

# On Japanese Investment in Thailand\*

Zhu Zhenming\*\*

## Introduction

Japanese investment in Thailand has an important part in the economic relations between Japan and Thailand. After the Plaza Accord in late 1985, Japanese direct investment in Thailand sharply increased. Starting from 1986, a large amount of Japanese capital flowed into Thailand and Thailand has become a major investing partner of Japan. The phenomenon of the rapid increase of Japanese direct investment in Thailand has attracted scholars' attention. Scholars, both in Thailand and Japan, have done useful research on this issue.<sup>1</sup> Their research results are useful in understanding the context of Japanese investment in Thailand, the make-up of various interested parties, and also play an important referential role for policy-makers.

This paper will continue to discuss this issue based on the above research results and new data and information. The first part is a brief review of Japanese investment in Thailand. The second part concerns the impact of Japanese investment on Thai economic development. The third part analyses existing problems in attracting and making use of Japanese investment in Thailand. The fourth part probes the prospects of Japanese investment in Thailand.

## Japanese Investment in Thailand: A Brief Review

### 1. The Situation of Japanese Investment in Thailand before the 1980s

Japanese investment in Thailand began in the early 1960s, earlier than in other Southeast Asian countries. The Thai government established the Board of Investment (BOI) in 1959. The next year, Thai government enacted the investment promotion law to attract foreign investment. Following implementation of the first economic and social development plan in 1961, Japanese investment flowed into Thailand. According to the Bank of Japan, Japanese investment projects in Thailand amounted to 84 by the end of the 1960s, compared with 9 in Indonesia, and 9 in the Philippines in the corresponding period.<sup>2</sup> During this period, Japanese investment in Thailand concentrated on textiles, chemicals and metals, particularly the textile industry. Although Japan invested in the textile industry of other Southeast Asian countries, the scale and amount of investment were not as large as Thailand.

According to the Bank of Thailand, Japanese investment in Thailand continued increasing in the 1980s. Japan and the United States are the most important foreign investing countries, but annual Japanese investment inflows had never exceeded Baht 1

\*\* Zhu Zhenming is an Associate Professor of the Yunnan Institute of Southeast Asian Studies, China. He was visiting scholar in the Institute of East Asian Studies, Thammasat University, Thailand, during March - June, 1993.

billion, and averaged only baht 0.5 billion a year. On average, during 1978-1985, the United States was still number one investing country in Thailand. Japan ranked number two with a share of 28 percent. In the corresponding period, Japanese investors placed major emphasis on construction, manufacturing industry and trade. Japanese investment in Thailand concentrated on labor-intensive industry, for example, textile industry.

## 2. The Situation of Japanese Investment in Thailand during 1986-1990

Since September 1985, the Conference of the Ministers and Governors of the Group of Five Countries (G5) has been convened and the value of the Japanese Yen has sharply appreciated. The latter caused a large number of small and medium enterprises in Japan to face difficulties. To cope with the difficulties which the appreciation of Yen and the shortage of unskilled labor inside Japan brought about, Japan's enterprises adjusted their strategy of management and development, and embarked in establishing overseas subsidiaries and local production bases abroad. Thailand, as a country with a favorable investment climate, is especially interesting for Japanese investors.

Consequently, since 1986, Japanese direct investment has rapidly increased. According to data released by the Ministry of Finance, Japan, Japanese direct investment in Thailand nearly tripled from US\$ 48 million to US\$ 124 million in 1986. Subsequently, Japanese investment in Thailand amounted to US\$ 250 million in 1987, US\$ 859 million in 1988, and US\$ 1,276 million in 1989 (see Table 1).

According to statistics of the Bank of Thailand, Japanese direct investment in Thailand amounted to Baht 1,534 million in 1985, Baht 3,049 million in 1986, Baht 3,268 million in 1987, Baht 14,007 million in 1988, Baht 18,761 million in 1989, and Baht 27,931 million in 1990 (see Table 2).

According to Table 1, in 1989, in terms of value, Thailand has accounted for 27.24 percent, nearly 30 percent, of total Japanese direct investment in ASEAN and nearly 2 percent of Japan's total foreign direct investment. According to the Bank of Thailand, Japanese direct investment in Thailand in 1989 accounted for 39.87 percent of total foreign direct investment in Thailand. The figures show that Japan has ranked number one in foreign investment in Thailand since 1986.

There are some main characteristics in Japanese direct investment in Thailand during 1985-1990. They are as follows :

- A. Most of Japan's investors came from small and medium enterprises in Japan. Projects that they invested in were also small.
- B. The field of Japanese investment has expanded uninterrupted. Japanese investors not only invested in existing industry, but also in new industry. So as a result, a few

new products have appeared in the Thailand market. They had not been produced in Thailand before.

