Chapter 3

Trade and Foreign Direct Investment of European Union in Thailand

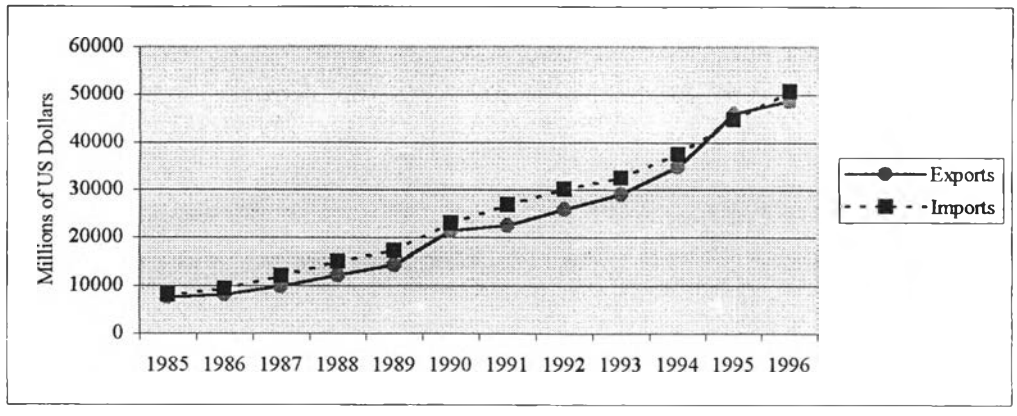
The first part of this Chapter will be dealing with the pattern of trade between EU and ASEAN. Next, a particular trade pattern between EU and Thailand will be discussed. Inevitably, as shown in the third part, the facts of EU's FDI in the world economy will be presented. In terms of Thailand (the main point of this research), beginning in the fourth section of this Chapter is the discussion of total FDI into Thailand. Also, roles of EU countries as investors in Thailand will be shown in the next part. Finally, conclusion of this Chapter will be presented.

3.1 Pattern of European Union and ASEAN Trade

Before discussing Thailand in particular, it is important to discuss the pattern of trade between EU and ASEAN in order to show a general view of the relationship between EU and countries in the same region of Thailand.

A positive sign in EU and ASEAN relationship can be seen from a rapid growth in EU-ASEAN trade. Since 1985, ASEAN has continued to benefit from a growing trade surplus with EU except in 1995, as can be seen from Exhibit 3.1: Trade in Goods between EU and ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand).

Exhibit 3.1: Trade in Goods between EU and ASEAN-5.



Source: Direction of Trade Statistics Yearbook 1992 and 1997.

EU has contributed considerably to the growth and diversification to ASEAN exports to EU, through the General System of Preferences (GSP) which applies to more than one third of ASEAN's exports to EU. Indeed, ASEAN products exported to EU under the GSP system represent one-fourth of total imports of goods from developing countries to EU receiving preferential treatment. The new European Commission Communication on the GSP for the period 1995 to 2004 contains proposals concentrating on the application of the GSP to encourage importers to seek their supplies from those developing countries that have the greatest need. The proposals also contain a special incentive to encourage improved practices in the social and environmental fields. The new scheme maintains the regional cumulative provisions, of which the ASEAN countries are one of the main beneficiaries.

EU and ASEAN are deeply working together to increase trade and investment between these two regions by sponsoring a number of economic cooperation programmes. For example, European Business Information Centres (EBIC) have been opened in Bangkok, Jakarta, Kuala Lumpur and Manila. These centres provide valuable information to businessmen on market conditions in both European Union and ASEAN countries. In addition, these business centres are founded as complement activities of existing bilateral Chambers of Commerce and Industry.

Furthermore, the conclusion of the Uruguay Round is welcomed by both EU and ASEAN since it provided the elimination of a number of trade and investment barriers in both respective regions. Nevertheless, EU would strongly urge ASEAN countries to make further progress in non-barriers area in order to ensure a more satisfactory and better balance in the mutual trade.

International Agreements

As stated, international agreements are ones of the important factors to stimulate economic relationships between countries. During the 1990s ASEAN has expanded its focus from regional military and political security to economic co-operation, for instance preferential tariffs on intra-ASEAN trade, collective investment projects and efforts to integrate regional industrial production. The ASEAN programme of the most general interest to international enterprises is its series of gradual, intra-regional tariff reductions, which are negotiated on a product-by-product basis as part of complementation schemes. A range of products, which have received some margin of preference in intra-regional trade, is expanded.

Moreover, Thailand has demonstrated its commitment to free trade mechanism in many of the regional trade groupings emerging in Asia. The government of Anand Panyarachun (the Prime Minister, 1991 to 1992) initiated the ASEAN Free Trade Area (AFTA). The purpose of AFTA is to promote the export-led growth of ASEAN members by creating and expanding trade, which, in turn, will induce more FDI into these areas. Under the umbrella of AFTA, which came into effect in early 1993, the ASEAN countries also have pledged to reduce most non-tariff barriers (NTB) to intra-ASEAN trade by 2003 to conform to GATT principles.

As well as Singapore, Thailand arguably stands to benefit most because of the versatility of their economies. The implementation of AFTA has been complemented by the development of the Asia-Pacific Economic Cooperation (APEC) forum, consisting of eighteen members include Thailand, the United States, Canada, Japan, China, Hong Kong, Australia, New Zealand, South Korea, Taiwan, Chile, Mexico, Papua New Guinea

and most of the other ASEAN members. The group seeks to lessen the gap of formal links between the countries of Asia and the Pacific Rim, as a counterbalance to the European Union influence in world trade bargaining. Particularly, Thailand has been active in pressing for the inclusion of agriculture in this process of liberalization.

Furthermore, the ASEAN Industrial Cooperation (AICO) scheme, introduced in early 1996, is designed to spur private manufacturing, especially in the process of making motor vehicle parts. AICO projects will attract preferential tariffs of 0 to 5 percent in line with the Common Effective Preferential Tariff (CEPT) scheme, which is the backbone to AFTA.

Regarding, the Asia-European Meeting (ASEM)*, Thailand hosted the inaugural gathering their meeting, a loose grouping of 25 nations for EU and ASEAN including Japan, China and Korea. Intended initially to eliminate trade and investment problems between the two trade blocs. It seems that a main contribution for Thailand is encouraging greater investment cooperation.

Furthermore, in other international organizations, Thailand has also taken a high-profile in activities of the World Trade Organization (WTO)** and has been a member of the non-aligned movement (NAM)***, joining in a bid to improve relations with Middle East countries which are important export markets for Thai goods and labour. Moreover, in the development area, Thailand is a member of beneficiary of several international financing agencies, including the Asian Development Bank (ADB), the ADB's autonomous Asian Finance and Investment Corp., and the World Bank's International Finance Corp.

In brief, Thailand is a member in various international organizations, which are ASEAN, APEC, ASEM, WTO and NAM. This is led to more pleasant trade and investment environment for Thailand.

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* ASEM has become a permanent forum in 1996.
** Thailand chairs the group's agriculture committee.
*** since 1993

3.2 Pattern of European Union and Thailand Trade

Having considered the relationship between EU and the South-East Asia region in general, we are now turning to a more focusing analysis on Thailand. In Thailand external trade is one among various factors to stimulate an economic growth. As can be seen from Table 3.1(b), total value of trade among EU and Thailand is around 0.4 percent of total EU trade value, indicating that there is more room for Thai-EU trade. However, a positive sign is shown up, when looking at the total trade value between EU-Thailand growth rate. There is an upward trend which most of them were double digits.

The proportion of total trade value between Thailand and EU is around 15.5 percent of total Thai world trade. It could be said that EU is an important trade partner of Thailand, however, its proportion remain at the same level as many years ago. On the other hand, the growth of Thai export to EU increases dramatically from year to year: it was 6 percent in 1996 and changed to be 29.1 percent of Thai total world trade in 1997. (See Table 3.2 (a) and (b))

Table 3.1(a): Actual and Growth of European Union Export to and Import from Thailand.

			Value : Million ECU			GROWTH RATE			Unit : Percent
Item	1992	1993	1994	1995	1996	1993	1994	1995	1996
EU – World									
Trade Value	2,343,715.8	2,273,271.6	2,551,332.2	3,024,859.5	3,193,594.6	-3.0	12.2	18.5	5.5
Export	1,136,518.0	1,153,477.6	1,296,634.4	1,550,595.5	1,646,413.6	1.4	12.4	19.5	6.1
Import	1,207,197.8	1,119,793.9	1,254,697.8	1,474,263.9	1,547,180.9	-7.2	12.0	17.5	4.9
Trade Balance	-70,679.8	33,683.7	41,936.6	76,331.6	99,232.7				
EU – Thailand									
Total Value	9,554.4	10,576.8	12,432.1	15,112.1	15,945.4	10.7	17.5	21.5	5.5
EU import from Thailand	3,912.6	5,047.0	6,100.0	8,489.1	8,476.4	29.0	20.8	39.1	-0.1
EU export to Thailand	5,641.8	5,529.7	6,332.1	6,622.9	7,468.9	-1.9	14.5	4.5	12.7
Trade Balance	1,729.2	482.7	232.0	-1,866.2	-1,007.5				

Source: EUROSTAT.

Table 3.1(b): Thai Share of Total European Union's Foreign Trade.

	PROPORT ION				Unit : Percent
Item	1992	1993	1994	1995	1996
EU - Thailand					
Total Value	0.4	0.4	0.4	0.5	0.5
Export	0.3	0.4	0.4	0.5	0.5
Import	0.4	0.4	0.5	0.4	0.4

Source: EUROSTAT.

