

Japanese Direct Investment and Its Impact on Thai Economic Development

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1. The Present Situation of Japanese Direct Investment in Thailand

Economic relations between Japan and Thailand have come to a turning point due to changes in the Japanese economy and in Japanese corporate behavior. Since the September 1985 Plaza accord, the value of yen has shot up by nearly 100% against the baht, and Japanese corporations have come to realize the comparative merits of overseas production, particularly in Thailand. Thus, the volume of Japanese direct investment in Thailand has dramatically increased in recent years.

According to the Board of Investment of Thailand, the number of applications by Japanese corporations to invest in Thailand totaled 200 projects in 1987, nearly 4 times as many as in 1986. The number of applications further increased to 389 projects in 1988, which seems to have been the peak year of the new wave of Japanese investment. The number of applications decreased to 233 projects in 1989 and 199 projects in 1990. Meanwhile, the average investment per project increased from 153 million baht in 1986 to 235 million baht in 1987, 381 million baht in 1988, 582 million baht in 1989, and 405 million baht in 1990. This means that recent Japanese investment projects in the Thai manufacturing sector are relatively more capital-intensive and large-scale than in the past (see Table 1).

At the same time, the number of Japanese investment applications approved by the Board of Investment also increased from 35 projects in 1986 to 136 projects in 1987 and 265 projects in 1988, and then decreased to 223 projects in 1989 and 179 projects in 1990 (see Table 2). Nevertheless, the number of projects which had started operation increased from 30 projects in 1987 to 46 projects in 1988, 90 projects in 1989, and 124 projects in 1990 (see Table 3).

It should be noted here that:

- (1) Japanese investment projects granted promotion certificates from the Board

Table 1. Foreign Investment Applications to BOI

		(million baht)							
		1986		1987		1988		1989	
	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects
Total Investment	431	59,698	1,058	209,029	2,127	530,292	1,284	461,052	1,009
Total Foreign Investment	207	36,487	630	163,322	1,273	394,212	856	341,496	638
JAPAN	53	8,111	200	46,987	389	148,221	233	135,769	199
TAIWAN	31	2,957	178	14,642	400	54,287	207	30,273	131
U.S.A	24	10,998	61	19,214	136	92,767	76	31,497	72
HONG KONG	17	1,934	46	7,035	126	20,108	106	36,172	76
SINGAPORE	9	330	37	5,129	90	16,954	45	18,483	39
MALAYSIA	7	201	13	771	39	4,299	30	4,608	15
S. KOREA	2	20	16	2,303	40	3,679	39	9,482	25
AUSTRALIA	6	528	22	7,331	30	29,851	9	380	11
EUROPE	42	16,292	110	33,131	148	73,569	134	53,862	110

Note: Projects with foreign investment from more than one country are counted twice.

Source: Board of Investment of Thailand (BOI)

Table 2. Foreign Investment Applications Approved

(million baht)

	1986		1987		1988		1989		1990	
	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount
Total Investment	295	34,610	625	67,289	1,463	201,812	1,175	287,844	906	474,880
Total Foreign Investment	154	25,047	385	50,064	888	158,066	752	205,495	615	361,410
JAPAN	35	6,593	136	24,363	265	77,019	223	90,569	179	69,211
TAIWAN	18	939	102	7,700	308	21,496	214	22,305	144	19,567
U.S.A	20	1,067	34	4,431	106	17,028	68	14,123	72	27,913
HONG KONG	18	1,178	32	3,144	86	11,416	65	14,430	67	183,412
SINGAPORE	8	250	17	1,633	59	6,924	47	10,570	34	15,115
MALAYSIA	11	462	7	281	25	2,475	16	1,819	13	2,567
S. KOREA	2	23	7	333	36	2,758	26	4,337	29	6,849
AUSTRALIA	4	297	12	984	19	1,325	17	2,342	10	11,811
EUROPE	35	6,185	51	6,901	111	26,575	126	41,222	108	38,673

Note: Projects with foreign investment from more than one country are counted twice.

Source: Board of Investment of Thailand (BOI)

Table 3. BOI Estimates of Projects in Operation

(million baht)

	1986		1987		1988		1989		1990	
	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount	No. of Projects	Amount
Total Investment	145	20,809	172	18,577	224	18,862	277	26,412	414	74,818
Total Foreign Investment	68	16,970	86	12,160	135	14,828	196	20,914	292	60,804
JAPAN	11	7,464	30	5,623	46	7,521	90	13,902	124	32,811
TAIWAN	17	1,183	8	399	23	720	56	2,380	62	6,452
U.S.A	8	2,249	10	1,563	15	2,136	14	1,697	21	2,328
HONG KONG	5	189	11	2,467	17	2,030	17	1,975	25	2,023
SINGAPORE	3	116	4	2,936	11	1,051	9	864	22	5,591
MALAYSIA	2	108	2	104	5	190	4	226	7	401
S. KOREA	0	0	0	0	0	0	7	277	10	578
AUSTRALIA	3	682	4	158	4	297	2	88	6	604
EUROPE	17	1,617	15	1,113	31	2,913	22	3,568	48	14,979

Note: Projects with foreign investment from more than one country are counted twice.

Source: Board of Investment of Thailand (BOI)

of Investment are mainly in the manufacturing sector.