- C. Japanese investment projects show that the proportion of those export-oriented is relatively high. According to BOI, 45.8 percent of the Japanese investment projects approved had 100 percent export sales (see Table 3). This is quite different from Japanese investment projects during the 1970s, which were mostly in the import-substitution industry.
- D. Japanese investment in Thailand is not limited to the Bangkok area: some investment projects have moved to outside of Greater Bangkok. Even in Chiang Mai and Lamphun, far away from Bangkok, there are Japanese-Thai joint ventures too.
- E. In the early 1980s, Japanese transnational corporations in Thailand tended to set up the ventures exclusively with their own Japanese investors. But now Japanese investors prefer to have joint ventures with local investors. It is thought that there are now more than 1,500 Japanese-Thai joint ventures doing business in Thailand.<sup>3</sup>

### 3. The Situation of Japanese Investment in Thailand Since 1991

Since 1991, foreign investment in Thailand, especially Japanese investment, has decreased progressively. According to BOI, the number of applications for investment promotion in 1991 declined by 37.9 percent, and investment declined by 46.3 percent. During the first four months of 1992, there was a further reduction from the corresponding period of the previous year of 27.5 percent and 43.7 percent respectively.<sup>4</sup> According to the Bank of Thailand, Japanese direct investment in Thailand in 1990 was Baht 27,931 million, but Baht 15,593 million in 1991, and the net investment declined by 55.8 percent. Japanese direct investment in Thailand further decreased in 1992. Compared with 1990, the inflow of investment was less than one-third in 1990 (see Table 2).

The major causes for the decrease in Japanese investment are as follows. First was the economic situation in the world slump. It had an unfavorable impact on Japan's economic situation. Japan's "bubble economy" burst. As a result, Japanese foreign investment decreased greatly. Second, the Gulf War was a blow and the international situation became increasingly shaky and unstable. Japanese investors' desire to invest abroad was restricted. Third, the Thai political situation was unstable with the coup in February 1991. One year later, there was the "May Incident". The political turmoil affected Japanese as well as other foreign investors' decisions to invest in Thailand. Fourth, insufficient infrastructure, the shortage of skilled technicians and engineers, the rise of land price and wages, and so on, restricted inflows of Japanese direct investment as well as other foreign investment.

## **The Impact of Japanese Direct Investment on Thai Economic Development.**

Japanese investment in Thailand occupies an important position in foreign investment in Thailand. We need to explore the impacts of Japanese investment on Thai economic development. Regarding this aspect, Thai scholars have conducted a survey and analyzed positive and negative impacts.<sup>5</sup>

I consider that the positive impact on Thai economic development could be summed up as follows.

1. Japanese investment in Thailand promotes the development of some industries which have an advantage in Thailand. Thailand is traditionally an agricultural country and it lacked basic industries. However, in the past 30 years, Thai manufacturing industry has developed rapidly. At present, the manufacturing industry accounts for more than 26 percent of GNP. It can be called a "semi-industrialized country". In fact, the growth in Thai manufacturing industry is to make use of a large number of foreign capital and technology, especially Japanese and U.S. investment. The groups of manufacturing industries in Thailand came to shape in the late 1960s.<sup>6</sup> Foreign investment, particularly Japanese investment, played an important role in the shaping of groups in the manufacturing industry. For example, among the 24 biggest groups of the manufacturing industry, half are Japanese-Thai joint ventures. The famous Siam Motors, Metro Group, Sukree Group, Saha Union Group, Cathay Trust, Osothsapha Group all draw support from Japanese direct investment and technology and became key forces in Thai industrialization. At present, the Sukree Group has the biggest modern textile factory in Thailand, the biggest even in the Southeast Asia area. Siam Motors is the biggest group of motorcycle-manufacturing in Thailand. The above sectors have become Thailand's important industries.

According to the Bank of Thailand, 49 percent of foreign direct investment flowed into the manufacturing sector during 1986-1990. Japanese direct investment accounted for 53 percent in the manufacturing sector. In view of the above factors, the role of Japanese direct investment in promoting the manufacturing industry in Thailand is not ignored.

2. Japanese investment in Thailand promotes the export of industrial products and contributes to the development of Thailand's foreign trade. Foreign trade is a major sector in the Thai economy. Until the early 1980s, agricultural products were the most important export commodities. After 1985, however, the structure of foreign trade changed, with rapid development of the manufacturing industry. The proportion of industrial products in the foreign trade rose to 60 percent in 1988 and 90 percent in 1990, from 30 percent in 1978. This shows that Thailand's structure of foreign trade, which depended on agricultural products to export, has been changed completely. In the export of industrial products, Japanese-related firms account for a large share. According to the Japanese External Trade Organization in Bangkok (JETRO), the

amount of exports of Japanese-related firms in Thailand was Baht 156,400 million in 1991. It accounted for 21.5 percent of the total amount of exports from Thailand in the corresponding year.<sup>7</sup> The exports of Japanese-related firms in the manufacturing industry accounted for 7.4 percent of the total amount of Thai exports in 1988 and 12.5 percent in 1991.<sup>8</sup>

