Outward foreign direct investment by enterprises from Thailand*

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This article examines the development of Thai enterprise internationalization through outward FDI. It analyses the main drivers, the impact on enterprise competitiveness, the policy framework, the institutional measures supporting and the obstacles limiting Thai outward FDI. The article concludes by offering policy suggestions to enhance outward FDI by Thai enterprises.

Key words: Outward foreign direct investment, Thailand, Thai enterprises, regional integration, enterprise competitiveness, enterprise internationalization, South-South cooperation

1. Introduction

Foreign direct investment (FDI) by indigenous Thai firms has received little attention to date, although the notable rise in the level of Thai enterprise internationalization since the late 1980s is now beginning to interest scholars (Pananond, 2001, 2004; Somkiat and Suthiphand, 1997) and private sector organizations (e.g. Federation of Thai Industries) interested in the development of Thai firms' overseas activities.

Thai enterprises are internationalizing for different reasons, depending on the industries they operate in; the years of experience in internationalization; the extent of overseas

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business networks; and the purpose of undertaking FDI. In general, the main motive is market-seeking, which includes extending market reach, supporting distribution and expanding trade channels. Efficiency-seeking outward FDI is not a significant feature of Thai enterprise internationalization but it may develop in the future and is an area worth monitoring. Resource-seeking FDI by Thai enterprises is limited. In terms of geographical spread, most Thai outward FDI is in Asia. Thus, Thai transnational corporations (TNCs) are mostly regional entities and they play a role in strengthening regional integration and South-South cooperation. The prospect for Thai outward FDI is promising given the encouragement of the Government, the maturing of more Thai firms with interest in venturing abroad, improvement in corporate financial situations and regionalization factors pulling Thai firms to invest overseas.

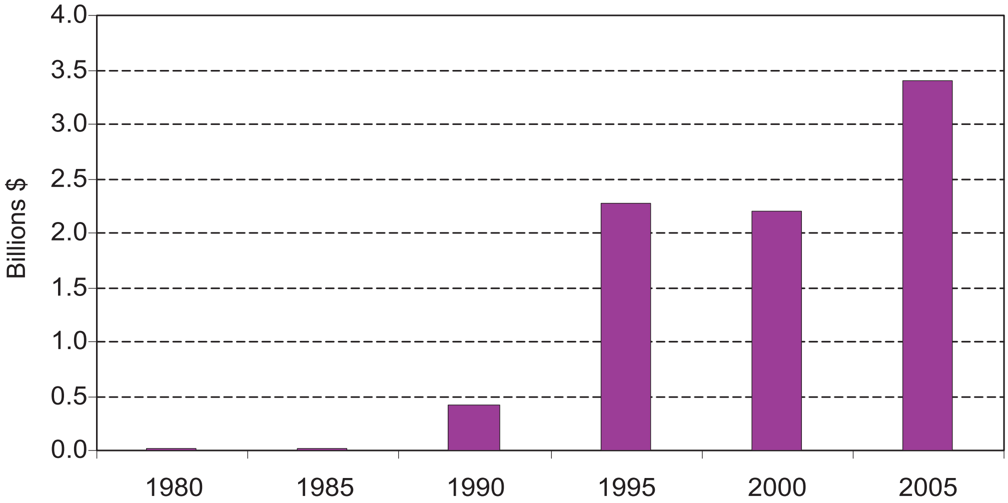
This article examines the development of Thai enterprise internationalization through outward FDI. It analyses the main drivers, the impact on enterprise competitiveness, the policy framework, institutional measures supporting and obstacles limiting Thai outward FDI. The article concludes by offering policy suggestions to enhance outward FDI by Thai enterprises.

2. Thai outward FDI: trends and development

Thailand is not yet a significant outward investor compared with economies such as Brazil, China, Hong Kong (China), Republic of Korea and Malaysia. But its outward FDI is growing and it is certainly an economy with a significant outward FDI potential. The outward FDI stock held by Thai firms rose from $12.9 million in 1980 to $3.9 billion in 2005, making it the 26th most active emerging economy investor (figure 1, table 1). Most Thai outward FDI has been undertaken by large enterprises, often publicly listed companies.[1]

[1] Such enterprises include, for instance, *Amata, Baiyoke, CP, Bangkok Bank, Bangkok Airways, Thai President Foods, Banpu, Loxley, Jasmine, Saha Union, S&P, Coca Restaurants, MK Restaurants, Pranda Jewelry, Thai Union and Siam Cement*.

Figure 1. Thailand: OFDI stock, 1980, 1985, 1990, 1995, 2000 and 2005
(Billions of dollars)



Source: UNCTAD (2006).

The lack of data hampers analysis of outward FDI by Thai small and medium enterprises (SMEs), but this does not mean that they do not invest overseas. Their affiliates are likely to be found in a few selected industries (e.g. the restaurant business) and tend to invest in neighbouring countries because of geographical proximity and cultural affinity.

Enterprise internationalization through outward FDI is not new for Thailand. Thai outward FDI dates back to at least as far as the 1950s (e.g. Bangkok Bank), but remained limited during the first three decades. A lack of understanding in conducting international business, a restrictive outward FDI regulatory framework (foreign exchange control) and the limited number of Thai enterprises with the capability to internationalize, including the lack of ownership advantages, accounted for the low level of overseas investment in the early period. Outward FDI from Thailand became more prominent only after the late 1980s (figure 2). Four distinctive phases of Thai outward FDI can be discerned[2]:

[2] This paper acknowledges that studies by Pananond (2001, 2004) were useful in understanding the trends of earlier Thai outward FDI.