Table 3.2(a): Actual and Growth of Thailand Export to and Import from EU.

						GROWTH RATE			
			Value :	Million	baht			Unit :	Percent
Item	1994	1995	1996	1997	1998*	1995	1996	1997	1998*
Thailand - World									
Trade Value	2,506,862.0	3,169,901.4	3,243,864.5	3,731,195.0	1,163,053.9	26.4	2.3	15.0	43.1
Export	1,137,601.6	1,406,310.1	1,411,039.3	1,806,932.0	647,116.7	23.6	0.3	28.1	79.4
Import	1,369,260.4	1,763,591.3	1,832,825.2	1,924,263.0	515,937.2	28.8	3.9	5.0	14.1
Trade Balance	-231,658.7	-357,281.2	-421,785.8	-117,331.0	131,179.5	145.1	-26.0	-83.7	N/A.
Thailand - EU									
Total Value	383,778.2	493,612.2	501,046.1	558,903.1	186,245.6	28.6	1.5	11.5	55.8
Thailand Export to EU	177,770.4	212,203.4	224,906.7	290,430.8	117,126.9	19.4	6.0	29.1	110.6
Thailand Import from EU	206,007.8	281,408.7	276,139.5	268,472.3	69,118.8	36.6	-1.9	-2.8	8.1
Trade Balance	-28,237.4	-69,205.3	-51,232.8	21,958.5	48,008.1	145.1	-26	-83.7	N/A.

*1998 is the preliminary during January to March.

Source: Dept. of Customs processed by Trade Statistics Center, Thailand.

Table 3.2(b): Share of Thailand Trade with EU of Total Thailand Foreign Trade.

	PROPORTION				
				Unit :	Percent
Item	1994	1995	1996	1997	1998*
Thailand - EU					
Total Value	15.3	15.6	15.4	15.0	16.0
Export	15.6	15.1	15.9	16.1	18.1
Import	15.0	16.0	15.1	14.0	16.4

*1998 is the preliminary during January to March.

Source: Dept. of Customs processed by Trade Statistics Center, Thailand.

Specifically concern European Union member states, in 1996 the top five countries that Thailand exported to were United Kingdom, the Netherlands, Germany, France and Belgium-Luxembourg. While the top five states, which Thailand imported from were Germany, United Kingdom, Italy, France and Belgium-Luxembourg. As it is shown in Table 3.3 and 3.4.

Table 3.3: Exports of Thailand to European Union Classified by Country (Millions of US Dollars).

	1985	1990	1991	1992	1993	1994	1995	1996
Austria	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	81.0	85.0
Belgium-Luxembourg	85.5	348.0	662.0	458.0	725.0	661.0	744.0	800.0
Denmark	32.8	105.0	124.0	140.0	112.0	136.0	170.0	187.0
Finland	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	88.0	122.0
France	132.7	563.0	699.0	740.0	773.0	810.0	978.0	993.0
Germany	266.3	1198.0	1470.0	1428.0	1479.0	1597.0	1638.0	1611.0
Greece	2.5	32.0	56.0	68.0	45.0	49.0	72.0	75.0
Ireland	2.0	12.0	17.0	21.0	17.0	29.0	78.0	166.0
Italy	119.7	421.0	525.0	544.0	463.0	471.0	572.0	696.0
Netherlands	506.0	1115.0	1248.0	1405.0	1157.0	1259.0	1801.0	1666.0
Portugal	N/A.	51.0	49.0	87.0	73.0	79.0	77.0	102.0
Spain	N/A.	197.0	282.0	314.0	272.0	308.0	450.0	417.0
Sweden	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	147.0	161.0
United Kingdom	173.2	936.0	1028.0	1172.0	1188.0	1345.0	1619.0	1837.0

Source: Direction of Trade Statistics Yearbook, 1992 and 1997.

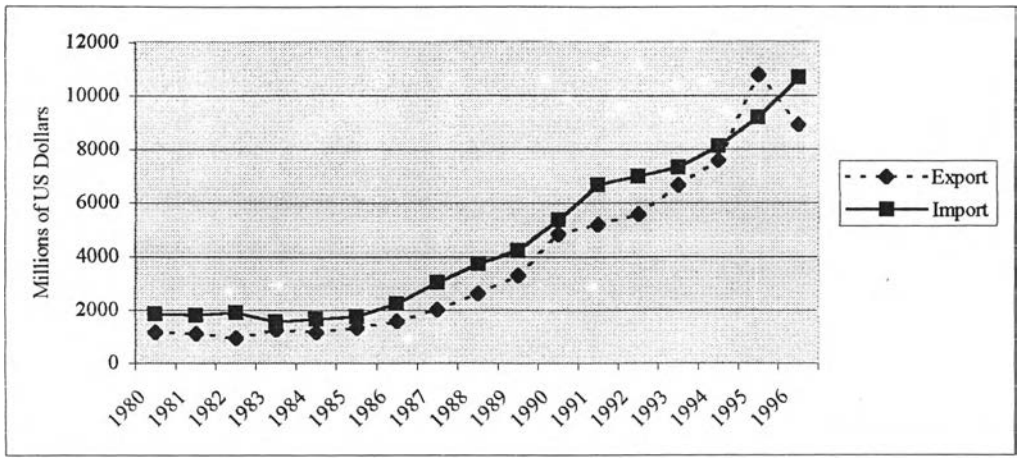
Table 3.4: Imports of Thailand from European Union Classified by Country (Millions of US Dollars).

	1985	1990	1991	1992	1993	1994	1995	1996
Austria	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	98.0	200.0
Belgium-Luxembourg	79.7	523.0	861.0	384.0	624.0	479.0	652.0	632.0
Denmark	49.6	123.0	154.0	175.0	231.0	198.0	257.0	220.0
Finland	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	376.0	447.0
France	249.1	817.0	521.0	944.0	917.0	751.0	1859.0	929.0
Germany	500.4	1702.0	2094.0	2165.0	2482.0	3213.0	3748.0	3655.0
Greece	5.0	20.0	17.0	22.0	33.0	19.0	27.0	34.0
Ireland	14.3	24.0	22.0	34.0	35.0	46.0	67.0	115.0
Italy	108.0	426.0	544.0	623.0	907.0	840.0	1087.0	1305.0
Netherlands	91.3	242.0	326.0	427.0	403.0	502.0	698.0	596.0
Portugal	N/A.	13.0	13.0	14.0	19.0	21.0	33.0	24.0
Spain	N/A.	131.0	146.0	137.0	175.0	201.0	256.0	339.0
Sweden	N/A.	N/A.	N/A.	N/A.	N/A.	N/A.	586.0	598.0
United Kingdom	233.2	907.0	849.0	944.0	1059.0	1152.0	1459.0	1592.0

Source: Direction of Trade Statistics Yearbook, 1992 and 1997.

According to Table 3.3, the largest EU countries which Thailand exported to during 1990-96 were, ranked from the biggest share of Thai export to EU, Germany, Netherlands, United Kingdom and France. This export pattern changes slightly as it was in the 1980s when Netherlands was the largest market for Thai export products to EU. Moreover, according to Table 3.4, in terms of Thailand's imports from EU, in 1985 Germany was the main European exporter to Thailand; second, third and fourth were France, United Kingdom and Italy respectively. Again, this import pattern changes slightly overtime. Even though Germany still ranked the first in exporting their products to Thailand, in the period of 1990-96 the UK has come up to take the second place, while France went down to the third place and Italy still remained the fourth. (It is important to note that Thailand exports to Germany mainly in garments, and precious stones and jewelry, while import mainly for industrial use machine).

Exhibit 3.2: Export and Import of Thailand to and from EU.



Source: Department of Customs, Thailand.

In addition, we are now turning to consider the Exhibit 3.2, which is the overall balance of trade between EU and Thailand. Thailand has a trade deficit with EU except in 1995. This is because some firms in Thailand tried to find a way to have a VAT refunding. It is legal in Thailand for exporters to have a tax refund if they can export goods, which means they help the country's economy. Due to the weak regulation and enforcement during that time, some exporters made up their order to show the Government that they had exported goods; which in reality they had not. Thus, the figures of Thai export in 1995 were overestimated. In addition, as can be seen from exhibit 3.2, Thailand has trade deficit with EU except in 1995 where Thailand has a trade surplus over EU. It is contradict with exhibit 3.1, because that exhibit shows the value of trade among ASEAN-5 and EU.

Again, considering Table 3.3 and 3.4 in more detail, during 1990-96 Thailand has trade surplus over Belgium-Luxembourg, Greece, Ireland, Netherlands, Portugal, Spain and UK. The top three countries in EU which Thailand has a trade surplus were Netherlands, UK and Spain. On the other hand, Thailand has a trade deficit from Austria, Denmark, Finland, Germany, Italy and Sweden. Thailand has a biggest deficit from Germany; Finland, Sweden and Italy ranked in the second, third and fourth places respectively.

Concerning the rank of commodities, which Thai exports to EU, (See Table 3.5: Principal Thai Exports to EU) these ten items value around half of total Thai exports to EU. It appears that Automatic data processing machine and a part thereof is in the first position and it tends to be the most important export to EU. While precious metal and articles clad with precious metal has a rapid growth. Similarly, electronic integrated circuits seem to be more important year after years. However, there is a tendency for garments to remain its position in the top-five.