3. Objectively speaking, by investing in Thailand, Japan helps to train a number of middle-level managerial staff and technicians for Thailand. The Japanese-related firms in Thailand attach importance to training production workers and technicians in order to guarantee the quality of products so that they can win in market competition. Most Japanese firms in Thailand have their own skills development programs which include on-and-off-the-job training programs for production workers, technicians and engineers, as well as managerial staff. The training program for workers is generally given on the shop floor whereas technicians and engineers are sometimes sent to attend short training programs at the parent company or related companies in Japan.<sup>9</sup> According to JETRO, 161 Japanese-related firms in Thailand sent more than 3,500 working staff to Japan to undergo short training during 1989-1991.<sup>10</sup> They and working staff in Japanese-Thai joint ventures acquire productive knowledge and know-how. According to a survey on Toray Nylon Thai firm, a big Japanese-Thai joint venture in Thailand, the key members, from production units to management units, are all Thai people. Other related large fiber firms are similar.<sup>11</sup> This shows that Japanese investment in Thailand is of benefit to raise the level of competence of Thai workers, technicians, engineers and managerial staff.

4. The surge of Japanese direct investment in Thailand contributes to raise the vitality of Thai enterprises. Due to Japanese-Thai joint ventures adopting new equipment and new technology, their productivity has steadily improved. As a result, these enterprises have an advantage in market competition. The situation local enterprises face overseas is to have to adjust industrial structure, to adopt technology, to upgrade the quality of products and develop new products as they are able so that they can survive and develop in the keen competition. This is useful to enhance a progressive attitude and to raise the vitality of Thai enterprises.

5. The rapid increase of Japanese direct investment in Thailand contributes to more employment opportunities. It was estimated by JETRO that Japanese-related enterprises created jobs for 225,000 persons in 1991.<sup>12</sup> In the manufacturing sector, Japanese-related enterprises employed 183,000 Thai laborers. The figure accounted for 5.6 percent of total employees in the manufacturing sector throughout the country. Though the figure is not large, in after all perspective, more people got jobs.

6. Japanese investment in Thailand promotes development of supporting industry.

In the past, Thailand's supporting industry was relatively backward. Most parts and components which Thailand's enterprises needed depended on import. The enterprises used imported parts and components in assembly, and then these products were exported. So, the more Thailand exported, the more it had to import. This is one of the reasons why Thailand's trade deficit continued to grow. However, with rapid inflows of Japanese direct investment, Thailand has become a Japanese production base abroad. It is worth noting that some Japanese-related enterprises in Thailand are producing intermediate products. Not a few intermediate products which previously had to be imported from Japan are now being produced directly in Thailand. Following this tendency, Thailand's supporting industry will further develop. This is useful to localize parts and components.

7. Under the guidance of the BOI's promotion policy and due to a rise in the price of land in Bangkok area, Japanese investors have paid attention to investment in other provinces outside the Bangkok area. Though there are few investment projects in the area outside Bangkok, it is advantageous to change the situation of over-concentration on the Bangkok area. At present, according to one survey, Japanese-related enterprises not only set up in Ayuthaya, Saraburi, Lopburi, Chonburi, but also in Chiang Mai and Lamphun in the northern area. There is a Japanese-Thai joint venture in Chiang Mai with more than 1000 working staff.<sup>13</sup> It is not only the biggest joint venture in Chiang Mai, but also relatively large for the whole country. In pace with the unceasing increases in the price of land and wages in the Bangkok area, Japanese investors probably invest more in areas outside Bangkok.

8. Japanese direct investment in Thailand helps the diversification of the Thai industrial structure. This, to a certain extent, promotes Thailand's industrialization. Before the 1980s, Japanese investment was concentrated in some sectors, such as the textile industry and the metal and non-metal industry. During 1978-1985, Japanese investment placed emphasis on construction, manufacture and trade. Since 1986, Japanese investment in Thailand has involved many sectors. Compared with the past, although Japanese investment still focuses on labor-intensive industries, it is not old labor-intensive industries, but new labor-intensive industries, such as the assembling of electronic parts and components. With changes in Thai industrial structure, fields of production have expanded further and sectors of industry increase constantly. This is good for the realization of Thai industrialization. In addition, many new products are appearing in the domestic market, which promotes market prosperity and meets people's needs in part.

However, when we note the contribution of Japanese investment to Thailand economic development, it should be noted that Japanese investment in Thailand is not only profitable to Thailand, but also to Japan. But, this aspect seems to have been seldom mentioned.

First, by investing in Thailand, some of Japan's enterprises, especially small and medium enterprises escape the difficult position which the appreciation of Japanese Yen brought about.

Second, Japanese enterprises extended productive bases abroad by investing in Thailand, and shift from some production of low-technology products into Thailand (and other developing countries). It benefits Japan's enterprises to research and develop high and new technology products, and upgrade and improve new technology at home.

Third, while Japan makes Thailand its production base, the products produced in Thailand are exported directly to third countries. As a result, Japanese trade conflict with other countries is reduced and Japan's relations with other countries are improved.