- The first phase (***early stage***) before the first half of the 1980s saw a limited amount of Thai investment abroad. Much of the overseas investment during this phase went to a few key destinations such as the United States, Hong Kong (China), Singapore and Japan in that order (table 2). These four economies accounted for over 85% of the net Thai equity capital investment abroad. Thai outward FDI to Europe was negligible. Most Thai outward FDI at this stage was undertaken by financial institutions in response to the Government's strict capital control in place at that time, which drove Thai banks to establish overseas branches in key trading partner countries and financial centres, such as Hong Kong (China) and Singapore (table 3; Viraphong 1992; Pavida 2004). Manufacturing and resource-seeking outward FDI was negligible. The limited pool of Thai enterprises with capacity to invest abroad and the focus of Thai enterprises to build a strong foundation at home constrained Thai outward FDI during this period.

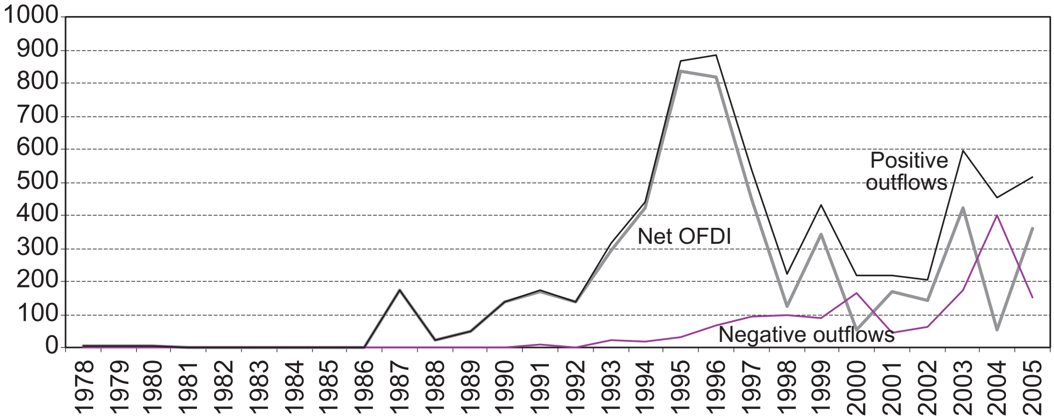
Table 1. Top 30 OFDI emerging economies, 2005
(Billions of dollars)

Rank	Economy	2005
1	Hong Kong, China	470.5
2	British Virgin Islands	123.2
3	Russian Federation	120.4
4	Singapore	110.9
5	Taiwan Province of China	97.3
6	Brazil	71.6
7	China	46.3
8	Malaysia	44.5
9	South Africa	38.5
10	Korea, Republic of	36.5
11	Cayman Islands	33.7
12	Mexico	28.0
13	Argentina	22.6
14	Chile	21.3
15	Indonesia	13.7
16	Panama	12.9
17	Venezuela	10.7
18	United Arab Emirates	10.1
19	India	9.6
20	Colombia	8.9
21	Turkey	8.1
22	Bermuda	6.0
23	Kuwait	5.4
24	Bahrain	5.1
25	Nigeria	5.0
26	Thailand	3.9
27	Saudi Arabia	3.7
28	Azerbaijan	3.7
29	Lebanon	2.7
30	Croatia	2.1

Source: UNCTAD (2006).

- The second phase (***take-off stage***) took place between 1986 and 1996 when Thai outward FDI increased rapidly, both in terms of volume and the range of host countries. Thai companies ventured further afield to such locations as

Figure 2. Thailand: Net outward FDI flows, 1978-2005
(Millions of dollars)



Source: Bank of Thailand.
Notes: Figures for 2004 and 2005 are preliminary.
Positive outflows refer to equity flows and intra-company loans of outward FDI by Thai firms.
Negative outflows refer to the repatriation of equity capital and intra-company loans by Thai firms abroad.

Australia, Canada and the Maldives, as well as European countries and offshore financial centres (Cayman Islands and British Virgin Islands). While the United States and Hong Kong (China) continued to be the principal host economies, other Asian countries, particularly ASEAN countries, have emerged as significant destinations.

Although the ASEAN region as a whole was the primary destination for Thai outward FDI, the interest of Thai enterprises in investing in China grew rapidly. Geographical proximity and cultural affinity, along with regional integration (i.e. the creation of AFTA) and the aspiration of Thai firms to be more regionally present, played a role in influencing the geographical concentration of Thai FDI. The cost advantage and large market size, including investment and business opportunities in China and other ASEAN countries, contributed to the growing interest of Thai firms to invest or to be present in these host countries. In particular, low cost ASEAN countries (Cambodia, Lao PDR, Myanmar and Viet Nam) attracted a significant

Table 2. Top destinations of Thai OFDI, 1978-1985, 1986-1996, 1997-2002, 2003-2005
(Millions of dollars)

