compression Treatment, Landfill Gas-to-Electricity in Hongkong and Kuan-Yin Industrial Waste Incinerator in Taiwan
CDM	Environmental consultant	Service, design, construction and operation of waste-to-energy plant
Thai Green Novation	Design and production of Thai incinerator	
NKK Engineering (Thailand)	Waste-to-energy company	Service and construction of stoker, fluidized bed, rotary kiln, flue gas treatment, ash melting, RDF
Appliance Technology Supply	Environmental service	Includes incinerator
Pollution care	Production, service and sale of incinerator	Includes municipal, medical waste and industrial waste incinerator and cremator
Eurothai Engineering	Installation of waste incinerator	Sells pyrolytic incinerators with optional Hoval waste head boilers

Source: Greenpeace Southeast Asia, Thailand Country Report: Current and Emerging Waste Management Issues, Waste Not Asia 2001, Taipei, Taiwan, from: Handbook of Grand Exhibition on Solid Waste Management Technologies in Bangkok (2-4 March 2001), Thailand, p. 4. [Online] Available: http://www.no-burn.org/ regional/pdf/country/thailand.pdf (09.05.2004)

As it is arguable that, because MNCs have significant financial, political and powerful bargaining, they can get away with causing a lot of damage to the environment, particularly in the countries that are trying to attract FDI.[176] In some situations, FDI may also have a positive effect on the environment through transfer of new technology as this is likely to be cleaner in terms of environmental emissions and more efficient in terms of resource use and recycling than other types of technology available locally.[177] In the case of Thailand, the number of firm participations from public and private sectors is quite rear to obtain this effective result, though the government pays more attention on environmental issue. Table 5.14 provides the list of available firms which tend to participate in environment protection by servicing or selling their technologies in waste treatment areas.

5.4.6.2 Industrial Estate and Environmental Management

The firms locating in industrial estate have created less environmental problems than those existing outside. The managerial policy of the government which tries to limit the number of unqualified projects by providing a full business facility with good infrastructure and environment has been a positive response. According to the BOI revised its policy in 2000, one of major important objectives is to encourage firms to build their plants in the industrial estates in order to prevent the environmental problems by offering the different incentives packages in connection with the three investment zones. The differentiation amongst these investment zones depends upon the economic factors such as income and public utilities of each provinces in Thailand.

5.5 Conclusion

Several impacts of FDI on Thai economy in a prospective situation of growing liberalisation and globalisation have been analysed in this chapter. Such evaluating the overall impact of MNCs on the host country is a very complex matter, therefore this study has concentrated at least on the costs and risks associated with FDI in five contribution areas: export performance, balance of payments, employment, technology and environment by using the available data and results from different sources. The experience of Thailand's economic growth shows that MNCs have enormous implication for Thailand's trade by increasing more trade opportunities

[176] Imad A. Moosa (2002), Ob cit., p. 93.
[177] Asia-Europe Exploratory Roundtable on Foreign Direct Investment and the Environment Brussels, 8-9 May 2001, pp. 7-8. [Online] Available: http://biodiversityeconomics.org/pdf/010508-03.PDF (12.01.2004)

with the rest of the world. This has sent Thailand consistently to run up a trade surplus and improve the performance of balance of payments. Their potential impact on employment contributes not only to increase the number of jobs, but wages amongst skilled workers in the Thai manufacturing sector also. Unfortunately, the role of FDI in technology transfer by MNCs is not very effective. A good sample is the survey's result which demonstrates that the transfer of technology from foreign enterprises, especially European companies, to domestic firms has been rather moderate in Thailand due to the lack of industrial linkages between the foreign firms and domestic suppliers and between the foreign firms and domestic customers. Moreover, several sources which studied about the development of technological levels in Thai industries pointed out that the domestic firms utilises old technology which causes low efficiency, low quality and low profitability. Besides, the high-technology production in Thailand is not associated with high value-added production due to the high technology imported inputs by MNCs, especially those in automobile industries and electrical goods and the lack of sufficient research and development (R&D). The last impact of FDI is on environment which seems to be one of the most serious issues in Thailand at the moment. Water and air pollution have reached alarming levels because of industrial growth, partly driven by FDI. A part of this environmental problem results from the lack of stringent environmental damage requirements of the Thai government as well as negotiating power.

The question whether FDI is beneficial or harmful to the country, the answer depends on the context in which the investment takes place and in which the resulting economic activity operates. This is particularly true of the policy environment in the host country and especially in that local area of the host country where the investment is located.[178] The above discussion regarding to the impact of FDI on Thai economy implies that rather than offering incentives to attract FDI and allow them to locate in any location, the Thai government should concentrate on creating and strengthening of technological capability. The policy environment in maximising the benefits and minimising the costs from foreign investments in terms of transferring and upgrading technology such as industrial linkages is urgently required, since technological progress has been connected with economic growth, and even contributed to and stimulated by the expansion of output and income.

[178] ADB (2004), Asian Development Outlook 2004, Asian Development Bank, Oxford University Press, London, p. 232.

Part III
Investment Promotion Activities and Policy Issues

CHAPTER 6

FDI Policies and the Role of Investment Promotion Agency

6.1 Introduction

The overall effects of FDI on Thai economy are well documented from the preceding chapter as many areas of impact have been investigated. FDI is partly concluded to be a key instrument to foster growth and competitiveness. That's why Thailand is eager to receive FDI for the positive spillovers it can bring. It is not surprising to find that competition among governments in developed and developing countries to attract increasing FDI inflows has heated up in recent years.[179] whether FDI has a positive effect on the economy is, then, not the question, but what can governments do to attract and enhance the developmental impact of FDI? It is argued that the role of investment promotion in attracting FDI is partial concerned[180] and episodes of growth are associated with investment policy successes.

In this connection with Thailand, this chapter helps to classify such policies into more concrete building blocks by examining under what conditions and policy framework FDI established by Investment Promotion Agency (IPA). The structure of this chapter is provided as follows. The generation of foreign investment promotion policies that introduce the change of FDI policies is discussed in section 2. The next section discusses how Thailand has organized itself in attracting Foreign Direct Investment (FDI) to achieve the country's goals by considering the regime of FDI promotion policy in different periods of time. In the forth and the following sections, the tasks and working methods of government bodies, mainly Thai Investment Agency are explained as it is directly responsible for foreign investments. Foreign investment policy as well as recent policy changes will be classified into different categories and discuss implementation of these policies, including the new context of policy recommendation shall be discussed. The final section presents the conclusion.

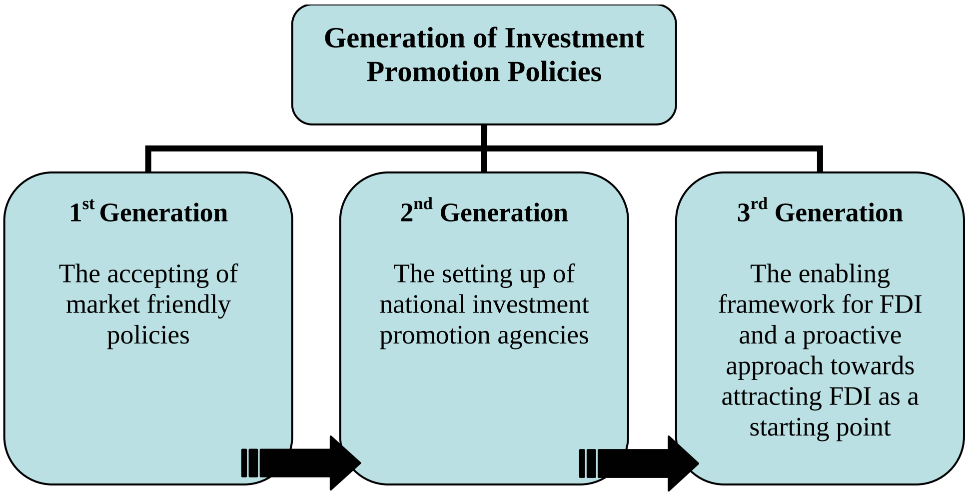
[179] Oman, C. (2000), Policy Competition for Foreign Direct Investment A Study of Competition among Governments to Attract FDI, Development Centre Studies, OECD, Paris, p. 9.
[180] Loewendahl, H. (2001), A framework for FDI Promotion, Transnational Corporations, Vol. 10, No. 1 (April 2001), United Nation, NewYork and Geneva, p. 1.

6.2 The Generation of Investment Promotion Policies

6.2.1 Three Generations of Investment Promotion Policies

Recently, the need for understanding and harmonisation of investment policies has increased right along with the growth in FDI itself. The generation of investment promotion policies has been changed from time to time according to the need to use FDI as a part of development strategies to accomplish the countries' objectives. WIR (2001) categorises investment promotion policies into three generations as shown in Figure 6.1.

Figure 6.1: Three Generations of Investment Promotion Policies



Source: Adapted from WIR (2001), pp. XIX-XX.

The above figure begins with the first generation of investment promotion policies which explain that the country has to adopt market friendly policies by liberalising the FDI regimes. This can be worked by reducing barriers to inward FDI, strengthening standards of treatment for foreign investors and giving a greater role to market forces in resource allocation. Thailand has already undertaken steps in this direction since 1986 when the country begun the openness of investment policy. In the second generation of investment promotion policies, a step further is to be active and attract FDI by marketing their countries. This approach leads to the setting up of investment promotion agency. In Thailand, the Board of Investment is the key institution responsible for encouraging investment, administering incentives and providing services. The third generation of investment promotion policies, the enabling framework for FDI must work together with a proactive approach towards attracting FDI that depends on the quality of the basic economic factors in the host country. The latter is described by WIR01 as a new generation of investment promotion policies. Going beyond the first and second generations of investment promotion policies, IPA must use and strengthen clusters to attract FDI. More explanation is clearly addressed as the following.

> "In light of a country's developmental priorities, it then proceeds to target foreign investors at the level of industries and firms to meet their specific locational needs at the activity and cluster level. Such a strategy, in turn, is greatly helped if a country can nurture specific clusters that build on the country's competitive advantages, capitalising on the natural inclination of firms to agglomerate and that eventually acquire a brand name. A critical element of such investment promotion is to improve - and market - particular locations to potential investors in specific activities. Of course, a country's general economic, political and regulatory features also matter, because they affect the efficiency of the clusters within it. But the key to success of such new investment promotion strategies is that they actually address one of the basic economic FDI determinants while understanding the changing location strategies of TNCs." (WIR01, p. xx)

6.2.2 Why Country Must Engage in Investment Promotion?

It is clear so far that investment is an essential part of achieving the countries' development.[181] Remarkably, to promote this kind of investments, an international investment regime is needed. This is because the information base of MNCs is far from perfect when they make a decision on where to locate. To help attract foreign investors, investment promotion agency (IPA) is started to set up in many countries. Today, there are worldwide more than 160 national investment promotion agencies (IPAs) and over 250 sub-national ones since the early 1990s and the number is increasing steadily.[182] Establishing an investment promotion agency has become an essential part of most countries' development strategies as it may contribute to improve competitiveness and to fulfil their development objectives. This argument is also supported by OECD Global Forum on International Investment (2002) that IPAs is likely to remain a crucial factor for attracting investments along with country image-building and investment destination marketing efforts will also remain important as part of a strategic long-term process.[183] However, investment promotion will be most effective when it: (i) overcame information asymmetries, (ii) compensated for the imperfect functioning of international markets, which makes parent companies reluctant to consider new production

[181] Von Moltke, K. (2000), An International Investment Regime?: Issues of Sustainability, International Institute or Sustainable Development, Canada, p. V.

[182] UNCTAD (2001), The World of Investment Promotion at a Glance: A Survey of Investment Promotion Practices, United Nations Conference on Trade and Development, United Nations Advisory Studies number 17, UNCTAD/ITE/IPC/3, p. vii.

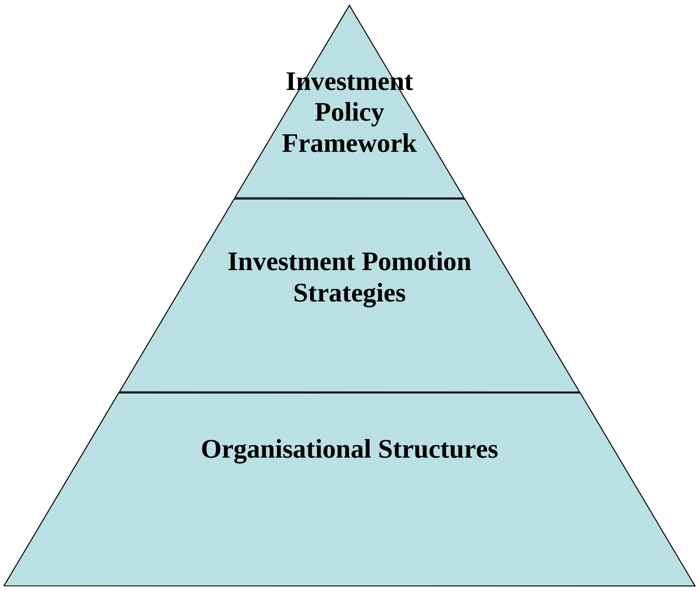
[183] Dan, L. (2002), Creating Efficient Networking and Effective Linkages in Investment Promotion, OECD Global Forum on Internetional Investment: Attracting Foreign Direct Investment for Development, Shanghai, 5-6 December 2002, p. 2. [Online] Available http://www.oecd.org/dataoecd/54/32/2764452.pdf (12. 04. 2003)

sites, and (iii) led to product differentiation of the host country as a location for targeted activities.[184]

6.2.3 Guideline for Investment Promotion Agencies

The importance of government providing the political leadership in introducing competitive policies is vital and this subject runs throughout the guidelines. Based on UNIDO's guidelines for investment promotion agencies, three factors influencing a country's ability to win foreign investment can be pointed out in the following figure. These three potential factors include country's policy framework and its market environment, its investment promotion strategies and its organisational structures for implementing these strategies.

Figure 6.2: Key Factors to Win Foreign Investment



- Policy
- Market Environment
  (e.g. labor law, incentives, access to land and infrastructure and etc.
- Techniques for investment promotion
- Strategies for investment promotion
- Legal framework
- Institution engagements
- One stop services
- Staffs and skills
- Overseas Promotion Activities

Source: Adapted from UNIDO (1994), pp. 1-4.

However, the importance of each factor may relatively differ by country as UNIDO has summed up the role of IPAs that:

> "The policy environment is of paramount importance in a large country with a sizeable local market and substantial natural resources. For countries with smaller markets and fewer natural resources, an active investment promotion strategy is also important, as is having an effective investment promotion agency to implement

[184] Loewendahl, H. (2001), A framework for FDI Promotion, Ob cit., p. 2, from: L. T. Wells and A. G. Wint (1990), Marketing a country: promotion as a tool for attracting foreign investment, FIAS Occasional Paper No. 1 (Washington, D.C.: Foreign Investment Advisory Service).

> the strategy. In many countries promotion agencies have gained a high profile in implementing national development policies." (Liang, D. (1994), UNIDO, p. 6)

Having mentioned that investment promotion agencies have gain a high profile in implementing national development policies, this is also true in the case of Thailand when BOI was firstly established to pursue the national development policies and implement these policies into a sufficient operation through the granting of investment incentives and guarantees. The importance of BOI as a representative to promote the investment of the country for both domestic and foreign investors will be discussed afterwards.

6.3 The FDI Promotion Policy Regime in Thailand

6.3.1 Open Investment Policy

Thailand has always been quite open to FDI and over time has become progressively more so.[185] The openness of Thai investment policy has begun since the end of 1986, when Thailand has been a favourite place for foreign firms escaping appreciating currencies and escalating labour costs. The flow of foreign firms has been coordinated by local investors who, stimulated by lower interest rates and a booming economy, have also increased investment activities, especially in manufacturing sectors.

The Thai government continues to take a very positive stance towards FDI in the manufacturing sector resulting from the recognition of an important role played by foreign technology and know how, management and marketing skills as dynamic forces contributing to Thailand's economic development. The emphasis is on increasing the role of the private sector in Thailand's economic development.

Since 1990, the government has been exploring a various measures to promote the supporting industries. Sub-contracting activities are actively encouraged and a special incentive package has been implemented to promote their development to facilitate the growth of the electronics and other industries. As a result, Thailand's supporting industries have grown rapidly due to the vital role of private sectors in the industrial development, while the government has played a promotional role to build and create the physical and institutional infrastructure and to design measures to support the growth in the industrial sector. On the other hands, Thai

[185] ADB (2004), Asian Development Outlook 2004, Asian Development Bank, Oxford University Press, London, p. 248.

firms started investing abroad. The Thai Government has encouraged Thai investors to look for new sources of raw materials, technology and know how as well as diversified markets. Several Thai conglomerates have made extensive investment abroad, mostly in other countries in Asia such as China, Indochinese States and Indonesia.

Thailand recognises the contribution of foreign investment to the country's overall economy. Though, some areas are not well performed and lack of potential, Thailand has to sustain favorable attitudes towards FDI. Some stylised facts of FDI regime provided in Table 6.1 can be good explained how openness of FDI regime in each feature.

Table 6.1: Some Stylised Facts of FDI Regime in Thailand

Feature	Fact
Ownership Structures	Predominantly private; Sino-Thai dominance
FDI History	Consistently fairly open
FDI Presence	Substantial, and rising
Trade Regime	Consistently fairly open
International Connections	No special features
FDI Regime in Practice	Reasonably predictable commercial environment
Institutional Quality	Generally quite high
Human Capital	Historical under-investment in post-primary education

Source: Adapted from Asian Development Outlook (2004), p. 247, table 3.6: FDI Regimes: Some Stylised Facts.

6.3.2 The Legal Framework

In Thailand, there are three important laws affecting foreign investment: (i) the Foreign Business Act of 1999, (ii) the Investment Promotion Act of 1977, and (iii) the Industrial Estate Authority of Thailand Act of 1979. The first prescribes the scope of and the condition under which a foreign entity may participate in domestic businesses. The second law guarantees investors' protection from undesirable state measures and establishes the investment promotion regime. The third law also specifies investment incentives, but especially for factories located in the industrial estates. In addition to these general laws, some sectors such as public utilities; petroleum, gas, and other natural resources; financial services; and certain business services are covered by sector-specific legislation setting out the criteria for foreign participation.

6.3.2.1 The Foreign Business Act of 1999

The most important law governing alien-controlled business activities is the Foreign Business Act 1999, which replaced the 1972 National Executive Council Announcement 281, better known as the Alien Business Law. Before the introduction of the Alien Business Law in 1972, foreigners were generally permitted to do business in Thailand with few restrictions. The law passed in 1972 classified businesses into three main categories, each with different foreign ownership restrictions. In 1999, a new Act was passed which is entitled the Foreign Business Act, B.E. 2542 (1999). The act guarantees most favored nation (MFN) treatment for all except American investors, who are covered by the 1968 Treaty of Amity and Economic Relations between the United States and Thailand. Under this bilateral arrangement, with the exception of seven specified sectors[186], Americans have the same rights as Thai nationals with respect to the ownership and operation of businesses in Thailand. The same rights are reserved for Thai nationals in the United States, but as the latter country generally does not impose any restrictions on foreign investments, in practice, the reciprocal treatment does not enjoy any special privileges.[187]

Though, the new act maintains the three business categories as mentioned above, but the list of businesses in each category changed (see complete list of businesses in each category in Appendix 6.1). Businesses listed in category One are absolutely prohibited to foreigners unless there is an exception contained in a special law or treaty. These include mass media, rice and animal husbandry and other resource-based businesses. Those that appear in the second category are businesses that concern national security or safety, or are involved with local art, culture, handicrafts or natural resource and environment. Foreigners are not permitted to start new businesses listed in this category Two unless they obtain special permission from the Minister with the approval of the Cabinet. Category Three contains businesses that are not yet competitive or strong enough compared to foreign investors. These business activities include mining, salt farming, forestry, fishery, professionals services, and all services unless specified in the Ministerial regulations. Similar to the previous category, foreigners may obtain a permission to operate businesses listed under this category. The only difference is that the power to grant permission is vested with the Director General and the Foreign Business Committee. To obtain a license, applicants must be able to convince the

[186] These exceptions are land ownership, communications, transport, fiduciary functions, banking involving a depository function (including non-bank financial institutions), exploitation of natural resources or land, and domestic trading in indigenous agricultural products.
[187] Nikomborirak, D. (2004), An Assessment of the Investment Regime: Thailand Country Report Submitted to The International Institute or Sustainable Development (IISD) March 31, 2004, Thailand Development Research Institute, Bangkok, p. 3.

concerned local authorities that the particular investment project could not be competently conducted by local firms.[188]

From the list of businesses appeared in appendix 6.1, it would become visible that the manufacturing sector is very much open to foreign investment however, the service sector, remain relatively closed. Generally, the new law is less restrictive than before.

6.3.2.2 The Investment Promotion Act 1977

Under the Investment Promotion Act, principles and procedures for investment promotion include protection guarantees, tax and non-tax incentives offered to local and foreign firms. The act established the Board of Investment as the principal agency responsible for promoting investment through the granting of investment incentives and guarantees. Both local and foreign investors from private sector are eligible for investment promotion.

Since its promulgation in 1977, it has gone through several amendments in keeping with changes in the government economic policy. The act empowers the BOI to grant various fiscal and non-fiscal incentives for foreign and domestic investment that meet national economic development. These incentives and privileges currently include exemption from or a reduction in import duties on imported machinery, materials, and components; exemption from corporate income tax for 3-8 years, with permission to carry losses forward; and exemption from dividend tax during corporate income tax holidays. Foreign firms may also (a) receive permission to bring in foreign technicians and experts to undertake the investment feasibility studies on their promoted activities; (b) own land to carry out their promoted projects for business offices and living residences; (c) take or remit foreign currency out of the country and; (d) operate a business prohibited in categories 2 or 3 of the Foreign Business Act as mentioned earlier. BOI has also provided the list of promoted sectors which consist of seven main business activities eligible for promotion: (i) agriculture and agricultural products, (ii) minerals, metals and ceramics, (iii) light industry, (iv) metal products, machinery and transport equipment, (v) electronic and electrical industry, (vi) chemical industry, paper and plastics, and (vii) services and public utility. The Investment Promotion Act also contains provisions that guarantee investors against adverse shifts in government policies, rules, and

[188] Nikomborirak, D. (2004), Ibid., pp. 3-4.

regulations such as price controls or export restrictions, as well as competition from state enterprises and other government agencies, except those already in operation.

6.3.2.3 The Industrial Estate Authority of Thailand Act of 1979

The Industrial Estate Authority of Thailand Act 1979 provides special incentives for investors locating in industrial estates situated in regional areas in order to promote the deconcentration of industry away from the Bangkok area. These industrial estates consist of both general industrial zones and export processing zones. The Industrial Estate Authority offers incentives similar to those offered by the Board of Investment, except that the investment privileges are available to investment projects that are located in the industrial estates. These privileges include the right to own land in an industrial estate, permission to obtain work permits for foreign technicians and experts, and the right to remit foreign currency abroad. Businesses operating in an export processing zone are allowed to enjoy additional incentives and privileges such as exemptions from special fees, import and export duty, value-added tax, and excise tax applied on exports and imported machinery, equipment, and tools used in the manufacture of goods and in the construction of factories or buildings taxes or goods destined for another export processing zone.[189]

6.3.3 The Development of FDI Policy Regime

The investment policy regime in Thailand has been continually revised to reflect the broad development of the economy and its trade regime from the era of import substitution to export promotion, and from pre-crisis industrial boom to post-crisis liberalization (See Table 6.2). Domestic laws and regulations were promulgated or amended to facilitate FDI since the early 1970s, when Thailand adopted the export promotion strategy to stimulate domestic growth. As a result, investment policy has become increasingly liberal during the past three decades as the country embarked on the path of industrialization.

The Thai FDI regime concentrates mainly on the provision of fiscal incentives, in particular taxes and duties exemptions. An outstanding feature of the regime is that, unlike many Asian countries, the government does not have specific industries or sectors that it selectively promotes. Nevertheless, there is a general indication that the high technology investment projects that would help promote the upgrading of the Thai industries are given priority and

[189] Nikomborirak, D. (2004), Ibid., p. 7.

therefore, are likely to receive promotional incentives or be permitted to operate in businesses normally reserved for national commercial entities.

Table 6.2: The Development of FDI Policy Regime in Thailand

Period	Development
State Capitalism (1940s–1950s)	▪ State monopolization in imports and exports in many industries or sectors.
Import Substitution (1958–71)	▪ 1st Economic Development Plan (1961–66) focused on the reduction in direct government involvement in the economy and greater promotion of private investment. ▪ Import substitution policy introduced. ▪ High levels of protection provided for capital-intensive industries such as automobiles. ▪ High tariffs imposed on finished consumer products. ▪ Industrial Promotion Act of 1960 establishes an organization which later became the Board of Investment, drawing the beginning of tax incentives. ▪ Tariff structure revised several times to give greater protection to domestic industries. ▪ Balance of payments problems arise due to the import of parts and components, leading to discussion of the sustainability of the import substitution policy.
Export Promotion (1972–92)	▪ 3rd Economic Development Plan (1972–76) emphasized a shift from import substitution to export promotion. ▪ Investment law revised in 1972 to provide exemption from duties on raw materials and intermediate items for exporting industries. ▪ Alien Business Law of 1972 enacted, prohibiting foreigners from entering several business areas. ▪ 21 of 72 provinces designated as investment zones. ▪ Investment Promotion Act enacted in 1977, introducing income tax holidays and 50% reduction in import duties on machinery. ▪ Four investment zones established in 1978. ▪ Tax incentives in raw materials and machinery reduced for Bangkok and Samut Prakarn, to promote deeper industrial decentralization. ▪ A series of baht devaluations take place between 1983 and 1991. ▪ Investment Promotion Act revised in 1987, introducing tax privileges and refunds, industrial zones and export-processing zones. ▪ 6th Economic Development Plan (1987–91) aims to improve income distribution and reduce economic disparity.
Export Promotion Promotion of Industrial Decentralization (1993–96)	▪ 7th Economic Development Plan (1992–96) aims to reduce income disparity between urban and rural areas and promote sustainable development. ▪ Investment Promotion Act revised in 1993 to promote industrial decentralization, with generous incentives provided to investment projects located outside Zone 1. ▪ Local content requirements eliminated for motorcycles in anticipation of the TRIMs Agreement of 1993.
Post-Crisis Liberalization (1997 –present)	▪ Liberalization extended as part of the IMF-led reform package. ▪ Foreign Business Act of 1999 enacted, allowing full foreign participation in most manufacturing industries. ▪ Condominium Act revised in 1998 to allow foreigners to wholly own buildings on two acres or less of land. ▪ Corporate Debt Restructuring Advisory Committee established to monitor and accelerate debt restructuring. ▪ ASEAN Investment Agreement adopted in 1998. ▪ Bankruptcy Act revised in 1999 to establish a central bankruptcy court. ▪ Local content requirements eliminated for vehicle assembly in 1999. ▪ Investment Promotion Act revised in 2000, lifting all local content and export requirements, and focusing on a performance-based system of promoted investors ▪ Foreigners allowed owning 100% of shares in promoted manufacturing projects in 2000. ▪ Local content requirements in diary products eliminated in 2003. ▪ 1 January 2004, introduced an unemployment security fund to provide a safety net for those laid off.

Source: Based on ADB (2004), Asian Development Outlook 2004, pp. 98-100; and Tangkitvanich, S., Nikomborirak, D., and Krairiksh, B. (2003), no page number.

Another important feature of the regime is its emphasis on most-favoured nation (MFN) and non-discrimination in accordance with the commitment under WTO. All foreign investors are eligible for similar rights and subject to similar obligations under the domestic laws, while local and foreign investors are eligible for the same privileges both tax and non-tax incentives offered by local investment promotion agencies which will be explained further in the part of investment incentives. In terms of policy environment in pushing Thailand more liberalised, a number of policies are implemented to increase exports and capital inflows such as reduction of import tariffs, deregulation of industrial sectors and investment promotion. Those policies are summarised in appendix 6.2.

6.3.4 New Approach to Investment Promotion Policy

In terms of providing investment policy to promote inward investment of the Thai government, the Investment Promotion Act was first sent in 1960. The Act was completely overhauled three times (1962, 1972, and 1977). The current Investment Promotion Act is based on the established in 1977, of which the amendment was made three times in 1987, 1993 and 2000.

The main reason to revise this investment policy is to adapt the policies to the rapidly changing economic environment and to reduce the burden of tax incentives on the financial system. In order to support the government's decentralization policy, the BOI began overhauling the criteria for granting privileges on September 1, 1987 and on January 1, 1993, including the most recent revisions becoming effective on August1, 2000. Table 6.3 summarises the major changes of recent investment policies in 1993 and 2000. The investment promotion policy in 1993 strongly focused on the promotion of export industries and requested for cooperation in provincial development, while the recent revised policy in 2000 has declined its importance in providing and offering tax incentives and has lifted all local content and export requirements, but rather emphasised on a performance-based system of promoted investors. This is a new challenge for Thailand to follow the rapid changes of globalisation, but the most important thing is to pursue its direction and goals in order to stimulate FDI in the country and to maximise its positive contribution in terms of competitiveness and productivity of the economy.

Table 6.3: The Major Amendment of Investment Promotion Policy

The Main Amendment	The Amendment of Investment Promotion Act of 1977	
	As of January 1993[(a)]	As of August 2000[(b,c&d)]
1. Policy Revision	<u>**Strengthen and Support Investment in Provincial Areas**</u> ▪ Amendment of sub-sectors eligible for investment promotions to put in place of the former promoted sub-sectors, sub-sectors was designated in any accordance with the Thailand Standard Industrial Classification (TSIC). Key sub-sectors in which location of investment in provincial areas were to be promoted without specific export requirements were set down for zone III. (Another 20 Activities which will be located in Zone II could be eligible for investment promotion without any export obligation by BOI Announcement of June, 1994) <u>**Strengthening of Tax Incentives**</u> ▪ Extension of income tax holiday in Zone III: From six years to eight years even for companies located outside industrial estates. Greater abatement of import duties on machinery in Zone III (applied even to machinery with import duties of less than 5 percent). ▪ Extension of income tax holiday for companies residing in industrial estates in Zone II: From five to seven years. Note that companies that exercising their tax holidays rights, even companies approved before the introduction of these privileges, may apply for the nest tax incentives. <u>**Assistance in Factory Relocation**</u> ▪ Incentives for company relocating to Zone II or Zone III are exemption for corporate income tax. Companies relocating to Zone III enjoy an extendible eight-years income tax holidays and companies relocating to Zone II enjoy three-years and relocating to industrial estates or promoted industrial Zone in Zone II an extendible seven years one. Companies relocating to Zone III enjoy a further five-years 50 percent reduction of the income tax in addition to the initial eight-year income tax holiday. Expenses for water, electric power and transportation may be deducted from the assessed income as well. Expenses for building infrastructure can be deducted up to a limit of 25 percent of profits.	▪ For projects in the manufacturing sector, majority or total foreign ownership is permitted in any zone. ▪ The maximum allowable debt-to-equity ratio will be reduced from 4:1 to 3:1. ▪ For projects of less than 500 million baht, the added-value must be at least 20 percent of sales revenue, except for projects in electronics and agriculture industries. ▪ For projects of more than 500 million baht, a feasibility study must be submitted at the time of application. ▪ The BOI will continue to promote relocation of projects to Zone 2 and Zone 3, however, in order to be eligible for new incentives, projects that relocate must move into an industrial estate. ▪ Due to increased levels of development, the provinces of Phuket and Rayong have been moved into Investment Promotion Zone 2, which offers a three-year income tax holiday for promoted projects, unless projects are located in an industrial estate, in which case they receive a five-year income tax holiday. ▪ Projects submitted prior to December 30, 2004 that locate in industrial estates in Zone 2 that were approved by BOI prior to the date of this announcement, can enjoy a seven-year income tax holiday. After that date the income tax holiday will be five years, in line with the new policy announcement. ▪ The 58 provinces that comprise Zone 3 will be divided into two areas, based on each province's stage of development. New projects in Zone 3 will no longer be eligible for a 75 percent reduction of import duty on raw materials used for domestic sales.
2. Priority industries[(d)]	1. Tooling equipment 2. Grinding tools 3. Cutting tools 4. Sintered products 5. Surface treatment 6. Heat treatment 7. Machining center 8. Electronic connector 9. Ni-Cd and rechargeable batteries 10. Engineering plastics	1. Agriculture and Agricultural Products 2. Direct involvement in technological and human resource development 3. Public utilities and infrastructure 4. Environmental protection and conservation 5. Targeted industries.
3. Special Incentives for the above desirable industries	▪ Corporate income tax holiday Total exemption for 8 years for any zone. ▪ 50 percent tax for exemption for import machinery: according to factory location of zone I and II. ▪ Total tax exemption for import machinery: according to factory location in zone III.	▪ Corporate income tax exemption for eight years, regardless of location ▪ Exemption of import duty on machinery, regardless of location ▪ Other privileges, according to zone
4. Designated zones	**Zone 1:** Bangkok, Samut Prakan, Samut Sakhon. Nonta Buri, Pathum Thari (special incentives in industrial estates) **Zone 2:** Samut Sonkhram, Ratchaburi,Kanchanaburi, Suphamburi,Angthong, Ayuthaya, Saraburi,chachoengsao, Chonburi, Nakhon Nayok (special incentive in industrial estates) **Zone 3:** other 57 provinces and Laem Thong industrial estates	**Zone 1:** Six provinces, namely: Bangkok, Samut Prakan, Nakhon Pathom, Nontaburi, Pathum Thani, and Samut Sakhon. **Zone 2:** Ten provinces, namely: Suphan Buri, Ayuthaya, Nakhon Nayok, Chachoengsao, Chonburi, Ratchburi, Samut Songkram, Saraburi, Kanchanaburi, and Ang Thong. **Zone 3:** All the remaining provinces, and Laem Chabang Industrial Estate in Chonburi Province.