These evidence shows that Thai labour have improved their skills. As can be seen that automatic data processing industry and electronic integrated circuits, which need higher level of labour skill, took place in export oriented.

Table 3.5: Principal Thai Exports to EU (Million Baht).

Item	1994	1995	1996	1997	(Jan-Mar.) 1998
1. Automatic data processing machines and parts thereof	12,367.1	26,027.5	31,821.9	39,091.0	18,638.7
2. Precious metal and articles clad with precious metal	333.9	537.4	454.5	8,546.8	7,106.7
3. Garments	18,252.4	17,673.9	16,966.5	21,556.5	6,445.8
4. Electronic integrated circuits	4,434.6	6,830.1	8,022.0	13,110.0	5,809.5
5. Footwear and parts thereof	10,070.5	9,653.3	9,116.5	11,731.1	4,649.4
6. Precious stones and jewelry	12,773.9	14,162.6	13,718.4	14,873.8	4,311.6
7. Motor cars, motor vechicles, parts and accessories	5,116.5	5,477.4	6,835.4	14,568.6	3,580.0
8. Radio-broadcast receivers, television receiver and parts thereof	5,606.9	4,822.9	4,474.7	5,076.5	3,547.0
9. Tapioca products	12,074.5	9,813.5	10,983.7	10,461.5	3,220.1
10. Air conditioning machine and parts thereof	687.7	2,104.5	4,361.7	4,745.0	2,363.1
Total 10 items	81,717.9	97,103.0	106,755.4	143,760.9	59,671.8
Other	96,052.4	115,100.5	118,151.2	146,669.9	57,455.1
Grand Total	177,770.4	212,203.4	224,906.7	290,430.8	117,126.9

Note: 1998 is the preliminary during January to March.

Source : Dept. of Customs processed by Trade Statistics Center.

Table 3.5: Principal Thai Exports to EU (Million Baht) (Cont.).

	GROWTH RATE				PROPORTION				
	Unit : Percent							Unit : Percent	
:n	1995	1996	1997	(Jan-Mar.)1998	1994	1995	1996	1997	(Jan-Mar.)1998
Automatic data processing machines and parts thereof	110.5	22.3	22.8	168.2	7.0	12.3	14.1	13.5	15.9
Precious metal and articles clad with precious metal	61.0	-15.4	1780.3	6479.6	0.2	0.3	0.2	2.9	6.1
Garments	-3.2	-4.0	27.1	78.2	10.3	8.3	7.5	7.4	5.5
Electronic integrated circuits	54.0	17.5	63.4	116.4	2.5	3.2	3.6	4.5	5.0
Footwear and parts thereof	-4.1	-5.6	28.7	71.7	5.7	4.5	4.1	4.0	4.0
Precious stones and jewelry	10.9	-3.1	8.4	28.3	7.2	6.7	6.1	5.1	3.7
Motor cars, motor vechicles, parts and accessories	7.1	24.8	113.1	30.8	2.9	2.6	3.0	5.0	3.1
Radio-broadcast receivers, television receiver and parts thereof	-14.0	-7.2	13.4	428.0	3.2	2.3	2.0	1.7	3.0
Tapioca products	-18.7	11.9	-4.8	23.7	6.8	4.6	4.9	3.6	2.7
Air conditioning machine and parts thereof	206.0	107.3	8.8	80.9	0.4	1.0	1.9	1.6	2.0
tal 10 items	18.8	9.9	34.7	123.1	46.0	45.8	47.5	49.5	50.9
her	19.8	2.7	24.1	99.1	54.0	54.2	52.5	50.5	49.1
and Total	19.4	6.0	29.1	110.6	100.0	100.0	100.0	100.0	100.0

Note: 1998 is the preliminary during January to March.

Source : Dept. of Customs processed by Trade Statistics Center.

On the other hand, most of exports of EU to Thailand are high technology and capital intensive goods. The most significant product is for industrial use machines in production process, this refers to the fact that Thailand's performance still depends on other countries' technology. It can be said that such technology, which has been transferred, are still a not-up-to-date technology because it is unlikely for any countries to sell their best ones. In addition, total 10 items value around three-fifth of total import value from EU. (See Table 3.6: Principal Imports from EU in Thailand.)

Table 3.6: Principal Thailand Imports from EU (Millions of Baht).

Item	1994	1995	1996	1997	(Jan- Mar.)1998
1. For industrial use machines	50,201.1	72,676.0	78,510.5	67,108.9	16,714.3
2. Electrical machinery and parts	24,376.8	27,940.3	32,057.7	37,834.1	9,919.4
3. Chemicals	20,532.2	25,568.4	23,365.4	24,963.9	6,790.8
4. Electronic integrated circuits	3,103.9	6,912.3	8,035.7	12,899.9	4,502.5
5. Scientific & Optical instruments	4,757.2	6,370.7	6,736.9	7,836.4	2,519.7
6. Medicinal & pharmaceutical products	4,524.6	5,340.8	5,972.4	7,291.7	2,316.3
7. Jewelry including silver bars and gold	9,105.4	11,121.1	9,566.9	7,773.9	2,133.0
8. Electrical appliances	2,627.5	3,350.6	3,652.2	3,823.6	2,063.2
9. Metal manufactures	4,559.7	6,719.9	6,832.3	9,165.9	1,995.7
10. Iron & steel	6,131.3	7,344.8	9,889.3	5,868.4	1,349.9
Total 10 items	129,919.8	173,345.0	184,619.4	184,566.6	50,304.9
Other	76,088.0	108,063.7	91,520.1	83,905.7	18,813.9
Grand Total	206,007.8	281,408.7	276,139.5	286,472.3	69,118.8

*1998 is the preliminary during January to March.

Source: Department of Customs processed by Trade Statistics Center, Thailand.

Table 3.6: Principal Thailand Imports from EU (Millions of Baht) (cont'd.)

	GROWTH RATE				PROPORT ION				
			Unit :	Percent				Unit :	Percent
Item	1995	1996	1997	1998*	1994	1995	1996	1997	1998*
1. For industrial use machines	44.8	8.0	-14.5	-4.0	24.4	25.8	28.4	25.0	24.2
2. Electrical machinery and parts	14.6	14.7	18.0	44.9	11.8	9.9	11.6	14.1	14.4
3. Chemicals	24.5	-8.6	6.8	14.6	10.0	9.1	8.5	9.3	9.8
4. Electronic integrated circuits	122.7	16.3	60.5	67.9	1.5	2.5	2.9	4.8	6.5
5. Scientific & Optical instruments	33.9	5.7	16.3	38.3	2.3	2.3	2.4	2.9	3.6
6. Medicinal & pharmaceutical products	18.0	11.8	22.1	39.0	2.2	1.9	2.2	2.7	3.4
7. Jewelry including silver bars and gold	22.1	-14.0	-18.7	-2.1	4.4	4.0	3.5	2.9	3.1
8. Electrical appliances	27.5	9.0	4.7	127.3	1.3	1.2	1.3	1.4	3.0
9. Metal manufactures	47.4	1.7	34.2	10.6	2.2	2.4	2.5	3.4	2.9
10. Iron & steel	19.8	34.6	-40.7	-16.6	3.0	2.6	3.6	2.2	2.0
Total 10 items	33.4	6.5	0.0	17.4	63.1	61.6	66.9	68.7	72.8
Other	42.0	-15.3	-8.3	-10.7	36.9	38.4	33.1	31.3	27.2
Grand Total	36.6	-1.9	-2.8	8.1	100	100	100	100	100

*1998 is the preliminary during January to March.

Source: Department of Customs processed by Trade Statistics Center, Thailand.

In addition, according to Table 3.7: Trade between EU and Thailand, it seems that both ranks of EU imports from Thailand and EU exports to Thailand slightly increase year by year. For instance, in 1980 EU exports to Thailand and EU imports from Thailand were the 62nd and the 59^{th,} respectively, and in 1995, both of them were the 37th.

Table 3.7: Thailand Import from and Export to EU (USD Million).

Year	Total Trade	Change %	Import	Change %	Rank	Export	Change %	Rank	Balance
1995	19,958.6	27.2	9,179.0	13.2	37	10,779.6	42.2	37	1600.6
1994	15,687.0	12.3	8,107.9	10.8	36	7,579.1	13.9	41	-528 8
1993	13,972.9	11.5	7,317.5	5.0	35	6,655.4	19.6	41	-662.1
1992	12,534.5	5.9	6,969.1	4.7	38	5,565.4	7.4	42	-1403.7
1991	11,835.0	16.3	6,653.5	24.3	36	5,181.5	7.4	44	-1472.0
1990	10,175.1	35.1	5,352.5	26.6	40	4,822.6	46.0	44	-529.9
1989	7,531.0	18.2	4,227.7	13.1	41	3,303.3	25.4	46	-924.4
1988	6,370.8	26.0	3,736.9	23.1	42	2,633.9	30.5	49	-1103.0
1987	5,054.4	32.8	3,035.5	35.8	46	2,018.9	28.5	52	-1016.6
1986	3,806.6	23.7	2,235.9	28.3	51	1,570.7	17.6	56	-665.2
1985	3,078.2	9.1	1,742.6	4.8	55	1,335.6	15.3	56	-407.0
1984	2,821.1	0.3	1,663.2	6.5	55	1,157.9	-7.5	60	-505.3
1983	2,814.0	-1.4	1,562.2	-18.0	54	1,251.8	32.0	58	-310.4
1982	2,854.0	-1.9	1,905.7	6.4	51	948.3	-15.3	67	-957.4
1981	2,910.7	-3.5	1,790.5	-3.3	53	1,120.2	-3.8	65	-670.3
1980	3,016.6	12.0	1,852.1	22.5	59	1,164.5	-1.4	62	-687.6

Source : Department of Customs, Thailand.

