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The Nature and role of FDI in Asia; a snapshot of Thailand

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The nature and role of FDI in Asia: a snapshot of Thailand

Foreign Direct Investment (FDI) is often considered as simultaneously being one of the consequences and drivers of globalisation. In the process of opening up economies to participate in some of the positive impacts of globalisation, countries position themselves in respect of attracting FDI. In addition, the ability to attract FDI and its positive impact on growing economies is valued as an integral part of the road to successful economic growth and development.

The Asian economic crisis has highlighted the vulnerability and volatility of emerging economies especially in the financial sector and, in the case of Thailand, directly linked to FDI. The question that prevails is to what extent FDI supports or sabotages globalisation attempts by countries.

This paper considers the role and impact that FDI has had in Thailand over the past decade. The first section identifies the nature and impact of FDI in general, followed by an explanation of the underlying reasons for the flow of funds. The nature and impact of FDI define the concept and summarize the consequences, both positive and negative, towards the recipient country. Different theories explaining why FDI takes place are also discussed here.

The second section briefly considers FDI in Asia. This section looks at tendencies in the flow of FDI in terms of target markets and industries. The role of FDI in Asia is analysed over the 1990 to 1998 period to show its behaviour before and during the Asian financial crisis.

The third section analyses the impact of FDI in Thailand by pointing out its nature and origin in terms of the major sources of FDI and the industries most affected by them. Also included in this part is the relationship between FDI and the export performance of Thailand and the transfer of technology impact thereof.

The last section discusses the current situation of FDI in Thailand and anticipates future trends. This is done by assessing the impact on FDI of the recent change in political leadership and its redefining of priorities. A brief comparison to other countries in the region and possible future trends conclude the paper.

1. The Nature and Impact of Foreign Direct Investment (FDI)

When considering cross border investment, it is important to distinguish between FDI, Foreign Portfolio Investment (FPI) and other types of foreign investment. The World Trade Organization (WTO) indicates that "FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with the intent to manage that asset" (The South Centre, 1997: 1). Interpreting this definition from a more specific perspective means that ownership of 10 percent or more of ordinary shares or voting power represents a sufficient share to give the foreign investor a significant influence on the management of the enterprise (Framework for the Collection, Compilation and Dissemination of Foreign Direct Investment Statistics, 2000). In addition, FDI is considered to comprise three possible components; new equity from the parent company to the subsidiary; reinvested profits of the subsidiary; and long and short term net loans from the parent to the subsidiary (Salvatore, 2001).

Foreign Portfolio Investment (FPI), in turn, entails passive holdings of securities and other financial assets, which do not reflect active management or control of the security's issuer. FPI is positively influenced by high rates of return and reduction of risk through geographic diversification. The management dimension is what distinguishes FDI from FPI in foreign stocks, bonds and other financial instruments (Krugman and Obstfeld, 1997; Yarbrough and Yarbrough, 1997; Salvatore, 2001).

As a positive, FDI brings capital flows that improve the balance of payments, and other economic benefits such as employment, export markets, technology, management skill enhancement and spillover effects (Klein, Aaron and Hadjimichael, 2001). Potential negative consequences of FDI include inappropriate technology transfer and a deteriorating balance of payments in the longer run (Kumar, 1998; Chen, 2000). 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; foreign firm involvement may lead to static gains but not 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 deter 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 (OECD, 1999b).

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 legitimate 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 (IFC, 1997). To examine motives of FDI makers, the following section reviews some theories.

2. Explaining Foreign Direct Investment flows

Theories explaining FDI assert that the basis for such investment lies in the transaction cost of transferring technical and other knowledge and market imperfections. Subsequently in a world of perfect markets, there would be no Multinational Enterprises (MNEs) and, thus no FDI as it is MNEs that make FDI (Goldar and Ishigami, 1999). The most important theories explaining FDI are the following:

2.1 Comparative Cost Advantage Theory

According to the theory of comparative cost advantage (explaining the nature of imperfect markets), "a country should produce and export those goods and services for which it is relatively more productive than other countries and import those goods and services for which other countries are relatively more productive than it is" (Krugman and Obstfeld, 1997: 168). This is, however, "not a sufficient condition for FDI since the significance of investment flows concerns other conditions such as technology transfer, tax incentives and explanations of trade flows, rather than country-based theories" (Griffin and Pustay, 1999: 89).