Source: Adapted from (a) ACTETSME, [Online] Available: http://www.actetsme.org/thai/ipithai.htm (22.10.2003); (b) BOI (2003b), A Guide to the Board of Investment, pp. 6-7; (c) U.S. Embassy in Thailand, 2001 Investment Climate Statement for Thailand, [Online] Available: http://www.usa.or.th/services/docs/reports/eco_monthly/2001/ investclim01.htm (16.07.2003); and (d) Board of Investment Announcement No.1/2543 Re: Policies and Criteria for Investment Promotion, [Online] Available: http://www.boi.go.th/english/about/boi_policies.asp (22.10.2003)

6.4 Role of Thai Investment Promotion Agency

As stated in the World Investment Report (1998), Investment promotion agencies have become powerful instruments of development in all regions (European, Asian and Central and South American countries). OECD Global Forum on International Investment (2002) also argued that IPAs is likely to remain a crucial factor for attracting investments along with country image-building and investment destination marketing efforts will also remain important as part of a strategic long-term process.[190] This section will turn to analyse the role of IPA in Thailand and its current investment promotion policies.

6.4.1 The Board of Investment

The channels for investment promotion in Thailand are the Board of Investment (BOI) and its working organization, the Office of the Board of Investment (OBOI). The Board of Investment is the government agency responsible for administering incentives and providing services with a view to encouraging investment in priority areas. It comprises two bodies: The Board itself and the Office of the Board of Investment.

The general guidelines used by the BOI in granting approval are derived directly from national development priorities. Accordingly, the BOI gives special consideration to investment projects which are export oriented, support resource development, substantially increase employment, locate in the provinces, establish of develop industries which form the base for further stages of industrial and technological development. Projects which carry out significant R&D activities, or establish basic transportation, networks, public utilities and environmental protection systems are considered priority projects and are eligible for special incentives.

The BOI aims to supplement and strengthen the domestic resources by encouraging foreign businesses which allow technology transfer, encourage Thai participation in ownership and management help upgrade the product quality of Thai suppliers and subcontractors. For those companies and industries enjoying promoted status, the basic incentives offered by the BOI include tax incentives such as corporate income tax holidays, exemption or reduction of

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[190] Dan, L. (2002), Creating Efficient Networking and Effective Linkages in Investment Promotion , Ob cit., p. 1.

import duties on imported items, and exclusion from taxable income of dividends during the tax holiday, and so forth.

To prevent unfair competition from imports, temporary tariff surcharges or bans may be imposed on imports. To ensure security of investment, the Investment Promotion Act also guarantees against nationalization, state competition, and state monopolization. Furthermore, the investor is granted permission for foreign ownership of land and for entry, employment of foreign nationals, and to remit foreign currency abroad. In recent years the BOI has been shifting its emphasis towards a more services oriented role by providing investment information, investment opportunity surveys and identify potential joint venture partners. The BOI also assists promoted companies in obtaining the permits and licenses that are required for starting up operation and also facilitates work permits and visas for foreigners working on promoted projects or carrying out feasibility studies.

6.4.2 Organisation Structure

The major role of the BOI is to promote the establishment of private sector investments which are in line with the government's development objectives. In order to accomplish this, the BOI is empowered to provide and administer incentives for investors, mostly fiscal, and implement promotional campaigns. The two major structural components in the BOI are the Board itself and the Office of the BOI. The BOI comprises 18 members from both the public and private sectors. It is chaired by the Prime Minister, with the Minister of Industry serving as Vice-Chairman. The basic role of the BOI is to establish investment policies, oversee the operations of the Office of the Board of Investment (OBOI) and approve promotion for investments of over 500 million baht at its monthly meetings.

An executive sub-committee, established in 1983, meets weekly and is empowered to approve export-oriented projects and investment of over 40-500 million baht. Other subcommittees of the BOI deal with specific areas such as legal issues, machinery, and raw materials privileges, expatriate employment and land use. The OBOI is the implementing body of the BOI. At its head is the Secretary-General, who has the authority to approve projects involving an investment of 40 million baht and lower. The Secretary-General, together with his two deputies and two assistants, is also in charge of managing the eight operational divisions of OBOI. In addition, the BOI's five overseas investment promotion offices in Frankfurt, New York, Paris, Shanghai and Tokyo report to the Secretary-General (Appendix 6.3).

6.5 Investment Policy Framework

The Thai government has in general taken a very favorable approach towards FDI. Although there have been laws and regulations which limit foreign ownership in certain activities as mentioned earlier, however, they have been progressively liberalized over the past decade, with an acceleration of this trend in the period since the financial crisis. Besides Alien Business Law 1972 or the Foreign Business Act 1999, the policies towards FDI in Thailand are also governed by the Land Code and supplemental sectoral restrictions.

BOI used to restrict majority foreign ownership in promoted projects that are resource based, services, and manufacturing mainly for the domestic market. It has gradually relaxed this condition over the past decade. Table 6.4 shows some considerably changes according to this relaxation.

Table 6.4: Policy Relaxation of Ownership Limits and Conditions

Year	Major Changes
1993	100 per cent foreign ownership is allowed for manufacturing projects located in Zone 3 (the least developed provinces) or exporting at least 80 per cent of total sales. According to this change, BOI also no longer considers the level of foreign ownership firms for projects that develop transportation systems and public utilities, improve the environment, and are directly involved in technological development.
1997	BOI provides approval on a case by case basis for foreign manufacturing firms in Zones 1 (Bangkok and the other developed provinces) and 2 (medium-range developed provinces) to change their equity ownership to become majority or 100 per cent foreign-owned if local shareholders give their consent.
Nov. 1997 - Dec. 2000	468 firms were granted permission to change their ownership structures. This represents a surge in a rather novel form of merger and acquisition (M&A) activities, the so-called BOI-type M&A which involved inflows of over US$ 1 billion by the end of 2000. The BOI also abolished foreign ownership restrictions for new manufacturing projects in Zones 1 and 2 since August 2000 under the new incentive package.

Source: Source: Adapted from Brimble, P. and Sibunruang, A. (2002), Foreign Direct Investment: Performance and Attraction: The Case of Thailand, Paper prepared for a workshop on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos and Vietnam in Hanoi from August 16-17, 2002. p. 19.

Besides these changes, BOI has been active in undertaking other policy and service measures to stimulate expansion projects from existing investors and new greenfield projects, and also to encourage foreign investment by enhancing its role in matchmaking with an introduction of a Vendors Meet Customers Program (VMC), which involves regular arrangement of supplier tours to select automotive and electronics assemblers and aims to encourage subcontracting businesses in Thailand. The BOI has also launched the ASEAN Supporting Industry Database (ASID) in order to encourage sourcing of local parts and components.[191]

6.6 Investment Incentives

6.6.1 Incentives under the Investment Promotion Act

6.6.1.1 Foreign Equity Participation Rules

The BOI uses the criteria as provided in table 6.5 to consider the amount of foreign equity participation allowed in a promoted investment project. However, there is an exception in some projects which foreign ownership requirements are considered on a case by case basis by the responsible ministry:

- Development of transportation systems
- Public utilities
- Environmental conservation and restoration
- Direct involvement in technological development

Table 6.5: Criteria of Foreign Equity Participation

Criteria	Maximum Foreign Equity Participation
1. Projects in primary production, mining or service sectors. (If the project capital is more than Baht 1,000 million, there must be majority Thai ownership by year 5)	49%
2. Manufacturing projects	
-mainly for domestic distribution	49%
-mainly for domestic distribution and located in Zone III	100%
-at least 50% for export -at least 80% for export	majority 100%

Source: BOI (2003b), A Guide to the Board of Investment, p. 6.

6.6.1.2 Non-Tax Incentives for Promoted Companies

The following non-tax incentives may be granted to promoted companies which consist of gurantees, permission and protection measures.

[191] Brimble, P. and Sibunruang, A. (2002), Foreign Direct Investment: Performance and Attraction: The Case of Thailand, Paper prepared for a workshop on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Laos and Vietnam in Hanoi from August 16-17, 2002, p. 7.

Table 6.6: Non-Tax Incentives offered by BOI

Guarantees:	Permission:	Protection Measures:
• Against nationalization. • Against competition of new state enterprises. • Against state monopolies. • Against price controls. • Against tax-free imports by the public sector.	• To own land. • To bring in foreign nationals to undertake investment feasibility studies. • To bring in foreign technicians and experts to work on the promoted project.	• Imposition of a surcharge on competing imported products of up to 50% of CIF value for a period of one year at a time. • Import ban on competing products. • Implementation of other tax relief measures as appropriate.

Source: Own adapted based on BOI (2003b), A Guide to the Board of Investment, p. 5.

6.6.1.3 Investment Promotion Zones

In line with the national objectives of decentralizing and spreading the benefits of development to the country's provinces, the BOI has divided all provinces of Thailand into three investment zones.

Table 6.7: Modulation of Investment Promotion by Zones

Special Status	Designed Zones		
	Zone I	Zone II	Zone III
BOI	Six (6) provinces, namely: Bangkok, Samut Prakan, Nakhon Pathom, Nontaburi, Pathum Thani, and Samut Sakhon.	Ten (10) provinces, namely: Suphan Buri, Ayuthaya, Nakhon Nayok, Chachoengsao, Chonburi, Ratchburi, Samut Songkram, Saraburi, Kanchanaburi, and Ang Thong.	All the remaining provinces, and Laem Chabang Industrial Estate in Chonburi Province.
General Industrial Zone (GIZ)	1972 Bang Chan 1983-89 Lat Krabang I-II-III 1988-90 Minburi I-II 1996 Gemopolis 1977-93 Bang Poo I-IIA-IIB 1984-89 Bang Plee I-II 1990 Theparak 1988 Navanakorn 1989 Bangkadi 1988 Mah Boonkrong 1990 Mueng Thong Thani 1992 Samut Sakhon 1993 Jongsatit	1990 Rojana I-II-III 1992 Hi-Tech I-II 1991 Bang Pa-In 1995 Saharattananakorn 1994 Ayutthaya 1995 Saraburi 1992 Nong Kae 1992 Siam Cement 1992 Ratchburi 1991-93 Well Grow I-III 1993 Gateway City 1994 Bangpakong 1993 Chonburi 1988 Sriracha 1990 Laem Chabang	1993 Eastern 1993 Rayong 1993 Ma Ta Phut 1991 TPI 1995 Suranaree 1990 PCS 1995 Kabinburi 1991 Prachinburi 1991 Prosperity 1985 Northern Region 1992 Saha Group
Special Area for Dyeing (SA)	1992 Samut Sakhon		
Export Processing Zone (EPZ)	1983-89 Lat Krabang I-II-III 1977 Bang Poo I	1992 Hi-Tech 1991 Bang Pa-In 1995 Saharattananakorn 1995 Saraburi 1992 Nong-Kae 1992 Ratchburi 1993 Gateway City 1991 Chonburi 1990 Laem Chabang	1993 Ma Ta Phut 1995 Suranaree 1995 Kabinburi 1991 Prachinburi 1985 Northern Region

Source: Cuyvers, L., Lombaerde, P.D., Dewulf, B, and Bulcke, D.V.D. (1997), Export Strategies and Policies in Thailand until 1995, CAS Discussion paper No 10, March 1997, Centre for ASEAN Studies, p. 12, table. 7.

According to the designed zone, the privileges are modulated in two respects in which the companies are located, and whether they are part of an industrial estate or not. Investors who set up their operations in provinces outside the central region of Thailand are entitled to a wider range of tax incentives. Three geographical zones are distinguished: Zone I (Bangkok area and 5 neighbouring provinces), Zone II (10 central provinces), and Zone III (the rest of the country). Special status is further given to micro-zones with special status: General Industrial Zones, Special Areas, and Export Processing Zones as seen in table 6.7.

6.6.1.4 Major Tax Incentives for Promoted Companies

According to WIR (2003), investment incentives used by the Government for attracting FDI and enjoying benefit more from it are divided into three categories as follows.[192]

1) **Financial incentives:** outright grants and loans at concessional interest rates,
2) **Fiscal incentives:** tax holidays and reduced tax rates and,
3) **Other incentives:** subsidized infrastructure or services, market preferences and regulatory concessions, including exemptions from labour or environmental laws.

Two major proposes for providing incentives are; i) locational incentives such as inducing investors to locate in a backward areas or away from a congested area or; ii) for making foreign affiliates in a country undertake functions regarded as desirable such as training, local sourcing, R&D or exporting which described as behavioural incentives.

According to Thailand, the BOI, in general, grants two major types of tax incentives to promoted companies: (i) exemption or reductions of tariffs on imported machinery and equipment, as well as raw materials for the promoted activity, and (ii) exemption from income tax on net profits and dividends. The tax incentives currently provided by the BOI are summarized in Table 6.8. Broadly, BOI offers incentives according to the zone in which the business is physically located and the sector or industry in which the firm operates. To encourage deconcentration of industrial development, the BOI divided the country into three zones based on proximity to Bangkok. Investment projects located in the zone furthest from Bangkok (Zone 3) are eligible to receive the highest tax incentives. In addition, only investments in certain pre-selected sectors are eligible for tax incentives. However, the

[192] UNCTAD (2003), World Investment Report 2003: FDI Policies for Development: National and International Perspectives, Nations United Nations Conference on Trade and Development, United Nations Publication, New York and Geneva, p. 123.

sectoral dimension has been greatly diluted by the expansion of the list of promoted sectors as mentioned before in the section 6.3.2.2.

Table 6.8: Current Tax Incentives Offered by Thai Investment Promotion Agency

Privileges	Zone 1	Zone 2	Zone 3
Machinery	Standard rate of 5% or 50% reduction of import duty on machinery that is subject to an import duty of not less than 10%.	Same as for Zone 1.	Exemption of import duty on machinery for a project located in one of 40 provinces.
Raw Materials	Exemption of import duty on raw materials used in the manufacture of export products for a period of 1 year.	Same as for Zone 1.	Exemption of import duty on raw materials used in the manufacture of export products for 5 years for a project located in one of 40 provinces.
Corporate Income Tax	Tax holiday for 3 years for a project located in an industrial estate or promoted industrial zone, provided that it has invested capital of 10 million baht or more and obtains ISO9000 or similar international certification within 2 years of start-up; otherwise the tax holiday will be reduced by 1 year.	Same as for Zone 1 except that tax holidays are granted for 5 years.	➢ Same as for Zone 1 except that tax holidays are granted for 8 years. ➢ A project located in one of 18 provinces is given the following additional privileges: ▪ 50% reduction in corporate income tax for 5 years after the period of exemption; ▪ double deduction from income tax for transport, electricity, and water expenditures for 10 years ▪ 25 % deduction for infrastructure/ construction expenditures for 10 years ➢ A project located within an industrial estate or promoted industrial zone is given the following additional privileges: ▪ 50 % reduction in corporate income tax for 5 years after the period of exemption; and ▪ double deduction from income tax of transport, electricity and water costs for 10 years from the date of first revenue derived from a promoted activity. ➢ A project located outside an industrial estate or promoted industrial zone can deduct 25% of infrastructure and construction costs from profit for 10 years from the date of first sale.

Source: BOI (2003b), A Guide to the Board of Investment, Thailand, p.7.

6.6.2 Incentives under the Industrial Estate Authority of Thailand Act

Besides the BOI, incentives are also given by the Industrial Estate Authority of Thailand (IEAT) which was established in 1972 as a government agency under the Ministry of Industry Its responsibility is for industrial development and pollution control of industrial operations by setting up “industrial estates”.[193] An industrial estate may also be set up in joint venture with private developers. Industrial estates are divided into 2 zones according to the nature of the industries; (i) General Industrial Zone (GIZ): designated area for industrial and supporting operations, and (ii) Export Processing Zone (EPZ): designated area for industrial and supporting operations for exports exclusively.

Any project of industrial operators locating in GIZ or EPZ may be enjoyed investment incentives without having to apply for BOI promotion such as permission to own land in an industrial estate and permission to bring in foreign technicians and experts. Moreover, industrial operators locating in the EPZ may be granted the following tax incentives:

- Exemption from import duty, value added tax and excise tax on machinery and construction materials for the factory.
- Exemption from import duty value added tax and excise tax on raw materials used in production.
- Exemption from export duty, value added tax and excise tax on products, by-products, and other products derived from production in the export industrial zone if these are to be exported from Thailand.
- Exemption or refund of taxes for any goods sent into the export industrial zone for manufacturing. Such goods must be goods entitled to exemption or refund of taxes if they are exported from Thailand.

6.6.3 Incentives under the Petroleum Laws

The Petroleum Act and the Petroleum Income Tax Act of Thailand enacted in 1971, together with various amendments, grant special incentives to concessionaires engaged in petroleum survey, exploration, and production. This is consistent with the government’s policy to develop natural resources of Thailand. The incentives extended to concessionaires under the Petroleum Act and the Petroleum Income Tax Act are:

- Assurance that the state will not nationalize any private industrial activity.
- Permission to own land required for its operations.
- Freedom to export its products.
- Permission to bring in alien experts and technical staff and their dependents, including those of its contractors.

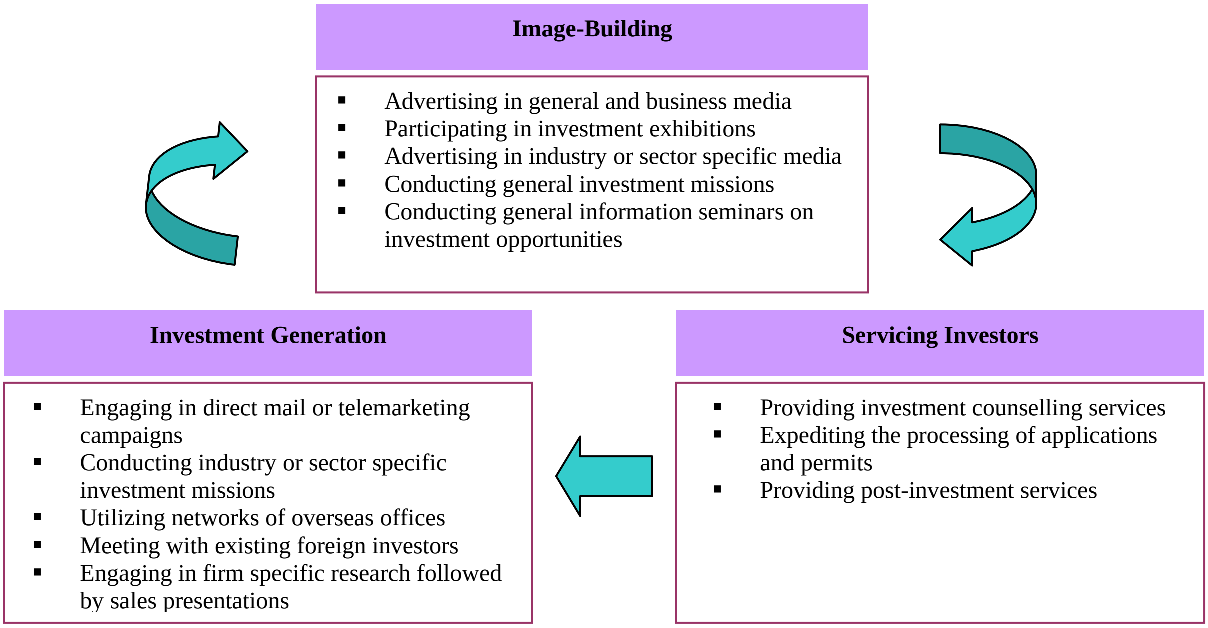
[193] Cited from IEAT Website: www.ieat.go.th

- Exemption from tariffs on imported machinery, spare parts, and materials required for its business, or for the use of its drilling and oil field service contractors.

6.7 Investment Promotion Strategies and Techniques

The switch from a regulatory to a promotional approach to attracting investment has emphasised attention on the concept of investment promotion itself, on the techniques used and on the formulation of strategies to go well with different investment requirements and conditions.

Figure 6.3: BOI's Current Investment Promotion Techniques



Source: Adapted from UNIDO (1994), pp. 16-19.

With reference to UNIDO's guidelines for investment promotion agencies, investment promotion agencies tend to engage in all three activities to varying degrees to bring investment to their countries which can be classified into three groups (Figure 6.3):

- Techniques aimed at building or changing the investment image of a county, known as image-building techniques.
- Techniques used to generate investment directly, known as investment-generating techniques.
- Techniques directed at servicing existing and prospective investors, known as investor-servicing techniques.

Based on these criteria, the Thai BOI has also carried out activities under the three following broad headings, but with the emphasis varying from time to time.

6.7.1 Image-Building

The main propose for using image-building techniques explained by UNIDO is to inform investors about a country's investment plans, its policies and incentives, its procedures and requirements and its improvement and achievements. It was not until the mid-1980s that the BOI started to carry out systematic promotion campaigns. Before that it had a very small annual budget and relied almost exclusively on overseas offices in New York, Frankfurt, Tokyo and Sydney and a few missions a year. In 1986, the BOI obtained an extra budget of 50 million baht to accelerate FDI from Europe and Japan.[194] Activities under the program included advertising, arranging for investors and journalists to visit Thailand to explore investment opportunities, and organizing overseas missions.

6.7.2 Investment Generation

Since the early 1990s the BOI has placed more effort on strengthening the role of the overseas offices. Nowadays, BOI has five overseas offices in different central city of the world; Frankfurt, New York, Paris, Shanghai and Tokyo. Besides, BOI carried out sector studies and seminars and sent mobile units to targeted countries. However, the target activities were not systematic and the tracking system was not well in place and varied from office to office.[195] In June 2002, BOI announced five targeting industries for proactive marketing: (i) agro-processing; (ii) fashion industries especially garment, leather and jewellery; (iii) automotive; (iv) information and communication technology (ICT) including electronics; and (v) high value added services such as long stay tourism and regional headquarters. However, the nature of the targeting and proactive marketing to be processed is not yet clear.

6.7.3 Investment Services

Various services to investors have long been provided by BOI as shown in Table 6.9. Moreover, the BOI plans to put more emphasis on creating an enabling environment for investors, especially in providing adequate infrastructure and skilled workers, as well as helping investors to solve their problems. The Human Resource Development Unit has

[194] Brimble, P. and A. Sibunruang (2002), Ob cit., p. 21.
[195] Brimble, P. and A. Sibunruang (2002), Ibid., p. 22.

recently been set up to work with the Department of Vocational Education and relevant institutes to supply technicians as required by the private sector.

Table 6.9: Investment Services Provided by BOI

Activity	Details
Internet homepages	To offer various types of information to investors.
BUILD Unit	To help develop linkage between MNCs and local suppliers by organizing various activities such as the Vendor meets Customer Program in which MNCS allow potential supplies to visit them to discuss possibility for more local sourcing, the Market Place for parts and components where buyers display parts that they want; and the BUILD Fair.
One Stop Shop	To issue visas and work permits within 3 hours.
Investment Service Centre	To help in match making and providing consulting services.

Source: Adapted from BOI (2003b), A Guide to the Board of Investment, Thailand, p. 4.

6. 8 Changing Context of Investment Policy in Thailand in the Era of Globalisation

In current circumstances of globalisation, the factors that determine FDI location decisions have developed in complexity. Traditional motivations of a country which commonly consist of its natural resource base, market size, and low labor cost are losing importance in the decision making of MNEs due to the rapid change in technological advances. Besides information communications technologies and new managerial strategies are underway in the industrial organization of manufacturing and production processes. These changes have also effect on the investment location decisions and 'operations of MNEs and the way in which MNEs interact with other enterprises particularly the host local firms'[196]. Moreover, the accessibility of production factors which require such a linkage up to and integrating with international value chains as well as the relationship between subcontracting and original equipment manufacturing (OEM) is assumed growing importance.[197] Thailand is now moving to the third generation of investment promotion policies that require the enabling framework for FDI and a proactive approach towards attracting FDI as suggested by WIR earlier.

The experience of Thailand from previous chapters in respect to the determinants and impact of FDI provides the lesson that the chance of Thailand to benefit from FDI in the era of globalisation depends upon domestic economic policies and ensuring local investment climate. Experience has also suggested that Thai investment promotion policy should search for the way to promote linkages and enhance the integration of foreign companies into the

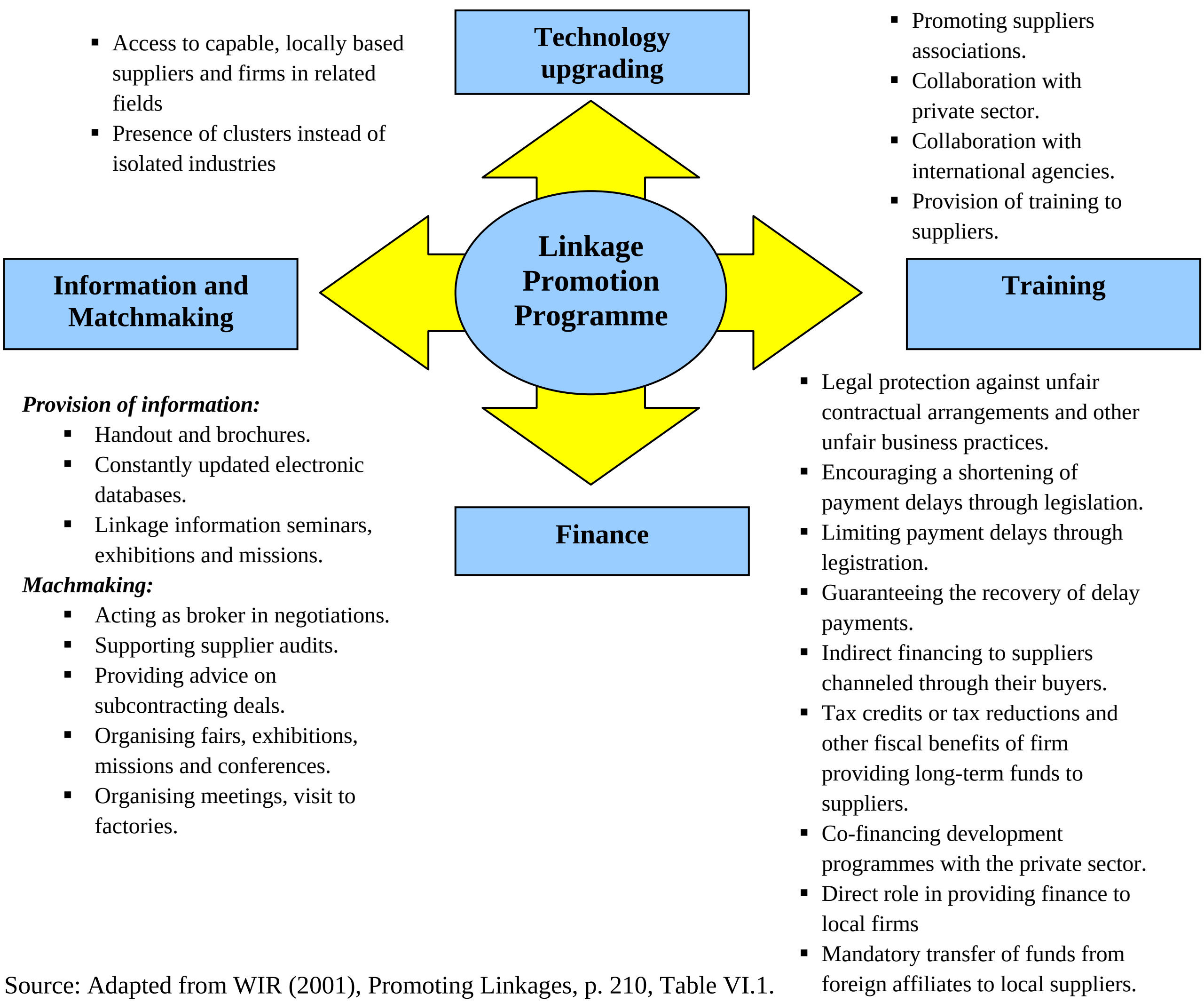
[196] Dunning, J.H. (1997), Alliance Capitalism and Global Business, Routledge, London and New York, p. 14.
[197] Dan, L. (2002), Creating Efficient Networking and Effective Linkages in Investment Promotion , Ob cit., p. 3.

domestic economy since the industrial linkages between the foreign firms and domestic suppliers are quite moderate in Thailand.

What is Best Practice in Linkage Promotion?

Then, what does Thailand actually do to promote linkage between local and foreign enterprises which is found to be the most serious problem at the present time? In order to increase an effective way for IPA to support the creation and deepening of linkages between domestic and foreign firms in Thailand, some specific measures suggested by WIR (2001)[198] are listed below figure.

Figure 6.4: Specific Measures for Creating and Deepening Linkages



Source: Adapted from WIR (2001), Promoting Linkages, p. 210, Table VI.1.

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198 UNCTAD (2001), World Investment Report 2001: Promoting Linkages, United Nations Conference on Trade and Development, United Nations Publication, New York and Geneva, pp. 174-182.

According to the use of these measures, it might be different from country to country. Based on the experiences of a large number of countries, some lessons for Thailand can be drawn as shown in table 6.10.