3.3 European Union Foreign Direct Investment: Global Importance

Furthermore, we are now turning to consider the role of EU in FDI. In general, the European Union is the largest home region for FDI in the world. Total European Union outward flows accounted for 46.2 percent of world FDI flows in 1996, while that of the other triad members, Japan and the United States, accounted for 24.5 and 6.8 percent respectively (Table 3.8: Outward FDI from the EU countries, Developed Countries and the World, 1985-1996). Average annual outflows of FDI from the European Union comprised nearly half of world average annual FDI flows during 1994-1996; in comparison, Japan and the United States accounted for 6.8 and 24.4 percent of average annual world FDI flows during the same period.

Table 3.8: Outward FDI from the EU countries, Developed Countries and the World, 1985-1996 (Millions of US dollars).

Country	1985-1990	1991-1993	1994-1996	1991	1992	1993	1994	1995	1996
	(Annual average)								
World	155,578	212,899	312,223	198,143	201,465	239,090	251,117	338,729	346,824
European Union	80,285	104,493	140,775	106,362	110,521	96,596	112,836	149,118	160,372
Share in the world	51.6	49.1	45.1	53.7	54.9	40.4	44.9	44.0	46.2
Memorandum:									
Developed countries	145,005	191,424	265,243	189,782	179,671	204,818	209,726	291,271	294,732
Share in the world	93.2	89.9	85.0	95.8	89.2	85.7	83.5	86.0	85.0
United States	21,596	49,090	76,279	33,456	38,978	74,837	51,007	92,929	84,902
Share in the world	13.9	23.1	24.4	16.9	19.3	31.3	20.3	27.4	24.5
Japan	27,812	20,947	21,347	31,620	17,390	13,830	18,090	22,510	23,440
Share in the world	17.9	9.8	6.8	16.0	8.6	5.8	7.2	6.6	6.8

Source: World Investment Report, 1997.

Foreign direct investment by European Union firms grew substantially during 1985-1993. Since they wanted to take advantage of the single European market, most of EU FDI is intra-EU investment. The outward EU FDI in table 3.8 includes both EU FDI to non-EU countries and intra-EU, for example, Germany to Spain, the UK to Italy. The United Kingdom, Germany, France and the Netherlands are, in that order, the largest

home countries for FDI from the European Union, followed by Belgium and Luxembourg, Italy and Sweden (Appendix B Table a: FDI Inflows, by Host Region and Economy, 1985-1996). In early 1990s, outward FDI flows from France and Germany increased sharply, reducing rapidly the United Kingdom's lead in terms of FDI outflows. In a short time, German outward FDI was dropped due to increasing domestic investments in its own newly integrated eastern region, lead to that country falling to the third position, behind France. However, Germany could replace France in the second position since 1995 in terms of outward FDI flows from countries of the region.

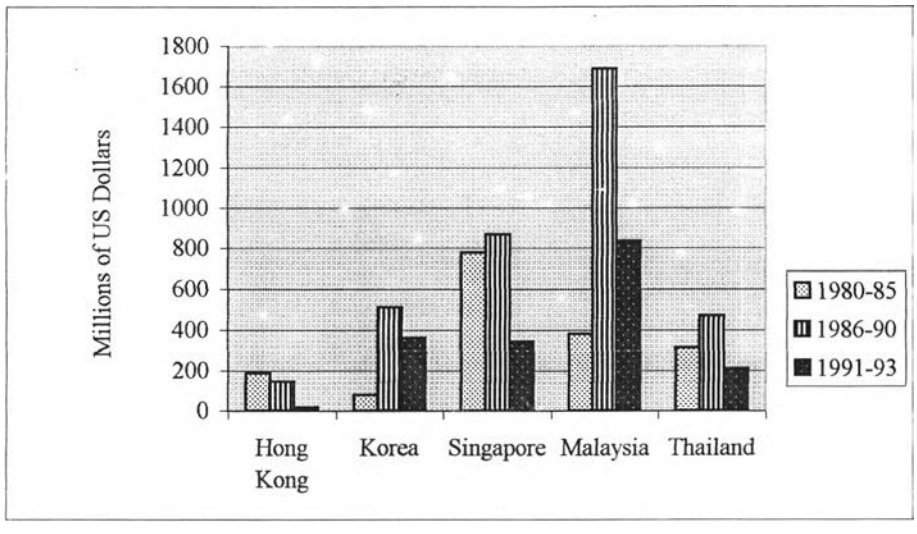
The importance of European Union FDI is mirrored in the distribution of the world's largest 100 TNCs, as measured by the value of their foreign assets. The European Union has more TNCs (39) is this group than the United States (30) or Japan (18), accounting for 41 percent of foreign assets of the group (See Appendix B Table b: The Top 100 TNCs Ranked by Foreign Assets, 1995). Petroleum, electronics, transport equipment and chemicals are the major industries in which the largest European Union TNCs are particularly represented in terms of their share of the foreign assets of the top 100 companies. While the largest United States TNCs is concentrated in Petroleum, Chemical and Food. However, there is direct competition between European Union TNCs and United States TNCs as regards FDI in the same industries. Japanese TNCs, on the other hand, are more frequent in automotive industry and trading services than European Union or United States TNCs, judging from the relative concentration of FDI by the largest TNCs in these industries.

Moreover, there are two particular features of European Union FDI in developing countries. First, FDI by TNCs based in the European Union is largely aimed at serving the domestic markets of host countries. World market oriented FDI has typically been less significant, especially as compared with Japanese FDI in developing countries has been directed to a small number of Latin American countries with large domestic markets, which had traditionally been protected through substantial trade barriers. About half of German FDI stock in developing countries was concentrated in Brazil, Mexico and Argentina in 1995. Second, European Union FDI in developing countries is highly

concentrated in a few industries. Taking Germany again, as an example, the chemical and motor-vehicle industries accounted for more than half of total FDI stocks in the manufacturing sector of all developing host countries in 1995.

Again, when we concentrated on the destinations of the EU FDI between the Developing Asian Economy, Thailand received a minority of FDI comparing with these economies except Hong Kong in 1980-1993. (See Exhibit 3.3: FDI from EU in the Selected Developing Asian Economies)

Exhibit 3.3: FDI from EU in the Selected Developing Asian Economies.



Source: National Statistics, OECD.

Interestingly, EU FDI in Malaysia during 1986-1990 is very high. It seems to be that it is the large FDI flows from the UK because Malaysia used to be one among the British Empire. Therefore, non-economic barriers such as culture, language and climate familiar to the British.

3.4 Foreign Direct Investment in Thailand

As stated, Foreign direct investment (FDI) is viewed as a major stimulus to economic growth in developing countries. ASEAN as well as Thailand define FDI very broadly entailing not only financial flows but also the flow of non-financial resources

such as managerial and technological know-how, marketing information, employment generation, access to export markets, and access to other tangible assets. Its ability to deal with two major obstacles, namely, shortages of financial resources and technology and skills, have made it as the centre of attention for policy-makers particularly in low-income countries. Only a few of these countries have been successful in attracting significant FDI flows.

In particular, according to the Table 3.9: Survey Results on the FDI Regime in Asia, Thailand is on an average of 11 Asian economies. There are strategic alliances and cross-border ventures which are more favourable to FDI. Comparing with Singapore and Philippines, Thailand is less favorable to FDI than Singapore. However, Thailand is more favorable to FDI than Malaysia. However, according to exhibit 3.3, it shows that Malaysia attracts more EU FDI than Thailand. It seems to be an exception in this case because of their history and non-economic barriers as stated before.

Table 3.9: Survey Results on the FDI Regime in Asia [a]

Economy	Acquisition of control (A)	Equal treatment (B)	Employment of foreigners (C)	Strategic alliances (D)	Cross-border Ventures (E)	Investment protection (F)	Overall assessment (G)
China	6.5	6.8	6.2	5.2	7.0	7.8	6.6
Hong Kong	9.3	8.3	7.0	8.5	9.2	5.1	7.9
India	6.6	7.9	6.5	6.6	5.0	5.7	6.4
Indonesia	6.2	6.1	6.2	7.5	6.8	6.5	6.6
Japan	6.5	4.2	4.1	7.0	7.5	6.9	6.0
Malaysia	4.9	6.2	5.5	7.4	7.0	7.2	6.4
Philippines	6.0	7.0	6.9	7.5	6.8	6.7	6.8
Singapore	8.2	7.8	7.6	8.4	9.1	7.3	8.1
Republic of Korea	4.8	5.1	4.4	5.3	5.0	5.9	5.1
Other developing Asia	6.2	7.5	5.8	6.8	6.3	6.5	6.5
Thailand	5.2	6.6	5.9	7.8	7.4	6.4	6.6
Average, 11 Asian economies	6.4	6.7	6.0	7.1	7.0	6.5	6.6
Memorandum:							
Developed countries*	8.1	6.6	6.9	7.3	8.4	6.1	7.2
Non-Asian developing Countries and countries in transition**	7.7	7.2	7.3	5.7	7.4	5.6	6.8

Source: World Economic Forum, 1995.

[a] Survey results are scaled from 0(least favourable to FDI) to 10 (most favourable to FDI) in terms of the items (A)-(G).