2.2 Product Life Cycle Theory

The Product Life Cycle Theory explains why MNEs undertake FDI at particular stages in the life cycle of a product they have pioneered. FDI will occur when the foreign market is large enough to support local production (Cullen, 1999; Griffin and Pustay, 1999). However, the theory does not identify clearly when it is profitable to invest in activities (Hill, 2001), and it also fails to explain why companies choose FDI over other forms of market entry, such as direct exporting (Wild, Wild and Han, 2000).

2.3 Internalization Theory

The Internalization theory, or market imperfection theory, states that "when an imperfection in the market makes a transaction less efficient than it could be, a company will undertake FDI to internationalize the transaction and thereby remove the imperfection" (Wild, Wild and Han, 2000: 230). The theory also explains why firms prefer FDI to licensing, as licensing has weaknesses, including exposing technological know-how to foreign competitors, absence of control over manufacturing, marketing, and strategy in a foreign country. In addition, a firm's uniqueness and competitive advantage may not be amenable for licensing (Foreign Direct Investment and Its Political Economy, 2000).

2.4 The Eclectic Paradigm Theory

The Eclectic Paradigm theory explains both the ways in which overseas markets are served by enterprises of different nationalities and the industrial and geographical composition of such activities (Wild, Wild and Han, 2000). According to this theory, a firm will make a direct investment in a foreign country if the following three conditions are satisfied. "First, the firm must have a product or a production process such that the firm enjoys some market power advantage in foreign markets. Second, the firm must have a reason to locate production abroad rather than concentrate it in the home country, especially if there are scale economies at the plant level. Third, the firm must have a reason to exploit its ownership advantage internally, rather than license or sell its process to a foreign firm" (Markusen, 2000: 3). The theory furthermore suggests that all forms of international production can be explained by reference to these conditions. Location or country specific advantages have an important bearing on FDI often rendering the location preferable to other potential host countries, and to domestic investment. Another determinant of FDI is the ability of the firm to generate ownership advantages, which are best exploited by the firm in a foreign rather than in a domestic location. In this way, the eclectic theory is able to provide an explanation for differences in the industrial pattern of outward FDI of different industrialized countries (Goldar and Ishigami, 1999; Wild, Wild and Han, 2000).

2.5 Market Power Theory

The Market Power Theory states that FDI will occur when a company tries to establish a dominant market presence in an industry. In this theory, the firm will get more profit because it is far better able to dictate the cost of its inputs and the price of its output. Companies that are able to achieve a great deal of market power can integrate forward to increase control over output (Wild, Wild and Han, 2000).

As has been reviewed in this section, there are a number of theories that attempt to explain the flow of FDI. The Eclectic Paradigm theory is the most useful for analyzing the implication of FDI in economic development. The next section will discuss the flow of FDI to Asian countries.

3. Foreign Direct Investment in Asia

The Asian countries most affected by the Asian financial crisis have ranked high among developing host countries in the attractiveness of their economies to foreign investors. In particular, they have substantially liberalized their FDI policies and taken steps to facilitate business. However, the financial crisis and economic consequences will affect FDI flows to these countries. Thus, the tendencies and role of FDI will be discussed as following.

3.1 Tendencies

The pattern of FDI flows into and within Asian countries has had some structural changes since 1990. The change is attributed to two reasons; globalization and mergers and acquisitions (M&A) (Wild, Wild and Han, 2000). Firstly, increased globalization and lower trade barriers cause a growing number of international companies to undertake FDI, as companies realize they can produce in a more efficient and productive location in the world, and simply export to a worldwide market. This set off another round of FDI flows into low-cost newly industrialized and emerging nations worldwide (Bishop, 1997).

Second, the number of M&A and their exploding values also underline the change in pattern of FDI flows. Many cross-border M&A deals are driven by the desire of companies to get a foothold in a new geographic market, to increase a firm's global competitiveness, to fill gaps in companies' product lines in a global industry and to reduce costs in such areas as R&D, production, or distribution (Cullen, 1999; Wild, Wild and Han, 2000). As a result, FDI in the primary sector continues to experience a declining share with a greater distribution of FDI flows to the manufacturing and the tertiary sector. FDI in finance and banking activities increased noticeably in the second half of the 1990s, particularly through M&A (Kaiser, Kirton and Daniels, 2000). The financial sector liberalization process undertaken by countries in the region facilitates this development. These structural changes are partly due to the industrial development policies of the countries in the region, which aim to diversify economies from over reliance on agriculture. The developmental progress made in the manufacturing and financial sector further facilitates this process (Overview of Foreign Direct Investment in ASEAN, 2000).