1978-1985		1986-1996		1997-2002		2003-2005	
Total	18	Total	2951	Total	1123	Total	753
United States	8	ASEAN	854	ASEAN	539	ASEAN	366
Hong Kong, China	6	Philippines	277	Singapore	359	Singapore	197
Singapore	1	Singapore	169	Viet Nam	90	Philippines	50
Japan	1	Indonesia	107	Indonesia	26	Viet Nam	42
		Viet Nam	93	Philippines	26	Indonesia	32
		Lao PDR	84	Cambodia	25	Malaysia	24
		Cambodia	66	Myanmar	17	Myanmar	10
		Myanmar	35	Malaysia	6	Cambodia	8
		Malaysia	23	Hong Kong, China	140	Lao PDR	4
		United States	571	China	101	China	139
		Hong Kong, China	540	Ireland	38	United States	29
		China	283	Luxembourg	10	Switzerland	23
		Germany	118	Belgium	3	Luxembourg	19
		United Kingdom	93	Austria	1	United Kingdom	16
		Italy	11	Denmark	1	Lithuania	9
		Netherlands	11	United Kingdom	1	Portugal	5
		Luxembourg	9	Taiwan Province of China	23	Netherlands	3
		France	7	United States	22	Belgium	2
		Denmark	5	Australia	9	Hong Kong, China	15
		Austria	3	Japan	7	Japan	10
		Australia	37	Republic of Korea	2	Australia	7
		Japan	10				
		Taiwan Province of China	8				
		Canada	6				

Source: Bank of Thailand.
In terms of cumulative net outflows of Thai equity investment abroad in each period.

Table 3. Thailand: net outflow of equity investment abroad, by industry, 1978-1985, 1986-1996, 1997-2002, 2003-2005
(Millions of dollars)

	1978-1985	1986-1996	1997-2002	2003-2005
Total	18	2951	1123	753
Industry	1	1018	396	346
Food & sugar	0	183	99	55
Textiles	1	65	3	8
Metal & non metallic	0	215	42	19
Electrical appliances	0	353	52	39
Machinery & transport equipment	0	42	20	34
Chemicals	0	42	107	36
Petroleum products	0	5	0	7
Construction materials	0	46	34	-2
Others	0	67	39	150
Financial institutions	13	402	43	56
Trade	2	124	163	77
Construction	0	49	-23	5
Mining & quarrying	0	19	3	19
Agriculture	0	29	20	12
Services	-1	585	64	73
Investment	0	392	405	147
Real estate	0	286	2	27
Others	3	48	52	-8

Source: Bank of Thailand.

amount of attention from Thai enterprises (table 2; NESDB and UN, 2004, p.55). Thailand is an important source of FDI for these neighbouring countries.

Thai outward FDI in manufacturing and service activities became visible at this stage. Strong economic growth during this period increased the pool of Thai enterprises with sufficient financial capability to venture abroad. The financial liberalization in the early 1990s, the removal of foreign exchange controls, the establishment of the Bangkok International Banking Facilities (BIBF) and easier access to financial markets contributed to the rapid growth of Thai outward FDI.[3]

[3] The BIBF was established in 1992. It permits both local and foreign commercial banks in Thailand to take deposits or borrow in foreign currencies from abroad, and make loans in Thailand and abroad.

- The third phase (***financial crisis impact stage***), which covers the period 1997 to 2002, saw a dramatic decline in Thai outward FDI due to the impact of the financial crisis, which significantly affected the ability of Thai enterprises to invest or maintain their investment abroad.[4] Thai outward FDI to China, Europe, Hong Kong (China) and United States fell considerably and flows to ASEAN during this period also fell by 36% in absolute terms, compared with the period before the financial crisis (1986-1996).

  Thai companies that borrowed heavily in foreign currencies to finance corporate expansion were severely affected by the crisis when the Baht was floated in 1997 and, subsequently, suffered an unprecedented depreciation against major foreign currencies. This situation significantly increased the debt obligation of Thai firms in local currency terms and some had to restructure their debts with creditors (e.g. Jasmine International Overseas)[5] and/or sell off their overseas assets.

  During this crisis period, corporate consolidation to improve financial positions and to ensure survival in the domestic market was essential for the parent companies. Consequently, many Thai enterprises reduced their outward FDI activities. The development of Thai outward FDI at this stage was characterized by a significant narrowing of the gap between outflows of funds (i.e. outflows of equity and disbursement of intra-company loans to Thai firms abroad) and inflows (i.e. repatriation of equity and repayment of intra-company loans by Thai firms abroad to parent company in Thailand) (figure 2).[6] This suggests that funds were more actively repatriated by Thai affiliates abroad because of the pressing financial position of the

[4] The financial crisis took place in the middle of 1997 and the impact of the crisis on Thai economy and enterprises was felt throughout the subsequent few years.

[5] Jasmine International PCL (http://www.jasmine.com/jasmineweb/html/milestones.html).

[6] Including repatriation of funds arising from complete or partial disinvestment in foreign affiliates.

parent companies at home. This period also witnessed a surge in the sales of Thai assets abroad (four times more than the pre-crisis period 1990-1996), reflecting the financial consolidation strategy pursued by Thai enterprises. Sales of overseas assets by Thai enterprises were 15 times the number of Thai M&A purchases in the same period. These extensive liquidations of Thai assets abroad, which took place mainly in developed countries (the United States and Japan) and were concerned with finance, telecommunication, utilities and manufacturing activities (table 4), contributed to the decline in Thai outward FDI stock in 2000 (figure 1).