Table 6.10: Lessons of Best Practice in Linkage Promotion from Various Countries

▪ **Fit to overall development strategy**	Linkage promotion efforts need to be part of a broader development strategy. A clear vision of how FDI fits into this overall development strategy and how it can contribute to the productive capacity of a country.
▪ **Close collaboration**	Government efforts need to be undertaken in close collaboration with both foreign affiliates and local enterprises. It is difficult to run effectively a linkage promotion programme without the support of the private sector. For example, foreign affiliates contribute in different countries in several ways: ➢ indicate scope for local sourcing; ➢ specify requirements needed to be fulfilled to qualify as a supplier; ➢ help identify suppliers that meet, or are close to meeting these requirements; ➢ participate in government sponsored training programmes; ➢ support the setting up of supplier associations, etc.
▪ **Matchmaking**	Matchmaking can play an important role in helping buyer firms find suppliers and vice versa. However, matchmaking efforts should preferably be accompanied by various support services that can help suppliers reach the required quality standards.
▪ **Supplier development**	Supplier development efforts should be narrowly targeted taking into account the specific demands of the foreign affiliates. In this sense, linkage promotion differs from general SME development. The most successful programmes tend to focus on the most promising suppliers whose management show a strong commitment to growth and to upgrading the capabilities of the firm.
▪ **Cooperation and coordination**	There is a large need for cooperation and coordination among the various agencies that are involved in providing assistance to suppliers. In many instances, policy goals and measures of different parts of a government may be in conflict with each other.
▪ **Role of Government**	Governments do not necessarily have to provide the actual services or training that is needed if there are private or semi-private institutions that can do this more efficiently.
▪ **Training programmes**	With regard to training programmes, getting the foreign affiliates actively involved in specifying the curricula and in the actual training is helpful. For example, under the Global Supplier Programme in Malaysia, a special training initiative focuses on helping suppliers acquire competencies to adopt and use new technologies.

Source: Adapted from Fredriksson, T (2001), Linkages between Foreign Affiliates and Domestic Suppliers, Presentation at the 28th International Small Business Congress, 18 September 2001, Stockholm, Sweden. pp. 5-6.

6.9 Conclusion and Policy Recommendations

The adjustment of FDI policy in Thailand is occurring within a rapidly changing international environment. This chapter has also proposed a new direction for Thai foreign policy with regard to multinationals. The old policy direction is seem to focus on attracting inward FDI flows, while the proposed new policy direction appears to concentrate on multinationals as market-making firms and as agents of change. This implies that any new policy on foreign direct investment should not differentiate between inward and outward FDI, but seek to maximize the gains to Thailand from MNC activities in both directions. In other words, the linkage between foreign policy and trade policy in Thailand cannot be separated.

The challenges which Thailand faces in the attraction of more FDI flows under globalisation are enormous. There is no easy way to develop and remain marginalized from these flows. However, based on the recommendations of UNIDO and WIR, the strategic position in dealing with this difficulty is to increase the capability of the industrial sector through the corporation with foreign enterprises for further investment and production partnerships. With this in mind, IPA needs to start addressing the issue of linking domestic industries with international production systems or to support industrial linkages between domestic and foreign firms. The ability of the country to win FDI and reinforce linkages as suggested by UNIDO depends on the following three interrelated factors.

- Its overall investment policy framework, public governance and market competitiveness environment.
- Its investment promotion and institutional capacity building strategies.
- Its institutional capacity for implementing these strategies.

The importance of each interrelated factor varies by country and in time in relation to the country's developmental strategy and institutional structures for supporting the efficient working of markets. To implement the strategy, an effective IPA is needed, especially a small market and few national resources. Most strategies which are used by IPA have four different activities with varied importance depending on changing environment. They are: activities to service existing, prospective and new investors (investor servicing); procedures aimed at identifying and removing administrative obstacles and managerial impediments to FDI; campaigns to enhance the image of a country (image building); and actions to generate an increased flow of investor's projects (investment generation).[199]

[199] Dan, L. (2002), Creating Efficient Networking and Effective Linkages in Investment Promotion, Ob cit., p. 7.

CHAPTER 7

The Synopsis of Policy, Economics and FDI: Lessons from Other Countries

7.1 Introduction

According to highly competitive international economic environment in recent years, the establishment of high policy standards and an attractive economic environment for FDI has become a necessity for most nations. Policy is important to maximise the positive effects of FDI. Connecting with last chapter, Thai experience has shown that the rule of law, stable and sound economic policies, supporting legislation and institutions and a facilitating attitude on the part of investment promotion agency are all important fundamentals in any effort to attract FDI. However, thinking only how to attract FDI is not useful strategy at all, but government should think about FDI upgrading and about linkages between multinationals and local firms and best practice policy should be cross-classified by industrial, macroeconomic other type of policies and factors.[200]

The main objective of this chapter presents a framework of successful practice in strategy, based on extensive country experiences. Successful strategic practice as described here represents the policies, strategies, institutional structures and marketing activities that many selected countries have employed with proven success and some with negative practice such as Mexico, Indonesia, South Korea, China, Singapore, Brazil and Vietnam. The lessons learned from these countries will experience Thailand to avoid costly mistakes and gain the benefits from FDI.

By the way of examination, this chapter will not provide a detailed prescription or step by step guide on effective practices, but the core principles and strategic policies that many countries have demonstrated to be the most effective policy in attracting investment along the line of economic development. After the introduction, the task is to discuss the importance of policies in attracting FDI by introducing a practical framework to formulate such FDI useful

[200] Velde te, D.W. (2001), Making Openness Work: Policies towards Foreign Direct Investment in Developing Countries: Emerging Best-Practices and Outstanding Issues. Paper from Conference held at the Overseas Development Institute, 16 March 2001, ODI, UK, 2001, p. 3.

policy. The following sections, several countries have been selected to consider how optimal FDI policies should be experienced and devised.

7.2 The Importance of Policy in Attracting FDI

7.2.1 The Need for Best-Practice Policy

Since early to mid 1980s, governments in developing countries have increasingly been liberalising their FDI regimes and are looking for best-practice policies in attracting FDI.[201] In fact, this allows firms greater freedom in making international location decisions and in choosing the approach for serving each market and meeting functional needs for their business operation. To look for best-practice policies in attracting FDI, policy measures usually include laws and codes that define the investment framework for foreign investors, as well as the general standards and policies that affect all investment activity, domestic and foreign.[202] The main reason why governments in developing countries are increasingly looking for best-practice policies towards inward FDI because i) FDI can bring positive effects such as market access, technology, finance, and management skills, ii) FDI can cause also negative effects and iii) only a significant quantity of FDI is inadequate to generate economic growth, but 'must be tempered with recognition of the efficacy of FDI'[203]. In reference to the above reasons, the positive impacts are not automatic for recipient countries. Therefore, to depend on policies in place and other factors is important to mention.

7.2.2 Framework of Successful Policy

In this section, a framework for identifying which policies a government can use to formulate an FDI based strategic policy is developed by Dirk Willem Te Velde (2001). The structure of policies is shown in Table 7.1. He distinguishes policies and other factors that affect FDI into three classifications; (i) policies and factors affecting the locational decision of foreign investors, (ii) policies and factors affecting established foreign investors, and (iii) policies and factors affecting domestic firms.

[201] Velde te, D.W. (2001), Ibid., p. 2.
[202] UNCTAD (2003), Report of the Expert Meeting on Effectiveness of Foreign Direct Investment Policy Measures, Geneva, 25–27 June 2003, Trade and Development Board Commission on Investment, Technology and Related Financial Issues, United nations, Geneva, p. 2
[203] Balasubramanyam, V.N. (2003), Host country FDI policies and development objectives. In United Nations, The Development Dimension of FDI: Policy and Rule-Making Perspectives, Proceedings of the Expert Meeting held in Geneva from 6 to 8 November 2002, pp. 79-90, here p. 79.

Table 7.1: Policies and Factors Affecting Inward FDI

<table>
<tr><th colspan="2">Classification of Policies Affecting FDI</th><th>Affecting potential foreign investors (“determinants”)</th><th>Affecting established foreign investors (“upgrading“)</th><th>Affecting the response of domestic firms (“linkages”)</th></tr>
<tr><td rowspan="2">Economic policies largely under domestic control</td><td>Industrial policies</td><td>▪ Financial and fiscal incentives and bargaining
▪ Efficient administrative procedures and rules on ownership
▪ Promotion, targeting and image building
▪ Developing key sectors (agglomeration and clustering)
▪ Developing export platforms (EPZs)</td><td>▪ Taxation
▪ Performance Requirements (TRIMS etc.)
▪ Interaction with research institutions and other firms
▪ Encouragement of R&D
▪ Training of employees</td><td>▪ Encouragement of linkages with multinationals
▪ Encouraging technological capabilities (R&D)
▪ Encouraging human resources (training)
▪ Supply side management</td></tr>
<tr><td>Macro-economic policies</td><td>▪ Availability of infrastructure and a skilled workforce and good labour relations
▪ Sound macroeconomic performance and prospects
▪ Privatisation opportunities
▪ Development of financial market and debt position.
▪ No barriers to trade of goods and services</td><td>▪ Labour market policy
▪ Trade policies, export promotion and infrastructure
▪ Competition policy
▪ Development of financial market</td><td>▪ Education and skill generation
▪ Labour mobility
▪ Competition policy
▪ Export promotion</td></tr>
<tr><td colspan="2">Other policies and factors beyond the control of domestic economic policy</td><td>▪ Global economic integration and transportation costs
▪ International, regional and bilateral treaties, including BITs and WTO.
▪ Insurance (ICSID, MIGA, ECGD, OPIC) and political risk ratings
▪ Location near large and wealthy markets
▪ Availability of natural resources
▪ Historical ties and language-use
▪ Absence of corruption
▪ Financial conditions in home countries</td><td>▪ Regional and international investment treaties
▪ Global economic integration
▪ Civil society</td><td>▪ Global economic integration</td></tr>
</table>

Source: Adapted from Velde te, D.W. (2001), p. 15 and Gray, H.P. (1995), pp. 56-57.

In order to consider the importance of particular policies, the type of policy is classified by the degree of domestic control which consists of two main policies; industrial policies and macro-economic policies and other policies and factors beyond the control of domestic economic policy makers. Three types of policy can be identified as follows.

- **Industrial policy** comprises of measures that develop the capability of a national firms in producing dynamic good and services to maintain their competitiveness in the global market. It also includes government measures that enhance a country's industrial structure in a clearly-definded way.

- **Macro economic policy** involves all measures that governments adopt to enhance and increase the efficiency of their economy. It also includes labor market and trade policies, including the provision of efficiency enhancing infrastructure and recognized explicitly the existence of competition among governments to create an efficient economy in order to attract created assets such as product and process technology, general and process-specific human capital, and organisational capacity.[204]
- **Other policies and factors** refer to those influencing locational decisions of multinationals that are beyond the direct control of host-country policy-makers. They include global economic integration and transportation costs that have an effect on where multinationals resource inputs.[205] The conclusion of international, regional and to some extend bilateral agreements also falls into those three categories.

In reference to the above policy framework, which policies are important in which countries depend on how they fit in with the development strategy and also the specific country characteristics. However, they are likely to be some combination of policies in each of the above categories. The following case studies of each selected country, on the other hand, will provide Thailand a good learning experience of how effective policy can be worked in attracting investment along the line of economic improvement.

7.3 The Case of Mexico

7.3.1 Policy Measures: Macroeconomic Stabilisation

In the mid-1980s, the Mexican economy was still suffering the effects of the 1982 debt crisis.[206] On top of this, new problems emerged as a result of the collapse of international oil prices in early 1986. In August 1982, macroeconomic reforms were implemented in order to reduce inflation, service its restructured debt, and stabilise the economy. Later, the economy had found its way back to falling inflation and recovery of economic growth by liberalising

[204] Gray, H.P. (1995), The Modern Structure of International Economic policies, Transnational Corporations, vol.4, no.3 (December 1995), pp. 58-61.
[205] Velde te, D.W. (2001), Ob cit., p. 22.
[206] Kim, K.S. (1990), Industrialisation Process, Employment and Income Distribution in Mexico: Issues and Strategies, Working Paper #131 (January 1990), Kellogg Institute, no page number.

more trade and investment regime.[207] This was due to a successful stabilization program that was initiated in late 1987, the Brady agreement of debt relief and restructuring in July 1989, and the subsequent recovery of access to international capital markets.

Table 7.2: Mexico's Main Trade and FDI Policy Measures

Starting Date	Policy
1973	Foreign Investment Law was firstly established as a general rule a maximum foreign ownership of 49 per cent of enterprise capital.
1984	Gradually started interpreting the Foreign Investment Law less restrictively.
July 1985	First stage of the trade-liberalization program. Elimination of import licences for capital and intermediate goods, and reduction of the number of tariff categories.
July 1986	The Agreement to enter GATT was signed. This committed Mexico to continue substituting direct controls by tariffs and, later on, to reduce tariff rates.
December 1987	Start of the stabilization program (PSE) and second stage of the trade liberalization program. The elimination of import licences is extended to imports of consumer goods. The degree of tariff dispersion and the average tariff are reduced.
October/November 1988	Start of financial liberalization with the elimination of credit quotas (to high-priority sectors) and the obligatory reserve requirements. Eradication of some interest-rate ceilings.
1989	▪ **April:** Eradication of all interest-rate ceilings. ▪ **May:** ➢ Reform of regulation of direct foreign investment. ➢ New regulations established automatic approval of all foreign participation in investment projects of less than 100 million dollars, as long as these projects fulfilled a series of conditions such as generation of foreign currency and regional development. ▪ **July:** ➢ Opening of stock market to foreign investors through liberalization of the neutral investment regime. ➢ Initial agreement on the external debt reduction plan with creditor banks.
1990	▪ **February:** Signing of agreement on external debt reduction with creditor banks. Some restrictions on investment in bonds, stabilization bonds and treasury bills (except CETES) were already eliminated in July 1989. ▪ **April:** *Reglamentación S* and *Regla144A* of the US SEC. ▪ **December:** ➢ Opening of money market to foreign investors with the eradication of restrictions to portfolio investments in government bonds. ➢ Initiation of negotiations on free trade agreement (NAFTA).
February 1991	Recognition of the Mexican stock exchange as an offshore designated securities market by the US SEC. Privatization of TELMEX (initiated in December 1990) and privatization of main banks.
1992	▪ **April:** 10 percent ceiling on foreign currency deposits and minimum requirement of investing 15 per cent of those liabilities in foreign currency. ▪ **October:** End of NAFTA negotiations. ▪ **November:** Expansion of restrictions on foreign currency-denominated bank indebtedness (measures of April). ▪ **December:** Signing of NAFTA by governments of the three member states.
December 1993	New Law on Foreign Investment, substituting the 1973 Act.
January 1994	NAFTA becomes effective.

Source: Adapted from Ros, J. and César, B., Mexico: Trade Liberalization, Growth, Inequality and Poverty, p. 2; and APEC (1996), APEC Guidebook on Investment Regimes (4th Ed.), no page number.

The main measures to liberalize trade were also adopted in the second half of the 1980s (see Table 7.2). These changes end with the North American Free Trade Agreement (NAFTA), which became effective in January 1994. Since then, NAFTA has constituted the institutional framework within Mexico's foreign trade and FDI operatation. The framework includes a regime of practically free trade and capital mobility between Mexico and the United States, its main trade partner and source of foreign investment.

[207] Bergsman, J., Broadman, H.G., and Drebentsov, V. (2000), Improving Russia's Policy on Foreign Direct Investment, Policy Research Working Paper No. 2329 (May 2000), The World Bank, Washington, p.15.

7.3.2 The Success of Liberalisation Program

7.3.2.1 Trade Liberalisation

The process of Mexico's trade liberalisation by opening trade and expanding external trade can be summarised into three major stages (see Table 7.3).

Table 7.3: Three Stages of Trade Liberalisation and Outcome

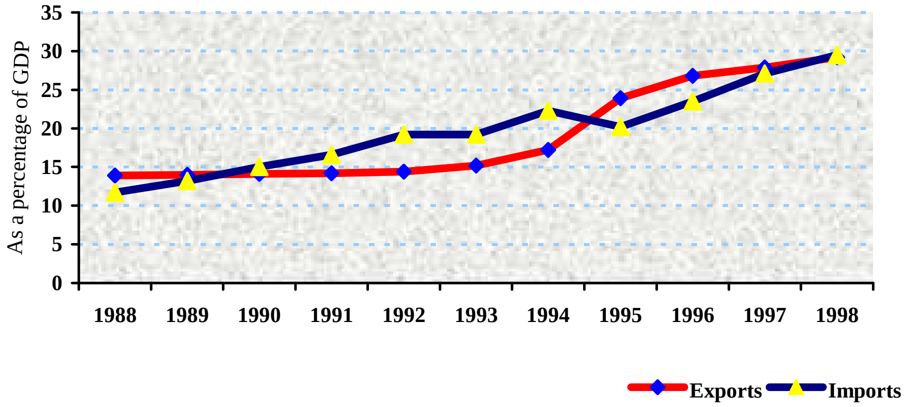
Stage	Measures and outcome
Stage I: (July 1985)	➢ Elimination of import permits and tariff reform ➢ Devaluation of the exchange rate and fiscal adjustment. ➢ The share of capital goods in the total controlled imports fell from 19 to 10 per cent, after having been as high as 31 per cent in 1982. ➢ The weighted average tariff increased from 8.6 per cent in 1984 to 13.1 per cent in 1986. ➢ Tariff dispersion was reduced. In 1986, 90 per cent of imports subject to customs duties were levied at three different rates (10, 22.5 and 37 per cent).
Stage II: (December 1987)	➢ To quickly reduce inflation through a temporary price, wage and exchange rate freezes as part of Economic Solidarity Pact. ➢ The elimination of import permits to large part of manufactured consumption goods which brought import licence coverage to only 20 per cent of the value of imports in 1988. ➢ The dispersion of import tariffs went down to a 0–20 per cent range with only five rates (0, 5, 10, 15 and 20 per cent) ➢ The average tariff dropped to 10.4 per cent (non-weighted average) and 6.1 per cent (import-value weighted tariff). ➢ After these measures, the sectors that remained protected by import licensing represented nearly 25 per cent of the total tradable production, mainly agricultural products and a few manufacturing industries targeted by industrial promotion programs (especially the automobile industry).
Stage III: (1992)	➢ Simply free trade liberalised through NAFTA, with more than two-thirds of its external trade with the United States. ➢ Some trade restrictions were maintained in some sectors (equivalent to 6.8 per cent of the value of imports), especially corn production, oil refinery and transportation equipment.

Source: Adapted from Ros, J. and Bouillon, C., Mexico: Trade Liberalization, Growth, Inequality and Poverty, pp. 2-3; and Gatz, J. (1996), The Socio-Economic Impact of NAFTA's FDI Potential for Mexico p. 112.

In reference to the trade liberalization process, Mexico was successful in generating a rapid expansion of imports and exports. Figure 7.1 shows that total foreign trade (exports plus imports) went from 25.6 to 39.5 per cent between 1988 and 1994 and increased further to 55.2 per cent in 1997.

It is also clear that this expansion brought along strong imbalances between 1988 and 1994, whereas the import share increased by 10.6 percentage points, exports only went up by 3.3 points. The rise in the export share only accelerated after the devaluation and crisis of late 1994, as it jumped from 17.2 to 29.5 per cent of GDP between 1994 and 1998.

Figure 7.1: Mexico's Foreign Trade



Source: Ros, J. and Bouillion, C., p. 24, table 9.1.

7.3.2.2 Investment Liberalisation

Following the trade liberalisation program in the mid-1980s, the first movement of FDI liberalisation came in 1989 as new regulations on foreign investment. It had become obvious that the most dynamic trade flows were generated by MNCs. Mexico attempted to liberalise the policy by removing and simplifying restriction and red tape. The regulations liberalised FDI establishment in several ways after Mexico's attitude toward FDI has changed. This went far beyond the change in regulations switching from suspicion to promotion and facilitation. The strategic policy is based on the nature of MNCs which requires the freedom to import and export, the expansion of production capacity, and the adaptation of products and processes. Therefore, such restriction or even delays while awaiting government approval has been eliminated.[208]

It can be said that Mexico's economic transition process has been successful in concentrating on macroeconomic policy reforms by a more liberal trade and investment regimes. A synopsis of policy changes and the outcomes in terms of FDI inflows to Mexico as presented in the table 7.4. Behind this success, Mexico has obtained market access for its exports, fostered new investment opportunities, and provided more and better paid jobs through its network of FTAs.[209]

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[208] Bergsman, J., Broadman, H.G., and Drebentsov, V. (2000), Ibid., p.16.

[209] De La Calle Pardo, L. (2001), The Importance of Foreign Direct Investment in the Economic Development of Mexico, OECD Global Forum on International Investment New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century, Mexico City, 26-27 November 2001, p.1.

Table 7.4: FDI and Policy Changes in Mexico (1989-1997)

Year	FDI Inflows (Bil. $)	Approximate Share (%)		Approximate Share (%)		Approximate Share (%) of Globalising FDI	Policy Changes
		M&A	**Greenfield**	**Tradable**	**Non-Tradable**		
1989	3.0	10	90	40	60	30	New FDI regulations: Elimination of 51% Mexican majority in most sectors
1990	2.6	10	90	40	60	40	Privatisation of telephone, mining, steel, tourism, airlines
1991	4.8	20	80	40	60	50	Beginning of NAFTA negotiation
1992	4.4	20	80	40	60	60	Privatisation of banks, financial system reforms
1993	4.4	30	70	40	60	60	Imminent NAFTA approval, new FDI law codifying the 1989 regulations, more privatisations
1994	11.0	30	70	40	60	70	NAFTA approval, relaxation of FDI restrictions
1995	9.5	50	50	80	20	80	Economic crisis; deregulation in gas, electricity
1996	7.6	50	50	85	15	90	Banking system opening to FDI
1997	12.1	60	40	85	15	90	Long distance telephone, communications deregulation

Source: Based on Bergsman, J., Broadman, H.G., and Drebentsov, V. (2000), Improving Russia's Policy on Foreign Direct Investment, Policy Research Working Paper No. 2329 (May 2000), The World Bank, Washington, p. 20.

7.4 The Case of Indonesia

7.4.1 Inward to Outward Looking Strategy

During the period of 1970-80, economic policy could be categorized as inward looking strategy. The government utilized almost windfall profits from oil for development as well as to develop industries. Oil and gas export were the most important source of income. Meanwhile, income from non-oil and gas product was not significant. In the end of 1970's or the beginning of 1980's, that policy was recognized not to have significant improvement on industries and not sustained because more subsidy was spent from the government budget. The competitiveness of industry was also stagnating which means difficult to compete in the international markets. Furthermore, oil price in the international market was fluctuating which made more uncertainty for the government income and budget.

Based on this reason, the government considered to build up the national economy by changing the strategies and policies. The inward looking strategy was left and the outward looking strategy was chosen. The economy was opened to the market system to make industries more efficient and to compete in the international market. Protection was lowered to make the market working and more competition in the business.

7.4.2 Stage of Economic Policy

The development of Indonesian economic policy has been classified into four stages suggested by Hill (1992) as presented in Table 7.5. These policies were aimed at stabilising the economy and stimulating the industrialisation.

Table 7.5: Stage of Indonesian Economic Reform and Policy Implication

Stage I **Stabilization and recovery** **(1966-73)**	**Stage II** **Oil boom** **(1973-81)**	**Stage III** **Retrenchment** **(1981-85)**	**Stage IV** **Deregulation and outward re-orientation** **(1986-present)**
Performance driven by the Indonesian economy's successful efforts to stabilize the macro economy following the excesses of the Sukarno era. The main factors driving growth were: ▪ the low capacity utilization of existing industry, ▪ suppressed domestic demand, and ▪ an investment boom associated with a return to "normalcy" and ▪ a drastic revision of foreign investment laws that elicited sizeable capital inflows.	Accelerating yet inefficient industrial growth. Domestic demand as incomes rose sharply, and government pursued policies and investment interventions to accelerate the pace and breadth of industrial development. Much attention was made to sizeable investments in capital-intensive, resource-dependent industries such as oil refining, LNG, petrochemicals, fertilizers, and so on. Non-oil tradable manufacturing activities suffered as the Dutch disease effects of the oil windfall translated into real exchange rate appreciation (which was addressed directly through the 1978 devaluation).	Continued strong growth, based on previous investments, but increasing concern over external imbalances (evident in balances of payments difficulties) and over the fragility of an economic performance based so heavily on a single volatile sector. Efforts begun to diversify the economy away from dependence on oil, which included a reassessment of the objectives and policies of government industrial policy.	Industrial growth driven by the expansion of export-oriented manufacturing firms, encouraged both by continued sensible macroeconomic management (steady real exchange rates, inflation under control) as well as a stream of reform "packages" that have significantly reduced tariff and non-tariff distortions, increased export incentives, eased investment licensing requirements, and encouraged the growth of private sector industry responsive to international conditions.

Source: Adapted from Lewis, J. D. (1994), Indonesia's Industrial and Trade Policy During and After the Oil Boom, Development Discussion Paper No. 491, June 1994, Institute for International Development, Harvard University. pp. 3-4.

Throughout theses stages, policy as pursued by the Indonesian government has been heavily emphasised on three major channels as heavily argued by Lewis (1994). In reference to those policy frameworks in section 7.2.2, industrial policy and macroeconomic policy were mostly used to improve the ability of the country in attracting FDI.

- **Macroeconomic Policy:** The performance of Indonesian policymakers in the macro arena has been the focus of much attention when the country faced the problem in run away inflation, collapsing production, burgeoning fiscal deficits financed by monetary expansion, and an external debt crisis. The New Order regime came to power in solving these problems. In 1970, debts were rescheduled, a balanced budget requirement was effectively implemented. After 1970, Indonesia has maintained unswerving commitment to an open capital account, allowing full convertibility of the rupiah. Because of the willingness to address these stabilization issues at the outset, by the time of the first oil boom in 1973, macro stability had been largely restored, and the economy was in an advantageous position to benefit from the resources that began flowing in.

- **Sectoral Trade and Industry Interventions:** During 1966-73, Indonesian policy concentrated on enhancing the climate of stabilization and adjustment. There was some movement towards greater trade liberalization and domestic deregulation. The unification and rationalization of the exchange rate regime was primarily combined with an attempt to dismantle the complex system of import controls that had propped up the previous exchange rate regime, but these initiatives were not carried very far. Lewis went on to argue that it is possible that the challenge of designing sensible macro stabilization policies left Indonesia's able economic technocrats unable to assert primacy in the area of trade and industrial policy. In any case, from 1970 or afterwards, the tone of Indonesian trade and industrial policy was largely set by the interventionist and protectionist Ministries of Trade and Industry.

- **State Owned Enterprises (SOEs):** SOEs had played a significant role in Indonesia during the oil boom (1973-1981) because these enterprises provided an important channel for the government to achieve its industrial policy objectives. The rapid industrial growth achieved during the boom period occurred in SOE-dominated activities such as oil refining, petrochemicals, fertilizer, steel, and the like. The emphasis was on achieving production targets and creating capacity in upstream input supplying industries, rather than on fostering efficient, competitive firms.[210]

The following table is the summary of Trade and Investment Policy Reform in Attracting FDI in Indonesia.

[210] Lewis, J.D. (1994), Indonesia's Industrial and Trade Policy during and after the Oil Boom, Development Discussion Paper No. 491: June 1994, Harvard Institute for International Development, Harvard University, pp. 5-7.

Table 7.6: Indonesia's Trade and Investment Policy Reform in Attracting FDI

Starting Date	Summary
1967	The *Foreign Investment Law No. 1/1967* (*Undang-Undang Penanaman Modal Asing No. 1/1967*) was introduced to attract foreign direct investment. This new law on foreign investment excludes oil and gas sectors, even as banking, insurance and leasing sectors. The law was liberal and made investment attractive by regulations about incentives, such as tax holidays, certain guarantees etc. The so-called *Panitia Teknis* or Technical Team coordinated the implementation of this new law.
1973	The *Panitia Teknis* was changed into *Badan Koordinasi Penanaman Modal (BKPM)* or Capital Investment Coordinating Board which had the same functions as the Panitia Teknis.
1974	The Foreign Investment Law No. 1/1967 reflected an "open door policy" and was quite liberal. However, in 1970/1971 some sectors were closed to foreign investment. As a consequence of the Malari-riots, which were a protest against the 'over-presence' of Japanese foreign investment projects in Indonesia, the regulations on foreign investment became more restrictive. Investors were only allowed to invest in the form of a joint-venture with a local partner. The restrictive regulations also had the aim to speed up the process of transfer of shares to the Indonesian partners of investors.
1985	▪ The government has launched an economic policy package to simplify the application and procedure for foreign direct investment in order to reduce the bureaucracy and its complicate regulatory system for business, investors, and companies which was the barrier to compete in the international market. ▪ Government decided to privatize custom services by replacing custom office with SGS (Switzerland). This had an increase in confidence which further indicated that the government was very serious in deregulating economic system as a whole. Indonesia, therefore, became more attractive for domestic and foreign investors. ▪ The government also improved system procedure in shipment and also simplified handling system in harbour.
In May 1986	▪ The so-called *Pakem / Pakmei* or Package of 6 May 1986 was introduced: deregulations that had the aim to improve the climate for foreign investors and to improve the competitive position of the non-oil sector. ▪ Based on the fact that the investment climate in Indonesia was considered not as good as that of other ASEAN countries (except for the Philippines). As a result of this awareness, there were new deregulations introduced and the *Daftar Skala Prioritas* (DSP)(a list of sectors open to foreign investment) was changed into *Daftar Negatif Investasi* (a list of sectors closed to foreign investment, which was much shorter than the DSP). ▪ Devaluation of Rupiah for about 30%. Rupiah was considered over valued, which made Indonesian products could not compete with other products from many countries. This policy was decided to further support export orientation strategy and to get more comparative advantage for Indonesian products.
1987	Import licence was also improved by reducing bureaucratic procedure.
1988	The shipping industry was further deregulated by inviting foreign investors to involve in this industry. Before 1988, this industry was closed to only state owned companies. Shipping industry was closed for only domestic investors or government.
1990	▪ More investments areas were opened to the domestic and foreign investors. About 75 negative lists of investments were reduced to only 60 lists. Licence for land use was also allowed to foreign investors so that there was no carrier to implementation of direct investments (Presidential Decree 32/1992). ▪ The government continuously decreased and harmonised tariff system. Tariff of many products were reduced significantly which made Indonesia as an opened economy. Non-tariff barriers were also reduced to make more competition among the industries.
1994	The Deregulation Package of June 1994 (*Paket Deregulasi Juni 1994*) was introduced. This package was of great significance for foreign direct investment in Indonesia; some regulations were relaxed and some regulations were even removed. Since the June 1994-package, the foreign investor can choose between a joint-venture with a local partner/BUMN with a share of 95% without having to transfer shares to the Indonesian partner or to invest in a fully-owned subsidiary with certain conditions that is to transfer a (small) part of the shares to a local partner within 15 years. If the foreign direct investment-project is still considered useful to the national development of Indonesia, the BKPM can extend its permit after the 30 year that has been given at the start of the project.
1999	In March 5, Indonesia has started to implement new law, called Competition Law No. 5 of 1999 concerning Prohibition of Monopolistic Practice and Unfair Business Competition and it took into effect on September 5, 2000. The main objective is to increase the national economy efficiency as one of the efforts to increase the people's welfare and to establish a conducive business climate through the arrangement of fair business competition, thus guaranteeing the certainty of equal business opportunities for large, middle, and small business actors in Indonesia. Furthermore, the other objective is to prevent monopolistic practices and unfair business competition caused by business actors, as well as to create effectiveness and efficiency in business activities.

Source: Adapted from Hill, H. (1988), Foreign Investment and Industrialisation in Indonesia, Oxford University Press, Singapore, pp. 28-33; and APEC Guidebook on Investment Regimes (4th Edition): Indonesia, 1996, no page number. [Online] Available: http://www1.apecsec.org.sg/loadall.html (11.10. 2003)

7.5 The Case of South Korea

7.5.1 Evolution of Foreign Investment Policy

From the 1960s to the 1980s, number of foreign ownership and activities doing in most developing countries were restricted in accordance with broader policies that tended to promote domestic firms as part of import substitution.