3.2 Role

FDI has contributed significantly to the economic and industrial development of the Asian countries over many years and is expected to continue to do so (Bottelier, 1998). Among the components of resource flows to Asian countries, FDI constitutes a considerable share, indicating the importance of FDI as a major source of finance for economic development. Moreover, most of the FDI flows played an important role in pushing the export sector of those countries (Asian Development Bank, 2001a). A large number of these, including Thailand, gave priority to export as a key mechanism for economic development (Suksiriserekul, 2000). Nevertheless, Taiwan and South Korea did not resort to FDI as the impetus for exports and instead relied on the promotion of entrepreneurs to develop products for sales abroad. The countries that relied on FDI and consequently grew, also experienced an increase in their trade deficits (Bangkok Bank, 2000).

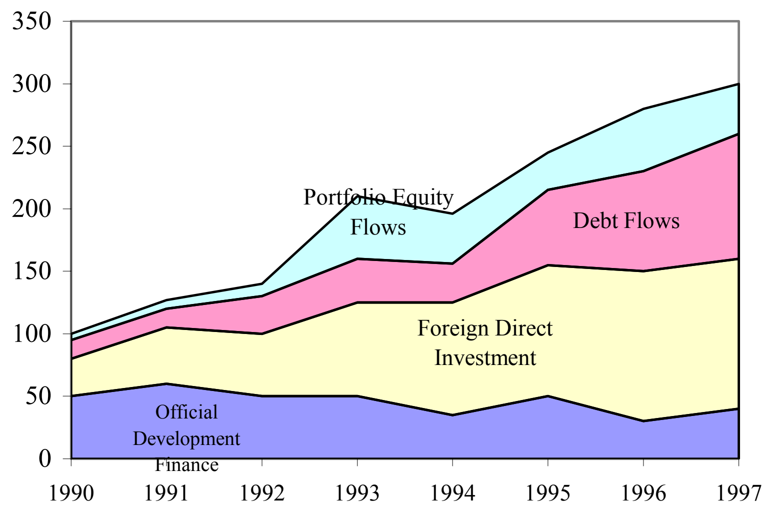
Between 1990 and 1997, FDI represented about an annual average of 40% of the net resource flows to the Asian countries (see Table 1, Figure 1). A high ratio of FDI to net private capital flows in the 1990s is the norm for most developing countries, and particularly Asian countries (Overview of Foreign Direct Investment in ASEAN, 2000). The Asian financial crisis has caused many countries to experience a severe shortage of funds and managing FDI has become a factor that governments have become more aware of. This is partly due to the role FDI played in bringing about an economic expansion in Asia (United Nations, 1999).

Table 1: Private Flows to Asian Countries, between 1990-1997 (US$ billion)

Type of Investment	**US$ (billion)**									**Percentage of net flow**
	1990	1991	1992	1993	1994	1995	1996	1997	Total (90-97)	
Official Development Finance	50	60	50	50	35	50	30	40	365	22.5
Foreign Direct Investment	**30**	**45**	**50**	**75**	**90**	**105**	**120**	**120**	**635**	**40**
Debt Flows	15	15	30	35	31	60	80	100	366	23
Portfolio Equity Flows	5	7	10	50	40	30	50	40	232	14.5

Source: Adapted from the World Bank, 1998.

Figure1: Private Flows to Asian Countries, between 1990-1997, (US$ billion)



Source: Adapted from the World Bank, 1998.

As part of the increased awareness governments changed laws and regulations to attract FDI. Previously protected business sectors for local entrepreneurs were opened up to foreign investors, particularly the financial institution sector (Singh, 1999). FDI is expected to continue to be a significant source of finance for development in the Asian countries, against the backdrop of the decline in official development assistance and difficult access to international debt markets and bank borrowing in recent times (Chen, 2000; Overview of Foreign Direct Investment in ASEAN, 2000).