Almost all industries experienced a sharp decline in outward FDI except for trade and investment activities (e.g. investment in holding companies, investment in associated companies abroad). Thai construction enterprises that started to invest abroad in the pre-crisis period repatriated

Table 4. M&A sales by Thai enterprises abroad, 1990-1996, 1997-2002, 2003-2005
(Number of deals)

	1990-1996	1997-2002	2003-2005
Total industry	60	247	104
Primary	3	6	3
Mining, quarrying and petroleum	2	6	2
Secondary	18	100	35
Food, beverages and tobacco	0	6	1
Textile, clothing and leather	0	6	3
Chemicals and Allied Products	5	12	2
Stone, Clay, Glass and Concrete Products	1	8	2
Metal and Metal Products	1	13	4
Electrical and electronic equipment	2	11	5
Motor vehicles and other transport equipment	3	16	3
Services	39	141	66
Electric, Gas, and Water Distribution	0	15	2
Construction	0	5	0
Trade	5	9	2
Transport, storage and communications	2	16	7
Finance	23	78	37
Investment & Commodity Firms, Dealers,Exchanges	18	57	31
Insurance	4	10	2
Business activities	6	14	15

Source: UNCTAD, M&As database.

a significant amount of funds back to Thailand during the crisis period. Despite the decline, Thai outward FDI at this stage was greater than in the earlier periods.

- The fourth phase ***(recovering stage)***, which started in 2003, saw a recovery in outward FDI. ASEAN and China were the main recipients. FDI to Europe and the United States began to pick up but remained at a low level. Manufacturing was the most active sector for Thai outward FDI. Stronger economic growth at home, improved corporate financial positions and the need to access new markets encouraged Thai companies to venture overseas.[7] The prospect for Thai outward FDI is encouraging given the number of recent policy announcements to support outward FDI, increased institutional support facilities, recovery from the financial crisis, improved Thai enterprises' capacity to venture abroad, and the conclusion of regional and bilateral free trade agreements.

While most Thai outward FDI is in the form of greenfield investment, Thai enterprises are also entering foreign markets through M&As (table 5).[8] Market entry through M&A remains limited compared with firms from other mature developing economies, but it shows the increasing financial capability of Thai firms to acquire foreign assets abroad. M&A purchases by Thai enterprises dropped considerably in the crisis impact stage, particularly in the period 1997-1998. Most M&A purchases before, during and after the financial crisis were in Asia, namely ASEAN, China and Hong Kong (China) and in the services sector (finance, investment, transport and communication) (table 6).

[7] "More Thai firms to expand abroad", *Bangkok Post*, 4 October 2004.

[8] To cite some examples between 2003 and 2006, the Landmark Group acquired the Regent Hotel (United Kingdom) for $115 million; Boon Rawd Brewery took a 30% stake in Wan Li Beer (China); Banpu acquired a 35% stake in Indominco Mandiri (Indonesia) for $10.5 million; PTT acquired a 50% stake in both Subic Energy Co. Ltd. and Subic Bay Distribution Inc. in the Philippines; and Bangkok Bank acquired a 10% share of People Insurance of China.

Table 5. Thailand: Cross-border M&A purchases by Thai companies, geographical distribution, 1990-1996, 1997-2002, 2003-2005, 1990-2005

(Number of deals)

	1990-1996	1997-2002	2003-2005	1990-2005
World	37	16	23	76
Developed countries and territories	14	4	3	21
France	2	0	0	2
United Kingdom	5	1	0	6
United States	2	1	0	3
Australia	1	0	1	2
Japan	1	1	0	2
Developing countries and territories	23	12	20	55
Asia and Oceania	21	12	19	52
China	2	3	3	8
Hong Kong, China	4	1	2	7
India	0	0	2	2
Indonesia	3	4	1	8
Philippines	5	1	2	8
Singapore	5	0	4	9

Source: UNCTAD, M&As database.

Table 6. Thailand: Cross-border M&A purchases by Thai companies, industry distribution, 1990-1996, 1997-2002, 2003-2005, 1990-2005

(Number of deals)

	1990-1996	1997-2002	2003-2005	1990-2005
Total industry	37	16	23	76
Primary	1	0	3	4
Secondary	12	6	7	25
Food, beverages and tobacco	1	1	3	5
Textile, clothing and leather	0	2	0	2
Printing, Publishing, and Allied Services	3	0	0	3
Oil and Gas; Petroleum Refining	1	1	0	2
Chemicals and chemical products	1	1	0	2
Electrical and electronic equipment	1	0	3	4
Motor vehicles and other transport equipment	1	0	1	2
Services	21	10	13	44
Construction	2	0	1	3
Hotels and restaurants	4	0	1	5
Trade	1	1	0	2
Transport, storage and communications	7	1	2	10
Finance	7	6	6	19
Unknown	3	0	0	3

Source: UNCTAD, M&As database.

3. Drivers and motivations

The motives driving outward FDI by Thai enterprises are a combination of inter-related reasons (table 7). They vary between firms, depending on the industry they operate in (e.g. textiles vs. restaurant business; manufacturing vs. resource base), the years of experience in internationalization (experienced internationalized firms have a higher tendency to locate further and to diversify their outward FDI activities than newer ones), the extent of overseas business networks (business contacts and networks facilitate outward expansion) and the purpose of outward FDI.