Fourth, the rapid increase of Japanese direct investment in Thailand strengthens Japan's economic ties with Thailand. According to JETRO, the affiliate of Japanese Chamber of Commerce in Bangkok grew to 922 members by June 1992.<sup>14</sup> The Chamber in Bangkok has become Japan's biggest Chamber of Commerce abroad. The close economic ties between Japan and Thailand have been and will be conducive to developing Japanese-Thai relations and to expanding Japan's economic activities in Southeast Asia. At present, Japan is expecting to take part in reconstruction in Indochinese countries. Beyond a doubt, the close political and economic relations between Japan and Thailand will play a positive role in realizing Japan's aims.

Of course, Japanese investment in Thailand also brings about negative impacts on Thai economy and society. These should not be ignored. The negative impacts mainly comprise certain areas as follows.

1. The huge inflows of Japanese direct investment as well as other foreign investment cause Thailand more serious infrastructure problems, particularly in the areas of electricity, highways, communications, ports, and so on. Infrastructure in Thailand has always been insufficient and the rapid increase of Japanese investment in Thailand further aggravates the inadequacy of infrastructure. As a result, Thai economic growth is restrained.

2. A number of small and medium indigenous enterprises are in trouble due to an increase in competition. With the rapid Japanese investment in Thailand, a great number of Japanese-Thai joint ventures have been set up. Some of them enjoy privileges and have excellent productive conditions. By providing higher wages, they attract technicians and engineers. Compared with Japanese-Thai joint ventures, many local small and medium enterprises lack technology and funds. Their technical level is relatively low and management is poor. Moreover, they do not get support from the Thai government. They are in an inferior position in market competition. According to statistics of the Thai Ministry of Industry, small and medium enterprises in Thailand account for 98 percent of total enterprises. 60 percent of working staff in the whole

nation are employed by small and medium enterprises.<sup>15</sup> Therefore, even if a small number of small and medium enterprises are crowded out, it will bring about harmful consequences. In fact, a few small and medium enterprises which lack competitive ability are facing serious difficulties.

3. Pollution of the environment is growing more serious day by day. Because there are more Japanese investment projects in Thailand than other foreign investments, and because they concentrate mainly on manufacturing sectors, especially electrical appliances, metal and non-metal, petroleum products, machinery and transport equipment, chemicals and paper, and so on (see Table 4), they cause more pollution. This is a disaster to the Thai people. Though some Japanese-related enterprises have paid attention to the problem and are trying to improve it (for example, they are researching how to prevent emission of industrial waste water and automobile waste gas) it is still a great problem that needs solution.

4. Some Japanese behaviors offend the Thai people's sense of self-respect and affect Thai-Japanese economic co-operation. As already noted, there are at least 1,500 Japanese-Thai joint ventures in Thailand and 25,000 Japanese living in Thailand now. How to deal with human relations is a problem worth mentioning. According to Thai managers in Japanese-Thai joint ventures, some Japanese do not respect Thai people and do not regard them as equals. For example, a Japanese foreman in a Japanese-Thai joint venture went so far as to beat up a Thai woman worker merely because she took off her shoes while standing to work.<sup>16</sup> In addition, according to Thai managers who were sent to parent companies in Japan, there are 10 minutes intervals every two hours in the parent company in Japan, but there are no intervals in the Japanese-affiliated company in Thailand. After negotiation, the Japanese agreed to have intervals, but only of 5 minutes.<sup>17</sup> Thai managers pointed out that the Japanese way of treating Thai people cannot be tolerated.

5. Japanese investment which concentrates too much on some sectors is unfavorable to the development of Thai national industry. For example, the Thai car industry is almost completely controlled by Japanese transnational corporations. Consequently, some Thai people complain that whether Thailand will become an exporter of automobiles will be decided in Japan rather than in Thailand.<sup>18</sup>

### **Thailand's Problems in Attracting and Utilizing Japanese Investment.**

At present, the Thai economy is developing rapidly. It needs a large amount of funds. According to Mr. Phisit Pakkasem, Secretary General of the National Economic and Social Development Board, Thailand, the current Seventh Economic and Social Development Plan (1992-1996) calls for investment of over US\$ 50 billion in infrastructure, especially transportation, energy and telecommunications.<sup>19</sup> Therefore, to continue to attract foreign investment and make full use of the Japanese investment is still an important issue.

However, there are some problems in attracting and utilizing Japanese investment in Thailand.

### 1. Problems of attracting Japanese investment

Generally speaking, the investment climate in Thailand is relatively good. In 1988, Chee Pen Lim made an assessment of the investment climate in ASEAN countries based on various criteria such as political and economic situations, investment policy, market potential and production costs. The outcome revealed that Thailand ranked first.<sup>20</sup> Subsequently, changes in the political and economic situations took place in Thailand, and the political situation especially has been shaky and unstable. As a result, the "May Incident" of 1992 occurred. After that, at the beginning of year 1993, the Federation of Economic Organizations (Keidanren) made a survey of Thailand's investment climate. The Keidanren survey concluded that the investment climate in Thailand is behind Indonesia but ahead of all the rest of the ASEAN countries, excluding Singapore.<sup>21</sup>

Of course, the survey of Keidanren, as well as most foreign investors, conclude that there are some problems in Thai investment, such as insufficient and a shortage of infrastructure, a shortage of skilled labor, particularly technicians and middle level managers, a rise in prices of land and wages, restrictions on foreign capital share in joint ventures, an over-concentration of foreign investment projects, and so on.