An outstanding characteristic of FDI is that it is more stable than other kinds of international capital flows. This is confirmed by the flow of capital during the Asian financial crisis. In countries affected by the financial crisis, portfolio flows and other investment flows have shifted from highly positive to strongly negative, while FDI flows remained positive (see Table 2). The size and the suddenness of the reversal in non-FDI flows in some countries, as reflected in Table 3, has triggered and magnified the financial crisis in Asia (Bottelier, 1998). In addition, FDI has appeared to be an increasingly attractive alternative to long-term bank loans as a form of capital inflow for developing countries, and has been viewed by some as the remedy for declining domestic investment and higher costs of borrowing from abroad (Mbekeani, 1997).

Table2: Net Private Capital Flows to Five Affected Asian Countries

(Thailand, Philippines, Malaysia, Korea, Indonesia)

US$ billion	**1996**	**1997**	**1998**
Net Foreign direct investment	9.5	12.1	4.9
Net Portfolio investment	2.0	12.6	-6.5
Bank Loans and Other	32.9	-44.5	-44.5

Source: IMF cited in Bangkok Bank, 2000.

Table 3: Global Net Flows to Selected Asian Countries as a Proportion of GDP

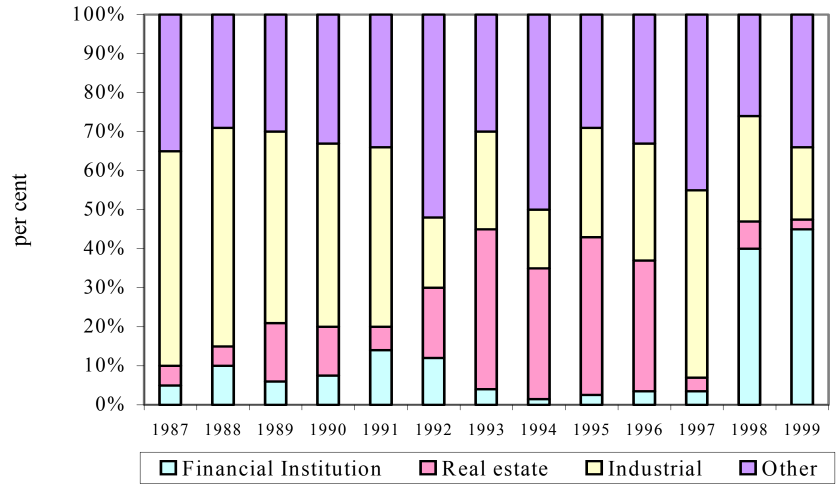
		1994	**1995**	**1996**	**1997**	**1998**
Indonesia	FDI	1.2	2.2	2.8	2.2	-0.2
	FPI	2.2	2.0	2.2	-1.2	-2.0
	OI	-0.9	1.2	0.1	-1.1	-4.7
Korea	FDI	0.2	0.4	0.5	0.6	1.7
	FPI	2.2	3.1	4.4	2.8	-0.1
	OI	3.6	4.7	5.1	-1.9	-5.0
Thailand	FDI	1.0	1.2	1.3	2.4	6.4
	FPI	1.7	2.4	2.0	3.1	0.3
	OI	6.9	11.6	6.5	-14.5	-16.8
Malaysia	FDI	6.1	4.9	5.1	5.2	NA
	FPI	-2.3	-0.5	-0.3	-0.3	NA
	OI	-2.7	5.5	4.6	-1.2	NA
TOTAL	FDI	1.1	1.4	1.6	1.8	2.1
	FPI	1.7	2.4	3.0	1.6	-2.0
	OI	2.6	5.3	4.2	-3.7	-8.3

Source: The International Financial Institutions and World Resources Institutions cited in Cailloux and Jones, 1999.

4. Foreign Direct Investment in Thailand

FDI in Thailand has been a major contributor to Thailand's economic growth since the mid-1980s (Indian Ocean Rim Network, 2000). In the late 1980s, about 50% of FDI inflow went to the manufacturing sector, especially in the area of labor intensive and export-oriented industries. Despite this Thai industry became less competitive during the 1990s, the real estate sector boomed and investment in private infrastructure increased in 1993. This structural change shifted FDI from manufacturing to real estate and infrastructure (Commonwealth of Australia, 2000). From 1993 to 1996, almost 40% of net FDI in Thailand went to real estate (Figure 2).

Figure 2: Major Sectors Distribution of FDI in Thailand



Source: Bank of Thailand cited in Commonwealth of Australia 2000 .