Table 7.7: Internal and External Factors Driving FDI Policy (1996-2000)

Policy Changes	Internal and External Pressure
Beginning of export policy (1960s)	▪ Country was still poor and industrialised. ▪ USA was the major source of FDI. ▪ Little pressure from outside
Market-seeking FDI (1970s)	▪ More screening and regulating FDI projects begun rigorously due to: ➢ some reaction against USA firms ➢ aversion to investment by Japanese firms, esp. in cottage industry as Koreans could run it themselves. ▪ MNCs wanted to set up the business to produce the products for domestic markets rather than to support country's export drive. ▪ Relative little external pressure to allow more FDI
Competitive pressures and reform efforts (late 1970s-1980s)	▪ Domestic firms needed foreign resources in order to enhance its competitiveness by seeking freer access both to imported technology and materials. ▪ Government has seen that competition for desirable FDI was becoming more intense, esp. FDI that produced products for export. As a result, government begun to relax and streamline its reviews and regulatory process. ▪ Foreign policy supported export-oriented FDI while restricting import-substituting FDI.
Emergence as economic power (mid 1980s-mid 1990s)	▪ The demand from OECD to reduce its barriers to FDI and foreign imports ▪ Koreans begun to exert a little internal pressure to accept overseas firms seeking access to domestic market.
Financial Crisis and recovery (1997-2000)	▪ FDI is seen as a possible aid for country recovery. ▪ Fears of foreign competition

Source: Adapted from Stoever, W.A. (2002), Attempting to Resolve the Attraction Aversion Dilemma: A Study of FDI Policy in the Republic of Korea, Transnational Corporations, Vol. 11, No. 1 (April 2002), United Nation, pp. 49-76, here pp. 63-66.

In contrast, Korea generally followed an export promotion strategy, while import substitution was promoted in particular sectors. In terms of openness to FDI, Korea started during 1960s and 'reversed this policy in the 1970s, in particular to encourage joint ventures rather than fully foreign owned units'[211]. However, the path of opening Korean FDI's regime was not completely smooth due to the internal and external pressure to resist and accept further opening. Table 7.7 provides the summary of those pressures driving FDI policies in Korea during 1996-2000.

[211] Sachwald, F., FDI and the Economic Status of Korea: The Hub Strategy in Perspective, p. 86, in: Innovation and Reform, The Korea Economic Institute, Korea. [Online] Available: http://www.keia.com/Midyear/Midyear2003/7Sachwald.pdf (23.06.2004)

Table 7.8: Evolution of Key Korean Foreign Investment Policy Recently

Evolution of FDI Regime	Objectives
Five-Year Foreign Investment Liberalization Plan (June 1993)	▪ This plan was introduced to open up 210 businesses, 132 of which were newly liberalized and 78 that were further liberalized from July 1993 to January 1997. ▪ This will boost the overall foreign investment liberalization ratio to 93.4% in 1997 from 85.1% in 1993.
Simplification of investment procedures (March 1994)	Landmark simplifications have been made in foreign investment procedures through the revision of the Foreign Capital Inducement Act: a) Delegation of notification acceptance related tasks to foreign exchange banks for the convenience of applicants; b) Reduction of processing period for acceptance of notifications to within three hours; for approval of foreign investment applications, 5 or 15 days; c) Simplification of documents required to be submitted; d) Enhancement of transparency through minimization of criteria for denial of notification acceptances.
The Foreign Direct Investment Environment Improvement Plan (September 1995)	▪ This plan differed from previous plans in that it is designed to improve the current system so that it is consistent with the international investment standards such as the OECD code of liberalization. ▪ This plan aimed reduce and simplify relevant regulations for procedures such as post-screening by taking factors such as national treatment into account.
Five-Year Liberalization Plan for Foreign Direct Investment (November 1995)	The 1995 Five-Year FDI Liberalization Plan was implemented in order to open up 57 of the 105 businesses (including 51 businesses that are partially liberalized) that were restricted in the current Five- Year Foreign Investment Liberalization Plan by 1 January 1997. As a result, a total of 152 businesses were newly liberalized or be subjected to increases in their scope of liberalization between 1996 and 2000, including those businesses eligible for liberalization under the current Five-Year Foreign Investment Liberalization Plan. Out of those 152 businesses, the liberalization of 128 businesses took place particularly in 1996 and 1997.
Enactment of the New "Foreign Investment Promotion Act" (since November 1997)	The new FDI regime is based on two major principles. 1) Formulating policies to design the most supportive and convenient FDI system possible for foreign investment from the perspective of the foreign investor 2) Establishing a FDI system in which local governments, in efforts to advance regional development, play the central role in competitively courting FDI

Source: Adapted from APEC Guidebook on Investment Regimes (4^{th} Edition): Korea, 1996. [Online] Available: http://www1.apecsec.org.sg/loadall.html (11.10. 2003)

Under these changes of policy resulting from in- and outside pressure as mentioned above, Korea established powerful institutions in the early 1960s, such as the Economic Planning Board to design and implement five-year plans that were sequentially targeted on development of different manufacturing sectors. Since early 1990s, several policies were introduced to relax and broaden the FDI regulations (See Table 7.8). The major reason behind these policy liberalisation was to improve the industrial structure and to attract FDI into hi-technology industries such as information and telecommunication.

The restriction on shareholding in public firms has also been abolished in order to create the best business environment by enacting the new Foreign Investment Promotion Act. As a result of this change, Korea becomes not only a good place to do business, but more business sectors are opened to foreign firms with less restriction on foreign ownership such as telecommunication, electric power, heavy industries and so on (Table 7.9).

Table 7.9: Changes in Restrictions on Foreign Ownership in Korea

Sectors	Before	After
Telecom	Allowed up to 20%	Allowed up to 49%
Tobacco and Ginseng Corporation	Not allowed	Allowed up to 49%
Heavy Industries	Not allowed	No restriction
Electric Power Corporation	Allowed up to 30%	Allowed up to 40%
Gas Coporation	Allowed up to 30%	Allowed up to 30%

Source: Adapted from Korean National Investment Promotion Agency, from Ministry of Planning and Budget. [Online] Available: www.investkorea.org (02.05.2004)

7.5.2 Moving Towards Knowledge Economy

To achieve further economic growth, Korea is now trying to move away from traditional economy towards a knowledge economy as 'knowledge is recognised as the key to determining competitiveness in the 21st century'[212]. By doing this, Korea has focused on human capital and considered its higher quality to be an important step forward. Recently, Korean government has emphasised on vocational and technical training in order to generate a large number of skilled labors, technicians, and engineers as proficient workforce is the key injection of commercial growth as well as economic growth. Moreover, a high speed communication network and new generation of internet system to be considered as infrastructure of knowledge have been also constructed under the proposal of a three year plan launched by the National Economic Advisory Council (NEAC) in order to support private sector to be effective in creating and using knowledge.

To move in this direction with competence and confidence, Korea has been suggested by OECD and the World Bank to adjust the existing economic system and accentuate the role of government for growing knowledge economy in the right way by enhancing knowledge diffusion, improving human capital, and promoting organisation change through financial incentives and informatiom sharing.[213] This new direction which Korea has recently adopted

[212] Lee, S.K. and Gibson, D.V. (2002), Towards Knowledge-Based Economy in Korea: Metrics and Policy, International Journal of Technology, Policy and Management, Vol. 2, No. 3, 2002, Inderscience Enterprises Limited, Geneva, Switzerland, pp. 301-314, here p. 313.
[213] Lee, S.K. and Gibson, D.V. (2002), Ibid., p. 311.

could have far-reaching benefits for Thailand in terms of foreign investment development. However, Thailand needs time to enter into the knowledge economy, since this concept has not been introduced or adopted into the national policy.

7.6 The Case of China

7.6.1 Briefing of China's Open Door Policy to Attract FDI

One of the key elements of China's economic reform process has been the encouragement of a huge influx of FDI. An open door policy towards FDI launched by Deng Xiaoping in 1978 was initiated as part of the overall reform. Before 1979, to say that foreign investors were viewed with suspicion is a serious understatement.[214] The Chinese government was downright hostile to private enterprises. At the beginning, only equity joint-ventures or contractual joint-ventures were allowed. No wholly-owned foreign firms were allowed. Under Deng Xiaoping, the promulgation of the 1979 law on chinese-foreign equity joint ventures together with the establishment of four special economic zones formally signalled the adoption of the open-door policy by the central government.

The transformation of China from a country with no foreign investment before 1979 to one of the most important destinations for cross-border direct investment is outstanding and has been well documented. China has become the world largest FDI recipient among developing countries since early 1990s.[215] Since the beginning of 2002, China's foreign trade and investment had developed in a stable way, with a more satisfying growth of foreign investment than expected. In the first half-year, contracted foreign investment totaled 43.99 billion US dollars, up 31.5 per cent over the same period of 2001, while foreign investment in use grew 18.7 per cent to 24.58 billion US dollars.[216] The share of investment from MNCs is increasing and received more intention in recent year since government believes that MNCs can promote technology transfer and management skill spillover into China's economy and attempt by affecting through large numbers of policies.

[214] Grub, P.D. and Lin, J.H. (1991), Foreign Direct Investment in China, Quorum Books, New York, Westport, Connecticut and London, pp. 18-19.
[215] Fung, K.C., Iizaka, H., and Tong, S. (2002), Foreign Direct Investment in China: Policy, Trend, and Impact, HKIEBS Working Paper, HKU, June 2002, Paper prepared for an international conference on China's Economy in the 21st Century to be held on June 24-25, 2002, Hong Kong, p. 2. [Online] Available: http://www.hiebs.hku.hk/working_paper_updates/pdf/wp1049.pdf (03.01.2004)
[216] Beijing Time, Wednesday, July 31, 2002.

7.6.2 FDI Promotion Policy: From Reactive to Proactive Policy Making

The promotion of FDI inflow has been an important part of the economic reform process in China. The openness of Chinese Economy for foreign businesses since late 1970s has gradually attracted large amount of FDI and at the same time, China's policies toward FDI have also experienced various changes on their policy priorities. The following Table (7.10) provides a consequence of FDI promotion policy in China.

Table 7.10 China's FDI Promotion Policy

Starting Date	Policy Reform
Late 1970s and early 1980s	Chinese government policies are characterized by setting new regulations to permit joint ventures using foreign capital and setting up Special Economic Zones (SEZs) and 'Open Cities'.
July 1979	*The Law of the People's Republic of China on Joint-Ventures using Chinese and Foreign Investment* was adopted.
1980	The State Council also awarded rights of autonomy in foreign trade to Guangdong and Fujian Provinces and set up four Special Economic Zones (SEZs) in Shenzhen, Zhuhai, Shantou, and Xiamen.
December 1982	The decision to open up China to the world economy.
Late in 1983	*Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures using Chinese and Foreign Investment* was formulated to further liberalize the domestic market and to clarify the business environment for foreign joint ventures.
1984	The concept of SEZs was extended to another fourteen coastal cities.
1985	▪ Twelve of the fourteen cities were designated Technology Promotion Zones to expedite the transfer of technology. ▪ Several regions were opened to foreign investors, i.e. the Min Nan region in Fujian, and the Bohai Sea Coastal Region.
1986	▪ More favorable regulations and provisions are used to encourage FDI inflow, especially export-oriented joint ventures and joint ventures using advanced technologies. ▪ **On October 11:** The State Council promulgated the *Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment.* These so-called '22 Article Provisions' provided foreign joint ventures with preferential tax treatment, the freedom to import inputs, the right to retain and swap foreign exchange, and simpler licensing procedures. ▪ **In April 12:** Proactive approach was furthered by the adoption of the *Law of the People's Republic of China on Enterprises Operated Exclusively with Foreign Capital* in order to attract such enterprises either to be exported-oriented or to use advanced technology and equipment.
1990	▪ The Pudong District of Shanghai was designated as a new development zone to lead development along Yangtze River. ▪ **April:** The more liberal approach was furthered by amendments to the 1979 Joint Venture Law. These amendments permitted non-Chinese to act as Chairman of the Board of Directors, allowed extensions to the terms of operation of joint ventures, and removed the upper limit to the proportion of the registered capital (minimum not less than 25%) contributed by the foreign partner.
1991	Rules for the implementation of the income tax law for enterprises with foreign investment and foreign enterprises were introduced.
1994	▪ **April:** The State Council outlines new proposals to attract FDI into the griculture, hydropower, communications, energy and raw material sectors through favorable tax policies and selective financial support. ▪ **On November 3:** *Circular on Issues relating to Strengthening the Examination and Approval of Foreign-funded Enterprises* was issued to tighten the procedures regarding the approval of contracts and the registration of foreign enterprises, and to enhance the penalties if agreements were not fulfilled.
June 27, 1995	The *Provisional Guidelines for Foreign Investment Projects* took effect. Priority was given to FDI in the agriculture, energy, transportation, telecommunications, basic raw materials, and high-technology industries, and FDI projects which could take advantage of the rich natural resources and relatively low labor costs in the central and northwest.
1996	▪ Regulations on the examination and approval of foreign-funded enterprises serving as agents for international cargo transport ▪ Procedures for Liquidation of Foreign-Funded Enterprises: This is to ensure the smooth progress of the process of liquidation of the foreign-funded enterprises (FFEs), protect the rights and interests of the creditors and investors and safeguard the social and economic order related to the liquidation. ▪ Provisional Measures on the Establishment of Sino-Foreign Joint Venture Trading Companies for standardizing the examination and approval of international freight forwarding agencies with foreign investment.
1998	Preferential taxation policies for FDI included exemptions from tariffs and import value-added tax for imports of capital goods.

Source: Adapted from Fung, K.C., Iizaka, H., Lin, C. and Siu, A. (2002), pp. 3-4; and Li, L., Can FDI Save the Shaking Chinese Economy?, pp. 3-6. [Online] Available: http://www.tsc.nccu.edu.tw/2004conference/%B1i%_B2M%B4%B7.pdf (21.07.2004)

In reference to the above long-listed FDI policies implementing by Chinese government, three major developmental stages of FDI promotion policy process can be concluded in appendix 7.1.

7.6.2.1 Liberalisation of FDI Policy

In retrospect, the developmental process of Chinese FDI promotion policy can be viewed as an institutional process to accommodate foreign companies in an environment similar to their home countries. That's why the policy has been designed for attraction of FDI in the context of a market-oriented economy. This can be understood as 'reactive policy making', since major changes had been derived from the reaction of the Chinese government.[217] Such liberalisation of FDI policy for FDI promotion involved the creation of new perspectives in the contents of a political economy, overhaul of institutional infrastructure, and law making. Different dimensions of FDI policy adopted by government were issued. These included ownership limitation, financial measures as taxes or subsidies, currency convertibility and remittances, price controls, opening of regions or sectors or barriers, miscellaneous application and entry procedures, management and labor issues, government and administration and macroeconomic policy.[218]

7.6.2.2 Proactive Policy

China's proactive policies toward FDI resulted in increasing inflow of foreign capital in the late 1980s and, in particular, early 1990s.[219] As a result of more designing and implementing proactive FDI policies, the participation of FDI has changed the investment environment from labor-intensive manufacturing to capital or knowledge-intensive manufacturing and services and from public to private ownership. Amongst several strategies, TTODM or a strategy of technology transfer from opening domestic markets is outstanding to attract more foreign investment and make the great contributions to upgrading China's economic structure. However, the implementation of the strategy was no longer due to the weakness of MNCs' technology transfer policy, domestic partners' capability and domestic market barrier.[220]

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[217] Feng Li and Jing Li (1999), Foreign Investment in China, Macmillan Press Ltd., London, p. 74.

[218] Tuan, C. and Ng, L.F.Y. (2002), FDI in China and Regional Development from Institutional Reform to Agglomeration Economies Perspective, Paper prepared for International Conference on Nation States and Economic Policy: Conflict and Cooperation, Japan Economic Association, Chuo University, Japan, November 30-December 1, 2002, pp. 7-8.

[219] "Since early 1980s, the inflow of foreign capital has been increasing steadily and China keeps its position as a second largest destination country to absorb FDI in the world for more than 8 years, only next to the States." From Zhongxiu, Z. and Ming, S., TTODM Strategy in China: A Policy Review, China, p. 448.

[220] Zhongxiu, Z. and Ming, S., Ibid., p. 448.

From mid 1990s, government policies began to focus more on linking FDI promotion to domestic industrial objectives by encouraging projects in the following areas:

- Projects in infrastructure or underdeveloped agriculture;
- Projects with new or advanced technology which could upgrade product function, save energy and raw materials, improve economic efficiency, or manufacture under-supplied new equipment or materials to satisfy market demand;
- Projects as export-oriented;
- Projects involving new technology or equipment which made use of natural or regenerative resources and prevented or controlled pollution.[221]

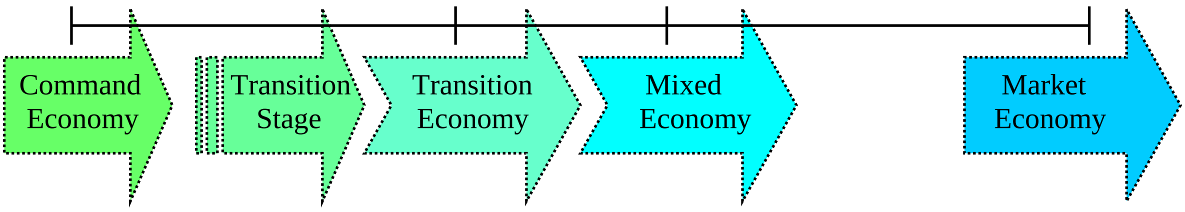
By stimulating these projects, government offers several important incentives such as 'exemption from paying state subsidies, priority in receiving bank of China loans, profits remitted abroad exempted from tax, extended reduction period for income tax and additional tax benefits for reinvested profits'[222]. China's policies toward FDI can be at this point concluded that they have experienced roughly three stages: (i) gradual and limited opening, (ii) active promoting through preferential treatment, and (iii) promoting FDI in accordance with domestic industrial objectives.

7.7 The Case of Vietnam

7.7.1 Economic Development

Historically, Vietnamese economy was in transition from a centrally planned economy or command economy to a market-oriented one (Figure 7.2). This process can be divided into two periods: before Doi Moi (1976-1985) and after Doi Moi (1986 to present).

Figure 7.2: Vietnam in Transition from Command economy to Transition Economy



Source: Adapted from Tran Thi Ben (1999), Implications of the Crisis for Transition Economies: Vietnam, Prepared for International Conference on the Challenges of Globalization, organized by the Faculty of Economics, Thammasat University, Bangkok, Thailand on October 21-22, 1999, p. 4.

[221] Fung, K.C; Iizaka, Hitomi; and Tong, Sarah (2002), Foreign Direct Investment in China: Policy, Trend, and Impact, op. cit., p. 4.
[222] Phillip Donald Grub and Jian Hai Lin (1991), Foreign Direct Investment in China, Quorum Books, New York, p. 57.

7.7.1.1 Before 'Doi Moi' (1976-1985)

After the reunification of the country in 1975 the economies of the North and South Vietnam were integrated into one. The model socialist Development was implemented throughout the country: collectivization in agriculture, emphasis was placed on heavy industries, strong central control of the entire economy and state sector considered as engine of growth. It led to sectoral imbalance and inefficiency. Vietnamese economy faced a great deal of difficulties such as low growth rate at 2.3 per cent in 1986, budget deficit, foreign debt increase at 8,5 million rubles and 1,9 million USD. Vietnam had to import some basic goods such as rice, cloth, 1.5 million tons of rice and 60 million meters of cloth per year and the end of 1986 the hyperinflation reached 775 per cent.[223]

7.7.1.2 After 'Doi Moi' (1986 to Present)

The starting point of economic reform was carried out after 1986 due to encountering enormous difficulties within the nation. In the national five-year plan (1986-1990) period, three large economic programs, namely food production program, consumer goods production program and export commodities program were carried out. The main idea of the reform was to build a new economic system, a market-based economy in which all economic sectors have been positively encouraged to work and develop effectively and fairly in attempting to utilize all the available resources more efficiently compared to that in the previous centrally planned economy. The success of Doi moi process has been documented in terms of generating a new position and strengthening for the country's development, especially in terms of supporting human development.[224]

7.7.2 Foreign Investment Regime

Since the adoption of an open door policy in the context of Doi Moi, or renovation, in 1987, Vietnam has been very successful in attracting FDI inflows into this developing, transitional economy. The Foreign Investment Law 1987 formed the foundation for Vietnam's investment regime, and 'it was generally regarded as fairly liberal'[225]. The fourth edition of the APEC Guidebook on Investment Regimes (1996) asserts that Vietnam becomes more and more open

[223] Tran Thi Ben (1999), Implications of the Crisis for Transition Economies: Vietnam, Prepared for International Conference on the Challenges of Globalization, organized by the Faculty of Economics, Thammasat University, Bangkok, Thailand on October 21-22, 1999, p. 1.
[224] National Centre for Social Sciences and Humanities (2001), National Human Development Report 2001: Doi Moi and Human Development in Viet Nam, The Political Publishing House, Hanoi, Vietnam.
[225] Mai Fujita (1999), Foreign Direct Investment, Trade, and Vietnam's Interdependence in the APEC Region1, APEC Study Center Institute of Developing Economies, p. 43. Cited from http://www.ide.go.jp/Japanese/Publish/Apec/pdf/99id_02.pdf (23. 06.2004)

to regional and world market after the introduction of Doi Moi or the renovation policy. It has also affected the limitation of the government's interference with business activities and encouragement of investment from various economic sectors and foreign investment. This can be said to be the first Law that has been built on the basis of a market economy, and also the first Law to express the policy of Vietnamese Government on integration into the world and regional economy. By and large, FDI in Vietnam grew in three different periods, from 1988 to 1990; from 1991 to 1995; and from 1996 until recently (Table 7.11).

Table 7.11: Facts about FDI in Vietnam

1st Period (1988-1999)	2nd Period (1991-1995)	3rd Period (1996-present)
▪ Only 37 foreign projects were licensed in 1988 registered at US$371.8 million. ▪ It reached 68 projects and US$ 582.5 in 1989 and was 108 projects and US$ 839 million in 1990. ▪ From 56.6% in 89 the growth rate of FDI declined to 44% in 90. ▪ The predominant fields of FDI were oil and gas exploration and exploitation, hotels and restaurants while FDI in agriculture, forestry, fishery, transport and communication was low.	▪ FDI increased steadily in term of registered and implemented capital. ▪ many events happened favoring investment environment of Vietnam: ➢ Cambodian settlement ➢ Vietnam-China normalization ➢ Singapore lifted its investment ban on Vietnam in 1991 ➢ Diplomat relation re-establishment with South Korea in 1992 encouraging Korean investment. ➢ The removal of US embargo in 1994 ➢ Joining ASEAN in 1995	▪ Since 1996 FDI inflow has declined. ▪ Registered capital continued to increase in 1996 by 30%. It included two mega-land projects with a registered capital of US$3,108 of which one was dissolved in 98 and the other suspended. ▪ Registered capital decreased by 16% in 1996, by 45.3% in 1997 and by 16.1% in 1998. ▪ The Asian financial crisis strongly affected capital flows to Vietnam and FDI in Vietnam declined quickly in 97-98 ▪ During the 1997-1999 period, due to the impact of the regional economic crisis and some defects of the environment, FDI flows into Vietnam fell by 24% annually. ▪ From 2000 to the present, FDI inflows recorded a gradual recovery reflected in the growth rates (in project number) by 28.6%, 25% and 44% in 2000, 2001 and 2002, respectively.

Source: Adapted from Tran Thi Ben (1999), Implications of the Crisis for Transition Economies: Vietnam, Prepared for International Conference on the Challenges of Globalization, organized by the Faculty of Economics, Thammasat University, Bangkok, Thailand on October 21-22, 1999, pp. 9-10.

In reference to the developmental process of FDI in Vietnam, during the period of 1988-1990 was an initial step of FDI, therefore it flowed into Vietnam in modest amount. The second period recorded a significant growth of FDI in Vietnam and these events completely ended the era of international isolation since Vietnam began integrating into the world economy during this period of time. However, FDI inflows have been decreased after 1996 due to the effects of Asian financial crisis. Foreign investors have faced financial difficulties, many had to withdraw their businesses overseas, and many were not able to invest more out of the country. Vietnam suffered seriously from the FDI withdrawal as the country has relied heavily on Asian investors before a gradual recovery in 2000 afterward.

7.7.3 Policy Implication

The main policy that Vietnam has relied on as one of the most important objectives of attracting FDI is macroeconomic policy, especially in terms of export promotion. As a result, export-oriented projects have always received special promotion. This related to Doi Moi or open door policy in 1987 that explicitly allowed wholly foreign-owned projects, and most economic sectors were open to foreign investors. Along with this policy, the government also used FDI to enhance a key industry by starting to impose performance requirements, such as local contents requirements on investors in sectors like electronics and automobiles with an attempt to encourage the improvement of domestic supporting industries. However, Vietnam's business environment is still a big barrier, as Nick J. Freeman (2002) mentioned that:

> "Foreign investors continue to cite such problems as: excessive regulation and red tape, inadequate legal infrastructure and weak enforceability, poor physical infrastructure, weak banking and financial markets, privileges still enjoyed by state-owned firms, inadequate service providers, poor and/or expensive communications, high land costs, corruption, high tax rates, poor protection of intellectual property rights, currency controls, etc." (Nick J. Freeman (2002), p. 12)

Freeman went on to suggest that Vietnam's FDI policies should be oriented more towards these sorts of wider issues relating to the host country business environment, and where gains made would also be of benefit to local companies. In other words, take FDI reforms out of the specific area of foreign investment activity per se, and into the much wider territory of the country business environment.

7.8 Other Findings

7.8.1 Efficient FDI in Singapore

Though Singapore is such a small country, but the economic development path is absolutely outstanding. Per capita GDP has grown dramatically from 1960, a struggling colony, to a modern and developed high tech country. GDP growth rates have continued to be 10 per cent on average over the past 4 decades. At the same time, the accumulated stock of FDI as a per cent of GDP has risen from 5.3 per cent in 1965, 17.1 per cent in 1970, 51.8 per cent in 1980, 87.2 per cent in 1990 and 98.4 per cent in 1998. The share of non-manufacturing FDI has been rising from 46.7 in 1980 to 63.4 in 1997. In 1997/1998, foreign firms employ 50.5 per cent of workers in manufacturing, 29.1 per cent in trade and 25.7 per cent in finance.[226]

The above story has shown that there are not several nations that have seen such a rapid development as Singapore. Velde, te D.W. (2001) concluded that:

> "…The Singapore story is one of strong leadership, pro-active industrial strategy, a consistent and favourable FDI-policy, continued industrial upgrading and also of risk taking…" (Velde te, W.D., p. 42)

Behind this victorious economic attraction, Singapore created its own economic development organisation so called Economic Development Board (EDB) in 1961 to pursue proactive strategy in seeking promotion in industrialisation.

Table 7.12: Role of EDB and Economic Development Strategy

Year	Investment Promotion Activities
1961	EDB was founded to pursue industrialisation.
1961	The development of the Jurong Industrial Estate was transformed into an industrial estate with adequate infrastructure and factories and new port was built. It was unsuccessful till 1965, however, when Texas instruments (a star multinational at that time), decided to setup a plant to assemble semiconductors of USD 6 million.
After 1965	It aimed to promote industries in abroad, overseas offices had been built.
Late 1960s and early 1970s	The industrial strategy proved to be successful and was able to reduce the unemployment rate fairly quickly as employment was a major focus.
Late 1980s	Capital intensive projects were a major focus. Over time wages rose, especially in the period 1985-1986.
1985-1986	It was Singapore's first post-war recession. The recession changed labour relations and initiated or accelerated new schemes to link local firms with multinationals.
In the 1990s	Knowledge intensive sectors were targeted resulting from raising wages and Singapore realised that it could only survive by upgrading FDI and upgrade the work force to be able to compete with neighbouring low-cost locations. The EDB began to target knowledge intensive industries that could pay higher wages. To tackle the emerging skill shortages, firms were encouraged to recruit foreign workers. EDB's recent activities were: ▪ To attract foreign universities. ▪ To encourage the use of regional headquarters while letting the lower-value added processes go to other countries further adds to the quality of operations in Singapore.
Present	The EDB has followed a cluster approach, targeting firms around the electronics/semi-conductor, petrochemicals and engineering industries. The EDB began a S$ 1 billion Cluster Development Programme in 1994, and has recently tripled in size)

Source: Adapted from Velde, te D.W. (2001), Policies Towards Foreign Direct Investment in Developing Countries: Emerging Best-Practices and Outstanding Issues. Paper from Conference held at the Overseas Development Institute, 16 March 2001, ODI, London, UK. pp. 43-46.

[226] Velde, te D.W. (2001), Policies Towards Foreign Direct Investment in Developing Countries: Emerging Best-Practices and Outstanding Issues, Ob cit., p. 42.

The same author found that the industrial strategy of Singapore had to rely on foreign multinationals bringing their expertise and technologies because the country had no policy option and lack of indigenous capabilities. On the further development of EDB, it began to build up offices abroad after 1965 with four divisions: investment promotion, finance, projects and technical consultant service and industrial facilities. One thing can be distinguished EDB from other investment promotion agencies is the independence from government control. It was established as autonomous government agencies, could set its own wages, had a board comprising business and other agencies, and had an international advisory board comprising executives of major foreign companies located in Singapore, and hence the EDB was in contact with business.[227] The following table is the summary of EDB's role and its economic development strategy.

7.8.2 Policy Based Competition for FDI: The Case of Brazil

A recent study of OECD has concentrated on the case of Brazil due to an excellent experience with foreign investors in the privatisation program that have been positive, in the sense that 'the entry of foreign strategic investors helped improve corporate governance, introduce new technology and boost efficiency'[228]. This is quite interesting case as many countries try to attract more FDI inflows with different policy instruments, but very few countries can achieve.

Policy based competition to attract investment in Brazil was activated in 1994 under an introduction of Real Plan in cutting inflation and bringing macroeconomic stability to the country which was quite similar to Indonesian case when investment policy was introduced to enhance the economic stabilization and adjustment during 1966-73. Two major reasons behind this effect are that (i) conditions favourable to investment in production and investment planning were finally restored, and both domestic and foreign investment responded accordingly; (ii) there was the distributional impact of the Plan in favour of the poorer segments of the population.[229] With the 1995 removal of restrictions on foreign ownership, coupled with legislative changes allowing the award of concessions, a new phase

[227] Velde, te D.W. (2001), Policies Towards Foreign Direct Investment in Developing Countries: Emerging Best-Practices and Outstanding Issues, Ob cit., p. 43.
[228] Christiansen1, H., Oman, C. and Charlton, A. (2002), Policy Based Competition for FDI: The Case of Brazil, International Conference on Regional Development and Foreign Investment in Fortaleza, Brazil 12-13 December 2002, OECD, p. 2.
[229] Christiansen1, H., Oman, C. and Charlton, A. (2002), Policy Based Competition for FDI: The Case of Brazil, Ibid., p. 15.

in the Brazilian privatisation program has been entered. There is now greater emphasis on privatisation of telecoms and other public utilities.[230]

With the above plan, an important situation has happened when the consolidation of the "Mercosul" regional integration process has been signed with Argentina, Paraguay and Uruguay after December 1994. The major agreement was to achieve a Common Market, and Brazil's on-going unilateral policy and regulatory reforms to liberalise trade, investment and domestic competition. As a result of this agreement, average import tariffs fell from 32 per cent in 1990 to 14 per cent in 1994, for example, and privatisation of state-owned enterprises, notably in infrastructure (e.g. railroads, ports, utilities, telecommunications), has recently accounted for a quarter of all incoming FDI. All these policy changes and regulatory reforms are helping to attract FDI, as well as to promote domestic investment, which have grown rapidly since 1994. All are also thus helping to stimulate competition to attract investment in Brazil, which has indeed become very active since 1994.[231]

7.9 Conclusion

The beginning of this chapter has introduced a useful policy framework in attracting FDI with three classifications; (i) policies and factors affecting the locational decision of foreign investors, (ii) policies and factors affecting established foreign investors, and (iii) policies and factors affecting domestic firms. These suggested policies can not stand alone with fully effective implementation. They must likely be some combination of policies in each of the said categories (Table 7.1). As mentioned early, policies are important in which country depends on how they fit in with the development strategy and country characteristics. However, as many of the better off countries with more public resources and local capabilities can utilize a risky and costly proactive stance towards FDI such as Singapore and South Korea, poorer countries are left behind with comparatively less local capabilities. This is particularly disturbing since local capabilities play a dual role of attracting FDI and absorbing positive spillovers related to FDI.