But of these the biggest problem is the shortage of skilled manpower, mainly technicians and engineers. The problem of insufficient infrastructure can be resolved in a few years, but that of excellent technicians and professional personnel cannot be solved in a short time.

With the rapid increase of Japanese direct investment, the shortage of technical personnel is more serious. It is estimated that various enterprises in Thailand will require at least 5,000 to 10,000 personnel in the coming years. But Thailand's educational institutions produced 2,744 in 1990 and 3,300 in 1991.<sup>22</sup> It is unable to meet the needs of its economic development. Some new joint ventures have to attract technicians and engineers from other enterprises by providing good wages. This makes previous enterprises fall into a difficult position. According to a survey of a big Japanese-Thai Joint venture in Chiang Mai, the rate of those leaving the office totaled 30 percent in 1988 and lowered to 10 percent after 1989.<sup>23</sup> The proportion is still relatively high. A JETRO survey of 180 Japanese-related enterprises shows that the rate of technicians leaving in 1990 increased by 56 percent over 1989. The desire of some Japanese investors to invest in Thailand has dropped. Some Japanese-related enterprises in Thailand are even not ready to expend more financial and material resources to train the technicians and managerial personnel.<sup>24</sup>

In addition, Thai engineers are not willing to go down to the workshop to solve productive problems because of the influence of traditional ideas. Japanese investors as well as other foreign investors feel this is unfavorable to the development of enterprises.

Therefore, the problem of training a great number of qualified professional personnel is not only one of improving the climate investment but also has bearing on Thai economic and social development in the future. Recently, experts of the Institute of Development in Thailand pointed out that if Thailand does not attach importance to the enhancement of labors' technical level and capacity, Thailand will face a science and technology crisis in the coming 10 years.<sup>25</sup>

## 2. Problems of utilizing Japanese investment

As mentioned previously, Japanese investment in Thailand is beneficial to Thai economic development. However, for Thailand to take advantage of Japanese investment to develop the Thai economy seems to be not enough. We can take electronic industry as an example. Thailand started assembling television sets at the same time as South Korea and Taiwan. After about 15 years of operation, enterprises in South Korea and Taiwan were able to produce television sets with almost all components locally made. But Thailand still had to rely on wholly imported electronic components.<sup>26</sup> As another example, there are 12 automobile assembling factories in Thailand. Japanese-Thai joint ventures account for 8 of them. The factories have produced for many years. As yet, however, Thai technicians are unable to design major parts and components, let alone a complete vehicle.<sup>27</sup> What is the cause of this? Problems may come from both sides: Thailand and Japan.

### Thailand

- 1) Thailand lacks technicians, thus it is unable to organize effective forces to engage in the development of new technology.
- 2) Both public and private productive sectors and units are not enough to gather and study data in science and technology, particularly Japanese data. Due to few technicians knowing Japanese, there are added difficulties to gathering and studying Japanese data. A shortage of research funds limits the work of gathering and studying data.
- 3) To some extent, the technicians lack a sense of self-improvement; they fail to further develop their own initiatives after mastering basic skills and techniques for technical operations.
- 4) Some policies of the Thai government, such as the import of too many intermediate products, are not favorable to raising Thai technicians' innovative and creative abilities.

## Japan

There are still some problems in technology transfer. Technology transfer is a complex issue. Scholars and experts have explored the issue up to now. Japanese scholar Takeshi Hayashi divided the process of technology transfer into five stages, as follows.

- 1) The mastering of machine-operating techniques.
- 2) The acquiring of maintenance skills.
- 3) The mastering of repair skills, including the ability to make minor improvements.
- 4) Attainment of the ability to undertake unaided technological design.
- 5) The beginning of autonomous home production and the development of new technology.<sup>28</sup>

Another scholars divide the process into seven stages instead of five, but the content is not much different from Takeshi Hayashi.

If we take the above stages as a reference for evaluating Japanese technology transfer to Thailand, according to many scholars' survey and investigation,<sup>29</sup> Japanese technology transfer to Thailand remains at the second or the third stages. Some Japanese scholars believe that technology transfer should include transfer of production technology, administrative technology and management know-how, and that technology transfer at the factory level in Thailand has transferred, but the management know-how at the head office has not been transferred smoothly.<sup>30</sup> The point of view that technology transfer should include administrative technology and management know-how is maybe not wrong. However, Thai conditions such as economic development level, cultural background, life style, work attitudes and so on, are quite different from Japan. It is not simple or easy to apply Japanese administrative technology and management know-how to Thai society. Although the Japanese style of management has played a positive role in post-war Japanese economic development and has received from developing countries, including Thailand, at present Thailand maybe has more need to develop its own innovative, creative, research and development capabilities, rather than a package based on the Japanese style of management. In this regard, Japan should sincerely help Thailand to enter the fourth and the fifth stages mentioned above. This is good for promoting Japanese-Thai economic co-operation and developing the bilateral relationship.