In 1997, when the Thai financial crisis started, the composition of inward FDI shifted significantly to the industrial sector. This was derived largely from foreign partners contributing more capital to existing companies faced with financial difficulties. Moreover, several Thai firms decided to sell off some of the non-core business activities to enhance their competitiveness, which in turn created opportunities for foreign partners to play a greater role. The FDI flow in 1998 was fuelled mainly by the acquisition of existing Thai and joint venture companies by foreign firms, especially in the banking sector (United Nations, 1998). The high level of investment in financial institutions in 1998 was principally due to liberalization measures taken in late 1997, allowing foreigners to hold a majority of shares in Thai financial institutions for up to 10 years. The following table shows FDI inflow by sector.

4.1 Source of Foreign Direct Investment in Thailand

FDI in Thailand is predominantly derived from five countries. The investment from some countries has remained relatively stable during the nineties while investment from Japan showed some fluctuation..

Japan has been the largest source of FDI since the late 1980s. High wages and a strong exchange rate forced many Japanese firms to relocate labor-intensive processes lower labor cost locations. This partly contributed to Japanese direct investment in Thailand, mostly involving joint ventures, being concentrated in the automotive and electronics industries (OECD, 1999a). Due to the economic recession in Japan in the early 1990s, the share of Japanese investment in Thailand fell to around 20% of total FDI, as shown in Figure 3. This decline resulted from the economic recession in Japan (Indian Ocean Rim Network, 2000), and Japanese companies exploiting lower labor costs in China, India and Mexico. In 1997 and 1998, Japanese investment in Thailand recovered based on new foreign investment guidelines allowing the buy-out of local partners. In 1999, as this activity decreased, Japan's share of FDI decreased again (Commonwealth of Australia, 2000).

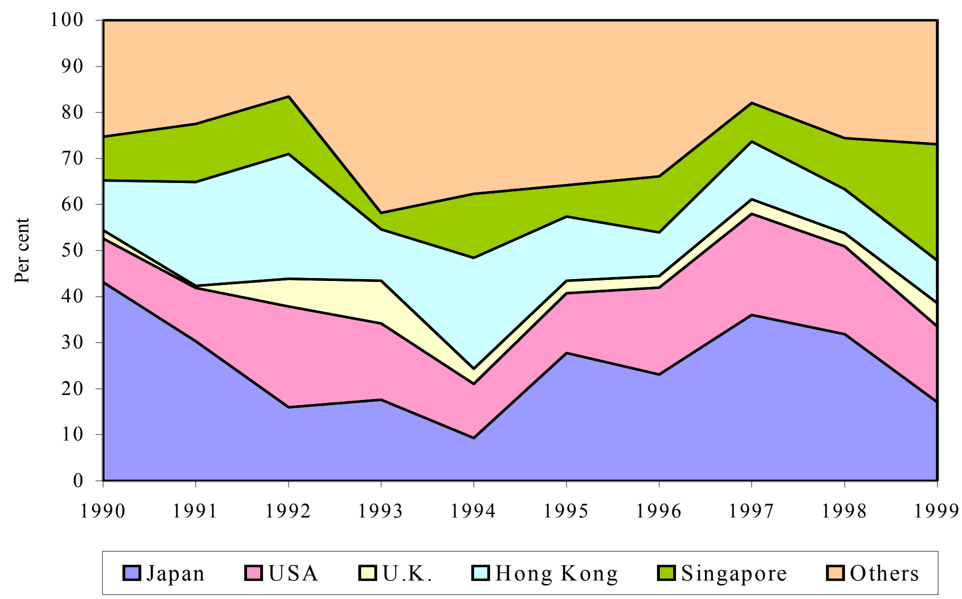
The US direct investment in Thailand was encouraged in part by the US-Thai Treaty of Amity of 1966, which accorded national treatment to US investors. Much of the investment involved fully foreign-owned affiliates in areas such as petroleum and chemicals (OECD, 1999a). The level of FDI inflow from the United States was steady during 1990 - 1996. The increase of US investment during 1997-1998 was partly the result of the devaluation of Thai currency. Moreover, the restructuring of firms faced with large debt repayments, rising interest rates and urgent need for funds, combined with a more liberal policy towards M&A, provided opportunities for US firms to undertake direct investments in Thailand through M&As (United Nations, 1998). The FDI flow from US peaked in late 1998 and started to decline in 1999.