(A) Foreign investors may not acquire (0) / are free (10) to acquire control in a domestic company.
(B) Foreigners are not treated (0) / are treated (10) equally to citizens in all respects.
(C) Immigration laws prevent (0) / do not prevent (10) your company from employing foreign skills.
(D) Strategic alliances are not common (0) / are common (10) between domestic and foreign firms.
(E) Cross-border ventures cannot be negotiated with foreign partners without government imposed restraint (0) / can be negotiated freely (10).
(F) Investment protection schemes are not (0) / are available for most foreign partner countries (10).
(G) Average assessment according to criteria (A)-(F).

* Average for Australia, Canada, France, Germany, Italy, Switzerland, United Kingdom and the United States.
** Average for Argentina, Brazil, Chile, Colombia, Czech Republic, Egypt, Hungary, Mexico, Peru, Poland, Russia and Venezuela.

Government Policy and FDI

Furthermore, FDI is regulated under the Investment Promotion Act of 1977. FDI has been the main engine of Thai economic development, accounting as one-third of all projects promoted by the government since 1970. Among FDI projects, Japanese enterprises have been the biggest long-term source of foreign capital for example; they were more than half of projects in 1996 followed by Taiwan with 13.2 percent and the United States with 10.6 percent. Rising labour costs and concern over the poor quality of the workforce are deterring a growing number of investors and hampering efforts to transfer technology. Moreover, the flotation of the Baht in mid-1997 also influenced upon investment trends*.

Moreover, the establishment of the state agency, the Board of Investment (BOI) in 1977, remains the favoured avenue of investment for multinational enterprises (MNEs) eligible for promotion, though many forsake its tax packages because of diminishing benefits.

While the long-term investment picture is bright, a tendency towards smaller supplier firms rather than large manufacturers continue to reduce the overall value of incoming investment. However, this does not take account of re-investment, which is a significant, and largely unrecorded, source of foreign capital. Congested Bangkok is losing its dominance of foreign investment as tougher environmental rules and government decentralization policies take effect.

A BOI policy tries to distribute direct investment to the least-developed rural provinces**. As can be seen from Table 3.10: Foreign Investment Projects Applying for Promotional Privileges Classified by Factory Location, that most of investment projects locate their factories in zone 3. Many projects in zone 3 are food processing, as such factories are normally situated close to their input sources. Textiles, automobile

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* The BOI blamed the sluggish economy for the 26 percent drop in incoming capital.

** Zone 1: Bangkok, Samut Prakan, Samut Sakhon, Pathum Thani, Nonthaburi and Nakjon Pathom; Zone 2: Samut Songkram, Ratchaburi, Kanchanaburi, Suphanburi, Ang Thaong, Ayutthaya, Sara Buri, Nakhon Nayok, Chachoengsao and Chon Buri; Zone 3: other provinces.

factories are normally situated close to their input sources. Textiles, automobile assembly petrochemicals and computer components are among the other industries moving out of Bangkok. While many middle- and upper- level managers have been reluctant to move out of Bangkok because of its access to important government ministries, other businesses and a major consumer market, as well as the best hospitals, schools and entertainment. However, emerging provincial centres including Chon Buri and Rayong now offer an improved range of facilities such as modern hospitals, 4 lanes motor ways, u-ta-poa airport and BOI office at Rayong.

Similarly, attracting skilled labour to relocate is a problem that thwarts many relocation plans, despite clear wage cost benefits in the provinces. The minimum daily wage in most of the least-developed provinces is 130 Baht, compared with 162 Baht in the most developed zone. Most of the new investment are moving to Development Zone 3, which boasts the vest package of tax incentives; the BOI has had only moderate success with efforts to relocate factories from Development Zone 1 and 2.

Table 3.10: Foreign Investment Projects Applying for Promotional Privileges Classified by Factory Location (Million Baht).

Year	1994				1995				1996				1997			
Location	No. of Projects	Share in Total (%)	Investment	Share in Total (%)	No. of Projects	Share in Total (%)	Investment	Share in Total (%)	No. of Projects	Share in Total (%)	Investment	Share in Total (%)	No. of Projects	Share in Total (%)	Investment	Share in Total (%)
Zone 1	122	17.7%	21,535.1	5.8%	129	18.2%	29,241.8	6.0%	102	15.7%	56,822.9	13.6%	125	20.6%	49,567.6	14.4%
Zone 2	164	23.8%	68,176.9	18.4%	190	26.8%	64,833.2	13.3%	176	27.2%	79,990.8	19.2%	149	24.5%	59,937.5	17.4%
Zone 3	393	57.0%	279,683.8	75.5%	389	54.9%	392,844.2	80.6%	358	55.2%	274,878.5	65.8%	304	50.1%	232,654.9	67.6%
N.A.	10	1.5%	1,253.1	0.3%	1	0.1%	630.0	0.1%	12	1.9%	5,993.0	1.4%	29	4.8%	2,257.4	0.7%
Total	689	100.0%	370,648.9	100.0%	709	100.0%	487,549.2	100.0%	648	100.0%	417,685.2	100.0%	607	100.0%	344,417.5	100.0%

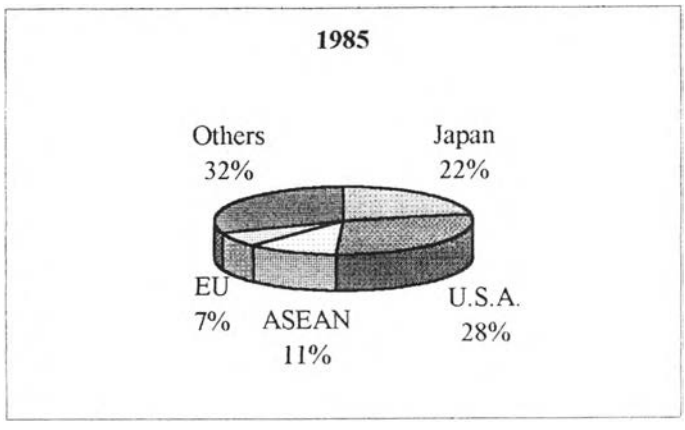
Source : International Affairs Division, BOI.

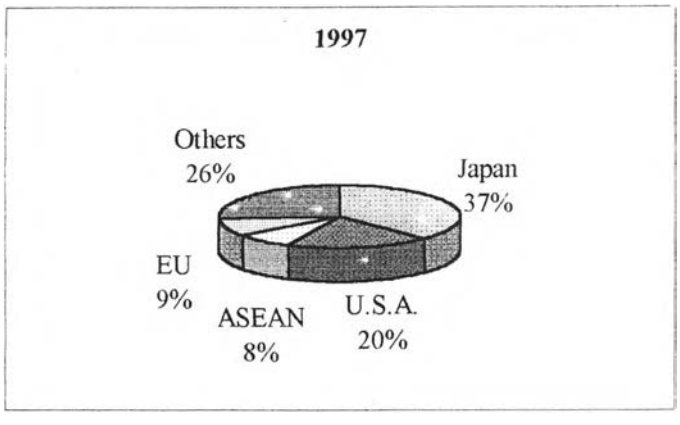
Furthermore, the National Economic and Social Development Board (NESDB) estimates that promoted manufacturers located in the main industrialized provinces outside Bangkok boosted their earnings by an average of about 20 percent*. As the same time, the emergence of a strong domestic market among Thailand's 60 million consumers has become a major factor in determining investment profitability, especially since some limitations on local sages were lifted. For example, about 70 percent of locally manufactured plastics and 90 percent of motor vehicles assembled in Thailand were sold locally in 1996.

The strength of the domestic market as well as Thailand's central location are prime reasons why it has been increasingly seen as a regional manufacturing base. For example, Japanese motor vehicle manufacturers, such as Toyota and Honda, are among the groups that have designed Thailand as their regional production bases.

* An example of US direct investment, US Department of Commerce data indicates an average return of 17.1 percent 1996, versus 18.9 percent in 1995. Notably, returns are total income, expresses as a percentage of total historical cost of investment, in current dollars.

Exhibit 3.4: Inflows of FDI in Thailand in 1985 and 1997 (Percent).





Source: Bank of Thailand.

As can be seen from Exhibit 3.4, there is a slightly change in the position of home countries. In 1985, the United States was the major foreign investor, which took about 28 percent followed by Japan, ASEAN and European Union, which were 22, 11, and 7 percent. However, in 1997, Japan was the largest foreign investor in Thailand instead of the US, which became the second large investor with 37 and 20 percent respectively. While the flows of investment from other ASEAN countries into Thailand accounted for 8 percent, which was at the third place. These evidence shows that EU was still at the same position which is only 7-9 percent of total FDI in Thailand, no matter how many years passed.

Table 3.11: Inflows FDI in Thailand Classified by Economy (Millions of Baht).

	1980	1985	1990	1994	1995	1996	1997
World	9,259.0	10,166.4	77,266.4	61,599.0	75,991.0	99,733.0	117,552.0
European Union	674.9	709.6	5,570.9	5,515.1	7,511.5	7,840.4	10,487.0
Japan	1,091.3	2,272.6	29,706.5	8,578.8	15,413.3	20,451.8	44,071.0
US.	1,267.8	2,892.3	6,511.9	8,440.6	10,832.7	14,606.1	23,031.0
ASEAN	3,922.3	1,152.6	12,270.5	8,189.5	9,293.5	21,672.2	9,132.0

Source: Bank of Thailand.