## Prospects for Japanese Investment in Thailand

In recent years, Japan has regarded Thailand as its major investment partner in Southeast Asian region. With the increase of Japanese investment in Thailand, Japan has now become the most important investing country in Thailand. Though Japanese investment brings about some negative impacts, its positive impact on Thai economic development should be appreciated. At the same time, one must note that Japanese investment in Thailand is beneficial to Japan itself too. Therefore, the trend of Japanese

investment in Thailand in the future has received attention from the public, especially industrial and commercial circles.

By analyzing the data now available, we can observe some tendencies in Japanese investment in Thailand in the future.

Generally speaking, Thailand is still attractive to Japanese investors as well as other foreign investors. Firstly, although Thai economic growth has slowed down compared to the past, its economic situation is not bad. The officials and specialists in the Bank of Thailand estimate that economic growth rate of the year 1993 will be 7.8 percent.<sup>31</sup> That is to say, Thai economic development still has potential. This is a major factor attracting Japanese investors.

Secondly, Thailand has an important role in new Japanese foreign strategy. Japanese Prime Minister Miyazawa made a policy speech at Bangkok on the 16th of January 1993, on his official visit to four ASEAN countries. This speech embodies Japan's basic foreign policy towards the Asia-Pacific region. One of four major points is that Japan and ASEAN countries co-operate to promote prosperity and stability in Indochina.<sup>32</sup> Thailand, located in the center of the Indochina Peninsula, is nearest to the Indochinese countries among the ASEAN nations. To increase Japanese investment in Thailand is advantageous to co-operation with Thailand, and further, to opening up the Indochinese market.

Thirdly, starting from this year, the Japanese Yen has appreciated and this tendency will go on. Some small and medium enterprises in Japan have to invest abroad so that they can alleviate local problems. Mr. Miyata, Chairman of the Japanese Chamber of Commerce in Bangkok, recently pointed out that some small and medium enterprises in Japan are planning to invest abroad and that Thailand is still one of the investment places they choose.<sup>33</sup> He even believed that a new wave of Japanese investment in Thailand would arise.

However, as previously mentioned, not a few unfavorable factors exist in the Thai investment climate. These problems reduce Japanese investors' desire to invest in Thailand.

In addition, China, Vietnam, Malaysia are attracting more and more Japanese investors' interest. China's huge market, and land and labor which is cheaper than Thailand, and reform of the economic system make it a major draw. Since late 1992, a large number of foreign investors, including many Japanese investors, have been to China to invite proposals. According to Chinese official statistics published on June 2, 1993, foreign investors ploughed a record US\$ 3 billion into China during the first quarter of 1993, a jump of 167 percent over the same period last year.<sup>34</sup> In a report released by the Development Bank of Singapore, investors will be drawn to China and Indochina from Thailand as well as from other ASEAN countries.<sup>35</sup> Some scholars and

individuals among industrial and commercial circles in Thailand have noticed this. This shows Thailand has a challenge in drawing foreign investment.

At present, Thailand is in an important stage of economic development. According to the Seventh Economic and Social Development Plan, the principal objectives in the next five years are to sustain economic expansion with stability, to distribute income and prosperity to the regions, and to develop human resources, improve quality of life, and conserve natural resource and the environment. To continue attracting and utilizing foreign investment will help to realize these objectives. Therefore, how to attract and utilize foreign investment, especially Japanese investment, in Thailand is still a problem worth exploring.

## Notes

---

\* This paper is a result of research conducted in Thailand. The author wishes to express gratitude to the Japanese Studies Center, Institute of East Asian Studies, Thammasat University, and the Japan Foundation, Bangkok, for their support.

<sup>1</sup> For example,

Sibunruang, Atchaka, and Somsak Tambunlertchai: "A Foreign Direct Investment in Thailand", 1986.

Suvinai Pornavalai: "The Human Resources Problem of Japanese Firms in Economics of NIEs", 1989.

"Thai Economic Development and Its Prospects and the Role of Japanese Firms", 1990.

Banyat Surakanvit: "Japanese Direct Investment and Its Impact on Thai Economic Development", 1991.

Patcharee Siroros and Vilaiwan Wannitikul: "Japanese Direct Investment in Thailand: An Attitudes Survey", 1991.

Somsak Tambunlertchai: "The Changing Pattern of Japanese Direct Investment in Thailand", 1991.

Khien Theeravit: "Japanese Investment and Economic Interests in Thailand", 1992.

(Above are Thai scholars' papers)

Kunio Yoshihara: "Japanese Management in Thailand", 1985.

Tran Van Tho: "Pattern and Issue in Japan's New Direct Investment in Thailand", 1990.

Yukio Ikemoto: "Coexistence of Import-Substitution and Export-Promotion in an Industry: The Case of Thai Home-Electric Industry", 1991.

Akehiko Ono: "Labour Management and Organizational Adaptation of Workers in Thailand: A Case Study of Thai-Japanese Corporation in Chiang Mai", 1992.