Table 4: Net Flows of FDI in Thailand, by Major Countries (US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Japan	**1,117**	**624**	**343**	**305**	**123**	**556**	**523**	**1,351**	**1,528**	**778**
USA	**246**	**237**	**472**	**286**	**155**	**260**	**429**	**824**	**913**	**749**
U.K.	45	10	129	161	44	55	57	118	134	230
Hong Kong	281	463	582	193	318	279	215	472	460	420
Singapore	**245**	**259**	**269**	**61**	**184**	**136**	**275**	**314**	**530**	**1,151**
Other	654	463	356	724	498	717	769	680	3,434	1973
Total	2,588	2,056	2,151	1,730	1,322	2,003	2,268	3,759	6,999	5,301

Source: Composed of Bank of Thailand and Board of Investment cited in Indian Oceans Rim Network, 2000 and Asian Development Bank 1999 .

Figure 3: Composition of FDI Inflows in percent, by Major Countries



Source: Composed of Bank of Thailand and Board of Investment cited in Indian Oceans Rim Network, 2000 and Asian Development Bank, 1999.

While FDI from Japan and the United States declined, FDI from Singapore increased to the value of US$ 1,151 million in 1999, up by 117% from the year before. This is attributed to the policy of the Singapore government to become the financial hub of the ASEAN region. The Government of Singapore Investment Corporation (GIC) made significant investment in

Thailand, both in the financial institutions sector and the industry sector, particularly, in the fields of communications, electronics parts and equipment (Siam City Bank (SCB) Research Institute, 2000). Other important sources of FDI are listed in Table 4 and Figure 3.

4.2 Foreign Direct Investment and Thai's export performance

In Thailand, exports have been the main engine of economic growth, particularly since the late 1980s. Historically one of the world's leading rice exporters, it has become a major exporter of manufactured products, rising to over 80 percent of total export in 1999. This shift in exports is reflected in the structural transformation of the Thai economy from agriculture to industry in which FDI has played a leading role (Thomsen, 1999). FDI flows concentrated on manufacturing, (including automobiles, textiles and more recently electronics such as computers and parts), and have developed and diversified the economic structure, to the point where the manufacturing sector represented around two third of total Thai exports in the 1990s (Commonwealth of Australia, 2000). However, this high percentage of export comes primarily from foreign-owned firms. In 1997, the 125 most prominent BOI (Board of Investment) companies, which are mostly foreign-owned firms or Thai joint ventures, accounted for 90 per cent of total exports of electronic and electrical products. Foreign affiliates in Thailand have become more export-oriented over time, in response to both export promotion policies and to favorable exchange rates"(OECD, 1999a). Over 80 percent of Thailand's total exports are now in manufacturing, including computers and parts, electrical appliances, integrated circuits and parts, automotive parts and accessories, mostly produced by foreign investors or joint-ventures.

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 abroad. 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.

In the period of the crisis, the importance of FDI as a potential source of net capital inflows has been emphasized. At the same time, however, it is important to point out that the impact of FDI on the export performance of the economy is limited to specific sectors, which are dominated by foreign firms, rather than the whole.

4.3 Foreign Direct Investment, Technology Transfer and Industrial Upgrading

The overall export effect of inward investment is itself a substitute for technology transfer and industrial upgrading, which are at the heart of FDI (OECD, 1999a). Many developing countries, including Thailand, provide favorable investment incentives and even sometimes protection to attract FDI to high technology industries (electronics, automobile) with the expectation of mastering new technologies and skills eventually (United Nations, 1999). Various studies indicate that low value added product lines and downstream production technologies are located in Thailand (Tiralap, 1999). In some cases a large part of operational, maintenance and inspection activities of Japanese firms have been transferred to Thai affiliates. Yet sophisticated technologies, such as design and development of new products, have not been transferred (Urata, 1996). 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. To address the poor technology transfer, the Government has developed several schemes. An example of this is thet BOI (Board of Investment) Unit for Industrial Linkages Development (BUILD) with the objective of enhancing local sub-contracting through the provision of information and technical assistance (Doner and Brimble, 1998). In addition, 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 production requiring advanced technology, research and development. These efforts, however, are limited by the weak absorptive capacity of local management (OECD, 1999a).

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 (Kumar, 1998). In the case of Thailand, this is relevant in the electronics and automobile sectors, two of the most important recipients of FDI. The influx of new foreign investments has benefited the country in terms of industrial growth, including diversification and integration of the local industry (South Development News, 2000). 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 merely an assembly base (Busser, 2000).