Due to the financial crisis in ASEAN countries, inflows of ASEAN FDI dropped sharply about 58 percent in 1997. While FDI from other sources have upward trends. For example, Japanese FDI increases 115 percent. FDI from the United States also increases 58 percent and EU FDI rises about 34 percent. (See Table 3.11: Inflows FDI in Thailand Classified by economy)

Some evidences indicate that EU tried to stimulate in business and investment by taking steps to enhance its presence in ASEAN with the extension of the European Investment Bank (EIB) credit facilities in ASEAN to contribute to the undertaking of joint ventures by the private sectors from the two regions. For example, the EIB has approved loans totaling 63 million ECU to finance private sector projects in ASEAN on January 1995.

During the 1980s, Thailand attracted FDI in labour intensive manufacturing, including electronics components, chemicals, electrical appliances and textile. At this moment, Japanese electrical and electronic MNEs led the wave of FDI expansion in this region. Therefore, in 1990, when a slow down of FDI from Japan was registered, the electrical and electronics industries continued to relocate their production within the region.

As can be seen from Appendix C Table a: Foreign Investment Projects Applying for Promotion during 1994-1997 Classified by Sector, and Table b: Foreign Investment

Projects Approved by BOI in 1997 Classified by Sector. It appears that Services, Chemicals & Paper, and Electric & Electronic products are the most three popular projects among all applying and approved projects by BOI. Moreover, there is a tendency to decline in exports oriented projects (through BOI). According to Appendix C Table c: Foreign Export Oriented Projects through BOI, share of the at least 80 percent export oriented projects in total both applying and approved projects is decreased year by year. However, their shares in investment value have a slightly change. It seems that most of these export oriented projects are middle- or large projects* while small sized projects locate in Thailand for exploiting domestic market.

Furthermore, productivity level is one among other important factors which investors always keep in their mind. From Table 3.12, 3.13, and 3.14: Comparison of Productivity Levels in Current Prices among Countries (in US Dollars) at National Level, Agriculture, and Manufacturing respectively.

* For instance. PTT and Chevron Co., Ltd. (Model Boat Products. Para-Xylene. Raffinate. Heavy Gasoline and Hydrogen). Sukothai Petroleum Co., Ltd. (Petroleum Product: Naphtha. Oil. Gas)

Table 3.12: Comparison of Productivity Levels in Current Prices Among Countries (in U.S. dollars) - National Level.

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Japan	22917	33481	40538	48028	47068	47122	51322	56323	N/A
Indonesia	1398	1172	1079	1162	1286	1399	1526	1636	1776
Malaysia	5547	4860	5281	5618	5924	6405	6802	8116	8791
Philippines	1552	1450	1596	1762	1948	1959	1971	2215	2212
Singapore	14325	14615	15979	18638	21135	24569	27741	30804	29788
Thailand	1505	1619	1837	2107	2360	2777	3154	3403	N/A

Source: Comparative Information of Productivity Levels and Changes in APO Member Countries; Asian Productivity Organization, 1995.

Table 3.13: Comparison of Productivity Levels in Current Prices Among Countries (in U.S. dollars) – Agriculture.

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Japan	6489	9201	10661	12231	11973	12033	13014	14039	N/A
Indonesia	594	515	457	501	536	540	554	585	624
Malaysia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Philippines	779	695	802	877	981	953	916	1064	1047
Singapore	14761	11229	9561	16854	16237	16239	23935	20970	22204
Thailand	348	380	450	514	534	553	661	665	N/A

Source: Comparative Information of Productivity Levels and Changes in APO Member Countries; Asian Productivity Organization, 1995.

Table 3.14: Comparison of productivity Levels in Current Prices Among Countries (in U.S. dollars) – Manufacturing.

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Japan	26853	38856	47283	56167	54877	55549	60232	63766	N/A
Indonesia	2408	2390	2212	2597	2335	2824	3068	3375	3731
Malaysia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Philippines	4024	3862	4005	4338	4608	5029	4808	5031	5251
Singapore	13294	15237	16935	19618	21633	25568	28774	31263	30442
Thailand	4126	4988	5038	6482	6977	7425	8017	8677	N/A

Source: Comparative Information of Productivity Levels and Changes in APO Member Countries; Asian Productivity Organization, 1995.

In these three tables, among ASEAN-5, Singapore has the highest productivity at national level followed by Malaysia, Thailand, Philippines and Indonesia. While in Agriculture, Singapore, again, has the highest productivity, followed by Philippines, Thailand and Indonesia. However, in Manufacturing, Thailand becomes the second highest productivity country while Philippines is the third and Indonesia is the last one. Nevertheless, Japan has the highest productivity level in all these cases. Particularly, in manufacturing, its average is seven times higher than Thai productivity. Thus, the structure of manufacturing in this region has changed.

An increasing shortages of labour, sharp increase in wages, land and other costs, and the rise of new low-cost regional competitor in traditional markets. Declining competitiveness in low-technology sectors and growing protectionism pressures in the industrialized countries have led to structural adjustment in the manufacturing industries. In this process, FDI has diversified as comparative advantage shifted overtime. For example, Japan once had diversified their production bases to Korea and Taiwan. In the past few years, Korea and Taiwan has diversified FDI to Thailand and Malaysia, while at present, labour intensive manufacturing such as textiles and clothes are diversified to China and Vietnam.

This diversity shows that the region's dynamic changes seem to be patterned on the 'flying-geese' hypothesis (Kojima, 1971). The pattern of industrialization among the DAE can be described as a process of consecutive take-off with a built-in catch-up process. This flying geese pattern is the necessary complement to the largely Japanese invention of a 'virtuous cycle' of FDI-trade expansion in which industrial restructuring evolves in synchrony with comparative advantage trends, generating increasing welfare and political stability. (Sideri, 1995) The flying geese model presupposes also that trade expansion among Asian Pacific economies takes the form of inter-industry specialization, while lately these economies have enjoyed a significant increase in intra-industry trade among themselves, particularly in technology intensive products. (Fuhasaku, 1992)

Incentives and Barriers to FDI in Thailand

Under the Investment Promotion Act B.E. 2520(1977), as amended by the Investment Promotion Act (No. 2) B.E. 2534 (1991), there are various incentives which have been introduced.

Overall, Thailand as a host country tries to stimulate FDI by providing various kinds of incentives under BOI. These incentives can be divided into six groups according to their methods as following; guarantees, protection measures, various permission, tax incentives, additional incentives for enterprises in the special investment promotion zones and additional incentives for export enterprises are the incentives which are provided by the BOI. However, some significant barriers are existed, such as the 1987 Investment Treaty between the six ASEAN countries and the Alien Business Law, particular the Proclamation No. 281 of the Revolutionary Council. (for more detail see Appendix D)

As the foreign investor views, Asian economies have different degrees of different barriers to FDI. It is shown in Table 3.15: Transaction Cost-Related Barriers to FDI in Asia. Particularly, in Thailand, corruption, lobbying, telecommunications and technological infrastructure are the important barriers to FDI in their views.

Table 3.15: Transaction Cost-Related Barriers to FDI in Asia*

Economy	Cultural barriers (A)	Country image (B)	State control (C)	Transparency (D)	Bureaucracy (E)	Corruption (F)
China	6.4	4.9	4.1	6.0	1.0	2.5
Hong Kong	8.7	7.0	9.0	6.6	7.1	6.9
India	7.4	3.3	4.0	3.5	3.0	1.9
Indonesia	7.2	4.8	4.4	4.1	3.2	2.3
Japan	5.7	4.1	4.4	3.5	2.9	5.5
Malaysia	6.2	5.8	5.7	6.1	5.1	4.8
Philippines	8.7	2.9	4.7	4.1	2.2	2.0
Singapore	4.9	5.6	4.6	4.7	2.7	4.6
Republic of Korea	7.5	6.4	7.1	6.8	7.1	9.4
Other developing Asia	8.0	4.9	5.9	5.0	4.8	4.4
Thailand	7.3	5.7	5.1	4.4	3.4	2.6
Average, 11 Asian economies	7.1	5.0	5.4	5.0	3.9	4.3
Memorandum:						
Developed countries	7.1	5.6	6.1	4.8	4.2	7.0
Non-Asian developing countries and countries in transition	7.4	4.5	5.1	3.6	3.0	3.2

Source: World Economic Forum, 1995.

Table 3.15: Transaction Cost-Related Barriers to FDI in Asia (cont'd.)

Economy	Lobbying (G)	Local capital markets (H)	Distribution system (I)	Telecom-Munications (J)	Technological infrastructure (K)	Overall assessment (L)
China	4.5	6.3	2.1	5.3	2.7	4.2
Hong Kong	6.5	8.8	8.3	9.3	6.3	7.7
India	3.9	5.7	5.1	4.0	3.8	4.1
Indonesia	3.6	6.8	4.2	5.9	4.0	4.6
Japan	3.8	6.3	6.2	7.1	7.1	5.1
Malaysia	4.9	6.4	6.1	7.2	5.3	5.8
Philippines	3.6	6.7	3.9	3.7	3.1	4.1
Singapore	5.3	4.1	3.7	7.4	5.5	4.8
Republic of Korea	7.8	7.8	8.8	9.3	8.6	7.9
Other developing Asia	4.1	5.6	6.0	6.3	6.3	5.6
Thailand	3.7	7.1	5.3	4.9	4.3	4.9
Average, 11 Asian economies	4.7	6.5	5.4	6.4	5.2	5.4
Memorandum:						
Developed countries	4.5	8.2	7.6	7.8	6.5	6.3
Non-Asian developing countries and countries in transition	4.2	7.0	4.7	4.9	3.5	4.6

Source: World Economic Forum, 1995.