Investment policy in selected countries as analysed in this chapter has shown that most countries have fallen along a continuum from restrictive regime towards more liberal one. In

[230] OECD (2003), Privatising State-owned Enterprises: An Overview of Policies and Practices in OECD Countries, Organisation for Economic Co-operation and Development, p. 134.

[231] Christiansen1, H., Oman, C. and Charlton, A. (2002), Policy Based Competition for FDI: The Case of Brazil, Ob cit., p. 15.

reference to above experiences, each country has its own characteristics and socio-political and economic conditions. The lesson on attracting increased flows of FDI that emerges from developing countries like Mexico, Indonesia, China, Brazil and Vietnam and from developed countries like Singapore and Korea is a favourable investment policy framework, coupled with an active and professionally implemented investment promotion strategy which is essential to successful investment promotion. Governments in these countries all located a high priority on winning an increased share of FDI, and they have relatively succeeded in doing so. Apart of their experiences suggest that other Governments that are serious about increasing their inflows of investment need to do two things:

- Reform investment policy in terms of law and regulations to relieve the difficulties that foreign investors face in doing business within the country's location.
- Establish an investment promotion agency with the independence and resources necessary to formulate and implement an investment promotion approach or startegy that suits the requirements, advantages and resources of the country.

However, the dynamic of global movement resulting from an increasing number of MNCs, essential policy in attract FDI is presently needed in order to avoid cost and gain benefit from FDI. Therefore, experiences and lessons from other countries should be selected to be applied in the context of each. Six lessons for Thailand are presented as follows:

Lesson 1: Nationalism versus Globalization

Since globalization is not evenly distributed due to different level of technological development, different levels of economic development, different purposes, each country should choose an appropriate ways and paths to reach its own objectives. This means that a comprehensive master plan for national development, which includes policy reform, socials and institutional changes, should be employed in the recovery process rather than rely on only one instrument. Additionally, each country has its own comparative advantages and its own socio-political and economic conditions. Therefore, experience and lessons for each country should be different. To attract more FDI can be achieved when a country knows its strengths and shortcomings to set a right speed and equip with sufficient instruments, such as laws, regulations, fiscal and monetary policies to be able to compete with other countries.

Lesson 2: Openness Towards Global Market

The terms of openness have several dimensions, since it is a precondition for becoming involved in the globalisation strategies of MNCs. Policy disincentives which discourage foreign firms to transfer technology through licensing and similar arrangement should be removed. Another point is important licensing which is becoming more important for preventing a policy induced anti-export bias, as outright export subsidies have to be phased out under the new WTO rules. As a result, the removal of trade barrier will encourage an efficient allocation of resources and improve the locational attractiveness for globalisation.

Lesson 3: Regional Integration Strategy

To attract the flow of FDI in an era of globalisation, regional integration scheme has proceeded along with this global fundamental. Countries will face the risk of being excluded from the growth dynamics globalisation if they do not join regional grouping as economic linkages are creating a continental market. Mexico is a good example after joining NAFTA, its economic situation has been developed rapidly through trade and investment. This implies that Thailand needs a coherent set of policies that position the country better relative to its major trading and investment partners.

Lesson 4: Physical and Human Encouragement

As investment in physical and human capital plays an important role in enabling country to participate in globalisation. In order to gain the benefit from this process as well as from FDI, economic policies that discourage investment have to be avoided. Physical capital accumulation is an important part of economic development as it can enhance the technology diffusion because of decreasing transaction and information costs for MNCs. The Singaporean policy in attracting FDI is quite clear in this line since the government firstly began to provide its location with adequate infrastructure and good transport system in order to facilitate the new investment. Human capital formation is also an essential ingredient of the country. Though, Thailand is not seriously lacking of human resources, local talents have not been employed and promoted properly due to raising wages and lacking of working experiences. The latter is always required by foreign firms when they recruit new workers. A lesson to be learnt from the experience of Singapore in supporting knowledge intensive sectors is about upgrading FDI and building the work force to be able to learn more. This will also help the country in terms of the improvement of technological capability. Moreover, government should also invest its own research and development which plays a minor role in this moment.

Lesson 5: Moving Up to Best-Practice Technology

In addition, technology standards are continually being upgraded. Firms without the motivation or knowledge to upgrade their activities will face the difficulty to complete in the world market. However, a policy of attracting best-practice multinationals to Thailand would change this. An aggressive policy of seeking potential manufacturing firms and their first-tier suppliers is essential. Therefore, policy measures requires effective co-operation between the ministries and agencies involved as well as regular communication with the private sector in order to encourage foreign investors to act in this way, in their own interest as well as that of the host economy.

Lesson 6: Moving Towards Knowledge-Based Economy

Based on the study of Nunnenkamp, P. and Gundlach, E. (1996), they suggests that for developing countries' investment policy in catching up the driving forces of globalisation, the goal of their national policy would be to achieve long-run national competitiveness, and move countries forwards the knowledge-based economy with its focus on innovation, competition and sustainability, and also a focus on a national educational policy.[232] The experience in training and encouraging human resources in Singapore and South Korea provides such a good model for Thailand that government has a crucial role to play in improving the human skills and knowledge and using FDI as a partner in upgrading the capacity of human within the country.

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[232] Nunnenkamp, P. and E., Gundlach (1996), Falling Behind or Catching Up?: Developing Countries in the Era of Globalisation, Kiel Discussion Papers, January 1996, Institute für Weltwirtschaft Kiel, Kiel, Germany, p. 38.

CHAPTER 8

Conclusions, Lessons and Policy Recommendations

8.1 Summary and Conclusions

The present study focuses on the determinants and impact of foreign direct investment in Thailand. Major part of the study examined industrial structure, characteristics and performance of foreign direct investment in the Thai manufacturing sector with special reference on European foreign participation. As one objective has been pointed out in the first chapter, the Thai government has recently adopted more liberal and constructive policy towards collaboration with foreign firms, particularly European investment. Through this viewpoint, there can be little doubt why the most countries, not only Thailand, need foreign investments, this is because the domestic ones are not sufficient to boost the economic growth, avoid market sluggishness, and create job opportunities and other tremendous reasons. For the purpose, governments design investment policies to lure foreign investors into their countries.

The specific objectives of this study were: (1) to investigate the impact of FDI on Thai economic development defined as a growth enhancing factor by providing additional empirical investigation through current available data; (2) to conduct a survey on foreign direct investment in Thailand focusing on the key determinants and impacts on Thai Economy including personal interview with some European enterprises, particularly German enterprises; (3) to find out and examine the key determinants for driving European FDI into the Thai manufacturing sector as it is a major target investing group for Thai investment promotion plan based on the result of Survey; (4) to find out the specific policy measures in promoting and upgrading manufacturing sector; (5) to examine policy options, investment activities and investment strategies provided by Thai governmental authorities such the Office of the Board of Investment, Ministry of Industry, as is responsible for dealing with multinationals and attracting inward FDI into the country; and (6) to investigate the best practice experiences of selected countries as useful case studies for further policy recommendations because some regions and countries might do better than others in this process.

Foreign Direct Investments in Thailand, as identified in the study, are foreign investors which own 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Normally, the most easily accessible inward flow data can be taken from two major sources of the country; Bank of Thailand (BOT) and Board of Investment (BOI).

Data on inward flow provided by BOT are divided into two separate groups: geographical origin and industrial sector. Net equity inflows and intra-company loans are also covered in reported data, excluding reinvested earning. At least 10 per cent of foreign equity that firms participate in the registered capital is known as foreign affiliates. While BOI, the central investment promotion authority, complies inward flow data on an approval and start-up basis, and by country of origin. In calculating the total number of FDI from individual country, derived from the total investment of projects, at least 10 per cent of foreign equity participation in the registered capital from that country is taken into account as FDI.

For any foreign investors participating in manufacturing projects primarily for the domestic market are permitted a maximum ownership stake of up to 49 per cent of registered capital, excepted for projects located in the northern part of the country where majority or wholly owned projects are allowed. Where at least 50 per cent of output is exported, foreign nationals may hold a majority of the shares, while wholly foreign owned are allowed for projects exporting at least 80 per cent.

European Foreign Direct Investment in the Thai Manufacturing Sector

In this study, European direct investment is taken to consider particularly because the European Union (EU) is the largest home region for foreign direct investment in the world, interestingly however the proportion of net flows of FDI in Thailand from European is less than net inflows from Japan and the United States. Therefore, partly explored study will find out what kind of factors have affected the decision-making processes of foreign firms, particularly EU firms, when selecting and investing in Thailand as their location for manufacturing bases. The result can provide a fundamental idea for setting FDI policies in order to induce more FDI into Thailand. The special reference of European Direct Investment in the Thai manufacturing sector has heavily emphasised in chapter 3 and 4. So far, a number of key aspects of the role of trade and investment in Thailand in an ongoing of globalisation were examined. The analysis suggests that economic relations with foreign partners have played an important role in Thailand's decade-long transformation. Owing to increased contacts in the fields of trade and investments, Thailand's presence in the global economy has been more active, even if it still remained highly unsatisfactory. The opening up to the outside world made possible a natural verification of the Thai economy's competitive strength and its capability to join the economic integration with neighbours. Apart of growth in manufacturing sector, trade policies and investment promotion policies were the main instrument utilised by the government to stimulate local investments as well as to attract FDI. Base on the facts on EU-Thailand's trade and investment relations, the two economies have long established close relations and good cooperation and have not limited itself only at the bilateral level, but also at regional level through ASEAN-EU, ASEM, and ASEAN regional forum. However, in spite of the well-built relations between Thailand and the EU, there are several areas, mainly trade and investment, which are needed to be more improved. Despite the fact that there may have some differences, from the previous analysis, the overall trade volume between both partners has been increasing satisfactory, on the other hand, some concerns on EU's trade measures still remains, especially on anti-dumping (AD) and countervailing duties (CVD) which have a negative effect for small and medium enterprises (SMEs) and the employment situation in Thailand.

With respect to investment, although the EU's investment in Thailand is still existed but the Thai side is of the view that there is still great potential of increasing the EU's investment in Thailand from European multinationals. In order to provide an appropriate investment policy as well as to improve investment climate and regulations for any multinationals in which they can carry out their business beneficially and without incurring unnecessary danger, the most important factors considered by investors as they decide on investment location are essential for policymakers to understand in order to put the right policies into an action and to promote and guide the industrial structures toward their natural comparative specializations.

In recent year, in response to the Fourth Ministerial Conference in Doha, Qatar, and the new coming round, the Thai government has agreed to take part in new issues and one of those lies down in the area of trade and investment as Thailand adopts a policy of foreign direct investment promotion. Therefore, it is rational to support trade and investment negotiations, scuch as investment incentive measures, investment condition measures, and dispute resolution between public and private sectors. Despite the fact that, FDI may cause the country impacts, the question is not whether foreign investment is needed but how foreign capital and technology should put to work in the economy of Thailand. That's why, an appropriate investment promotion policy is essential to fill the gap of unpleasant economic environment.

Major Factors in Aattracting European FDI

The investigation of FDI determinants based on survey study of 347 BOI promoted companies in chapter 4 suggested that the most important motivation for investment decision-making of European investors in Thailand is '*the political stability*'. The analysis found that the attractiveness of Thai location is likely to welcome the flow of resources seeking FDI and efficiency-seeking FDI. The potential factors for welcoming the first type are workforces and ease of the required raw materials, while a package of physical infrastructures such as system of communications, ports, and local transportation networks describe the motivation of all types of investors. The most common method of entry into Thai manufacturing is Joint-Venture investment which each of major manufacturing sector allows foreign investors to own the share more than 50 per cent in average resulting from the liberalising policy. The choice of ownership structure as well as the flexibility of shareholders is also another determining factor which is considered by European firms since it tends to reflect the preference of parent companies with respect to control of their foreign subsidiaries. With reference to the satisfaction of government services, especially investment promotion agency, the foreign investors have positive experienced and satisfied with all asking categories, while other government agencies' satisfaction rating were comparatively satisfied.

A part of this field survey, the relationship between European investors and local firms or suppliers was also measured by taking a consideration the importance of industrial linkages since it reflects to the opportunity to obtain technology transfer and possibility to gain knowledge and technical and managerial know-how from foreign firms. The obtained results are moderately low for almost variables. This considerable evidence implies that such a policy implication for strengthening the upgrading industrial relation for both foreign and local enterprises is critically required.

Major Awareness

European investors have voiced serious complaints about traffic congestion and corruption, which are the most problematic factors identified. The government action is seriously needed to eliminate these problems because taking a quick action helps not only to improve the country image, but to enhance more confident about doing business in Thailand for existing firms with ease and without barriers to attracting new firms into the country also. Concerning to the quality of government agencies, BOI have a well working performance covered a wide range of providing services such as usage of incentives, services pertaining to obtaining licenses and permits and information services. However, BOI standing alone will not be able to achieve the target of country development; the integration and coordination among agencies are necessarily needed to provide services and to improve the investment atmosphere.

Impacts of FDI on Thai Economy: Pros and Cons

The impacts of FDI on Thai economy in a prospective situation of growing liberalisation and globalisation have been examined. Theoretically, such evaluating the overall impact of MNCs on the host country is a very complex matter, therefore this study has concentrated at least on the costs and risks associated with FDI in terms of import and export, balance of payment, employment, technology and environment which are quite seriously concerned in several academic studies. The experience of Thailand's economic development shows that macroeconomic management and infrastructure investments are the most essential factors undertaken by the government. Through the analysis and discussion suggested that rather than offering incentives to attract FDI, the Thai government should concentrate on creating and strengthening of endogenous technological capability since technological progress has been connected with economic growth, and even contributed to and stimulated by the expansion of output and income. Of course, this points to the fact that FDI alone cannot be relied on to motivate localised technical and skills improvement, as is often presumed. In actual fact, such a dynamic externalities from foreign investment are more likely to occur in host countries with pre-existing skills, infrastructure, supplier bases, and technical capacities as most potential investors are the size and expected growth rate of the destination market that could be served, long-term macroeconomic and political stability, supply of skilled or trainable workers and skills, modern transportation systems and communications and good infrastructure.

Such a provision of policy environment in maximising the benefits and minimising the costs from foreign investments in terms of transferring and upgrading technology such as industrial linkages is urgently required. Though, FDI had an influence in Thailand's economic growth, but has a flip side to a difficulty in the supporting industry. There is the result from survey to support that the transfer of technology from foreign enterprises, especially European companies, to domestic firms has been rather moderate in Thailand due to the lack of industrial linkages between the foreign firms and domestic suppliers and between the foreign firms and domestic customers. The answer to the question of whether and the ways in which FDI is beneficial or harmful to the host country depends on the context in which the investment takes place and in which the resulting economic activity operates. This is particularly true of the policy environment in the host country and especially in that local area of the host country where the investment is located.

8.2 Lessons Learned

The Thai government's attitude towards foreign investments has begun since the end of 1986, when Thailand has been a favourite place for foreign firms escaping appreciating currencies and escalating labour costs. The policy attracting FDI has been changed accordingly from time to time. A useful policy framework in attracting FDI, as mainly introduced by Gray (1998) and Velde Te (2001), is quite useful for policy makers to consider and adapt them into a national policy implication. Three classifications are; (i) policies and factors affecting the locational decision of foreign investors, (ii) policies and factors affecting established foreign investors, and (iii) policies and factors affecting domestic firms. These suggested policies can not stand alone with fully effective implementation. They must likely be some combination of policies in each of the above categories which depend on how they fit in with the development strategy and country characteristics. However, as many of the better off countries with more public resources and local capabilities can utilize a risky and costly proactive stance towards FDI such as Singapore and South Korea, poorer countries are left behind with comparatively less local capabilities. This is particularly disturbing since local capabilities play a dual role of attracting FDI and absorbing positive spillovers related to FDI.

Investment policy in selected countries as analysed in this study has shown that most countries have fallen along a range from restrictive administration towards more liberal one. In reference to country experiences, each country has its own unique characteristics and socio-political and economic conditions. The lesson on attracting increased flows of FDI that emerges from developing countries like Mexico, Indonesia, China, Brazil and Vietnam and from developed countries like Singapore and South Korea is that a favourable investment policy framework, coupled with an active and professionally implemented investment promotion strategy, is essential to successful investment promotion. All governments in these countries set a high priority on winning an increased share of FDI, and they have relatively succeeded in doing so.

Apart of their experience suggests that other Governments that are serious about increasing their inflows of investment need to do two things. They need firstly to reform investment policy in terms of law and regulations in order to relieve the difficulties that foreign investors face in doing business within the country's location. Secondly, they need to establish an investment promotion agency with the independence and resources necessary to formulate and implement an investment promotion startegy that is suitable for the requirements, advantages and resources of the country.

However, the dynamic of global movement resulting from an increasing number of MNCs, essential policy in attract FDI is presently required in order to avoid cost and gain benefit from FDI efficiently. Therefore, experience and lessons as well as globalized elements from other countries should be selected to be applied in the context of each. Six lessons for Thailand are summarised as follows.

Lesson 1 *Nationalism versus Globalization*

- To find an appropriate ways and paths to reach its own objectives.
- Only one instrument is not enough for a comprehensive master plan for national development, which includes policy reform, socials and institutional changes.
- To know strengths and weaknesses to set a right speed and equip with sufficient instruments, such as laws, regulations, fiscal and monetary policies.

Lesson 2 *Openness towards global market*

- To remove policy disincentives which discourage foreign firms to transfer technology through licensing and similar arrangement.
- To phase out licensing which is becoming more important for preventing a policy induced anti-export bias, as outright export subsidies under the new WTO rules.

Lesson 3 *Regional integration scheme*

- Regional integration scheme should proceed along with this global fundamental.
- The need of a coherent set of policies that position the country better relative to its major trading and investment partners.

Lesson 4	*Physical and human encouragement*	• To avoid economic policies that discourage investment. • To attract new technologies and adjusting to technological level of the country. • To target knowledge intensive sectors by upgrading FDI and improve the ability of workforce to learn more. • To invest its own research and development.
Lesson 5	*Moving up to best-practice technology*	• To support firms the motivation or knowledge to upgrade their activities. • The requirement of policy measures with effective co-operation between the ministries and agencies in seeking potential manufacturing firms and their first-tier suppliers.
Lesson 6	*Moving towards knowledge-based economy*	• National policy should focus on innovation, competition and sustainability, including education. • To improve human skills and knowledge. • To use FDI as a partner in upgrading the capacity of human.

8.3 Policy Recommendations

In this study, the challenges which Thailand faces in the attraction of more FDI flows under globalisation are enormous. There is no easy way to develop and remain marginalised from these flows. Any new policy on FDI should not distinguish between inward and outward FDI, but seek to maximize the gains to Thailand from MNC activities in both directions. Moreover, the linkage between foreign policy and trade policy should work together. By pursuing the concept of globalisation, the policies should not be separable from the international and regional ones, such as Trade Related Investment Measures (TRIMs) and ASEAN Free Trade Area (AFTA). Though, the current policies try to focus on the new investing group from a remote region, the policies should not ignore regional production networks which are already established from traditional investment group, particularly Japanese and overseas Chinese companies such as Hong Kong, Taiwan and Korea.

Thailand should change the policy direction from focusing on attracting inward FDI flows which depend only on either local resources such as cheap labour and raw materials and local market to focusing on multinationals which rather look for a combination of market access and cost effective production. As they are market-making firms and agents of change, their actions as investment bridges to the global economy and as diffusers of technology should help Thailand to improve her competitiveness. The action of government and MNCs may differ, but both interconnect as mentioned by Dunning. MNCs cannot play their active role or take an effective action within the country, unless they are allowed to enter and the policies provided by government and related authorities move in the direction of openness. Having mentioned about this, the role of government as well as investment promotion agency (IPA) is essential to address. IPA is not only provider, protector, and regulator, but also promoter. Investment promotion policy for this moment requires the quick action of policy makers to support industrial linkages between domestic and foreign firms and to link domestic industries with international production systems. UNIDO suggests that the ability of the country to win FDI and reinforce linkages depends upon the following three interrelated factors.

The importance of each interrelated factor varies by country and in time in relation to the country's developmental strategy and institutional structures for supporting the efficient working of markets. To implement the strategy, an institutional building is needed either for transformation of BOI and authority to license investment or to be delegated to other institution for promoting investments. Since trade and investment are related, cooperation between BOI and the Department of Export Promotion (DEP), a national agency for export development, becomes important. Selectively, BOI needs to organise investment promotion in global economic centres, like what Singaporean Trade Development Board (TDB) has implemented. At this moment in time, the main task for Thailand is not to pick the winners, but rather to provide such proper investment policies and strategies and to build an attractive environment in which enough winners to pick Thailand.

Annex I: Tables

Table A-1: European Union Investment Projects Submitted to BOI in 2003
(Net Application)

	1998	1999	2000	2001	2002	2003
Total investment (no. of projects)	706	998	1,067	615	844	628
Total Investment value (Mil. Baht)	249,135	209,650	341,498	149,436	264,746	280,795
Total foreign investment (no. of projects)	521	730	714	320	560	380
Total foreign investment value (Mil. Baht)	224,595	167,566	253,278	84,507	178,620	114,001
Total European Union investment (no. of projects)	115	113	122	84	66	50
Total European Union investment value (Mil. baht)	104,866	46,496	26,972	24,939	13,804	12,650
Ownership						
- 100% European Union (no. of projects)	63	88	90	65	25	25
- 100% European Union (investment value)	34,854	40,386	10,756	23,452	2,160	3,240
- Joint-Venture (no. of projects)	52	25	32	19	41	25
- Joint-Venture (investment value)	70,012	6,110	16,216	1,488	11,644	9,411

Note : 1) European Union investment projects refer to projects with European Unioncapital of at least 10%.

2) Joint-venture projects refer to joint projects between local Thai investors and foreign partners with European capital of at least 10%.

Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table A-2: European Union Investment Projects Approved by BOI in 2003 (Jan.-June)

	1998	1999	2000	2001	2002	2003
Total investment (no. of projects)	647	680	1,114	575	721	841
Total Investment value (Mil. baht)	287,327	162,232	279,229	209,622	162,532	285,582
Total foreign investment (no. of projects)	483	513	761	315	483	563
Total foreign investment value (Mil. baht)	254,864	141,489	212,649	106,679	99,617	212,589
Total European Union investment (no. of projects)	109	73	134	79	65	62
Total European Union investment value (Mil. baht)	132,688	36,440	28,768	23,019	16,259	24,913
Ownership						
- 100% European Union (no. of projects)	58	53	96	65	25	33
- 100% European Union (investment value)	27,932	31,776	15,636	19,800	1,949	18,547
- Joint-Venture (no. of projects)	51	20	38	14	40	29
- Joint-Venture (investment value)	104,756	4,664	13,132	3,219	14,310	6,366

Note : 1) European Union investment projects refer to projects with European Union capital of at least 10%.

2) Joint-venture projects refer to joint projects between local Thai investors and foreign partners with European capital of at least 10%.

3) European Union countries consist of: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemberg, Netherland, Portugal, Spain, Sweden, United Kingdom

Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table A-3: European Union Investment through BOI Classified by Investment Size

Investment Size (million Baht)	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment
Net Application												
<50	60	948.5	61	985.4	58	806.0	42	587.7	30	545.8	33	601.2
50-99	15	1,062.3	10	642.5	21	1,362.3	14	1,023.7	14	1,040.0	10	659.5
100-499	26	6,563.1	27	7,658.3	33	7,480.9	21	4,593.2	17	3,621.4	23	5,008.1
500-999	3	2,547.9	7	4,458.4	6	4,002.5	3	1,960.6	0	0.0	2	1,172.0
>1,000	11	27,287.8	8	32,751.3	4	13,320.3	4	16,774.0	5	8,597.0	6	28,990.4
Total	**115**	**38,409.6**	**113**	**46,495.9**	**122**	**26,972.0**	**84**	**24,939.2**	**66**	**13,804.2**	**74**	**36,431.2**
Application Approved												
<50	56	873.4	37	561.4	62	982.5	36	511.5	30	531.3	33	618
50-99	12	797.9	10	662.2	20	1,311.0	10	685.9	10	625.6	5	362
100-499	24	6,180.4	16	4,407.7	39	9,593.3	22	5,158.4	24	5,102.4	19	3,959
500-999	5	3,656.3	3	2,029.1	10	6,046.3	4	2,381.8	0	0.0	1	572
>1,000	12	121,179.8	7	28,780.0	3	10,835.2	7	14,281.2	1	10,000.0	4	19,402
Total	**109**	**132,687.8**	**73**	**36,440.4**	**134**	**28,768.3**	**79**	**23,018.8**	**65**	**16,259.3**	**62**	**24,913**

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table A-4: European Union Investment Projects through BOI Classified by Type

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Expansion Projects	39	24,868.0	38	25,312.9	44	13,995.2	33	9,733.9	28	5,714.8	31	17,041.4
New Projects	76	79,997.5	75	21,182.8	78	12,976.8	51	15,205.3	38	8,089.4	43	19,389.8
Total	**115**	**104,865.5**	**113**	**46,495.7**	**122**	**26,972.0**	**84**	**24,939.2**	**66**	**13,804.2**	**74**	**36,431.2**
Application Approved												
Expansion Projects	36	25,485.4	24	19,055.7	53	15,464.0	37	16,068.2	27	3,086.6	20	4,425.2
New Projects	73	107,202.4	49	17,384.6	81	13,304.2	42	6,950.6	38	13,172.7	42	20,487.8
Total	**109**	**132,687.8**	**73**	**36,440.3**	**134**	**28,768.2**	**79**	**23,018.8**	**65**	**16,259.3**	**62**	**24,913.0**

Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table A-5: European Union Investment Projects Applying for Promotion Classified by Sector

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)
Agricultural Products	14	4,065.2	13	2,067.3	5	1,349.3	9	1,694.4	9	985.3	7	726.4
Minerals and Ceramics	4	584.2	0	0.0	7	2,939.7	1	6.0	1	20.0	2	332.0
Light Industries/Textiles	24	3,957.1	12	2,545.2	17	1,334.4	11	830.1	8	785.9	10	765.1
Metal Products and Machinery	11	2,402.8	25	2,493.2	16	1,380.3	11	1,027.7	12	1,259.1	7	1,636.1
Electric and Electronic Products	20	11,124.6	28	19,813.4	37	5,306.8	23	4,304.3	12	3,325.8	16	10,719.4
Chemicals and Paper	11	10,959.5	10	9,955.2	14	11,002.1	12	6,102.6	5	355.0	10	16,830.5
Services	31	71,772.2	25	9,621.5	26	3,659.5	17	10,974.1	19	7,073.1	22	5,421.7
Total	**115**	**104,865.6**	**113**	**46,495.8**	**122**	**26,972.1**	**84**	**24,939.2**	**66**	**13,804.2**	**74**	**36,431.2**

Note: European investment projects refer to projects with European Union capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table A-6: European Union Investment Projects Approved by BOI Classified by Sector

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)
Agricultural Products	13	4,627.6	7	1,515.3	10	2,089.7	3	161.6	8	1,393.0	7	831.3
Minerals and Ceramics	3	133.0	1	9.3	7	853.5	2	2,188.0	2	134.0	2	258.5
Light Industries/Textiles	17	4,019.2	9	1,847.2	27	4,933.5	10	2,469.6	7	343.0	8	988.5
Metal Products and Machinery	10	1,026.8	15	2,703.9	26	1,935.8	8	843.5	13	1,684.1	6	1,385.2
Electric and Electronic Products	24	11,693.2	19	19,108.1	30	6,019.9	27	6,479.2	15	911.4	11	1,450.0
Chemicals and Paper	10	9,359.8	3	6,091.0	15	11,671.5	15	8,728.3	5	634.6	6	16,009.6
Services	32	101,831.3	19	5,165.6	19	1,264.4	14	2,148.6	15	11,159.2	22	3,989.9
Total	**109**	**132,687.9**	**73**	**36,440.4**	**134**	**28,768.3**	**79**	**23,018.8**	**65**	**16,259.3**	**62**	**24,913.0**

Note: European investment projects refer to projects with European Union capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table A-7: European Union Investment Projects through BOI Classified by Factory Location

Location / year	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Zone 1	39	7,271.3	47	27,132.9	39	3,484.7	32	14,121.4	15	2,309.4	27	3,666.7
Zone 2	13	16,161.3	13	3,087.3	23	6,869.3	25	8,641.4	28	5,755.5	31	23,590.0
Zone 3	63	81,432.9	53	16,275.5	60	16,618.0	27	2,176.4	23	5,739.3	16	9,174.5
Total	**115**	**104,865.5**	**113**	**46,495.7**	**122**	**26,972.0**	**84**	**24,939.2**	**66**	**13,804.2**	**74**	**36,431.2**
Application Approved												
Zone 1	43	6,198	34	20,047	49	5,308	33	5,615	17	10,895	21	2,486
Zone 2	17	18,999	9	2,733	19	3,560	24	12,609	31	3,260	26	20,016
Zone 3	49	107,491	30	13,661	66	19,900	22	4,795	17	2,105	15	2,411
Total	**109**	**132,688**	**73**	**36,440**	**134**	**28,768**	**79**	**23,019**	**65**	**16,259**	**62**	**24,913**

Note: European investment projects refer to projects with European Union capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table A-8: European Union Export-Oriented Investment Projects through BOI

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Export >= 80%	44	23,015.5	51	28,015.1	56	14,758.4	35	10,972.0	24	4,815.1	26	11,234.8
Total	**115**	**38,409.6**	**113**	**46,495.9**	**122**	**26,972.0**	**84**	**24,939.2**	**66**	**13,804.2**	**74**	**36,431.2**
Application Approved												
Export >= 80%	47	26,464.2	38	23,211.0	82	15,990.9	40	15,935.6	34	3,020.9	16	1,967
Total	**109**	**132,687.8**	**73**	**36,440.4**	**134**	**28,768.3**	**79**	**23,018.8**	**65**	**16,259.3**	**62**	**24,913**

Note: European investment projects refer to projects with European Union capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table B-1: Belgium Investment Projects Submitted to BOI

Unit: Million Baht

	1998	1999	2000	2001	2002	2003
Net Application						
No. of projects	8	8	4	8	2	8
Total Investment	756.9	1,121.8	421.6	367.5	94.0	3,766.6
Total Registered Capital	35.5	476.0	28.0	73.2	35.0	111.4
- Belgium	30.9	434.0	15.5	67.4	19.7	81.3
- Thai	4.6	25.5	-	1.4	15.3	22.5
Application Approved						
No. of project	8	7	2	7	3	5
Total Investment	948.1	857.9	316.4	384.4	72.5	453.8
Total Registered Capital	174.0	667.0	-	76.1	69.5	14.0
- Belgium	98.0	229.4	-	73.3	11.5	6.43
- Thai	2.6	-	-	1.4	52.7	0.02