In Thailand, high-technology production 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 (Tiralap, 1999). As Thailand's comparative advantage in labor-intensive productions declines, the need to shift to production involving more skills and more capital becomes important.

*T*he Asian financial crisis raised fundamental questions relating to the political sustainability of programs of trade and investment liberalization and domestic economic reforms. While Thailand was one of the most open economies, the crisis has greatly extended the role and impact of FDI in several major industries. A weakened baht, high levels of local debt and bankruptcy eventuated in increased involvement of foreign firms. In this context, legislative changes to permit 100% foreign equity in sectors previously reserved for Thais, enable foreign firms to participate more fully in the domestic economy. These legislative changes have raised public debate about the role of FDI in the Thai economy, and the degree to which domestic firms require and are entitled to special protection and support in a globalizing economy.

5. Aftermath

Whilst acknowledging the need for progressive liberalization of FDI regimes, most of the Asian countries felt that this process must continue to be adaptable to the individual host country's specific needs, level of economic development and resource base. The objectives of all government to achieve economic recovery through suitable policies toward FDI, included privatization, export-led growth and technological capacities and the development of local business. As yet, there have been no comprehensive policy approaches, which are extremely beneficial, nor which have been counterproductive (Moran, 1998).

5.1 Lessons from Other Asian Countries

FDI in Asian countries has traditionally been a driving force for economic development. As a result of different attitudes towards FDI, the ultimate impact and permanency of FDI varies significantly among countries in the region. Countries like South Korea and Singapore were able to develop FDI policies that enabled them top benefit significantly and are pointed out as examples for the Thai situation.

Before the Asian financial crisis, South Korean's policy toward economic growth relied heavily on borrowing from foreign countries, which largely was used to subsidize Korea's chaebol (Korean's local business network). Despite the fact that FDI could have been utilized to finance part of the South Korea's industrialization driven plan, the government preferred foreign borrowing to FDI because it wanted to maintain domestic ownership of its industries. Thus, many of the chaebol are protected by a number of entry-barriers, including restrictions on M&A (Petri, 2000; Yusuf and Stiglitz, 2001).

However, after the crisis, internal reform is intended to attract FDI into both capital and management expertise. Major FDI reform initiatives to make foreign investment easier and more attractive include; foreigners being able to hold up to 55% equity in a company on the South Korean stock exchange; expanding tax exemptions to include high-tech, and value-added service industries; and extending the tax concession period from the current 8 years to 10 years (United Nations, 1998). Restricted business areas are cultural industries (foreign ownership of cable TV program procedures will be limited to 30%). What makes South Korea distinct from Thailand is that it has a technologically up-to-date industrial base, efficient infrastructure and a large skilled workforce, thus South Korea has to satisfy a different set of needs by attracting FDI (Asia Pacific Foundation of Canada, 1998).

Singapore's greatest economic accomplishment is the integration and international orientation of its economy, which is mainly dependent on the performance of its electronic industry, all of whom are in one way or the other FDI. MNCs not only enabled Singapore to export but also to acquire technological knowledge by transferring technology to local subsidiaries, and training local employees. Singapore is an exceptional successful country in the way that it was able to attract MNCs in both manufacturing and services. The Singaporean state has shaped an attractive investment environment by providing a range of facilities, infrastructure, subsidies, and complementary public investment (Yusuf and Stiglitz, 2001). The current economic strategy aims to ensure that Singapore remains a highly attractive location for inward FDI and to continue assistance to local companies. The vision for the next phase of development is to encourage companies to continue undertaking innovation. (Industrial Policies in the ASEAN Economies, 2000).

5.2 Current Thai Foreign Direct Investment Developments

Instead of fostering domestic change by attracting more foreign technology and managerial know-how through FDI, the recently elected government (Thaksin's government) is choosing to protect the Thai economy from global competitive forces (Crispin, 2001). New policy approaches to economic recovery rely on SMEs utilizing locally embedded skills to create new products and services for consumers. According to Bide (2001) there are two main characteristics of the new development model.