* Survey results are scaled from 0 (least favourable to FDI) to 10 (most favourable to FDI) in terms of the items (A)-(L).

(A) National culture is closed (0) / open (10) towards foreign cultures.

(B) Image of your country abroad is distorted (0)/ reflects reality accurately (10).

(C) State control of enterprises distorts (0)/ does not distort (10) fair competition in your country.

(D) The government does not often communicate its intentions successfully (0)/is transparent towards citizens (10).

(E) Bureaucracy hinders (0)/ does not hinder (10) business development.

(F) Improper practices (such as bribing or corruption) prevail (0)/ do not prevail (10) in the public sphere.

(G) Lobbying by special interest groups distorts (0)/ does not distort (10) government decision making.

(H) Local capital markets are not accessible to foreign companies (0)/ are equally accessible to domestic and foreign companies (10).

(I) Distribution systems are generally inefficient (0)/ efficient (10).

(J) Telecommunications infrastructure does not meet (0)/ meets business requirements very well (10).

(K) Technological infrastructure is developed slower (0)/ faster (10) than in your competitor countries.

(L) Average assessment according to criteria (A)-(K).

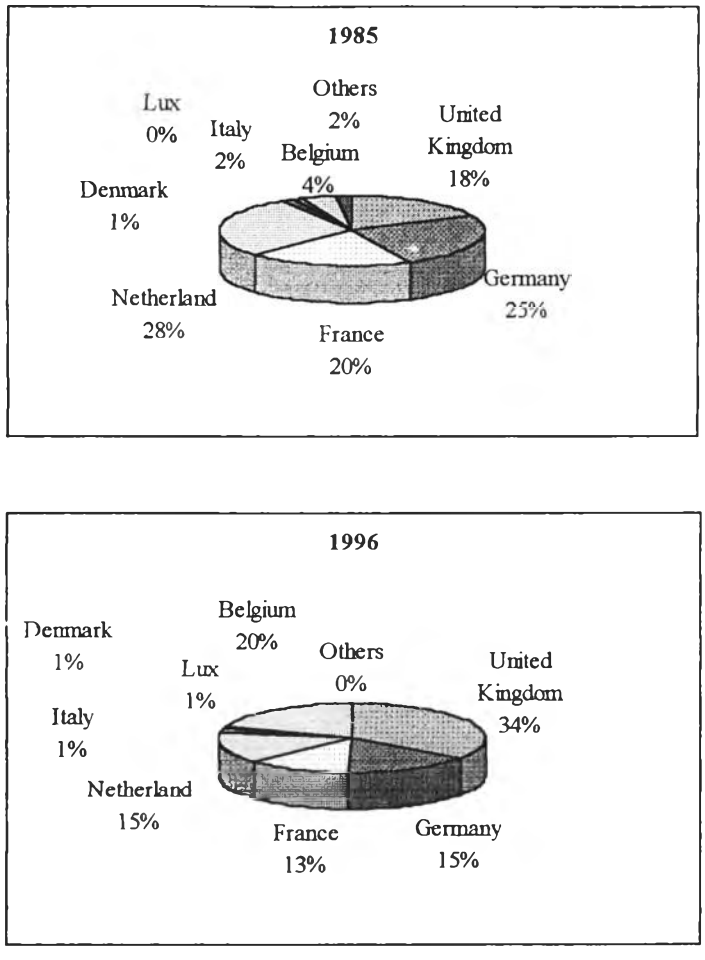
** Average for Australia, Canada, France, Germany, Italy, Switzerland, United Kingdom and the United States.

***Average for Argentina, Brazil, Chile, Colombia, Czech Republic, Egypt, Hungary, Mexico, Peru, Poland, Russia and Venezuela.

3.5 European Union Foreign Direct Investment in Thailand

This research is carried out in order to concentrate in the European Union foreign direct investment. From Exhibit 3.5: Inflow of FDI from EU into Thailand Classified by Country, it seems that source of FDI has changed among EU countries. In 1985, Netherlands was the main European investor in Thailand followed by Germany, France and the United Kingdom. Time changes, things change, in 1996, the United Kingdom was the major European investor in Thailand and followed by Belgium, Netherlands, Germany and France.

Exhibit 3.5: Inflow of FDI from EU into Thailand Classified by Country 1985, 1996

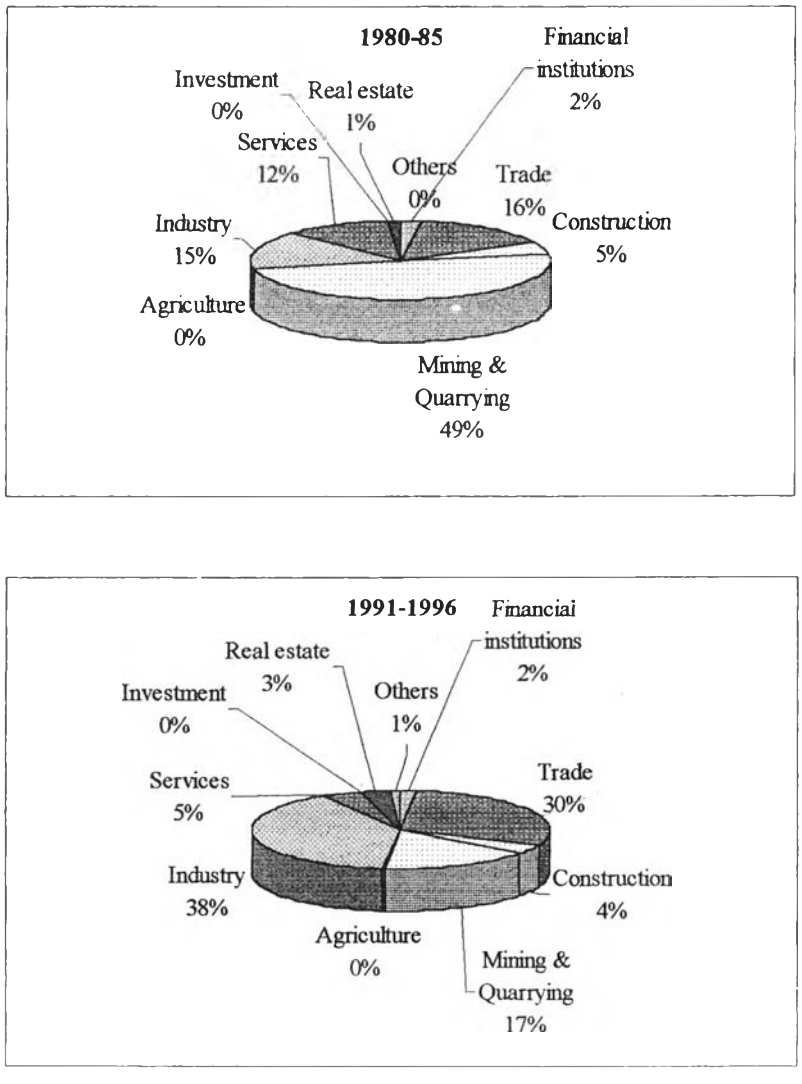


Source: Bank of Thailand.

Comparing an annual average of inflows of EU FDI between 1980-1985 and 1991-1996, the pattern of investment is changed. (Exhibit 3.6: Inflows of EU FDI in Thailand Classified by Business between 1980-1985 and 1991-1996) During 1980-1985, Mining & Quarrying shares the largest proportion of EU FDI in Thailand. It accounts for 49 percent of total EU FDI in Thailand. Trade, Industry and Services are the second, the third and the fourth large business among EU FDI. They share 16, 15 and 12 percent of total EU FDI in Thailand during 1980-1985, respectively. While during 1991-1996, Industry comes up as the largest EU business in Thailand, accounted for 38 percent of total EU FDI during this period. However, Trade can stand at the second largest position among EU FDI, shared 30 percent of total EU FDI. Mining & Quarrying and Services

are in the third and the fourth place, accounted for 17 and 5 percent of total EU FDI in Thailand.

Exhibit 3.6: Inflows of EU FDI in Thailand Classified by Business between 1980-1985 and 1991-1996.



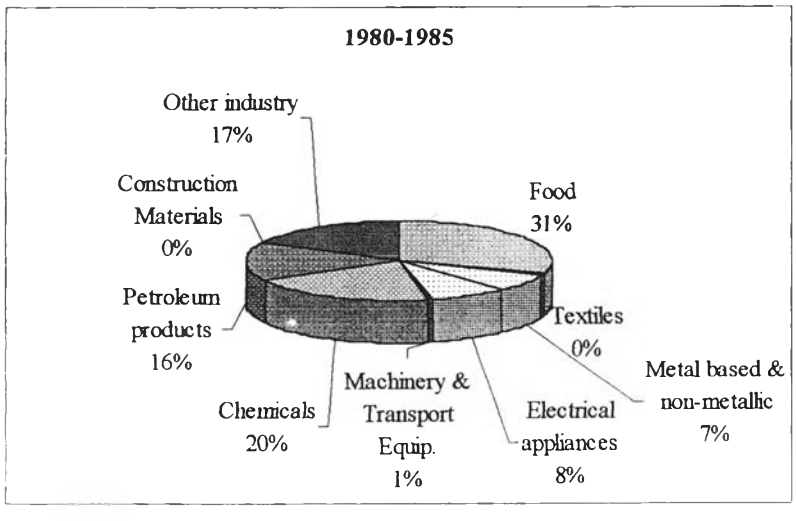
Source: Bank of Thailand.