Note: Belgium investment projects refer to projects with Belgium capital of at least 10%.
Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table B-2: **Belgium Projects Classified by Investment Size**

Investment Size (million Baht)	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)
Net Application												
<50	4	52.0	5	44.3	2	29.6	6	76.3	1	5.0	3.0	63.0
50-99	1	77.7	0	0.0	1	80.0	1	80.2	1	89.0	-	-
100-499	3	627.2	2	274.1	1	312.0	1	211.0	0	0.0	3.0	521.5
500-999	0	0.0	1	803.4	0	0.0	0	0.0	0	0.0	-	-
>1,000	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	2.0	3,181.8
Total	**8**	**756.9**	**8**	**1,121.8**	**4**	**421.6**	**8**	**367.5**	**2**	**94.0**	**8.0**	**3,766.6**
Application Approved												
<50	3	29.1	5	48.1	1	4.4	5	93.2	2	10.0	3.0	58.3
50-99	1	77.8	0	0.0	0	0.0	1	80.2	1	62.5	-	-
100-499	4	841.2	1	120.3	1	312.0	1	211.0	0	0.0	2.0	395.5
500-999	0	0.0	1	689.5	0	0.0	0	0.0	0	0.0	-	-
>1,000	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	-	-
Total	**8**	**948.1**	**7**	**857.9**	**2**	**316.4**	**7**	**384.4**	**3**	**72.5**	**5.0**	**453.8**

Note: Belgium investment projects refer to projects with Belgium capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table B-3: **Belgium Investment Projects through BOI Classified by Type**

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Expansion Projects	4	704.9	3	155.0	3	395.4	2	259.5	0	0.0	5	3,318.8
New Projects	4	52.0	5	966.8	1	26.2	6	108.0	2	94.0	3	447.8
Total	**8**	**756.9**	**8**	**1,121.8**	**4**	**421.6**	**8**	**367.5**	**2**	**94.0**	**8**	**3,766.6**
Application Approved												
Expansion Projects	4	705.0	3	154.9	2	316.4	2	258.9	0	0.0	3	410.5
New Projects	4	243.1	4	703.0	0	0.0	5	125.5	3	72.5	2	43.3
Total	**8**	**948.1**	**7**	**857.9**	**2**	**316.4**	**7**	**384.4**	**3**	**72.5**	**5**	**453.8**

Note: Belgium investment projects refer to projects with Belgium capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table B-4: Belgium Investment Projects Applying for Promotion Classified by Sector

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)
Agricultural Products	0	0.0	1	1.0	0	0.0	0	0.0	0	0.0	1	100.0
Minerals and Ceramics	0	0.0	0	0.0	1	312.0	0	0.0	0	0.0	1	112.0
Light Industries/Textiles	0	0.0	1	16.7	1	3.4	4	71.8	0	0.0	3	334.5
Metal Products and Machinery	1	16.5	3	975.3	0	0.0	1	2.5	2	94.0	-	-
Electric and Electronic Products	0	0.0	1	5.0	0	0.0	1	2.0	0	0.0	-	-
Chemicals and Paper	1	394.0	0	0.0	1	80.0	1	80.2	0	0.0	-	-
Services	6	346.4	2	123.8	1	26.2	1	211.0	0	0.0	3	3,220.1
Total	**8**	**756.9**	**8**	**1,121.8**	**4**	**421.6**	**8**	**367.5**	**2**	**94.0**	**8**	**3,766.6**

Note: 1) Belgium investment projects refer to projects with Belgium capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table B-5: Belgium Investment Projects Approved by BOI Classified by Sector

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)
Agricultural Products	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	-	-
Minerals and Ceramics	0	0.0	0	0.0	1	312.0	0	0.0	0	0.0	1	238.5
Light Industries/Textiles	0	0.0	1	16.7	1	4.4	2	62.6	2	10.0	1	15.0
Metal Products and Machinery	1	16.5	2	707.5	0	0.0	1	2.5	0	0.0	2	162.0
Electric and Electronic Products	0	0.0	1	2.2	0	0.0	1	2.0	0	0.0	-	-
Chemicals and Paper	1	394.0	0	0.0	0	0.0	1	80.2	0	0.0	-	-
Services	6	537.6	3	131.5	0	0.0	2	237.1	1	62.5	1	38.3
Total	**8**	**948.1**	**7**	**857.9**	**2**	**316.4**	**7**	**384.4**	**3**	**72.5**	**5**	**453.8**

Note: 1) Belgium investment projects refer to projects with Belgium capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table B-6: Belgium Investment Projects through BOI Classified by Factory Location

Location \ year	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Zone 1	4	239.6	3	128.9	1	26.2	2	5.5	0	0.0	3	63.3
Zone 2	2	94.3	2	154.8	0	0.0	1	5.2	0	0.0	3	3,293.8
Zone 3	2	423.0	3	838.1	3	395.4	5	356.8	2	94.0	2	409.5
Total	**8**	**756.9**	**8**	**1,121.8**	**4**	**421.6**	**8**	**367.5**	**2**	**94.0**	**8**	**3,766.6**
Application Approved												
Zone 1	3	235.7	4	133.7	0	0.0	2	28.2	1	4.0	2	53.3
Zone 2	2	94.3	0	0.0	0	0.0	0	0.0	1	6.0	2	395.5
Zone 3	3	618.1	3	724.2	2	316.4	5	356.2	1	62.5	1	5.0
Total	**8**	**948.1**	**7**	**857.9**	**2**	**316.4**	**7**	**384.4**	**3**	**72.5**	**5**	**453.8**

Note: Belgium investment projects refer to projects with Belgium capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table B-7: Belgium Export-Oriented Investment Projects through BOI

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Export >= 80%	1	16.5	3	821.1	2	315.4	4	71.8	0	0.0	2	25.0
Total	**8**	**756.9**	**8**	**1,121.8**	**4**	**421.6**	**8**	**367.5**	**2**	**94.0**	**8**	**3,766.6**
Application Approved												
Export >= 80%	2	410.5	1	16.7	1	4.4	4	154.3	2	10.0	1	15.0
Total	**8**	**948.1**	**7**	**857.9**	**2**	**316.4**	**7**	**384.4**	**3**	**72.5**	**5**	**453.8**

Note: Belgium investment projects refer to projects with Belgium capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table C-1: French Investment Projects Submitted to BOI

Unit: Million Baht

	1998	1999	2000	2001	2002	2003
Net Application						
No. of projects	11	15	10	10	10	10
Total Investment	264.8	3,578.6	592.1	484.4	715.6	763.9
Total Registered Capital	40.2	1,352.0	40.0	35.0	83.0	46.6
- French	20.8	1,332.5	31.8	32.3	82.9	33.9
- Thai	18.9	18.5	5.3	2.0	199.5	12.6
Application Approved						
No. of project	12	11	13	11	9	13
Total Investment	180.5	2,828.9	1,097.1	1,292.8	542.6	1,320.8
Total Registered Capital	83.0	1,031.0	152.8	544.0	6.0	223.5
- French	44.7	484.3	126.5	535.3	6.0	210.9
- Thai	27.7	112.4	26.3	5.1	-	12.6

Note: French investment projects refer to projects with French capital of at least 10%.
Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table C-2: French Projects Classified by Investment Size

Investment Size (million Baht)	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
<50	9	101.0	7	105.2	7	62.3	6	71.3	6	71.3	5	37.0
50-99	1	63.8	3	207.0	1	90.8	2	143.6	3	143.6	1	60.3
100-499	1	100.0	3	922.0	2	439.0	2	269.5	1	269.5	4	666.6
500-999	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	-	-
>1,000	0	0.0	2	2,344.4	0	0.0	0	0.0	0	0.0	-	-
Total	**11**	**264.8**	**15**	**3,578.6**	**10**	**592.1**	**10**	**484.4**	**10**	**484.4**	**10**	**763.9**
Application Approved												
<50	12	180.5	6	88.4	7	53.3	8	104.8	5	168.9	6	41.5
50-99	0	0.0	1	80.0	2	165.8	2	143.6	2	143.7	2	115.3
100-499	0	0.0	2	531.0	4	878.0	0	0.0	2	230.0	5	1,164.0
500-999	0	0.0	1	689.5	0	0.0	0	0.0	0	0.0	-	-
>1,000	0	0.0	1	1,440.0	0	0.0	1	1,044.4	0	0.0	-	-
Total	**12**	**180.5**	**11**	**2,828.9**	**13**	**1,097.1**	**11**	**1,292.8**	**9**	**542.6**	**13**	**1,320.8**

Note: French investment projects refer to projects with French capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table C-3: French Investment Projects through BOI Classified by Type

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Expansion Projects	3	144.7	6	1,638.0	2	439.0	4	280.6	4	489.3	4	666.6
New Projects	8	120.1	9	1,940.6	8	153.1	6	203.8	6	226.3	6	97.3
Total	**11**	**264.8**	**15**	**3,578.6**	**10**	**592.1**	**10**	**484.4**	**10**	**715.6**	**10**	**763.9**
Application Approved												
Expansion Projects	2	44.7	3	560.7	5	722.0	4	1,213.0	5	379.7	3	504.5
New Projects	10	135.8	8	2,268.2	8	375.1	7	79.8	4	162.9	10	816.3
Total	**12**	**180.5**	**11**	**2,828.9**	**13**	**1,097.1**	**11**	**1,292.8**	**9**	**542.6**	**13**	**1,320.8**

Note: French investment projects refer to projects with French capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table C-4: French Investment Projects Applying for Promotion Classified by Sector

Year / Sector	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Agricultural Products	0	0.0	0	0.0	0	0.0	2	143.6	1	55.0	-	-
Minerals and Ceramics	0	0.0	0	0.0	1	312.0	0	0.0	0	0.0	1	112.0
Light Industries/Textiles	4	31.1	2	1,052.4	3	108.4	3	168.0	3	146.8	1	5.0
Metal Products and Machinery	0	0.0	3	72.7	0	0.0	1	15.0	1	38.4	2	445.6
Electric and Electronic Products	1	100.0	2	449.5	3	19.7	3	8.3	2	342.6	1	2.0
Chemicals and Paper	2	49.9	3	368.0	1	127.0	0	0.0	2	124.6	-	-
Services	4	83.8	5	1,636.0	2	25.0	1	149.5	1	8.2	5	199.3
Total	**11**	**264.8**	**15**	**3,578.6**	**10**	**592.1**	**10**	**484.4**	**10**	**715.6**	**10**	**763.9**

Note: 1) French investment projects refer to projects with French capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table C-5: French Investment Projects Approved by BOI Classified by Sector

Year / Sector	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Agricultural Products	0	0.0	0	0.0	1	198.0	2	143.6	0	0.0	1	55.0
Minerals and Ceramics	1	28.3	0	0.0	2	387.0	0	0.0	0	0.0	1	238.5
Light Industries/Textiles	3	27.0	2	1,445.5	3	105.9	3	1,094.4	4	282.0	1	309.5
Metal Products and Machinery	0	0.0	3	759.7	1	3.6	1	15.0	2	113.0	1	157.0
Electric and Electronic Products	0	0.0	3	537.7	2	9.7	4	14.3	2	113.0	3	355.0
Chemicals and Paper	3	96.4	0	0.0	2	368.0	0	0.0	1	34.6	-	-
Services	5	28.8	3	86.0	2	25.0	1	25.5	0	0.0	6	205.8
Total	**12**	**180.5**	**11**	**2,828.9**	**13**	**1,097.2**	**11**	**1,292.8**	**9**	**542.6**	**13**	**1,320.8**

Note: 1) French investment projects refer to projects with French capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table C-6: French Investment Projects through BOI Classified by Factory Location

Location \ Year	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Zone 1	5	126.5	9	1,658.6	3	33.0	4	295.1	2	11.2	4	75.7
Zone 2	2	106.4	2	491.0	2	103.3	2	46.0	5	499.3	5	683.1
Zone 3	4	31.9	4	1,429.0	5	455.8	4	143.3	3	205.1	1	5.0
Total	**11**	**264.8**	**15**	**3,578.6**	**10**	**592.1**	**10**	**484.4**	**10**	**715.6**	**10**	**763.8**
Application Approved												
Zone 1	7	73.5	7	594.0	6	48.3	8	1,227.8	1	3.0	6	85.3
Zone 2	2	52.9	1	100.0	2	331.8	2	40.0	5	304.5	6	926.0
Zone 3	3	54.1	3	2,134.9	5	717.1	1	25.0	3	235.1	1	309.5
Total	**12**	**180.5**	**11**	**2,828.9**	**13**	**1,097.2**	**11**	**1,292.8**	**9**	**542.6**	**13**	**1,320.8**

Note: French investment projects refer to projects with French capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table C-7: French Export-Oriented Investment Projects through BOI

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Export >= 80%	5	131.1	7	1,812.0	5	430.1	5	295.6	3	108.8	3	353.9
Total	**11**	**264.8**	**15**	**3,578.6**	**10**	**592.1**	**10**	**484.4**	**10**	**715.6**	**10**	**763.9**
Application Approved												
Export >= 80%	4	70.5	5	1,912.9	5	354.6	6	1,244.0	6	348.2	-	-
Total	**12**	**180.5**	**11**	**2,828.9**	**13**	**1,097.1**	**11**	**1,292.8**	**9**	**542.6**	**13**	**1,320.8**

Note: French investment projects refer to projects with French capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table D-1: German Investment Projects Submitted to BOI

Unit: Million Baht

	1998	1999	2000	2001	2002	2003
Net Application						
No. of projects	25	31	34	19	14	17
Total Investment	8,457.1	13,660.9	7,787.6	7,499.6	801.1	813.7
Total Registered Capital	3,408.0	3,453.6	1,555.9	1,746.1	92.0	112.8
- German	2,952.0	3,193.1	616.0	1,212.8	70.5	71.6
- Thai	40.3	170.7	672.0	37.6	11.0	34.1
Application Approved						
No. of project	22	12	39	24	19	12
Total Investment	8,606.2	1,867.7	6,394.0	13,719.2	2,139.5	412.9
Total Registered Capital	3,370.5	228.3	1,872.5	2,709.3	389.0	146.5
- German	3,033.4	164.4	1,546.2	1,649.7	261.4	109.5
- Thai	32.4	47.8	72.2	48.3	105.2	32.7

Note: German investment projects refer to projects with German capital of at least 10%.
Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table D-2: German Projects Classified by Investment Size

Investment Size (million Baht)	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)
Net Application												
<50	16	241.5	19	305.6	23	366.9	9	112.4	8	97.7	11	189.2
50-99	4	285.6	3	175.0	6	389.8	0	0.0	3	185.8	3	182.0
100-499	3	530.0	6	1,489.3	2	285.0	7	1,946.3	3	517.6	3	442.5
500-999	0	0.0	0	0.0	0	0.0	1	760.9	0	0.0	-	-
>1,000	2	7,400.0	3	11,691.0	3	6,745.9	2	4,680.0	0	0.0	-	-
Total	**25**	**8,457.1**	**31**	**13,660.9**	**34**	**7,787.6**	**19**	**7,499.6**	**14**	**801.1**	**17**	**813.7**
Application Approved												
<50	14	246.6	7	91.7	23	384.6	10	99.9	7	112.0	10	193.9
50-99	3	229.6	3	181.0	7	439.8	3	171.3	4	235.8	-	-
100-499	3	730.0	1	300.0	7	1,663.7	5	1,526.1	8	1,791.7	2	219.0
500-999	0	0.0	0	0.0	1	900.0	1	760.9	0	0.0	-	-
>1,000	2	7,400.0	1	1,295.0	1	3,006.0	5	11,161.0	0	0.0	-	-
Total	**22**	**8,606.2**	**12**	**1,867.7**	**39**	**6,394.1**	**24**	**13,719.2**	**19**	**2,139.5**	**12**	**412.9**

Note: German investment projects refer to projects with German capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table D-3: German Investment Projects through BOI Classified by Type

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Expansion Projects	6	7,671.7	7	3,538.4	8	4,174.2	8	4,525.5	6	544.4	4	399.8
New Projects	19	785.4	24	10,122.5	26	3,613.5	11	2,974.1	8	256.7	13	413.9
Total	**25**	**8,457.1**	**31**	**13,660.9**	**34**	**7,787.7**	**19**	**7,499.6**	**14**	**801.1**	**17**	**813.7**
Application Approved												
Expansion Projects	5	7,581.7	0	0.0	13	4,774.4	11	8,499.6	8	948.5	1	105.0
New Projects	17	1,024.5	12	1,867.7	26	1,619.7	13	5,219.6	11	1,191.0	11	307.9
Total	**22**	**8,606.2**	**12**	**1,867.7**	**39**	**6,394.1**	**24**	**13,719.2**	**19**	**2,139.5**	**12**	**412.9**

Note: German investment projects refer to projects with German capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table D-4: **German Investment Projects Applying for Promotion Classified by Sector**

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)
Agricultural Products	1	2.0	3	32.5	0	0.0	3	419.2	1	160.0	1	40.0
Minerals and Ceramics	3	114.0	0	0.0	3	2,236.5	0	0.0	0	0.0	-	-
Light Industries/Textiles	3	155.2	1	10.0	4	107.7	1	14.0	3	121.1	-	-
Metal Products and Machinery	2	15.3	13	1,293.2	5	271.2	0	0.0	3	230.2	3	182.2
Electric and Electronic Products	2	81.0	3	90.2	11	374.4	4	1,734.6	3	204.1	4	300.4
Chemicals and Paper	5	7,930.0	4	8,987.9	3	2,905.1	6	5,269.5	0	0.0	2	76.3
Services	9	159.6	7	3,247.1	8	1,892.7	5	62.3	4	85.7	7	214.8
Total	**25**	**8,457.1**	**31**	**13,660.9**	**34**	**7,787.6**	**19**	**7,499.6**	**14**	**801.1**	**17**	**813.7**

Note: 1) German investment projects refer to projects with German capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table D-5: **German Investment Projects Approved by BOI Classified by Sector**

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)	No. of Projects	Investment (Mil. Baht)
Agricultural Products	0	0.0	0	0.0	1	21.5	1	18.0	4	857.7	-	-
Minerals and Ceramics	3	133.0	1	9.3	2	51.8	1	2,182.0	2	134.0	-	-
Light Industries/Textiles	3	140.6	0	0.0	6	1,525.2	1	25.0	2	115.1	-	-
Metal Products and Machinery	3	316.3	4	1,434.0	12	916.5	0	0.0	3	293.7	2	117.2
Electric and Electronic Products	1	35.0	3	96.2	9	403.6	5	1,753.3	3	218.3	3	60.5
Chemicals and Paper	4	7,830.0	0	0.0	4	3,423.6	9	8,127.5	2	450.0	-	-
Services	8	151.3	4	328.2	5	51.8	7	1,613.4	3	70.7	7	235.2
Total	**22**	**8,606.2**	**12**	**1,867.7**	**39**	**6,394.0**	**24**	**13,719.2**	**19**	**2,139.5**	**12**	**412.9**

Note: 1) German investment projects refer to projects with German capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table D-6: German Investment Projects through BOI Classified by Factory Location

Location / Year	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Zone 1	10	205.0	8	3,135.1	10	341.1	5	17.7	4	72.8	5	29.4
Zone 2	0	0.0	5	508.8	5	4,033.6	10	6,825.7	5	590.2	8	621.3
Zone 3	15	8,252.1	18	10,017.0	19	3,412.9	4	656.2	5	138.1	4	163.0
Total	**25**	**8,457.1**	**31**	**13,660.9**	**34**	**7,787.6**	**19**	**7,499.6**	**14**	**801.1**	**17**	**813.7**
Application Approved												
Zone 1	10	197.0	4	328.2	10	393.4	8	73.2	5	320.0	5	61.1
Zone 2	0	0.0	2	125.0	4	127.8	11	10,268.5	10	1,253.7	4	184.8
Zone 3	12	8,409.2	6	1,414.5	25	5,872.9	5	3,377.5	4	565.8	3	167.0
Total	**22**	**8,606.2**	**12**	**1,867.7**	**39**	**6,394.1**	**24**	**13,719.2**	**19**	**2,139.5**	**12**	**412.9**

Note: German investment projects refer to projects with German capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table D-7: German Export-Oriented Investment Projects through BOI

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Export >= 80%	6	4,863.9	11	3,216.5	14	557.2	9	6,075.8	6	621.3	2	19.6
Total	**25**	**8,457.1**	**31**	**13,660.9**	**34**	**7,787.6**	**19**	**7,499.6**	**14**	**801.1**	**17**	**813.7**
Application Approved												
Export >= 80%	5	4,789.4	6	179.5	21	4,898.1	10	8,388.2	9	907.5	2	25.0
Total	**22**	**8,606.2**	**12**	**1,867.7**	**39**	**6,394.1**	**24**	**13,719.2**	**19**	**2,139.5**	**12**	**412.9**

Note: German investment projects refer to projects with German capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table E-1: Netherlands Investment Projects Submitted to BOI

Unit: Million Baht

	1998	1999	2000	2001	2002	2003
Net Application						
No. of projects	20	21	23	11	10	9
Total Investment	68,427.3	21,873.8	5,798.3	3,038.4	950.0	9,623.7
Total Registered Capital	18,455.7	4,547.3	340.0	27.5	113.0	419.1
- Dutch	10,643.8	3,939.5	189.9	27.3	18.1	412.0
- Thai	7,810.3	420.7	67.2	-	12.8	7.1
Application Approved						
No. of project	22	18	21	10	10	5
Total Investment	88,065.6	22,480.6	6,329.4	3,698.1	857.9	819.4
Total Registered Capital	19,107.4	4,007.3	1,088.1	370.0	9.0	57.0
- Dutch	7,860.3	3,854.3	307.9	358.9	1.8	53.4
- Thai	11,241.9	143.0	580.5	-	7.1	3.8

Note: Netherlandish investment projects refer to projects with Netherlandish capital of at least 10%.
Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table E-2: Netherlands Projects Classified by Investment Size

Investment Size (million Baht)	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment	No. of Projects	Investment
Net Application												
<50	8	196.1	5	115.2	4	80.6	2	25.7	4	116.6	1	26.7
50-99	1	70.0	3	210.5	2	160.0	5	370.9	2	139.1	3	209.6
100-499	5	1,232.9	10	3,305.3	14	3,688.2	3	566.8	4	694.3	3	765.4
500-999	1	920.0	1	932.0	3	1,869.5	0	0.0	0	0.0	1	600.0
>1,000	5	66,008.3	2	17,310.8	0	0.0	1	2,075.0	0	0.0	1	8,022.0
Total	**20**	**68,427.3**	**21**	**21,873.8**	**23**	**5,798.3**	**11**	**3,038.4**	**10**	**950.0**	**9**	**9,623.7**
Application Approved												
<50	9	135.0	6	74.6	5	135.2	0	0.0	4	91.6	2	54.7
50-99	1	53.0	2	122.0	2	143.9	1	72.1	2	153.1	-	-
100-499	7	1,826.3	5	1,613.4	10	3,270.8	7	1,004.0	4	613.2	3	764.7
500-999	0	0.0	1	821.6	3	1,524.3	1	546.2	0	0.0	-	-
>1,000	5	86,051.3	4	19,849.0	1	1,255.2	1	2,075.8	0	0.0	-	-
Total	**22**	**88,065.6**	**18**	**22,480.6**	**21**	**6,329.4**	**10**	**3,698.1**	**10**	**857.9**	**5**	**819.4**

Table E-3: Netherlands Investment Projects through BOI Classified by Type

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Expansion Projects	8	8,459.5	11	16,279.8	15	4,927.3	9	3,012.7	7	472.4	4	8,640.7
New Projects	12	59,967.8	10	5,594.0	8	871.0	2	25.7	3	477.6	5	983.0
Total	**20**	**68,427.3**	**21**	**21,873.8**	**23**	**5,798.3**	**11**	**3,038.4**	**10**	**950.0**	**9**	**9,623.7**
Application Approved												
Expansion Projects	8	8,979.3	8	16,555.6	12	4,271.0	10	3,698.1	8	822.5	3	572.0
New Projects	14	79,086.3	10	5,925.0	9	2,058.4	0	0.0	2	35.4	2	247.4
Total	**22**	**88,065.6**	**18**	**22,480.6**	**21**	**6,329.4**	**10**	**3,698.1**	**10**	**857.9**	**5**	**819.4**

Note: Netherlandish investment projects refer to projects with Netherlandish capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table E-4: Netherlands Investment Projects Applying for Promotion Classified by Sector

Sector \ Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)
Agricultural Products	4	1,865.3	1	380.2	1	545.3	2	188.6	3	110.6	2	303.8
Minerals and Ceramics	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	-	-
Light Industries/Textiles	1	17.5	2	1,018.5	1	494.0	0	0.0	1	108.5	2	197.1
Metal Products and Machinery	3	1,340.5	4	381.2	6	591.2	2	125.8	1	35.0	-	-
Electric and Electronic Products	5	9,019.9	6	15,025.6	10	3,200.4	4	2,227.1	3	310.1	2	8,096.0
Chemicals and Paper	1	155.0	2	569.3	1	80.0	3	496.9	0	0.0	1	600.0
Services	6	56,029.1	6	4,499.0	4	887.5	0	0.0	2	385.8	2	426.8
Total	**20**	**68,427.3**	**21**	**21,873.8**	**23**	**5,798.4**	**11**	**3,038.4**	**10**	**950.0**	**9**	**9,623.7**

Note: 1) Netherlandish investment projects refer to projects with Netherlandish capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table E-5: Netherlands Investment Projects Approved by BOI Classified by Sector

Sector \ Year	1998		1999		2000		2001		2002		2003	
	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)	No. of Projects	Investment (M.Baht)
Agricultural Products	4	1,834.1	0	0.0	1	380.2	0	0.0	2	192.6	2	248.7
Minerals and Ceramics	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	-	-
Light Industries/Textiles	1	493.0	1	17.5	3	1,795.2	0	0.0	0	0.0	1	144.0
Metal Products and Machinery	1	53.0	3	1,601.0	7	575.5	0	0.0	3	237.0	-	-
Electric and Electronic Products	4	8,169.5	5	16,127.1	7	2,802.8	6	3,184.0	4	292.3	-	-
Chemicals and Paper	1	119.8	1	155.0	0	0.0	4	514.4	0	0.0	-	-
Services	11	77,396.2	8	4,580.0	3	775.7	0	0.0	1	136.0	2	426.7
Total	**22**	**88,065.6**	**18**	**22,480.6**	**21**	**6,329.4**	**10**	**3,698.4**	**10**	**857.9**	**5**	**819.4**

Note: 1) Netherlandish investment projects refer to projects with Netherlandish capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table E-6: Netherlands Investment Projects through BOI Classified by Factory Location

Year	1998		1999		2000		2001		2002		2003	
Location	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Zone 1	5	4,195.5	10	19,068.7	7	1,757.4	4	2,328.9	2	90.0	2	157.1
Zone 2	3	387.5	1	74.0	2	798.5	2	241.7	4	447.5	3	1,220.7
Zone 3	12	63,844.3	10	2,731.1	14	3,242.4	5	467.8	4	412.5	4	8,245.9
Total	**20**	**68,427.3**	**21**	**21,873.8**	**23**	**5,798.3**	**11**	**3,038.4**	**10**	**950.0**	**9**	**9,623.7**
Application Approved												
Zone 1	6	197.4	9	17,904.0	7	1,316.0	3	2,776.6	2	302.8	-	-
Zone 2	4	825.3	2	89.5	4	1,601.5	1	169.0	6	498.9	2	620.7
Zone 3	12	87,042.9	7	4,487.1	10	3,411.8	6	752.5	2	56.2	3	198.7
Total	**22**	**88,065.6**	**18**	**22,480.6**	**21**	**6,329.3**	**10**	**3,698.1**	**10**	**857.9**	**5**	**819.4**

Note: Netherlandish investment projects refer to projects with Netherlandish capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table E-7: Netherlands Export-Oriented Investment Projects through BOI

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Export >= 80%	9	9,948.3	14	17,348.3	16	4,716.2	7	2,678.5	4	427.6	4	8,293.1
Total	**20**	**68,427.3**	**21**	**21,873.8**	**23**	**5,798.3**	**11**	**3,038.4**	**10**	**950.0**	**9**	**9,623.7**
Application Approved												
Export >= 80%	8	10,391.3	9	16,605.7	16	5,036.2	9	3,598.1	7	688.1	1	144.0
Total	**22**	**88,065.6**	**18**	**22,480.6**	**21**	**6,329.4**	**10**	**3,698.1**	**10**	**857.9**	**5**	**819.4**

Note: Netherlandish investment projects refer to projects with Netherlandish capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table F-1: British Investment Projects Submitted to BOI

Unit: Million Baht

	1998	1999	2000	2001	2002	2003
Net Application						
No. of projects	44	23	32	24	21	19
Total Investment	27,873.7	5,358.4	3,554.2	11,885.3	9,945.6	20,308.3
Total Registered Capital	6,471.6	1,000.5	526.5	410.6	1,803.7	465.1
- British	3,412.1	922.2	242.7	239.5	922.3	4,219.8
- Thai	2,175.0	36.4	173.4	133.6	70.4	58.3
Application Approved						
No. of project	33	17	38	18	15	14
Total Investment	31,380.2	3,919.3	5,815.2	4,851.7	11,237.0	20,513.4
Total Registered Capital	8,798.6	2,000.5	815.7	756.2	401.8	5,928.0
- British	4,591.6	1,241.7	349.0	635.8	206.7	4,411.1
- Thai	3,016.5	31.5	237.1	33.8	192.9	667.6

Note: British investment projects refer to projects with British capital of at least 10%.
Source: Foreign Direct Investment in Thailand (2003: Jan.-June), International Affairs Division, Office of the Board of Investment, Ministry of Industry, Bangkok, Thailand; and data for 2003 obtained directly from International Affairs Division, Office of the Board of Investment, Ministry of Industry, available at: www.boi.go.th

Table F-2: British Projects Classified by Investment Size

Investment Size (million Baht)	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
<50	20	338.8	11	190.8	17	199.2	15	207.1	8	111.8	8	202.6
50-99	7	496.9	1	50.0	6	366.0	3	219.6	3	241.3	1	51.6
100-499	11	3,102.6	5	989.6	7	1,755.9	4	764.6	5	995.5	6	1,695.5
500-999	1	800.0	5	2,723.0	2	1,233.0	1	675.0	0	0.0	1	572.0
>1,000	5	23,135.4	1	1,405.0	0	0.0	1	10,019.0	5	8,597.0	3	17,786.6
Total	**44**	**27,873.7**	**23**	**5,358.4**	**32**	**3,554.1**	**24**	**11,885.3**	**21**	**9,945.6**	**19**	**20,308.3**
Application Approved												
<50	15	262.4	6	101.0	16	240.8	9	145.4	9	102.9	7	187.6
50-99	4	260.3	3	185.7	5	312.5	2	123.7	1	51.0	-	-
100-499	7	1,812.5	6	1,309.6	12	2,539.9	5	1,232.6	4	1,083.1	2	351.5
500-999	2	1,316.5	1	518.0	5	2,722.0	1	550.0	0	0.0	1	572.0
>1,000	5	27,728.8	1	1,805.0	0	0.0	1	2,800.0	1	10,000.0	4	19,402.3
Total	**33**	**31,380.5**	**17**	**3,919.3**	**38**	**5,815.2**	**18**	**4,851.7**	**15**	**11,237.0**	**14**	**20,513.4**

Note: 1) British investment projects refer to projects with British capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table F-3: British Investment Projects through BOI Classified by Type