Firstly, since Thailand's comparative advantage does not lie in abundant cheap generic labor that caters for mass-industrialization, the policy should accommodate a population and workforce accomplished with an aesthetic culture and tradition in industries such as food processing, textiles, and ceramic products. This tradition and these artistic skills, combined with a diverse geography, mean that Thailand's mass-tourism industry can also be transformed into a higher value-added sector (Bide, 2001). However, there are two major obstacles that restrict these industries from achieving full potential. First, the inability to blend fundamental local skills with international technology, such as knowledge on consumer tastes and marketing. Second, the lack of international brand names to secure pricing power. The present government is addressing both impediments.

The second characteristic of the model is that skill driven enterprises require no large industrial base, as optimum size dictates they are SMEs. Such enterprises organize workers who excel in their local skills and other inputs in a flexible manner. This approach results in an ability to adjust to shifting global demand and supply and excess capacity is thus no longer an issue. It is expected that these SMEs will bring new products and services to the international market on improving terms of trade and pricing power (Bide, 2001; Lian, 2001).

This new policy seems to have characteristics of being anti-FDI. Policy makers explained that this new policy would run parallel to MNC operations as long as these contribute to the Thai economy. The type of foreign investment that will be actively courted is those ensuring to forge synergies with local enterprises. Under this new policy, international food companies and foreign tour operators are more likely to be investors and partners. Thailand aims to reposition itself from supplying cheap labor to MNCs or industrial products at the lower end of global supply chains to capitalizing on sales of differentiated, branded products and services to global consumers (Lian, 2001).

5.3 Future Foreign Direct Investment Prospects

Thailand's FDI outlook depends on the successful implementation of domestic structural reforms, the external environment, including regional competition for foreign capital, the depth of future FDI regime liberalization and investment promotion restructuring. Apart from the economic recovery, the pace of deregulation and corporate and financial restructuring, three key factors will determine the level of foreign investor interest in Thailand. First, the speed with which remaining constraints to FDI is removed. Second, the tempo of state enterprise privatization and government regulatory streamlining. Third, the change of FDI promotion measures. Compared to regional competitors like the Republic of Korea, China and Malaysia, Thailand's FDI regime reform has been very slow and restrictions remain considerable (Commonwealth of Australia, 2000). Moreover, after an election in January 2001 and under the new government, public, media and political support given to nationalistic elements oppose further FDI reform and imply slow future liberalization.

As Prime Minister Thaksin announced "his government would not beg foreign investors to come to Thailand because the main economic development strategy under his government was based on the concept of self-reliance. He also emphasized that once the country's internal economic situation had improved, FDI would quickly follow without the need for attracting foreign investors" (Siripraiwan, 2001: 3-4). A practical example is where the Internal Trade Department in Thailand has initiated anti-competitive investigations against foreign owned retail stores by restricting operating times and tough new zoning laws. Further limitations to FDI in many sectors are heavily regulated domestic markets, including the insurance, non-banking financial sector and steel industry (Crispin, 2001). In addition, the government recently announced it would drastically reduce the tax and other privileges that were granted in the past under the Board of Investment and the Industrial Estate Authority laws and regulations to limit the dependency on FDI for domestic economic growth (Bruggen, 2001).

6. Conclusion

Thailand is in the process of economic recovery from the impact of the Asian financial crisis. During the crisis, non-FDI investments were shifted largely from the Thai economy although FDI flows into Thailand were higher after the crisis. FDI is deemed to play an important role in the recovery of the economy. Key drivers of the FDI increase include an increased focus on FDI resulting from fiscal pressure, a reduction in foreign investment restrictions, and the devaluation of asset prices. The majority of FDI into Thailand originates in Japan, the US and Singapore and is concentrated in export-oriented sectors such as electronics and automobile. The transfers of technology and industrial upgrading from FDI have been disappointing in Thailand. In addition, export performances are limited to sectors that are dominated by foreign firms and based heavily on import inputs, questioning the real role and contribution of FDI in the Thai economy.

Before the January 2001 election, the government adopted a flexible policy approach toward FDI, in line with the economic recovery program agreed with the International Monetary Fund (IMF). The program also aimed to promote local enterprises through attracting FDI. However, the current government, lead by Prime Minister Thaksin, has a vision of increased self-reliance. FDI policies are revised in terms of privileges given in the past and conversely, more benefits are expected to be given to local businesses. In reality, national resources are insufficient to restore economic health and Thailand needs FDI to bridge its saving gap. Thai policy makers may need to look at other Asian economies to assess how they used FDI as an instrument to economic recovery and to sustain long-term economic development.

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