

**Ratchanee Wattanawisitporn**

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# **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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**Kolloquiumsdatum 23-02-2005**

# **Foreign Direct Investment in Thailand: With Special Reference on European Foreign Direct Investment in the Thai Manufacturing Sector**

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## Dedication

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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 Triphuwath, 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

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

## Economic Overview

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

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

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





## Preface

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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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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

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### 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.<sup>1</sup> Second, remarkably high real growth rates of 8-9 per cent were maintained almost 30 years.<sup>2</sup> 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.

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<sup>1</sup> OECD Proceedings (1999b), Foreign Direct Investment and Recovery in Southeast Asia, Centre for Co-Operation with Non-Members, Paris, France, p. 207.

<sup>2</sup> 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.