(Above are Japanese scholar's papers)

<sup>2</sup> Kunio Yoshihara (ed.): "Japanese Investment in Southeast Asia", The University Press of Hawaii, 1978. p. 65.

<sup>3</sup> Banyat Surakanvit: "Japanese Direct Investment and Its Impact on Thai Economic Development", Thai-Japanese Studies, Institute of East Asian Studies, Thammasat University, December, 1991. p. 31.

<sup>4</sup> Bangkok Bank Monthly Review. Vol. 33. July, 1992.

<sup>5</sup> Patcharee Siroros and Wilaiwan Wannitikul: "Japanese Direct Investment in Thailand : An Attitudes Survey", Thai-Japanese Studies, Institute of East Asian Studies, Thammasat University, 1991. p. 47.

- 
- <sup>6</sup> Akira Suehiro: "Capital Accumulation of Thai Business Groups: A Case Study of the Industrial Group", *Ajia Keizai*, Tokyo, October, 1984. p. 12.
- <sup>7</sup> JETRO Bangkok Center: "Contribution of Japanese Enterprises in Thailand", *Shopo*, Japanese Chamber of Commerce in Bangkok, June, 1992. p. 45.
- <sup>8</sup> Ibid.
- <sup>9</sup> Banyat, op. cit. p. 38.
- <sup>10</sup> JETRO, op. cit. p. 49.
- <sup>11</sup> Tran Van Tho: "Industrial Development in Thailand and Technology Transfer from Japan: The Experience of the Synthetic Fiber Industry", *Ajia Keizai*, Tokyo, October-November, 1989. p. 88-90.
- <sup>12</sup> JETRO. op. cit. p. 49.
- <sup>13</sup> Akehiko Ono: "Labour Management and Organizational Adaptation of Workers in Thailand: A Case Study of Thai-Japanese Joint Corporation in Chiang Mai", *Ajia Keizai*, Tokyo, October, 1992. p. 27.
- <sup>14</sup> JETRO. op. cit. p. 44.
- <sup>15</sup> Yoshida Mikimasa: "Understand Importance of Small and Medium Enterprises", *Ajia Keiken News*, Tokyo, No. 10, 1991. p. 13.
- <sup>16</sup> "Thailand: A Special Edition", *Kokusai Keizai*, Kokusai Hyronsha (International Review Press), Tokyo, 1990. p. 108.
- <sup>17</sup> Ibid.
- <sup>18</sup> Mirgsarn Sanlikarn: "Japanese Hold Limits Thai Car Industry Future", *Bangkok Post*, March 30, 1993.
- <sup>19</sup> Bangkok Post, April 17, 1993.
- <sup>20</sup> Chee Pen Lim: "Foreign Direct Investment and the Changing Investment Climate in the ASEAN Region", CAPS Discussion Paper Series 16, The Center for Asian and Pacific Studies, Seikei University, Tokyo, June 1988.
- <sup>21</sup> Bangkok Post, January 11, 1993.
- <sup>22</sup> Atchara Vorasirisunthron: "The Thai labour Market - A Looming Shortage", *Bangkok Bank Monthly Review*, No. 1, 1991. p. 18.
- <sup>23</sup> Akehiko Ono. p. 27.
- <sup>24</sup> Yamashita Shoichi: "Is Japanese Management Style in Common Use", *Keidanren Gepo* (Monthly Review of Federation of Economic Organization), Tokyo, No. 1, 1990, p. 28.
- <sup>25</sup> Sing Sian Yit Pao. Bangkok, April 7, 1993.

- <sup>26</sup> Yukio Ikemoto: "Coexistence of Import-Substitution and Export- Promotion in An Industry: The Case of Thai Home-Electric Industry", Ajia Keizai, Tokyo, November, 1991. p. 36.
- <sup>27</sup> Mingsarn Sanlikarn. *ibid*.
- <sup>28</sup> Fumio Komada: "Japanese Studies on Technology Transfer", *The Developing Economics*, Tokyo, December, 1986. p. 99.
- <sup>29</sup> See Note No. 1, *ibid*.
- <sup>30</sup> Tran Van Tho. *ibid*.
- <sup>31</sup> Sing Sian Yit Pao, Bangkok, May 3, 1993.
- <sup>32</sup> The Nation, Bangkok, January 19, 1993.
- <sup>33</sup> Sing Sian Yit Pao, Bangkok, April 30, 1993.
- <sup>34</sup> Bangkok Post, June 3, 1993.
- <sup>35</sup> Bangkok Post, January 9, 1993.

**Table 1**

Japanese Direct Investment in Thailand, ASEAN and Asia

Country/Region	1971-75	1976-80	1981-85	1986	1987	1988	1989	1951-88
Thailand	117	188	364	124	250	859	1,276	1,993
ASEAN	2,412	4,119	6,450	855	1,524	2,713	4,674	13,669
Asia	3,466	5,613	9,633	2,327	4,868	5,569	8,238	32,227
World	12,366	20,554	47,151	22,320	33,364	47,022	67,540	186,356
% Thailand in ASEAN	4.85	4.56	5.64	14.50	16.40	31.66	27.14	10.68
% Thailand in World	0.96	0.91	0.77	0.56	0.75	1.83	1.89	1.07
% ASEAN in World	19.51	20.04	13.68	3.83	4.57	5.77	6.94	10.02
% Asia in World	28.03	27.31	20.43	10.43	14.59	11.84	12.20	17.29

Source : Ministry of Finance, Japan.