The desire to grow, expand markets and support trade and distribution channels were and still are the main drivers of Thai outward FDI. Hence, for both early and present Thai outward FDI, the market-seeking motive is significant. For instance, A&J Beauty Products Co. Ltd expanded overseas, through joint-venture arrangements, to market its cosmetics and hair-care products in the United States and France;[9] Siam Cement invested in the ASEAN region to strengthen its market presence and to be more effective in servicing the emerging markets in the region. Outward FDI by firms such as Amata, Loxley, S&P, Siam Cement, Saha Union and Thai Union was also driven by market-seeking motives (table 7). Efficiency-seeking outward FDI is a relatively recent development and has been due to the increasing cost of operating in Thailand in some industries (e.g. textiles, jewellery). The Thai firm, Pranda Jewelry, for instance, invested in China, Indonesia and Viet Nam, partly because of rising costs. However, cost in itself is not the major reason for Thai outward FDI.

In general, Thai firms invest abroad to increase competitiveness through extending their market reach, exploiting/strengthening their brand (S&P, Siam Cement) and ownership advantages such as business experience, skills or technological know-how (Amata, Thai President Foods, Pranda

[9] "Thailand retailer Jae Leng set to expand at home and overseas", *Bangkok Post*, 10 April 2004.

Table 7. Profiles of Selected Internationalizing Thai Enterprises

Name	Industry	Drivers/Motives	Overseas geographical spread	Activity abroad	International experience
Amata	Industrial estate developer	· Expansion of business abroad in light of opportunities · Build on experience of the company in industrial estate development · Growth prospects of host country	· Limited. Only in neighbouring country (Viet Nam).	Industrial estate developer	Fairly recent
Bangkok Bank	Banking	· Aspires to be a leading regional bank · Build banking network · Expansion to new markets · Grow customer base · Investment opportunities in host countries	· Have 21 overseas activities. Mainly in Asia. Have operations in United Kingdom and the United States.	Mainly banking	Dates back to 1950s.
Charoen Pokphand	Agro-business and food industry	· Market-seeking · Support trade and distribution channels · Vision to be a global agrifood company · Exploit long term internationalization experience · Investment opportunities in host countries · Business networks and connections abroad	· Extensive overseas investments in some 20 countries. Mainly in Asia.	Mainly agro-industry related activities. Have diversified into other activities abroad, such as in restaurants and shopping malls), particularly in China.	Since 1970s
S&P	Food and restaurant	· Market seeking · Better control of value chains · Expand market base · Increase brand awareness	Have 17 overseas branches. Mainly in the United Kingdom, Switzerland, Singapore and Taiwan Province of China.	Restaurant business.	Since 1990.
Saha Union	Conglomerate. Started as manufacturer of textiles and accessories	· Market-seeking (especially in energy and textiles activities) · Opportunistic investment (energy activities and international schools) · Cost reduction especially in textiles manufacturing in China · Access and secure raw material supplies · Strengthen marketing and distribution channels · Business networks connection	Extensive but with most overseas activities concentrated in China.	Expanded into other activities abroad such as in energy and international schools operation (particularly in China). Have overseas investments in textiles activities and distribution business.	Started since 1972.

/...

Table 7. Profiles of Selected Internationalizing Thai Enterprises (concluded)

Name	Industry	Drivers/Motives	Overseas geographical spread	Activity abroad	International experience
Siam Cement Group	Conglomerate	· Market seeking · Expand market base and the need to be present in key markets · Regional integration factors · Aspires to be a regional industry leader · Strengthen trade and distribution channels · Better control of value chains · Sourcing of raw materials	Extensive but mainly in Asia with greater concentration in ASEAN.	Cement production and distribution. Chemical production and distribution. Production of building materials.	Visibly since 1990.
Thai Union	Food	· Market-seeking · Expansion of market presence · Strengthen distribution channels · Strive for growth in revenues and profits · Aspire to be in leadership position in seafood industry	· Limited. Mainly in China and the United States.	Distribution of seafood products and holding company activities.	Since the 1990s.
Thai President Foods	Food	· Market-seeking · Strengthen sales and distribution channels · Exploit the skills and technological know-how in instant noodles making	Have several joint investments, mainly in Asia.	· Manufacturing and selling instant noodles through joint ventures. · Marketing and distribution activities.	Since 1991.
Loxley	Conglomerate	· Market-seeking · Expand business	Limited. Mainly in neighbouring countries.	· Joint venture in manufacturing of soft drinks. · Trading activities	..
PTT	Oil and gas	· Market-seeking · Access to natural resources · Strengthen distribution channels · Better control of value chains (e.g. control of petrol service stations).	Has significant investment overseas. In the area of natural gas and oil marketing, it has overseas investment in ASEAN countries and in China (Annex table 12). In the area of oil exploration and production, it has overseas activities in Asia and the Pacific, Middle East and Africa.	· Marketing and distribution · Exploration, development and production of oil and gas	More visibly in the early 2000s.

Sources: Author, compiled from the respective company's reports and websites.

Jewelry); to take advantage of emerging investment opportunities in host countries (Saha Union); and to relocate to a low-cost country.[10] Labour-intensive production (e.g. garments) is gradually being relocated to countries with abundant low-cost labour, such as Cambodia and Lao PDR (Ministry of Foreign Affairs of Thailand and the United Nations Country Team in Thailand 2005, p. 40). For instance, Saha Union's investment in textiles manufacturing in China was motivated by the cost factor as was Pranda Jewelry's investment in neighbouring countries.[11]

Resource-seeking FDI by Thai firms is still limited and dominated by large industrial conglomerates (e.g. Siam Cement, Saha Union) and government linked companies (e.g. PTT). Thai outward FDI in the primary sector is much smaller compared with the manufacturing and services sectors (table 3). Banpu and other Thai companies have invested in mining in Lao PDR. Saha Union has invested in China, and a few other countries in Asia, for the sourcing of supplies (including electricity generation). Siam Cement has invested in Iran and ASEAN countries to secure low-cost raw materials. PTT, a leading oil and gas company, invested abroad to secure access to natural resources and markets as well as to strengthen its distribution channels.