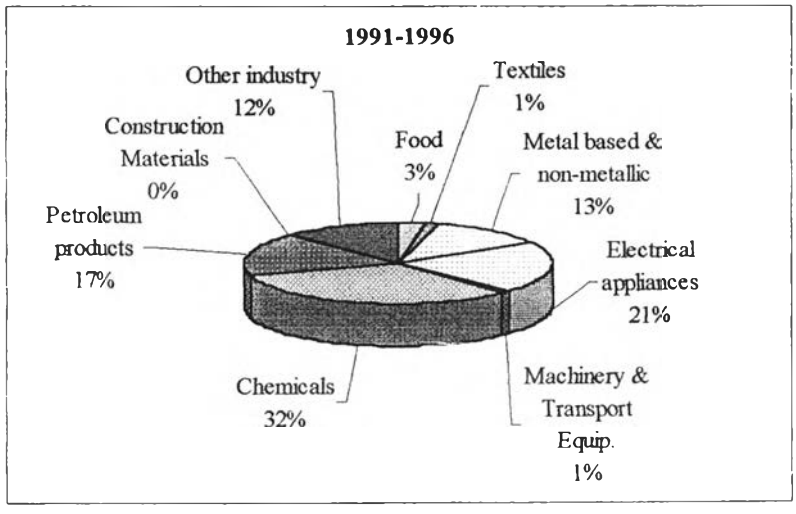
More specifically, in Exhibit 3.7: Inflows of EU FDI in Thailand Classified by Industry between 1980-1985 and 1991-1996, there is a change in EU industry investment pattern. During 1980-1985, Food industry receives the largest share of EU FDI, accounted for 31 percent of total EU FDI in industry. Chemicals industry, Petroleum products industry and Electrical appliances industry are the second, the third and the

fourth place, share as 20, 16 and 8 percent of total EU FDI in industry, respectively. During 1991-1996, Chemical industry becomes the largest EU industry in Thailand while Electrical appliances industry, Petroleum products industry and Metal based & non-metallic industry are placed in the second, the third and the fourth. They accounted for 32, 21, 17 and 13 percent of total EU FDI in industry in Thailand, respectively. It is noticeably that Food industry receives very little EU investment, which is only 3 percent of total EU FDI in industry, during 1991-1996.

The chemical industry in Thailand that attracts the largest share of EU FDI among other industries, indicates the comparative advantages of EU TNCs in this area. Concentration of EU FDI in petroleum products industry such as plastics in Thailand results from the significant activities of EU petroleum firms that accounted for 17 percent of inflows of EU FDI in Thailand during 1991-1996.

Exhibit 3.7: Inflows of EU FDI in Thailand Classified by Industry between 1980-1985 and 1991-1996.





Source: Bank of Thailand.

There is substantial investment in Thailand in metal based & non-metallic industry that is a labour-intensive industry. Thus, lower-wages can be an incentive for some EU FDI. However, EU firms have invested very little in agriculture, textiles and construction materials, indicating EU firms may have limited comparative advantages in these industries.

Table 3.16: Top Three Businesses of FDI from EU in Thailand Classified by Country.

Economy	(Million of Baht)	1980-1985	Percentage of total FDI	1991-1996	Percentage of total FDI
United Kingdom	Trade	135.53	41%	909.25	38%
	Industry	52	16%	818.42	34%
	Mining&Quarrying	101.47	30%	310.57	13%
France	Mining&Quarrying	17.967	35%	783.983	50%
	Industry	0.6	1%	360.167	23%
	Trade	11.6	22%	274.9	18%
Germany	Trade	40.33	18%	446.633	45%
	Industry	74.133	34%	350.7	36%
	Construction	40.65	18%	105.65	11%
Netherlands	Industry	65.267	10%	922.433	63%
	Trade	25.433	4%	359.283	24%
	Mining&Quarrying	537.633	81%	90	6%

Source: Bank of Thailand.

According to table 3.16, it represents trends of some particular EU countries' FDI classified by country and business. In the case of United Kingdom, between 1991-1996 the share of investment value were ranked from one to three as trade (38 percent of total), industry (34 percent) and mining & quarrying (13 percent) respectively. Nevertheless, such proportions of trade, and mining & quarrying dropped from 41 percent and 30 percent respectively in the period of 1980-1985. On the other hand, the value shared by industry rose by 18 percent from the period of 1980-1985. It seems to be that the British investors invest in Thailand for lowering their labour cost. Therefore, they tend to invest in manufacturing industries.

Moreover, the proportion of investment value in terms of industry rose from 1 percent, 34 percent and 10 percent in the period of 1980-1985 to 23 percent, 36 percent and 63 percent in France, Germany and Netherlands respectively. It seems that these foreign investors locate their affiliates in Thailand as their new production bases, seeking for cost advantages and expanding their market-share compete with Japan in this region. Furthermore, in terms of trade, the shared value also rose by 27 percent and 20 percent in Germany and Netherlands between the same period of time, however it dropped by 4 percent in France. Lastly, the proportion of mining & quarrying from France rose by 15 percent in the same period, while the proportion of construction, and mining & quarrying from Germany and Netherlands dropped by 7 percent and a considerable 75 percent respectively. In the case of Netherlands, oil exploration takes the largest share of mining & quarrying; therefore, this figure depends on only the value of oil and gas exploration.

It is interesting to note that, according to this table, the top three of FDI value of some selected EU countries mainly consisted of trade, industry, and mining & quarrying sectors. This refers to the fact that these three sectors are the main attractions for EU investors in Thailand. For example, as will be referred to later in the next table, the main industries attracted by EU investors are to invest in manufacturing production, such as electrical appliances, because a relative lower wage of Thai labour, who can perform such task much cheaper than worker in their countries.

Table 3.17: Top Three Industries of FDI from EU in Thailand Classified by Country.

Economy	(Millions of Baht)	1980-1985	Percentage of total FDI	1991-1996	Percentage of total FDI
United Kingdom	Petroleum products	35.25	68%	450.62	54%
	Chemicals	3.47	7%	158.95	19%
	Electrical appliances	1.27	2%	48.47	6%
France	Metal based&non-metallic	0	0%	180.167	50%
	Petroleum products	0.3	50%	35.8	10%
	Chemicals	0.1167	19%	24.85	7%
Germany	Electrical appliances	1.683	2%	86.167	25%
	Metal based&non-metallic	13 2	18%	78.433	22%
	Chemicals	3.67	5%	68.167	19%
Netherlands	Chemicals	22.117	17%	398.883	44%
	Electrical appliances	6.35	5%	375.817	41%
	Metal based&non-metallic	4	3%	67.8	7%

Source: Bank of Thailand.

According to the table 3.17, some industries, which are the main attractions of EU investors in Thailand, are presented. First, the chemical industries' share of EU FDI value mainly increase in Thailand (7 to 19 percent in UK, 5 to 19 percent in Germany, 17 to 44 percent in Netherlands and, however, the decrease of 12 percent in France between the period of 1980-1985 and 1991-1996).

The second industry is petroleum products. Even though such industries was still in the top three largest proportion of EU's FDI value in Thailand, the figure dropped from the period of 1980-1985 by 14 percent from UK and 40 percent from France. Finally, the third and fourth industries which attracted EU investors are electrical appliances, and

metal based & non-metallic industries. The proportion of such industries rose between the period of 1980-1985 and 1991-1996 in every selected countries represented in the table 3.17; especially the increase of 36 percent of electrical appliances' investment from Netherlands and the increase of 50 percent in the investment of metal based & non-metallic industry from France. (See more detail in Appendix E)

3.6 Conclusion

In brief, trade between EU and ASEAN has an upward trend under the WTO regulations. Both EU and ASEAN are working together to stimulate their trade and investment between them. Thailand, ASEAN member country, has joined in many economic groups and agreements to internationalize its trade and investment environment, including AFTA, APEC, AICO, ASEM and WTO.

Moreover, the proportion of total trade value between Thailand and EU is 15.5 percent of total Thai world trade and it has a slightly growth. While total value of trade among EU and Thailand is only 0.4 percent of total trade value among EU and the world. However, there is an upward trend with double digits growth rate. Automatic data processing machine and electronic integrated circuits are the most important Thai export to EU. On the other hand, an industrial use machine is the most significant import goods from EU in Thailand.

Among the Triad countries, which are the United States, Japan and European Union, European Union is the largest home region for FDI in the world, accounted for 46.2 percent of world FDI flows in 1996. Petroleum, electronics, transport equipment and chemicals are the major industries of European Union TNCs around the world.

Furthermore, foreign direct investment has played a main role in Thai economy. Japan, the United States, European Union, and other ASEAN countries are major investors in Thailand. It has a gradual investment trend. Due to the financial crisis in the mid-1997, it leads to a decrease in total foreign investment.

According to Japan which is the main foreign investor, its amount of investment may have a slightly decrease. However, they will remain in the highest proportion of total investment since they have a lot of large production plants in Thailand. At the same time, the US and EU will have higher level of direct investment because of the economic growth in their home countries. Furthermore, deregulation especially the amendment of the Proclamation No. 281 of the Revolutionary Council in order to induce more FDI.

Similarly, Asian investors included Singapore, Korea and Taiwan is interested in partnership investment. At this moment, most of these investors head to China because of a large domestic market, low wages and abandon of raw materials. Due to the Baht depreciation, these investors may shift their investment to Thailand.

Finally, services & public utilities sector, electric & electronic products, and chemicals & paper sector become the interesting sectors while metal products and automobile parts will face a downward trend.