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Expansion Projects	17	10,112.7	9	3,137.2	13	2,868.2	4	992.7	7	3,253.6	10	3,560.0
New Projects	27	17,761.0	14	2,221.2	19	686.0	20	10,892.6	14	6,692.0	9	16,748.3
Total	**44**	**27,873.7**	**23**	**5,358.4**	**32**	**3,554.2**	**24**	**11,885.3**	**21**	**9,945.6**	**19**	**20,308.3**
Application Approved												
Expansion Projects	15	7,113.9	7	1,137.5	15	4,055.9	7	1,767.7	3	226.0	6	2,533.7
New Projects	18	24,266.3	10	2,781.8	23	1,759.3	11	3,084.0	12	11,011.0	8	17,979.7
Total	**33**	**31,380.2**	**17**	**3,919.3**	**38**	**5,815.2**	**18**	**4,851.7**	**15**	**11,237.0**	**14**	**20,513.4**

Note: 1) British investment projects refer to projects with British capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table F-4: British Investment Projects Applying for Promotion Classified by Sector

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Agricultural Products	6	865.0	4	888.0	3	609.0	2	943.0	3	342.1	1	51.6
Minerals and Ceramics	1	470.2	0	0.0	3	391.1	1	6.0	1	20.0	1	220.0
Light Industries/Textiles	12	3,176.4	3	33.5	6	492.4	3	190.3	2	199.7	2	83.4
Metal Products and Machinery	5	888.0	3	129.0	2	27.4	2	62.2	3	395.6	2	1,008.3
Electric and Electronic Products	5	1,826.3	7	4,143.3	10	1,608.3	8	117.2	2	2,589.8	7	1,919.1
Chemicals and Paper	3	5,112.0	0	0.0	2	41.5	1	225.0	1	22.2	3	15,681.8
Services	12	15,535.8	6	164.7	6	384.5	7	10,341.6	9	6,376.2	3	1,344.1
Total	**44**	**27,873.7**	**23**	**5,358.5**	**32**	**3,554.2**	**24**	**11,885.3**	**21**	**9,945.6**	**19**	**20,308.3**

Note: 1) British investment projects refer to projects with British capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table F-5: British Investment Projects Approved by BOI Classified by Sector

Sector / Year	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Agricultural Products	5	876.0	4	958.0	7	1,490.0	0	0.0	1	25.0	2	277.6
Minerals and Ceramics	0	0.0	0	0.0	3	414.7	1	6.0	1	14.0	1	20.0
Light Industries/Textiles	6	2,765.5	2	100.5	9	758.0	3	426.3	1	51.0	1	34.1
Metal Products and Machinery	2	375.0	3	152.7	4	162.0	2	62.4	2	459.0	2	1,106.0
Electric and Electronic Products	7	2,476.5	2	2,304.3	9	2,650.8	7	1,294.9	2	5.8	2	608.4
Chemicals and Paper	1	800.0	1	250.0	1	30.0	3	3,031.5	0	0.0	2	15,507.0
Services	12	24,087.2	5	153.8	5	309.7	2	30.6	8	10,682.2	4	2,960.3
Total	**33**	**31,380.2**	**17**	**3,919.3**	**38**	**5,815.2**	**18**	**4,851.7**	**15**	**11,237.0**	**14**	**20,513.4**

Note: 1) British investment projects refer to projects with British capital of at least 10%.
2) New policy launched in August 2000 effects previous figures related to sector.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table F-6: British Investment Projects through BOI Classified by Factory Location

Year / Location	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Zone 1	10	1,889.1	13	2,934.8	11	1,085.4	15	11,388.3	7	2,135.5	10	3,275.7
Zone 2	7	15,385.4	3	1,973.0	8	961.8	3	76.2	7	3,381.8	7	16,944.6
Zone 3	27	10,599.2	7	450.6	13	1,507.0	6	420.8	7	4,428.3	2	88.0
Total	**44**	**27,873.7**	**23**	**5,358.4**	**32**	**3,554.2**	**24**	**11,885.3**	**21**	**9,945.6**	**19**	**20,308.3**
Application Approved												
Zone 1	13	5,230.6	7	903.1	18	2,967.0	8	975.5	7	10,255.2	4	2,166.0
Zone 2	6	17,709.3	4	2,418.5	4	736.0	4	662.4	3	189.0	6	16,898.7
Zone 3	14	8,440.3	6	597.7	16	2,112.2	6	3,213.8	5	792.8	4	1,448.7
Total	**33**	**31,380.2**	**17**	**3,919.3**	**38**	**5,815.2**	**18**	**4,851.7**	**15**	**11,237.0**	**14**	**20,513.4**

Note: 1) British investment projects refer to projects with British capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Table F-7: British Export-Oriented Investment Projects through BOI

	1998		1999		2000		2001		2002		2003	
	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)	No. of Project	Investment (M.Baht)
Net Application												
Export >= 80%	18	6,368.7	10	3,808.2	13	1,978.1	6	1,157.3	8	3,126.1	10	2,123.4
Total	**44**	**27,873.7**	**23**	**5,358.4**	**32**	**3,554.2**	**24**	**11,885.3**	**21**	**9,945.6**	**19**	**20,308.3**
Application Approved												
Export >= 80%	18	7,188.0	12	3,765.5	28	4,679.3	6	1,400.3	6	427.0	5	986.0
Total	**33**	**31,380.5**	**17**	**3,919.3**	**38**	**5,815.2**	**18**	**4,851.7**	**15**	**11,237.0**	**14**	**20,513.4**

Note: 1) British investment projects refer to projects with British capital of at least 10%.
Source: Foreign Direct Investment in Thailand from various years, International Affairs Division, Office of the Board of Investment, Thailand.

Annex II: Questionnaire

European Foreign Investors' 2003 Survey

Respondent-Name:___________________

Position:__________________

Please return by 20 December, 2003

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1. Company Name ____
2. Year of establishment __________________________ year…………………..
3. Percentage of foreign shareholding ____________% foreshare……………
4. Nationality of the parent company _______________________ parent 1……………. parent 2……………

5. Principal business activity in Thailand (More than one catagory can be selected.)

Business Category	Please specify	bus1	bus2
❒ Agriculture and agricultural products	______________________	1	1
❒ Minerals, metals, and ceramics	______________________	2	2
❒ Light industry	______________________	3	3
❒ Metal products, machinery, and transport equipment	______________________	4	4
❒ Electronic and electrical products	______________________	5	5
❒ Chemicals, paper, and plastics	______________________	6	6
❒ Services	______________________	7	7

prod1………………..
prod2………………..

6. Amount of total assets (Million baht) _______________ (as of__________________) asset…………………
7. Factors that have influenced the initial decision to invest into Thailand
   Please use a scale of 1 to 5 (1 = no influence at all, 5 = a very strong influence)

◆ Possibilities for market growth	1	2	3	4	5	Fac-t1_1
◆ Convertibility of the currency	1	2	3	4	5	Fac-t1_2
◆ Political stability	1	2	3	4	5	Fac-t1_3
◆ Free movement of capital	1	2	3	4	5	Fac-t1_4
◆ Rapid economic reforms	1	2	3	4	5	Fac-t1_5
◆ Production costs	1	2	3	4	5	Fac-t1_6
◆ Entry to the Thai market	1	2	3	4	5	Fac-t1_7
◆ Possibility for market entry to Indochina	1	2	3	4	5	Fac-t1_8
◆ Following the competitors	1	2	3	4	5	Fac-t1_9
◆ Potential of ASEAN market	1	2	3	4	5	Fac-t1_10

8. Resources that have influenced the initial decision to invest into Thailand
   Please use a scale of 1 to 5 (1 = no influence at all, 5 = a very strong influence)

◆ Thailand workforce	1	2	3	4	5	resource-t1_1
◆ System of communications	1	2	3	4	5	resource-t1_2
◆ Thailand's banking sector	1	2	3	4	5	resource-t1_3
◆ Thai ports	1	2	3	4	5	resource-t1_4
◆ Availability of the required raw materials	1	2	3	4	5	resource-t1_5
◆ Internal transport network	1	2	3	4	5	resource-t1_6

9. Factors that have influenced the creating and deepening linkages with domestic companies Please use a scale of 1 to 5 (1 = no influence at all, 5 = a very strong influence)						For Official Use Only
Product Technology						
◆ Provision of proprietary product know-how	1	2	3	4	5	prod-t1_1
◆ Transfer of product designs and technical specifications	1	2	3	4	5	prod-t1_2
◆ Technological consultations with suppliers to help them master new technologies	1	2	3	4	5	prod-t1_3
◆ Feedback on product performance to help suppliers improve their performance	1	2	3	4	5	prod-t1_4
◆ Collabolation in R&D (Research and Development)	1	2	3	4	5	prod-t1_5
						………………………
Process Technology						
◆ Provosion of machinery and equipment to suppliers	1	2	3	4	5	process-t1 _1
◆ Technological support on production planning, quality management, inspection and testing	1	2	3	4	5	process-t1 _2
◆ Visits to supplier facilities to advise on lay-out, operations and quality.	1	2	3	4	5	process-t1 _3
◆ Formulation of "cooperation clubs" to interact with suppliers on technical issues	1	2	3	4	5	process-t1 _4
◆ Assistance to employees to set up their own firms	1	2	3	4	5	process-t1 _5
						………………………
Organisation and managerial know-how assistance						
◆ Assistance with inventory management (and the use of just-in-time and other systems)	1	2	3	4	5	Or-kh1_1
◆ Assistance in implementing quality assurance systems	1	2	3	4	5	Or-kh1_2
◆ Introduction to new practices such as network management or financial, purchase and marketing techniques	1	2	3	4	5	Or-kh1_3

10. Please describe your investment plans for 2003. — plan
1 2 3 4

❐ Additional investment in Thailand, including facility upgrading (Please specify products and provinces.) — addprod ……………………… addprod
____ — addprov ………………………..

❐ Relocation of existing facilities to other provinces in Thailand (Please specify provinces.) — addzone 1 2 3
____ — moveprov

❐ Arelocation of existing facilities to other countries (Please specify countries.) — ………………………..
____ — movezone ………………………..

❐ No investment plan — relocate

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11.	If you plan to expand your investment in Thailand, which factors that have influenced the motivations behind the expansion. Please use a scale of 1 to 5 (1 = no influence at all, 5 = a very strong influence)	

	1	2	3	4	5	
◆ Competitive labor costs	1	2	3	4	5	cost…………………
◆ Availability of natural resources in Thailand	1	2	3	4	5	res……………………
◆ Potential of the Thai Market	1	2	3	4	5	tmkt…………………..
◆ Potential of the regional Market (i.e. ASEAN and Indochina)	1	2	3	4	5	rmkt…………………..
◆ Political stability	1	2	3	4	5	stab…………………..
◆ Supportive public policies	1	2	3	4	5	policy…………………
◆ Investment incentives	1	2	3	4	5	incent………………..
◆ Availability of infrastructure	1	2	3	4	5	infra…………………..
◆ Existence of supporting industries	1	2	3	4	5	exist…………………..

12. Are you awear of BOI's new measures aimed at reviving the Thai economy (i.e. relaxing joint-venture criteria to allow more foreign participations, and more incentives for export-oriented projects)?

❒ Yes ❒ No — boimeas……………..

13. If the answer to question 12 is yes, — channel1……………

channel2……………

Through which channels do you recieve information on these new measures? (More than one answer can be selected.) — channel3……………

channel4……………

channel5……………

❒ BOI ❒ Embassies — othchannel

❒ Consulting Firms ❒ Others (Please specify.)______________________ — ………………………..

❒ Media

Please assess the effectiveness of these new measures.

measimp

❒ Very effective ❒ Moderately effective ❒ Slightly effective ❒ Not effective at all — 1 2 3 4

14. Please assess the investment climate in Thailand. (1 = very negative, 5 = very positive) — climmate

1 3 5

1 2 3 4 5 — 2 4

15. Please describe your experience with the following services provided by BOI. Please use a scale of 1 to 5 (1 = unsatisfactory, 5 = very efficient)

		1	2	3	4	5	
a)	Information services	1	2	3	4	5	inf
b)	Investment promotion application procedures	1	2	3	4	5	proc
c)	Usage of incentives (i.e. importation of raw materials with duty reduction or exemption	1	2	3	4	5	incen
d)	Services pertaining to abtaining licenses and permits	1	2	3	4	5	license

16. Please describe your experience with the following government agencies: (Please use a scale of 1 to 5 (1 = unsatisfactory, 5 = very efficient)

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Immigration Department	1	2	3	4	5	imm
Ministry of Labor and Social Welfare	1	2	3	4	5	labwel
Commercial Registration Department	1	2	3	4	5	comm
Industrial Estate Authority of Thailand	1	2	3	4	5	ieat
Revenue Department	1	2	3	4	5	rev
Customs Department	1	2	3	4	5	customs
Industrial Works Department	1	2	3	4	5	indus
Thailand Industrial Standard Institute	1	2	3	4	5	stdn

17. Please assess the efficiency of the BOI in assuming the role of the co-ordinator between foreign investors and other agencies to solve problems for foreign investors. Please use the scale of 1 to 5 (1 = unsatisfactory, 5 = very efficient).

1 2 3 4 5 link……………………

18. What are your important problems in doing business in Thailand?
Please use the scale of 1 to 5 (1 = not important at all, 5 = very important).

◆ Fluctuation of Thai baht	1	2	3	4	5	prob1
◆ High interest rates	1	2	3	4	5	prob2
◆ Difficulties in obtaining loans from financial institutions	1	2	3	4	5	prob3
◆ Shrinking demestic demand	1	2	3	4	5	prob4
◆ Rising labor costs	1	2	3	4	5	prob5
◆ Infrastructure inadquacy	1	2	3	4	5	prob6
◆ Shortage of qualified manpower	1	2	3	4	5	prob7
◆ Traffic congestion	1	2	3	4	5	prob8
◆ Abureaucratic red tape	1	2	3	4	5	prob9
◆ Policy inconsistency	1	2	3	4	5	prob10
◆ Lack of basic and supporting Industries	1	2	3	4	5	prob11
◆ High tax burdens	1	2	3	4	5	prob12
◆ Corruption	1	2	3	4	5	prob13
◆ Language problem	1	2	3	4	5	prob14
◆ Others (Please specify.) __________________	1	2	3	4	5	otherp

………………………..

Thank You for Taking Time to Complete this Questionnaire.

Appendixes

Appendix 2.1: Variables Related to OLI Advantages

Variables Related to Ownership-Specific Advantages	Variables Related to Location-Specific Advantages	Variables Related to Internalisation-Related Advantages
Proprietary human capital stocks	***Market size and/ or growth***	***Information costs***
▪ R&D employee-total employee ratio ▪ Measures of employee training intensity ▪ Measures of employee skill levels	***Cost of factors of production***	***Legal Costs of market transactions with customers or suppliers***
Proprietary innovative capacity	▪ Labor costs relative to labor productivity ▪ Supplies of natural resources	***Costs related to insuring input own firm***
▪ R&D sales ratio	***Transport and communication costs***	▪ Costs of lemons produced by own firm ▪ Costs of quality control in own firm ▪ Costs of supervising quality control in subcontracting
Proprietary marketing capacity human	▪ Measures of geographic or psychological distance ▪ Measures of infrastructure development	***Costs related to maintaining marketing networks***
▪ Advertising sales ratios	***Exchange rate***	▪ Costs of marketing through one's own market network ▪ Costs of marketing through someone else's marketing network
Proprietary management capacity	***Trade barriers***	***Costs of government restrictions on market transactions***
▪ Measures of top management's efficiency	▪ Tariff rates ▪ Measures of non-tariff barriers	▪ Tax rates ▪ Tariff rates ▪ Measures of non-tariff barriers
	FDI incentives and/ or restrictions	***Costs of government restrictions on intra-firm transactions***
	▪ Subsidies ▪ Tax rates	▪ Costs of complying with anti-monololy regulations ▪ Costs of complying with equity restrictions ▪ Costs of penalties for transfer pricing, etc.

Source: Dunning, J.H. (1993), Multinational Enterprises and the Global Economy, Addison-Wesley Publishing Company Inc., New York, USA., pp. 81-84.

Appendix 2.2: Summary of Selected Recent Studies of Determinants and Impacts of FDI

Study	Issue under investigation	Findings
Zukowska Gagelmann (2000)	Examining the effect of FDI on productivity growth	FDI has a negative impact on the performance of the most productive local firms
Driffield and Taylor (2000)	The labour market impact of inward FDI in the UK	FDI leads to an increase in wage inequality and the use of skilled labour in domestic firms
Kearns and Ruane (2000)	Relationship between FDI and growth in Ireland	FDI has been beneficial to Ireland. R&D active firms provide great benefits.
Fan and Dickie (2000)	Contribution of FDI too growth and stability in Asian countries	FDI accounts for 4-20 per cent of GDP growth.
XU and Wang (2000)	International trade and FDI as channels for technology diffusion	No evidence that FDI is a significant channel for technology diffusion.
Nachum (1999)	Impact of FDI on international competitiveness	FDI weakens the link between location advantages and ownership advantages.
Asafu-Adjaye (2000)	Effect of FDI on Indonesian economic growth	FDI has a significant positive effect on growth.
Jarolim (2000)	Role of FDI in the economic transition of the Czech Republic	FDI's spillover effect is statistically insignificant.
Henneberger and Ziegler (2000)	Effect of Swiss FDI on employment	Negative correlation between variations in levels of domestic and foreign employment.
Leahy and Montagna (2000)	The welfare implications of using union legislation to attract FDI	The host government may ban unions in the short run to extract higher rents in the future.
Barrd and Holland (2000)	Effects of FDI on manufacturing sector in central Europe	FDI has led to increasing labour productivity in most manufacturing sectors.
Figlio and Blonigen (2000)	Effects of FDI on local communities in the USA	FDI raises local real wages more than domestic investment but lowers per capital local government expenditure.
Berthelemy and Demurger (2000)	Relationship between FDI and growth in China	FDI plays a fundamental role in provincial growth.
Zhang (1999)	Relationship between FDI and economic growth in Asian countries	FDI enhances growth in the long run.
Chen and Ku (2000)	Effect of FDI on firm growth	FDI is beneficial to the survival firms.
Braunerhjelm and Oxelheim (2000)	Substitutability between FDI and domestic investment	Substitutability exist for R&D intensive production.

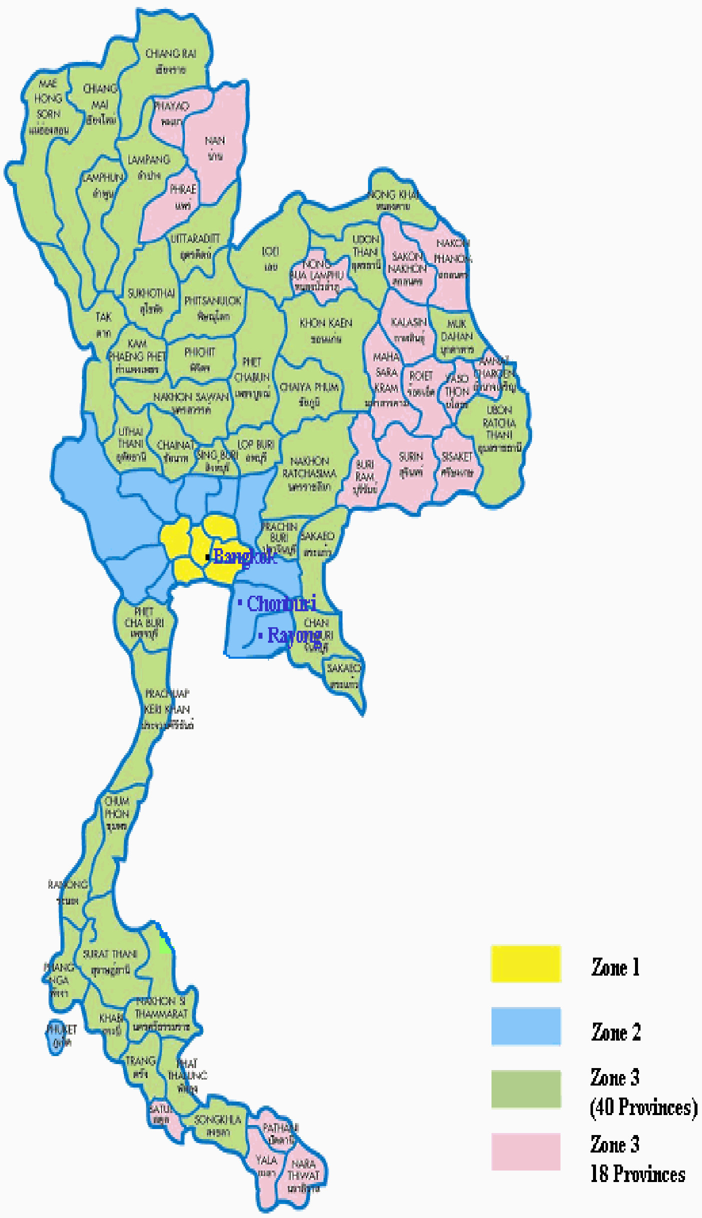
Djankov and Oxelheim (2000)	Relationship between FDI and productivity in Czech enterprises	FDI has a positive impact on total factor productivity of recipient firms.
Hsu and Chen (2000)	Effect of FDI on labour productivity in Taiwan	FDI enhances productivity of small and medium-sized firms. It has spillover on large firms.
Zhang (1999)	Effect of FDI on economic growth in China	Long-run link and two-way causality between FDI and growth.
Walkenhorst (2000)	Spillovers from FDI to related industries in transition economies.	FDI brings not only capital but technological skills.
Bosworth and Collins (1999)	Implications of financial flows for saving and investment in host country	Little correlation among FDI, portfolio investment and loans. FDI has close to one-to-one effect on investment.
Glass and Saggi (1999)	Consequences of FDI in a general equilibrium setting	FDI raises wages and lowers profits in the host country, and vice versa.
Yabuuchi (1999)	Effects of FDI on welfare and unemployment	An increase in FDI leads to an increase in welfare and a decrease in unemployment if capital is also used in the domestic manufacturing sector.
Fung et al. (1999)	Effects of FDI on national welfare	FDI can affect national welfare positively or negatively.
Saggi (1999)	Implications of licensing and FDI for technology transfer	Relative to licensing, FDI limits technology spillovers to local firms, but dissipates more rents in the product market.
Bonelli (1999)	Links between FDI and industrial competitiveness in Brazil	FDI has contributed to increased productivity and competitiveness in Brazil.
Roling (1999)	German job export through FDI	Empirical basis for German job export is weak.
Driffield (1999)	Employment consequences production efficiency	FDI generated employment substitution away from local firms.
Okamoto (1999)	Effect of FDI on production efficiency	FDI has a positive effect through the enhancement of competitive pressure and technology transfer.
Chuang and Lin (1999)	Effect of FDI on productivity	FDI has a positive spillover effect on productivity.
Elahee and Oagan (1999)	The role of FDI in Asia and Latin America	FDI plays an important role in fostering economic growth.
Aitken and Harrison (1999)	Effect of FDI on domestic firms in Venezuela	FDI affects the productivity of domestic firms negatively. Net impact of FDI is small.

De Andrade-Castro and Teixeria (1999)	FDI, technology transfer and growth	FDI may have a positive effect on long-run growth, eventually helping the recipient country to catch up with the investing growth.
De Mello (1999)	Direct investment-led growth	The extent to which FDI is growth-enhancing depends on the degree of complementarily and substitution between FDI and domestic investment.
Glass and Saggi (1999)	FDI and technology	The role of FDI plays in technology transfer depends on whether substitute channels are available for transfer to the host country.
Heinrich and Konan (2000)	Impacts of PTAs on horizontal FDI	PTA welfare increases regardless of changes in FDI.
Stone and Jeon (2000)	Relationship between FDI and trade in Asia-Pacific economies	Significant and positive relationship between FDI and trade.
Mucchielli et al. (2000)	Relation between intra- or inter-firm trade and FDI	Complementarity for global trade is explained by complementarity for intra-firm trade and substitutability for inter-firm trade.
Castilho and Zignago (2000)	Relationship between FDI, trade and regional integration	Positive link between FDI and trade flows mitigated by the impact of integration on FDI.
Ellingsen and Warneryd (1999)	FDI and protectionism	An import-competing industry may not want maximum protection because it may encourage FDI, which could be less desirable.
Wilamoski and Tinkler (1999)	The effect of FDI on exports and imports	FDI leads to increased exports and imports.
Gopinath et al. (1999)	FDI and trade	Small substitution effect between foreign sales and exports.
Chen (2000)	Relationship between FDI and intra-industry trade	Positive and strong link between FDI and intra-industry trade.
Yuko Kinoshita (2001)	Firm Size and Determinants of Foreign Direct Investment	Low labour cost and sufficient infrastructure encourage small firms to invest in a certain country while, for large firms, market size of the host country and strategic considerations
Alan A. Bevan Saul Estrin (2000)	The Determinants of Foreign Direct Investment in Transition Economies	Increases in FDI improve country credit ratings with a lag, hence increasing future FDI receipts.
Harinder Singh and Kwang W. Jun (1995)	Some New Evidence on Determinants of Foreign Direct Investment in Developing Countries	Manufacturing exports are a significant determinant of FDI flows for countries.

Chen Chunlai (1997)	The composition and location determinants of foreign direct investment in China's manufacturing	Industries with larger market size and higher growth rate attracted relatively more inward FDI stocks
Magnus Blomström, Steven Globerman and Ari Kokko (1999)	The Determinants of Host Country Spillovers from Foreign Direct Investment: Review and Synthesis of the Literature	The competitiveness of host country markets, proxies e.g. by the openness to imports, and the technical capability of local firms are among the most important determinants of spillover benefits.
C. Joe Ueng Thomas, TX Kalu Ojah (2000)	The determinants of wealth effects of foreign direct investment by U.S. firms	Results show that positive returns are recorded for firms with large R&D expenditures, among others
Carmela Martin (2000)	Determinants of bilateral foreign direct investment flows in the OECD, with a closer look at the former communist countries	On the one hand, the technological superiority of the investor vis-à-vis the host and, on the other, the relative abundance of physical capital, the endowments of human capital, transport infrastructure, and the size of the host countries clearly act as a factor of attraction for FDI.

Sourec: Moosa, I.A. (2002), Foreign Direct Investment Theory: Evidence and Practice, Palgrave, Macmillan, Hampshire, pp.229-302.

Appendix 4.1: BOI Investment Promotion Zone



Note: **Zone 1** consists of 6 central provinces with high income and good quality of infrastructure: Bangkok, Nakhon-Pathom, Nonthaburi, Pathum-Thani, Samut-Prakan and Samut-Sakhon.
Zone 2 consists of 12 provinces: Ang-Thong, Ayutthaya, Chachoengsao, Chon-Buri, Kanchanaburi, Nakhon-Nayok, Ratchaburi, Samut-Songkhram, Saraburi, Suphanburi, Phuket, and Rayong.
Zone 3 consists of the remaining 58 provinces with low income and less developed infrastructure.

Source: BOI (2003b), A Guide to the Board of Investment, Office of the Board of Investment, Royal Thai Government, October, 2003, no page number.

Appendix 6.1: Foreign Business Act of B.E. 2542 (1999)

Sector	**Nature of Exception** (e.g., prohibition, limitation, special conditions and special screening)
List 1: The businesses not permitted for foreigners to operate due to special reason: (1) Newspaper business, radio broadcasting or television station business (2) Rice farming, farming or gardening (3) Animal farming (4) Forestry and wood fabrication from natural forest (5) Fishery for marine animals in Thai waters and within Thailand specific economic zones (6) Extraction of Thai herbs (7) Trading and auctioning Thai antiques or national historical objects (8) Making or casting Buddha images and monk alms bowls (9) Land trading.	Foreign equity participation must be lower than half of the registered capital.
List 2: The businesses related to the national safety or security or affecting arts and culture, tradition, folk handicraft or natural resource and environment: ***Group 1: National safety/security-related businesses*** (1) Production, selling, repairing and maintenance of (a) Firearms, ammunition, gun powders, explosives (b) Accessories of firearms, ammunition and explosives (c) Armaments, ships, air-crafts, or military vehicles (d) Equipment or components, all categories of war materials (2) Domestic land, waterway, or air transportation, including domestic airline business ***Group 2: Businesses affected to culture, traditional and folk handicrafts*** (1) Trading antiques or art objects being Thaiarts and handicraft (2) Production of carved wood (3) Silkworm farming, production of Thai silk yarn, weaving Thai silk or Thai silk pattern printing (4) Production of Thai musical instruments (5) Production of goldware, silverware, nielloware, bronzeware and lacquerware (6) Production of crockery of Thai arts and culture ***Group 3: Businesses affecting natural resources or environment*** (1) Manufacture of sugar from sugarcane (2) Salt farming, including underground salt (3) Rock salt mining (4) Mining, including blasting or crushing (5) Wood fabrication for furniture and utensil production	Foreign equity participation must be lower than half of the registered capital except permission by the Minister with the approval of the Cabinet. Foreign juristic entities allowed to operate business under this list must meet the following two qualifications: (1) At lest 40% of all the shares must be held by Thai persons or juristic persons that are not foreigners. (Given reasonable cause, the minimum may be lowered to 25% by the Minister with the Cabinet's approval.) (2) The number of Thai directors shall not to be less than two-fifths of the total number of directors.
List 3: The businesses which Thai nationals are not yet ready to compete with foreigners: (1) Rice milling, and flour production from rice and farm produce (2) Fishery specifically marine animal culture (3) Forestry from forestation (4) Production of plywood, veneer board, chipboard or hardboard	Foreign equity participation must be lower than half of the registered capital except in case of permission granted by the Director- General with the approval of the Committee.