Other drivers of Thai outward FDI include newly emerging investment opportunities in certain host countries, particularly in speculative investment in real estate and industrial estates development (Pavida, 2004). For instance, the cumulative experience of the leading industrial estate developer Amata at home, and the emerging opportunities and industrial growth prospects in Viet Nam, contributed to the company's decision

[10] Some Thai garment factories invested in Lao PDR and several footwear factories were established in the neighbouring countries because of cost reasons (Brimble and Atchaka, 2005).

[11] See Saha Union Public Company Limited Annual Report 2005 and "Viet Nam, a 'Gold Mine' for Pranda Jewelry plc", Investment and Trade Promotion Centre (http:itpc.hochiminhcity.gov.vn/en/business_news/business-day/2004/03/Folder.2004-03-30.4815/News_Item.2004-03-30.0423.

to invest in that country.[12] Business networks and contacts in host countries (e.g. in the cases of Saha Union and the agro-industrial conglomerate CP) and the vision of top management to strengthen their market positions (e.g. in the cases of Thai Union, Bangkok Bank, CP, Siam Cement) were also the driving factors of Thai investment overseas. S&P's investment overseas is an example of Thai enterprises investing abroad to build brand awareness.

Government encouragement of Thai firms to invest abroad, for instance through the provision of financial facilities, certainly influenced the internationalization of Thai enterprises (see section 6). Regional integration in ASEAN and the desire of some Thai firms to raise their regional profiles also contributed to recent development in Thai outward FDI.

Another reason that has encouraged Thai outward FDI to neighbouring countries, such as Cambodia, Lao PDR and Viet Nam, is related to the impact of Thai Overseas Development Assistance on the improvement of infrastructure in these countries, which created new investment opportunities (Ministry of Foreign Affairs of Thailand and the United Nations Country Team in Thailand 2005, p. 38; table 8).

Table 8. Thailand: ODA qualified loans in 2002/2003
(Millions of dollars)

Ministry/Agency	Amount/Country
Ministry of Finance	$48.8 millions for GMS countries[a]
Export-Import Bank of Thailand	$60.0 millions for Lao PDR
Export-Import Bank of Thailand	$30.0 millions for Maldives
Export-Import Bank of Thailand	$8.4 millions for Cambodia

Source: Ministry of Foreign Affairs of Thailand and the United Nations Country Team in Thailand, 2005.

[a] GMS refers to the Greater Mekong Sub-region comprising Cambodia, Lao PDR, Myanmar, Viet Nam, Thailand and Yunnan Province of China.

[12] See "Amata industrial estate developer: company background and description", January 2006 (http://www.amata.com/corporate/background.aspx).

While the market-seeking motive accounts for a large part of Thai outward FDI for all industries, there are some distinctive sectoral differences. The need to access natural resources and to better control value chains are more closely associated with outward FDI in mining, including the oil and gas industries. In services, exploiting ownership advantages such as brand, business experience and business networks appears to be a more important reason. Speculative factors such as investment opportunities and the growth potential of the host country have also influenced investment decisions. In the manufacturing sector, a wide range of reasons motivate outward FDI. They include the sourcing of raw materials, exploiting ownership advantages, strengthening distribution channels, lowering costs and realizing the owners' vision. Regional factors, including economic integration and geographical proximity and cultural affinity, have influenced the location decision of Thai overseas investment in all three sectors.

4. Outward FDI and enterprise competitiveness

Success in operating abroad is not automatic and there is no guarantee that outward FDI will contribute to increasing the overall competitiveness of an internationalizing enterprise. Much would depend on the motive, corporate strategy, capacity of the firm (for managing international business activities involving complex cultural and legal issues) and the extent of synergy created by the outward FDI activities for the group as a whole.[13]

There are instances of successful Thai enterprise internationalization, as well as of failures. For example, outward FDI activities contributed about 32% to S&P's overall revenues from its restaurant business and 20% to the group's revenues in 2005. The share of revenues from overseas restaurant activities has also been increasing as has the average annual revenues generated by each overseas branch compared to branches in

[13] For more information on outward FDI and enterprise competitiveness, see UNCTAD (2007).

Thailand. Outward FDI activities contributed to the steady increase in the sales of Thai Union in the period 2002-2004. The share of overseas sales in the total sales of Thai Union rose from 39.5% in 2002 to 49% in 2004. In the case of Saha Union, its energy business in China is profitable and the firm has decided to expand its power plants' capacity. Internationalization has also contributed to the diversification and growth of the business activities and revenues of Saha Union. Internationalization has helped Siam Cement and CP to expand their market bases and to become industry leaders in the region. Pranda Jewelry is expanding its overseas activities because of increasing demand and growth potential for its products.

There are cases in which outward FDI has not contributed to increasing competitiveness, including Thai President Foods' troubled operations in China (Pavida, 2004). While corporate strategy on internationalization that was not well thought through contributed to the subsequent failure of some Thai outward FDI activities in the period 1997-2002, the financial crisis and excessive exposure to currency risks also undermined their overseas ventures and competitiveness. There is a need to differentiate financing decision from real investment decision when evaluating the cases that unfolded during the crisis period. If the failures of outward FDI activities were due to an inappropriate financing decision, then it does not necessarily follow that outward FDI did not lead to increasing competitiveness of Thai firms. The sales of assets abroad might have been due to an excessive debt obligation in the light of a significant depreciation of the home currency and a pressing need to relieve the precarious financial situation. In other words, cases that were largely influenced by the financial crisis have to be sieved out in assessing the impact of outward FDI on Thai enterprise competitiveness as they were not operating in normal circumstances.