**Table 2**  
Net Flows of Foreign Direct Investment in Thailand Classified by Countries

	1980	1985	1986	1987	1988	1989	1990	1991	1992
Japan	902.9	1,534.0	3,049.0	3,268.7	14,007.6	18,761.6	27,931.0	15,593.3	8,571.8
U.S.A.	732.4	2,387.5	1,293.7	1,815.7	3,184.7	5,220.3	6,154.0	5,918.6	11,788.3
Taiwan	1.9	170.6	132.6	687.3	3,186.3	5,062.3	7,159.9	2,753.5	2,220.8
Hong Kong	1,113.7	649.0	955.7	796.2	2,794.5	5,715.7	7,027.4	11,565.5	14,549.0
Singapore	277.3	-	403.1	535.3	1,572.0	2,748.1	6,135.8	6,469.3	6,722.0
UK	82.5	121.6	251.7	328.9	884.9	222.3	1,130.5	256.7	3,219.1
France	12.9	143.1	91.0	132.9	281.3	392.7	682.0	1,246.2	1,644.9
Netherlands	32.0	-	-	74.4	288.7	1,629.4	649.8	747.3	689.1

Resource : Bank of Thailand, April 1993

**Table 3**  
**Distribution of Export Sales of Japanese-Related Investment Projects Approved**  
**by the BOI in 1987 and 1988**

Percentage of Export Sales	1987		1988	
	No	%	No	%
0.0	10	9.9	23	8.71
0.1 - 9.9	-	-	-	-
10.0 - 29.9	-	-	4	1.52
30.0 - 49.9	5	4.95	9	3.41
50.0 - 69.9	7	6.93	5	1.89
70.0 - 99.9	33	32.67	102	38.64
100	46	45.54	121	45.83
<b>Total</b>	<b>101</b>	<b>100</b>	<b>264</b>	<b>100</b>

**Source :** Board of Investment, Thailand

**Table 4**  
**Net Flows of Foreign Direct Investment from Japan**

(Millions of Baht)

	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>
1. Financial institutions	64.4	447.7	678.6	552.7	701.1	92.9	-
2. Trade	1056.5	-	1155.3	2012.3	3328.7	1106.8	614.1
3. Construction	863.0	886.4	1323.3	2684.0	2125.8	938.5	1637.0
4. Mining & quarrying	2.1	0	6.3	0	0	1.0	0
4.1 Oil exploration	2.1	0	0	0	0	0	0
4.2 Others	0	0	6.3	0	0	1.0	0
5. Agriculture	142.7	124.1	176.1	269.5	405.3	483.7	-
6. Industry	703.4	1873.8	10517.9	9940.9	16210.5	13504.4	6222.1
6.1 Food	55.7	-	324.8	428.4	816.4	877.4	71.1
6.2 Textiles	73.7	17.5	301.0	21.8	450.1	640.7	636.0
6.3 Metal based and non-metallic	-	224.1	1652.1	2008.9	1967.0	1264.8	971.8
6.4 Electrical appliances	319.7	826.7	4683.9	6000.4	6925.6	6318.4	2312.2
6.5 Machinery & transport equip	-	156.2	666.1	1004.3	2275.0	1330.3	645.6
6.6 Chemicals & paper	41.1	297.2	353.8	1100.0	1329.4	2133.3	250.8
6.7 Petroleum products	0	0	2029.7	-	1020.6	-	885.6
6.8 Construction materials	0.1	-	2.5	19.0	-	-	1.3
6.9 Others	354.5	368.2	504.0	1397.8	1430.0	1442.1	447.7
7. Services	211.2	130.6	231.5	571.0	724.7	252.0	161.2
7.1 Transportation & travel	34.0	35.1	149.7	112.8	312.2	191.8	44.2
7.2 Others services	177.2	95.5	81.8	458.2	412.5	60.2	117.0
8. Investment	0	0	0	0	0	0	4.5
9. Real Estate	5.7	176.4	502.3	2506.9	4007.9	-	327.6
9.1 Housing & real estate	4.4	176.4	270.8	722.9	2191.1	1178.4	154.1
9.2 Hotel & restaurant	1.3	0	231.5	1784.0	1816.8	-	173.5
9.3 Other real estate	0	0	0	0	0	0	0
10. Others	0	0	16.2	224.3	427.0	44.9	41.9
<b>Total</b>	<b>3049.0</b>	<b>3268.4</b>	<b>14607.5</b>	<b>18761.6</b>	<b>27931.0</b>	<b>15593.3</b>	<b>8571.8</b>

**Source : Bank of Thailand, April 1993**

# หน้าว่าง

จำนวนกหอสมุด