(5) Production of lime (6) Accounting services business (7) Legal services business (8) Architecture service business (9) Engineering service business (10) Construction except for: *(a) Construction rendering basic services to the public in public utilities or transport requiring special tools, machinery, technology or construction expertise having the foreigner's minimum capital of 500 million Baht or more* *(b) Other categories of construction prescribed by the ministerial regulations* (11) Broker or agency business, except: *(a) Being broker or agent for underwriting securities or services connected with future trading of commodities or financing instrument s or securities* *(b) Being broker or agent for trading or procuring goods or services necessary for production or rendering services amongst affiliated enterprises* *(c) Being broker or agent for trading, purchasing or distributing, or seeking both domestic and foreign markets for selling domestically manufactured or imported goods in the manner of international business operations having the foreigner's minimum capital 100 million Baht or more* *(d) Being broker or agent of other category as prescribed by the ministerial regulations* (12) Auction, except: *(a) Auction in the manner of international bidding not being the auction of antiques, historical artifacts or art objects which are Thai works of arts, handicraft or antiques or having the historical value* *(b) Other categories of auction as prescribed by the ministerial regulations* (13) Internal trade connected with native products or produce not yet prohibited by law (14) Retailing all categories of goods having the total minimum capital less than 100 million Baht, or less than 20 million Baht per shop (15) Wholesaling all categories of goods having the total minimum capital of each shop less than 100 million Baht (16) Advertising business (17) Hotel business, except for hotel management service (18) Guided tour (19) Selling food or beverages (20) Plant cultivation or propagation business (21) Other categories of service business except that prescribed in the ministerial regulations	

Source: Adapted from BOI (2003a), A Business Guide to Thailand: Legal Issues for Foreign Investors, Office of the Board of Investment, Royal Thai Government, October 2003, pp. 22-23; and Foreign Business Act of B.E. 2542 (1999), cited from: www.thailawforum.com (11.02.2004)

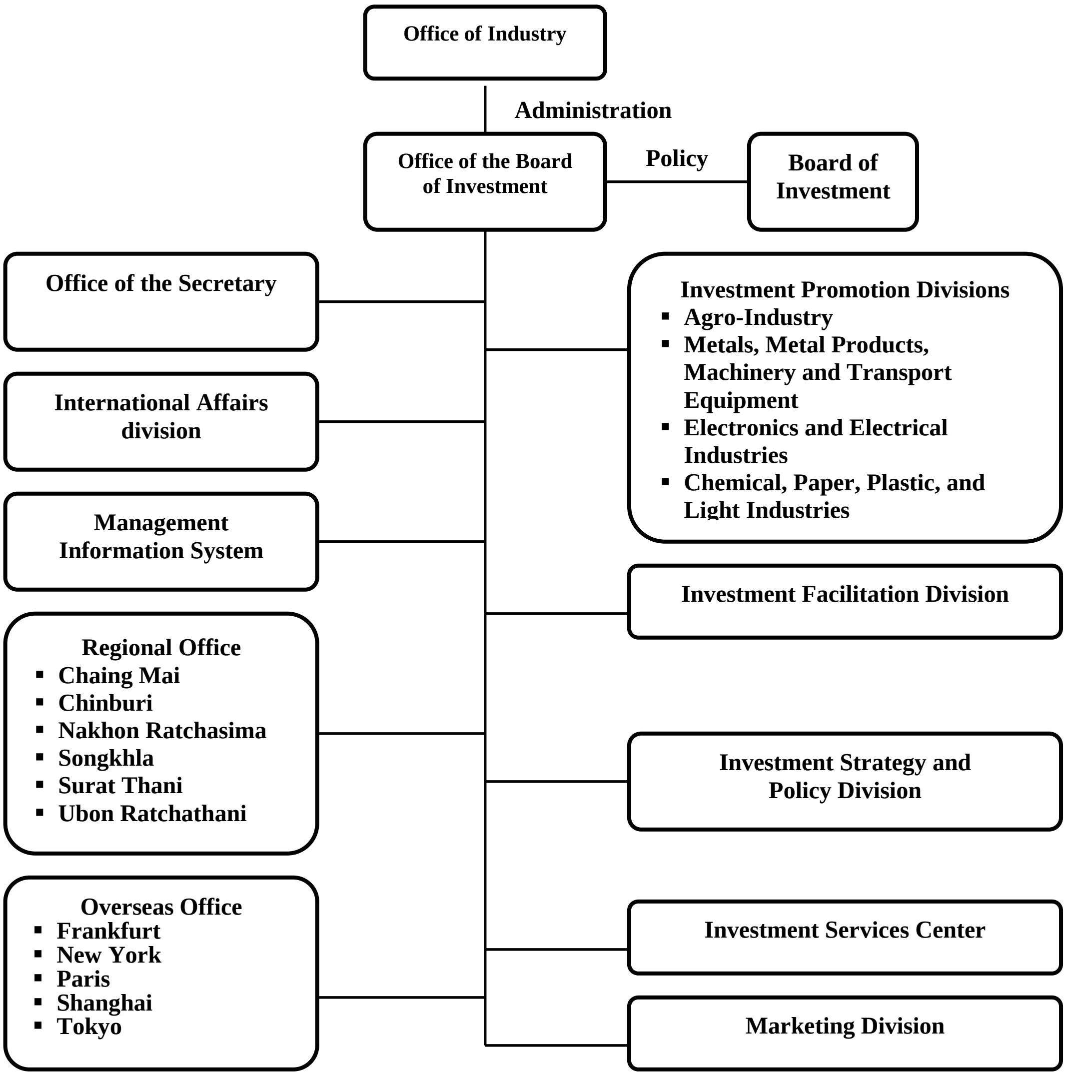
Appendix 6.2: General Policy Environment in Thailand

Export Promotion Policies		Tax Refunds	Liberalization Policies		Abolition of Localization Measures
Refinancing Facilities ▪ This was the first system set up in Thailand to promote exports established by the central bank in 1956 and still in action today. ▪ Exporters wishing to obtain cheap loans can issue their promissory notes to be discounted by commercial banks at below market interest rates. These promissory notes can be rediscounted by the central bank at further lower rates under this system. In the initial phase, this so-called 'packing credit' was mostly used by exporters of agricultural products such as rice, sugar, and tapioca, however the loans were provided for a maximum of six months. ▪ In addition to this packing credit, short-term pre-shipment loans have also been provided by the Thai government based on foreign letters of credit, orders, and contracts. Use by small-scale and new exporters has been encouraged. These refinancing programs were originally	**Investment Promotion for Export** ▪ Prior to this policy, the Board of Investment (BOI) began to grant incentives such as a holiday on income tax and exemption from import duties on machinery, raw materials, and intermediate goods for promoted activities in 1960. ▪ Almost all promotional companies in the 1960s produced products for the domestic market. In the 1970s, there were various policies to promote capital-intensive industrialization, so the export ratios of the promoted companies did not increase. ▪ In 1983, the BOI announced Criteria for approving 100 per cent foreign ownership investment projects, with export ratios of over 80 per cent, so as to promote exports. As a result, export-oriented projects supported by the BOI increased in the late 1980s after the	▪ This policy aims to increase the competitiveness of export products, therefore the Customs Department operates tax refund measures. ▪ Under Section 19 is of the 1939 Custom Act (No.9), the authority refunds tax and duty paid on raw materials imported for the production of goods for export within one year. ▪ The drawback system, however, is not available for exporters who do not manufacture the export items themselves and does not cover taxes on domestic raw materials which are used to manufacture the exports. ▪ In 1981 the authorities set up another system for the rebate of indirect tax in order to compensate tax and duty paid on domestic goods for export. Under this rebate scheme, exporters are entitled to receive rebates on indirect taxes added in the cost of materials, spare parts, machinery, fuel, and power. The rebate is paid by means of tax coupons. The	**Reduction of Import Tariffs** ▪ This policy was the outcome of the increase of industry's share of GDP. To deal with these changes in its economic structure and in response to global liberalization of trade and investment, the Thai government has been reducing its import tariffs step by step since 1990. ▪ Until the 1980s, Thailand still had substantial import protection for certain industries. Consumers had to bear the burden of this protection, and higher costs obstructed the export competitiveness of various industries. ▪ By March 1994, Thailand had lowered its tariffs on 2990 goods in nine categories such as passenger cars, commercial vehicles, machinery, and electronic goods (39.53 percent of total tariff items). Starting from January 1995, it reduced import tariffs on a further 3908 goods in 11 categories (52 percent), but exempting agricultural goods. ▪ This rationalization of the tariff system also streamlined the tariff structure from 39 rates to only 6 rates in conformity with the value added escalation: 0 percent for goods that fall under the tariff exemption policy such as medical equipment; 1 percent for	**Deregulation of Industrial Sectors** ▪ Due to the changes in the structure of the Thai economy, the government has been proceeding to deregulate the industrial sectors with an aim to increase competitiveness in local industry and to gain access to foreign markets. ▪ In the past, local industries have often required continuing protectionist policy, but both growing domestic demand and international pressures have induced dramatic liberalization of domestic economic policy. ▪ Government policies towards the automobile industry in Thailand has protected local industry with high tariff rates, and has regulated the establishment of new assembly plants since 1978 in order to achieve economies of scale. ▪ In 1991 the government decided to liberalize the automobile industry so	▪ In accordance with the GATT agreements under the global liberalization of trade and investment, local content requirement and export requirement measures are to be abolished. Since 1971, the Thai government has attempted to force auto assemblers to source local parts in order to develop the local auto parts industry. ▪ Since 1987 assemblers of passenger cars have had to achieve a local content of 54 per cent by total assigned points. However, it is expected that Thailand will abandon this local content requirement within five years (by 2000), to comply with the trade related investment measures (TRIM) of GATT regulations. 12 Local auto parts companies consequently are urged to improve their technological standards and to upgrade their competitiveness. The export requirement measures will have to be abandoned within eight years (by 2003), to comply with the subsidies and countervailing measures (SCM) of GATT

handled by the central bank, but were transferred to the newly established Export-Import Bank in February 1994. Other services of the Export-Import Bank are long-term lending for exports of machinery and other capital goods, medium-term credit to exporters of agricultural goods, equity participation in overseas investment of Thai investors, and export insurance.	international adjustment of exchange rates. ▪ By sector, the light industries, including textiles, accounted for 47.6 per cent of the investment value. There was an increase in the number of export-oriented projects with small amounts of investment, and which took advantage of low labor costs.	committee set up by the Fiscal Policy Office decides on the items subject to this rebate and the rate of rebate. There is, however, a ceiling for the tax rebate of 2 per cent of the total tax revenue.	raw materials, electronic parts, and vehicles for international transportation; 5 percent for primary and capital goods such as machinery, tools, and computers; 10 percent for intermediate goods; 20 percent for finished products; and 30 percent for goods that need extra protection. A grace period is granted to allow adjustments for products which may have difficulty competing with imports, such as petrochemical products, textiles, furniture, toys, leather goods and watches.	as to decrease domestic car prices and improve competitiveness. The ban on imports of completely built-up automobiles (CBU) was lifted in April 1991 and import tariffs on CBU and completely knocked-down kits (CKD) were substantially reduced in July 1991 and the government approved the establishment of new assembly plants for passenger cars in 1994.	regulations. ▪ Most regulations of the Board of Investment for promoting export have already been abolished. Further, the government has agreed to amend the Alien Business Law.The purpose of this amendment is to encourage more foreign investment and to permit foreigner engagement in more fields of industry, in conformity with world-wide deregulation.

Source: Adapted from Shigeki Higashi, Economic Policy and the Growth of Local Manufacturers in Thailand, pp. 2-7. Cited from http://www.ide.go.jp/English/Publish/Apec/pdf/96wp_04.pdf (22.04.2004)

Appendix 6.3: Board of Investment Organisation Chart



Source: BOI (2003b), A Guide to the Board of Investment, Office of the Board of Investment, Royal Thai Government, October, 2003, p. 3.

Appendix 6.4: Compendium of Investment Policies and Measures in Thailand

I) Application

1. Agency Involved in Administering Investment Application and Granting Incentives	The Board of Investment (BOI), Ministry of Industry
2. Conditions	To qualify for incentives, an investor shall file its application with the Office of the Board of Investment (OBOI). A wide range of activities in both manufacturing and services sectors are eligible for promotion. The approval process will normally be taken within 60 days of submitting complete documentation.
3. Special Services	**One Stop Service:** BOI Thailand offers one-stop service which provides wide ranges of services including Investment Opportunities. The Investment Services Center and the Regional Investment Promotion Division maintain comprehensive information on investment opportunities in Thailand, both by sector and by region. Information and investment advice is readily available to both Thai and foreign investors at no charge. BOI Thailand offers one-stop service which provides wide ranges of services including: **Assistance in Setting Up a Business** The BOI offers a wide range of valuable business-related services to investors, including helping investors obtain official permits and documents require and permanent residence permits, industrial subcontracting and investment matchmaking. BOI Thailand also assists investors to gain access to public utilities such as water, electricity, telecommunications. **One-Stop Service for Visas and Work Permit** It has been established to process applications or renewals of visas and work permits within 3 hours. **A Foreign Expert Services Unit** It provides both foreign and Thai companies with expedited services related to bringing in expatriates to work on BOI-promoted projects. **The BOI Help Unit** It provides assistance in solving problems and dealing with other government agencies.

II) Employment of Foreign Workers

1. Conditions for Approval of Foreign Employees	Under the Investment Promotion Law, aliens are allowed to come to Thailand to conduct research in investment opportunities, or for other matters which might benefit investment. In this regard, the BOI will grant permission to stay in Thailand for not more than six months at a time A promoted company will be allowed by BOI to bring in foreign personnel as skilled technicians and experts together with their families. The duration of one year at a time for the work permit will be allowed except for positions, which have been approved to work in the promoted company for more than two years. However, BOI encourages the employment of Thai nationals as managers or technicians. Recently, BOI set up a One-Stop Center to handle all aspects of visa extensions and issuance of work permit, including work permit extensions, issuance of re-entry permits, and changes in type of visa to non-immigrant. The office is expected to be able to process extensions of visas and work permits within three hours, assuming all necessary supporting documents are provided.

2. Work Permit	The Alien Occupation Law, adopted in 1973, requires all aliens working in Thailand to obtain a Work Permit prior to starting work in the Kingdom. The Work Permit will be valid only for the period of time that the alien's Non-Immigration Law. The Work Permit will be subject to renewal in accordance with the renewed or extended visa. The Labor Ministry will in principle grant an initial duration of one year for the Work Permit. A Work Permit must be renewed before its expiry date or it will automatically lapse.
III) Financial Regulations	
1. Borrowing	There are no restrictions relating to borrowing of residents from commercial banks. Non-residents may freely borrow either directly or through FX Swap transactions in local currency from commercial banks to finance their underlying activities. Without underlying activities, non-resident borrowing in local currency is limited to a maximum of Baht 50 million per person. Private companies may provide lending to affiliated companies abroad of which they hold at least 25% share. Transfers abroad up to US$ 10 million per year do not require approval from the Bank of Thailand.
2. Foreign Exchange	Remittances of funds for investment and loans into Thailand are freely permitted, but foreign exchange inflows in the form of capital and loans must be surrendered to commercial banks or deposited in a foreign currency account within 7 days from the date of receipt.
3. Source of Financing	Sources of financing are equally available to foreign and domestic firms. These sources include commercial banks, the Industrial Finance Corporation of Thailand (IFCT), and finance, securities, and credit companies.
4. Special Regulation	Regarding the issuance of debentures, an approval from the Office of the Securities and Exchange Commission is required. Debentures must be issued by a public limited company, with a value of not less than 100 million baht.
IV) Foreign Equity Policies	
Foreign Equity Policies	The 1972 Alien Business Law grants foreigners permission to engage in certain business enterprises in Thailand only if more than 50% of the capital is owned by Thai Nationals. However, for BOI promoted companies, majority foreign owner-ship is permitted for projects that export not less than 50% of sales. Moreover, 100% foreign ownership is permitted for: ▪ Priority projects as specified in Section of Investment Field/Sector of this Compendium. ▪ Projects in agriculture, animal husbandry, fisheries, mining and services with investment over 1 billion Baht (only for the first 5 years of operation). ▪ Projects which export at least 80% of sales. ▪ Projects that are Located in the Investment Promotion Zone 3. ▪ Under the short-term measures to encourage Investment, the Existing promoted Projects in zone 1 and 2 are allowed to hold all or majority of Foreign shareholders with the consent of Thai partners. The approval will be granted on a case by case basis.
V) Incentives	
1. Corporate Income Taxes	**Zone1:** ▪ 3 years exemption for projects that export at least 80% of total sales or that are located in industrial estates or promoted industrial zones. (Zone 1 consists of Bangkok and five surrounding provinces: Pathum Thani, Samut Prakan, Samut Sakhon, Nakhon Pathom, and Nonthaburi.) **Zone 2:** ▪ 3 years exemption, extendable to 7 years for projects that locate in industrial estates or promoted industrial zones. (Zone 2 consists of

	the ten provinces surround Zone 1: Ayutthaya, Ang Thong, Chachoengsao, Chon Buri, Kanchanaburi, Nakhon Nayok, Ratchaburi, Samut Songkhram, Saraburi, and Suphan Buri) **Zone 3:** ▪ 8 years exemption and 50% reduction for additional 5 years period after the exemption period. ▪ Priority activities: 8 years regardless of location.
2. Exemption from or reduction of taxes on imported capital goods	**Zone1:** ▪ 50% reduction for projects that export at least 80% of total sales, or locate in industrial estates or promoted industrial zones. **Zone 2:** ▪ 50% reduction. **Zone 3:** ▪ 100% exemption.
3. Exemption from or reduction of taxes on imported raw materials	▪ One year exemption will be provided for raw or essential material used in export products for projects exporting at least 30% of total sales for projects located in Zone 1 and 3. ▪ Five year exemption for projected located in Zone 3. Moreover, the promoted project in Zone 3 will also be granted 75% reduction of import duties for five years on raw or essential materials used for domestic sales (except Laem Chabang Industrial Estate).

VI) Investment Fields/Sectors

1. Fields / Sectors	1. List of Activities Eligible for Investment Promotion as appeared in the BOI Announcement No.1 and 2/1993 is classified in 7 sectors : ▪ Agriculture and Agricultural Products, ▪ Minerals, Metals, and Ceramics, ▪ Light Industry, ▪ Manufacture of Metal Products, Machinery, and Transport Equipment, ▪ Electronics and Electrical Industry, ▪ Chemical Industry, Paper and Plastics, ▪ Services and Public Utilities. 2. Under BOI's criteria, the following activities will be given higher privileges; ▪ basic transportation systems, ▪ public utilities, ▪ environmental protection and or restoration, ▪ direct involvement in technological development, ▪ basic industries, ▪ 19 activities in supporting industry including Mould and Die, Jig and Fixture, Forging, Casting, Tooling, Cutting Tools, Grinding Tools, ▪ Sintered products, Surface Treatment, Heat Treatment, Center for Precision Machining, Electronic Connector, NI-CD Battery and Rechargeable Battery, Engineering Plastic, Machinery, Measurement Equipment for Industries, Anti Lock Break System, Electronic Fuel Injection System, Substrate for Catalytic Converter
2. Restrictions	1. Private and foreign investments are prohibited in fields stated in the Industrial Policy Announcements including manufacture of sugar, upstream petrochemical, tantalum, multi-purpose engine, and concrete reinforcement steel. 2. The 1972 Alien Business Law also prohibits foreigners from majority participating in specific business activities. Those activities are classified into Category A, B and C including businesses in

	agriculture, commerce, services, industries, transportation and construction. However, the foreigners are allowed to engage in Category B and C with Board of Investment promoted status. 3. The Industrial Policy Announcement and the 1972 Alien Business Law are now reviewed to be more liberalised.

VII) Land Ownership

Acquisition of Land and Building (for business and residential purposes)	Under the Land Code, non-Thai individuals and companies are generally not allowed to own land. However, foreign companies promoted by the Board of Investment and oil concessionaires are entitled to land ownership. Moreover, the Land Code provides for non-Thai individuals or companies to own land by the virtue of treaty provisions or by ministerial permission. The Condominium Act allows foreign individuals and companies to own condominium units provided that the total condominium units owned by foreign entities do not exceed 40% of the total floor area of each condominium.

VIII) Relevant Legislation

1. Investment Act	**1977 Investment Promotion Act (amended in 1992):** Sets forth tax and non-tax incentives for both local and foreign investors in areas promoted by the Government.
2. Companies Act/ Factory Act	**The Factory Act of 1969 (amended in 1972, 1975, 1979, and 1992):** Stipulates Regulations for factory construction, operation and expansion, and safety requirements. The latest revision of the Act also imposes strict controls on industrial pollution. The Act is administered by the Ministry of Industry.
3. Other Legislation	**1972 Alien Business Law (amended in 1999 entitled the Foreign Business Act):** Sets categories of activities where foreign equity participation is limited. Businesses covered by this Act are divided into three categories. Those businesses listed in category one are absolutely prohibited to foreigners unless an exception contained in a special law or treaty.
4. Minimum Investment Level	Under the Board of Investment's criteria for promotion, a minimum required capital one million baht (excluding cost of land and working capital) is required.

IX) Taxation

1. Corporate Tax	Corporate Income Tax: 30% of net profits. Foundations and Associations pay income taxes at a rate of 2-10% of gross business income, depending upon the activity. International transport companies face a rate of 3% of gross ticket receipts and 3% of gross freight charges
2. Value Added Tax / Sales Tax	10% starting from 16 August 1997. Those who are affected by this tax are: producers, providers of services, wholesalers, retailers, exporters and importers. Special exemption from VAT: ▪ Operators earning less than 600,000 baht per year. ▪ Sale or import of agricultural products, live stocks, and agricultural inputs, such as fertilizer, feed and chemicals, ▪ Sale or import of published materials and books. ▪ Auditing, legal services, health services and other professional services. ▪ Cultural and religious services.

	▪ Educational services. ▪ Services provided by employees under employment contracts. ▪ The sale of goods as specified by Royal Decree. ▪ Goods exempt from import duties, under IEAT Act. ▪ Domestic transportation (excluding airlines) and international transportation (excluding air and sea lines).
3. Withholding Tax	Withholding tax on remittances of profits/dividends 10%. There is no withholding tax on capital gains or on the share of profit paid to foreign investors in mutual funds, if in the Stock Exchange of Thailand (SET).
4. Personal Income Tax	▪ 0-100,000 baht = 5% ▪ 100,001-500,000 baht = 10% ▪ 500,001-1,000,000 baht = 20% ▪ 1,000,001-4,000,000 baht = 30% ▪ over 4,000,000 baht = 37%
5. Other Taxes	Petroleum income tax, Stamp tax, Excise tax, Property tax A specific business tax of approximately 3% is imposed, instead of VAT, on the following businesses: ▪ Commercial banks and similar businesses. ▪ Financial securities firms and credit fanciers. ▪ Sales of non-movable properties. ▪ Insurance companies ▪ Sales on the stock exchange. ▪ Pawn shops.

Source: Adapted from BOI (2003a), A Business Guide to Thailand: Taxation in Thailand, Office of the Board of Investment, Royal Thai Government, October 2003, pp. 7-8; and Thanadsillapakul, L., The Investment Regime in ASEAN Countries, cited from: www.The_Investment_Regime_in_ASEAN_Countries.html (29.05.2004)

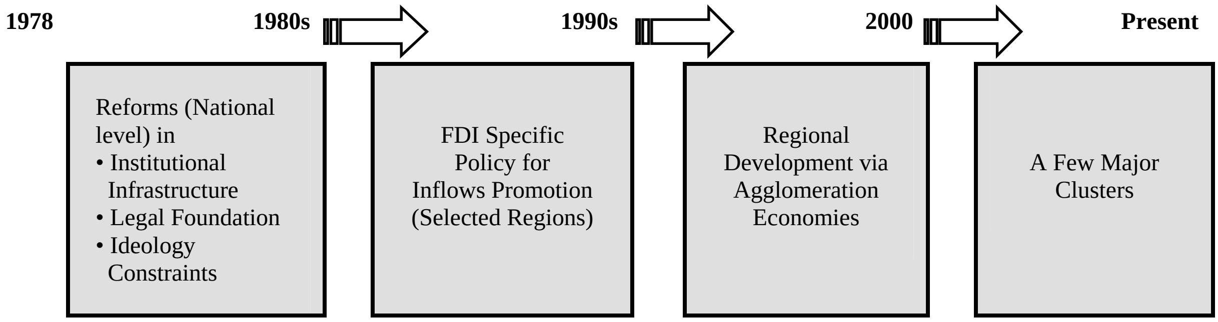
Appendix 6.5: Techniques of Investment Promotion

Techniques	Investment Promotion Activities
1. Image-building techniques	• Fact sheets, videos and information briefs that address topics of general interest to investors (fact sheets and videos) and more specific topics and topics subject to quick change (information briefs). • Newsletters that tell a target audience about investment developments, plans and events. They can be produced by desktop publishing and circulated monthly or quarterly. • Media and public relations activities that publicize investment success stories and alert the domestic and international media and selected audiences to upcoming events and new policies. They entail press, radio and television briefings, conferences, organized tours for national and international journalists and tours by government representatives to promote the country in overseas markets. • Investors guides and brochures that contain essential information on how to do business in the country, including the legal aspects, in an easy-to-read format. They could also show key economic indicators to exhibit the country's comparative strengths. Nowadays they can be produced relatively cheaply by desktop publishing. • Advertising, which may be targeted and specific or general and directed at providing an overall message in selected media.
2. Investment-generating techniques	• Mail (or fax) campaigns, which can be effective in introducing an agency, an event or an investment prospect to many potential investors. Since response rates and recall rates to mail campaigns are often low, they need to be combined with other activities. Such campaigns have the advantage, however, of being able to reach a large and specific audience at a relatively low cost. • Telephone campaigns, which are often used in conjunction with mail campaigns to confirm invitations, to set up appointments or to follow up on previous contacts. They are a key part of all investment-generating activities. • Promoting up-and-coming local investors and potentially lucrative investments to attract the interest of foreign partners. The main function of the IPS offices of UNIDO is to support this activity by bringing investment prospects in developing countries to the attention of suitable enterprises in countries where the IPS offices are located. If interest is evident, they assist the potential partners in establishing contact and reaching agreement. • Investment seminars and investment forums, both sector-specific and general, are widely used to communicate with investors and to generate contacts for subsequent follow-up. Sector-specific seminars are normally more effective than general seminars. Investment forums, in which interested investors negotiate one-on-one with potential partners, are likely to involve much more planning than investment seminars, in which experts discuss the issues, and while they are useful they tie substantial resources to a single event that occurs only infrequently. Foreign participants should be briefed in advance on the prospects to be presented at a forum to ensure that they prepare themselves for substantive discussions. To support the conversion of initial discussions into contracts, individual meetings should be scheduled and an effective follow-up should be carried out. • In-bound and out-bound missions, which can be sector-specific or general, are also widely used for generating investments. Experience shows, however, that large, general missions tend to be expensive and are not particularly good at directly generating investments. In-bound missions are normally less expensive than out-bound ones, but both types can suffer from having too general a focus and are often made up of individuals from a wide range of business activities and with interests that vary from investment to trade to tourist activities. For best results, the missions should be well organized and supervised. • Trade fairs and conferences, both of which can be useful for disseminating information and training staff but neither of which is particularly useful for generating investments. • Direct marketing, which experience points to as a very effective form of investment generation. **Promoting and generating joint-venture investments** • Identification of potential local partners and obtaining information on their company: size, products, technology, markets, financial position and investment interests. • Compiling a joint-venture file in the form of a booklet or a computer file, which is easily

	disseminated by electronic means. The investment prospects can be amplified in individual project profiles describing the idea and giving enough information to allow a prospective partner to decide whether the venture is worth pursuing. Profiles might describe the proposed scale of the project, the range of products, available or proposed markets, competitors and suppliers, import-export conditions and the foreign resources needed. • Preparation of profiles for those projects likely to be of greatest interest to overseas partners. Local partners would prepare fact sheets on their companies and investment interests. • Targeted promotion of high-potential projects, which entails identifying companies likely to be interested in a certain high-potential project, contacting them, providing details of the project and inviting them to come and see for themselves. • Brokering agreements between partners, which involves bringing potential partners together and then helping, if necessary, to conclude an agreement.
3. Investor servicing and facilitation techniques	• Pre-approval services, including information services, site-visit services and procedures for handling investors. These services usually feature strongly in most investment promotion strategies. • Approval services, including screening, evaluating and approving projects for incentives and permits required by the Government. In the past this service category often pre-dominated, but with investment policy reforms, approval procedures have been greatly simplified and, in time, approval services are likely to absorb a declining proportion of resources. • Post-approval services, including assistance with matters that arise during implementation of a new project: delivery of permits; access to site and infrastructural facilities; custom and visa clearances, foreign exchange clearances; introductions to local business, government and community leaders; and assorted settling-in problems. Properly developed post-approval servicing can become an important competitive advantage for promotion agencies. One-stop servicing is likely to be very attractive to investors and to influence their investment location decisions.

Source: UNIDO (1994), Guidelines for Investment Promotion Agencies: Foreign Direct Investment Flows to Developing Countries, United Nations Industrial Development Organisation, (24 August 1994), pp.14-19. [Online] Available: www.unido.org/doc/3508 (20.12. 2002)

Appendix 7.1: Developmental Stages of FDI Policy and Legislation in China



Stage I: (1979-1986)

- Equity Joint Venture Law (1979)
- Constitutional Law revision for FDI (1982)
- Wholly Owned Subsidiaries (WOS) Law (1986)
- Provisions for the FDI Encouragement (1986)
- Constitutional Status of Foreign Invested Enterprises in Chinese Civil Law (1986)

Stage II: (1987-1991)

- Interim Provisions on Guiding FDI (1987)
- Delegation on Approval of Selected FDI Projects to more Local Governments (1988)
- Law of Cooperative Joint Ventures (1988)
- Rules for Implementation of WOS Law (1990)
- Income Tax Law and its Rules for Implementation (1991)

Stage III: (1992-Present)

- Trade Union Law (1992)
- Company Law (1993)
- Provisional Regulations of Value-added Tax, Consumption Tax, Business Tax, and Enterprise Income Tax (1993)
- Law on Certified Public Accountants (1994)
- Provisions for Foreign Exchange Controls (1994, 1997)
- Insurance Law (1995)
- Law of Commercial Bank (1995)
- Guideline for FDI (1995, 1997)
- Further Delegation for Approving FDI to Local Government (1996)

Source: Adapted from Fung, K.C., Iizaka, H., Lin, C. and Siu, A. (2002), pp. 3-4; and Li, L., Can FDI Save the Shaking Chinese Economy?, pp. 3-6. [Online] Available: http://www.tsc.nccu.edu.tw/2004_conference/%B1i%_B2M%B4%B7.pdf (21.07.2004); and Tuan, C. and Ng, L.F.Y. (2002), FDI in China and Regional Development from Institutional Reform to Agglomeration Economies Perspective, Paper prepared for International Conference on Nation States and Economic Policy: Conflict and Cooperation, Japan Economic Association, Chuo University, Japan, November 30-December 1, 2002. [Online] Available: http://wwwsoc. nii.ac.jp/jepa/text/10t.pdf (28.05.2004)

Appendix 7.2: A Synopsis of Best-Practice Policies or Policy Recommendations to Attract and Maximise Benefits from FDI

Policies Issue	Best-Practice Policies or Policy Recommendations
1. Best-practices in tax and tariff systems	▪ Good tax systems are those that cause a minimum of distortion in resource allocation, and are equitable and easy to administer. ▪ Taxes on international trade should play a minimal role. Import tariffs should have a low average rate and exporters should have duties rebated on inputs used for producing exports. Export duties should be avoided. ▪ The corporate income tax should be levied at one moderate rate. Depreciation allowances should be uniform across sectors. There should be little use of tax incentives. ▪ Tax and customs administration reforms should modernize systems and procedures. Simplification of the tax and tariff systems is a prerequisite for administrative reforms.
2. Policy recommendations towards attracting FDI	▪ Do not offer costly investment incentives if the "fundamentals" of the potential investment sites fail to meet serious long-term real investors' basic requirements, as this will tend to attract the "wrong kind" of investor. ▪ Do not engage in undiscerning use of investment incentives and other discretionary policies by governments as this will have a negative effect on FDI inflows. ▪ Policies to enhance local supplies of human capital and modern infrastructure, if successful, can be a powerful means to attract FDI as well as to promote economic development if the other fundamentals are sound. ▪ Policy makers must ensure that competition to attract FDI does not lower labour and environmental standards. Governments would benefit from enhanced international policy coordination on environmental and *core* labour standards. ▪ International regional-integration agreements can be a powerful policy tool both for attracting FDI (which requires relatively *open* regional agreements) and for enhancing co-operation among governments to limit the potential negative effects of policy competition. ▪ For developing economies, it is important to stress the value of moving away from discretionary incentives towards greater reliance on rules-based means of attracting FDI — national and international rules that maintain or strengthen environmental and labour standards and create stability, predictability and transparency for policy makers and investors alike. ▪ The prisoner's-dilemma nature of competition for FDI creates a permanent risk of costly beggar-thy-neighbour bidding wars and downward pressure on environmental and labour standards that cannot be fully addressed by national governments in the absence of strengthened international policy co-ordination.
3. Policy recommendations related to the transfer, diffusion and generation of technology in multinationals Transfer of technology	▪ Change the competitive environment and incentives to promote the use of world class technologies and management methods. ▪ Improve the skill base and employee training. Policies have to both raise the quality of the labour force outside the firm and encourage greater and better training of employees within the firm or in special institutions. ▪ Offer incentives to existing investors to move into more complex technologies and upgrade the technological functions undertaken locally. ▪ Improve technology access for local enterprises, by providing information on foreign and local sources of technology.

Source: Adapted from Velde, te D. W. (2001), pp. 61-62.

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