5. Challenges and obstacles to Thai outward FDI

Thai enterprises face a number of challenges and obstacles when going abroad. The main challenges are capacity constraints and complacency on the part of Thai firms. The major issues facing Thai enterprises' overseas investment include the following:[14]

- Difficulties in understanding complex policies and regulations in host countries,
- A lack of market information. Many Thai investors lack in-depth information on host country markets, which results in reluctance and delay in decision-making on outward FDI.
- A lack of coherent institutional support and government guidance also plays a role. Although the Government of Thailand has provided several measures to promote outward FDI, unclear policies and programmes and the lack of coordination among the various implementing agencies have confused Thai enterprises.
- Few significant Thai government incentives encouraging Thai firms to invest overseas. Other countries offer various incentives such as grants, subsidized loans or tax breaks to encourage their enterprises to go abroad.
- Limited access to finance has restricted Thai firms, especially SMEs, to venture abroad. The difficulties in raising funds from Thai financial institutions – as assets overseas cannot often be used as collateral – have restricted Thai enterprises' ability to raise finance.
- The absence of skilled human resources, especially in middle management, has constrained Thai outward FDI. The lack of language skills and the reluctance of qualified Thai managers to work abroad have also limited Thai enterprise capacity to internationalize.
- Aside from the above home country factors, host countries' constraints have also contributed to restricting Thai outward FDI. These include strict foreign exchange controls,

[14] For more details, see Brimble and Atchaka (2005), Atchaka (2004), NIDA (2005), Bangkok Bank (2005) and UTCC (2005a, 2005b).

restricted market access, inadequate infrastructure facilities, limits to the hiring of Thai expatriates, higher transaction costs and difficulty in finding suitable local joint venture partners. In some cases, the absence of bilateral investment agreements to protect investments contributes to insecurity and uncertainty about overseas investments by Thai enterprises.

6. Outward FDI policy and support measures

Thailand does not have a specific policy on outward FDI. However, the Government has been encouraging Thai enterprises to go abroad since the early 1990s through various measures and institutional support facilities. It had also signed 39 bilateral investment treaties and 56 double taxation treaties with partner economies by 1 January 2006,[15] and concluded various regional arrangements (ASEAN Free Trade Area, ASEAN Investment Area, ASEAN Framework Agreement on Services) and bilateral FTA agreements (with Australia, China, India, New Zealand), which contain investment provisions. The Thailand-Australia Free Trade Agreement is expected to open up Australia to Thai investment, including Thai restaurant businesses.[16]

The Government of Thailand also encourages Thai investment in infrastructure, such as the construction of roads and bridges, in various sub-regional economic cooperation areas of which Thailand is a member. These sub-regional areas include the Greater Mekong Sub-region (GMS), the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMST-EC) and Ayeyawady-Chao Phraya, Mekong Economic Cooperation Strategy (ACMECS) (UTCC 2005a).

[15] "Agreement for the Avoidance of Double Taxation", 27 September 2005 (http//www.mfa.go.th/web/988.php) and "Agreement for the Promotion and Protection of Investments", 27 September 2005 (http://www.mfa.go.th/web/989.php).

[16] See Australia-Thailand Business Council Bulletin, "Thailand-Australia Free Trade Agreement", December 2004.

Institutions that provide outward FDI support include the Board of Investment (BOI), EXIM Bank of Thailand, the Federation of Thai Industries, the Thailand Board of Trade, the Ministry of Finance and the Ministry of Foreign Affairs.

BOI

The BOI has been supporting Thai outward FDI since 1991 (Atchaka, 2004) and organizes outward investment missions to neighbouring countries,[17] as well as outward FDI seminars in Thailand and target host countries. It also provides guidance to Thai firms regarding investing abroad, especially in neighbouring countries. Other services and support provided by the BOI include business matchmaking, and country desks managed by consultants with expertise and experience on the assigned country.

The BOI has targeted three clusters of industries for outward FDI promotion. The first cluster consists of industries that are deemed to promote Thailand as a regional centre and have a beneficial impact on Thailand's economic development, and include petrochemicals, natural gas/energy, auto parts, agribusiness and electrical parts. A second cluster includes industries that have encountered limitations in domestic market expansion, such as fisheries, textiles and garments, animal farming and jewellery. The final cluster covers industries that possess global potential, such as telecommunications, industrial estates, construction, animal feeds, sugar, plastic, leather products, tourism, and the restaurant and hotel business (Pavida, 2004; Brimble and Atchaka, 2005).

EXIM Bank

The EXIM bank provides various services and financing facilities to support the internationalization of Thai enterprises through outward FDI (Annex A). It has entered into partnership

[17] Including new emerging economies such as China, India, Pakistan and Bangladesh.

with leading academic institutions in the country and the Federation of Thai Industries to increase the capacity of Thai enterprises to invest abroad. The Bank and the Federation of Thai Industries jointly promote Thai investment and industrial relocation abroad by providing financial facilities and information on investment opportunities worldwide.

Ministry of Finance

The Ministry of Finance also provides support for outward FDI through double taxation treaties and tax relief. For instance, on 17 August 2004, the Government approved a new taxation package, which includes a provision that allows Thai companies that repatriate profits from abroad to have tax liability waived.[18]

Ministry of Foreign Affairs

The ministry provides overseas development assistance and technical cooperation to other countries, particularly neighbouring countries. Such assistance helps to raise the profile of Thailand in the recipient countries and creates investment opportunities for Thai enterprises (Ministry of Foreign Affairs of Thailand and United Nations Country Team in Thailand 2005).

Thai Business Associations

Finally, the Federation of Thai Industries and the Thailand Board of Trade support Thai outward FDI. This is done through organizing overseas business visits, business seminars and dialogue with business associations of other countries.

7. Conclusion

In a business environment where competition at home and abroad is intensifying, a strategy to operate only in the domestic market would increasingly be difficult for Thai firms to maintain. This is especially the case for those firms facing cost disadvantages and limited scope for growth (textiles and

[18] See http://www.boi.go.th/english/newsuse/newsuse.html

garments, jewellery). Similarly, Thai enterprises that possess certain advantages (product advantage and specific business experience) and brands (Thai restaurants) would be depriving themselves of an opportunity to realize their business potential if they did not internationalize. Thai firms have been investing abroad for a combination of these reasons.

Enterprise internationalization provides a channel for Thai firms to increase competitiveness by helping them to capture new markets, exercise better control of their value chains, secure raw materials, obtain access to foreign knowledge and technologies and to relocate production processes to lower cost countries in order to survive.

In this regard, Thai firms with the capacity to internationalize should be encouraged to do so to enable them to take advantage of the benefits of globalization, including the effect of regional integration in ASEAN. Raising awareness of enterprise internationalization among Thai firms, including SMEs, and increasing the capacity of more Thai managers to run international businesses are important strategic considerations in that respect.

A regular public-private sector dialogue to exchange ideas and experiences might be an avenue worth exploring. Specific facilities and programmes to strengthen the capacity of Thai firms to internationalize (similar to the ongoing programme to train Thai chefs to work for Thai restaurants abroad) would help. Such specific programmes could include the training of Thai executives in international business issues in cooperation with leading business schools in the country and international organizations. Institutional support facilities could be extended to cover the coaching of Thai firms to become better prepared for internationalization, e.g. offering advice on drawing up viable international expansion business plans, sensitizing them to the labour and cultural issues of host countries and offering more focused and strategic business advisory facilities.

Greater cooperation with investment promotion agencies in other countries (for instance in searching for joint venture partners), as well as networking with Thai private sector organizations and firms in target host countries would also help encourage Thai outward FDI. ■

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Annex A
EXIM Bank of Thailand: Supporting OFDI by Thai Enterprises

The Export-Import (EXIM) Bank of Thailand plays an important role in supporting the internationalization of Thai enterprises. Aside from providing financial facilities and investment guarantees for Thai enterprises, its institutional support facilities have expanded to cover the provision of market information for its clients and the organizing of seminars and workshops to increase the skills of Thai managers in running international businesses. In 2006, the Bank planned to approve 5 billion baht overseas investment financing facilities with priority given to Thai restaurant projects and the relocation of industrial production to neighbouring countries.[1] In 2005, some 60% of the loan facilities were given to overseas construction projects, such as the construction of resort condominiums in the Middle East and dams in Lao PDR. The remaining loan facilities were given to projects for building hotels and spas in Asia and the United States, and sugar mills in Bangladesh and the Philippines.

The EXIM Bank is a financial institution owned by the Government of Thailand under the Ministry of Finance's supervision. Its objectives are to provide financial services to strengthen the competitive edge of Thai exporters and investors abroad. The Bank officially started its operations on 17 February 1994. The Export-Import Bank of Thailand Act (No.2) B.E. 2542 (1999) expanded the Bank's objectives and scope of operations with regard to investment promotion and support. The Act enabled the Bank to provide more comprehensive support to Thai outward investors as well as local investors in businesses relating to exporting or businesses that earned or saved foreign exchange.[2]

[1] See "EXIM Thailand earmarks 5 billion baht for offshore production base expansion", 10 May 2006 (http://www.exim.go.th/Doc/adn/48000001469.pdf).

[2] See Export Import Bank of Thailand: Background (http://www.exim.go.th/eng/about_exim/background.asp).

The Bank provides various services to support outward FDI. These services include:

- *Financial facilities for overseas investments* including long-term credit facilities to support Thai outward FDI projects.

- *Investment insurance* against political risk related to overseas investment.

- *Foreign investment advisory service*, which provides information on foreign investment prospects abroad, particularly in such neighbouring countries as Cambodia, Lao PDR, Myanmar and Viet Nam, as well as Yunnan and Guangdong Provinces in China.

- *Capacity building*. On 15 September 2005, the Bank, together with seven leading academic institutions in the country, agreed to collaborate to develop business education curricula to strengthen the capacity of Thai enterprises to internationalize and to develop a new generation of Thai professionals specialized in exporting and international business.[4]

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[3] See "EXIM Thailand expands support to Thai restaurants worldwide", 11 July 2005 (http://www.exim.go.th/Doc/adn/48000001379.pdf).

[4] See "EXIM Thailand joins forces with 7 academic institutions to develop a new generation of Thai entrepreneurs", 15 September 2005 (http://www.exim.go.th/Doc/adn/48000001407.pdf).