(2) The share of approved Japanese investment in total foreign investment during the last 5 years was relatively high compared to other foreign countries about 30% of the total in terms of number of the projects and about 38% in terms of investment capital. However, the share of Japanese investment in total foreign investment on an approval basis decreased in 1990 to about 19%.

(3) About 80% of the approved projects in recent years were new investments, while the other 20% represented expansion of existing investments.

(4) Japanese investment projects have recently been concentrated in electronic and electrical products and their parts and components, as well as food processing, metal products, and plastic and chemical products.

(5) There have been more investments in export-oriented projects than in import-substitute projects since 1986.

(6) There has also been an increase in supporting industries and intermediate goods.

(7) Thailand is becoming a production base for the Japanese market instead of for East Asia NIEs.

(8) Investment by Japanese small- and medium-sized firms has increased considerably.

(9) Although there have been more 100% Japanese-owned investment projects in recent years, the majority of projects still take the form of joint ventures.

(10) There has also been a significant increase in direct investment from Taiwan, the U.S.A., and Hong Kong during the last 5 years.

Since the Board of Investment's data is limited to relatively large-scale projects in the manufacturing sector, it is assumed that the total volume of Japanese investment in Thailand is larger than indicated by the data. To find out the real situation of Japanese investment activities in Thailand in recent years, therefore, we have to seek out information from other data sources. According to the results of an original survey by the author, there were 62 Japanese joint venture firms newly registered at the registration department of the Ministry of Commerce in 1979. The total number of Japanese joint venture firms increased to 254 firms in 1987 and then increased an additional 81.1% to 460 firms at the end of December 1988 (see Table 4). It is thought that there are now more than 1,500 Japanese-Thai joint venture companies doing business in Thailand.

Japanese investment is not limited to the manufacturing sector. It is clear from data on Thai-Japanese joint venture firms registered during 1979-1988 that the tertiary sector or services sector has also shown a considerable increase in the number of firms registered during recent years.

Table 4. Thai-Japanese Joint Venture Firms Registered during 1979-1988 (1)

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Table 4. Thai-Japanese Joint Venture Firms Registered during 1979-1988 (2)

Economic Sector	Year											
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1979-1988	
3.7.1 Iron & steel basic industries	-	1	-	-	1	-	1	-	-	3	6	
3.7.2 Non - ferrous metal basic industries	-	-	-	-	-	-	1	1	1	-	3	
3.8.1 Fabricated metal products	3	-	-	1	1	1	-	-	15	26	47	
3.8.2 Machinery	1	2	2	1	4	3	6	8	8	12	47	
3.8.3 Electrical appliances and supplies	1	3	4	2	-	2	5	3	15	43	78	
3.8.4 Transport equipment	-	-	-	-	1	1	1	2	5	2	12	
3.8.5 Scientific equipment	-	-	-	-	-	3	1	1	4	3	12	
3.9 Other manufacturing industries	2	-	3	4	6	3	4	2	13	16	53	
4. Electricity, Gas and Water	-	-	-	-	-	-	-	-	-	-	-	
5. Construction	2	4	4	4	8	9	13	6	17	11	78	
(2) Secondary sector sub-total	21	15	22	20	33	40	53	46	134	194	578	
6. Wholesale and Retail trade and Restaurants and Hotels												
6.1 Wholesale trade	16	17	21	25	33	32	21	15	35	123	338	
6.2 Retail trade	2	5	4	5	6	3	1	-	6	9	41	
6.3 Restaurant and drinking places	3	9	6	3	12	13	18	13	14	25	116	
6.4 Hotels	1	-	-	-	-	1	-	1	5	10	18	
7. Transport, Storage and Communication												
7.1 Services allied to transport	1	1	3	3	3	-	1	3	8	20	43	
7.2 Communication	-	-	1	1	1	-	1	1	-	2	7	

Table 4. Thai-Japanese Joint Venture Firms Registered during 1979-1988 (3)

Economic Sector	Year										
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1979-1988
8. Finance, Real Estate and Business Services											
8.1 Financial institutions	-	-	-	-	-	-	-	-	2	1	3
8.2 Real estate	-	-	-	-	-	-	-	2	3	7	12
8.3 Business services	7	6	6	4	10	13	23	11	21	31	132
9. Community Social and Personal Services											
9.1 Sanitary services	-	-	-	-	-	1	-	2	1	2	6
9.2 Education services	1	1	-	-	-	1	1	2	5	3	14
9.3 Research and scientific institutes	1	-	-	-	1	1	1	6	2	3	15
9.4 Recreational and cultural services	4	4	6	3	5	6	6	12	7	11	64
9.5 Personal and household services	1	-	-	-	-	2	-	1	-	2	6
9.6 Other services not elsewhere classified	-	1	-	1	1	-	-	1	4	9	17
(3) Tertiary sector sub-total	37	44	47	45	72	73	73	70	113	258	832
10. Total Number	62	61	71	65	106	114	128	119	254	460	1,440
Growth rate (%)		-1.61	16.39	-8.45	63.08	7.55	12.28	-7.03	113.45	81.10	
11. Total Registered Capital (million baht)	278.10	627.48	202.65	180.25	434.02	512.08	375.38	506.43	5169.45	11100.89	
12. Percentage of Japanese Equity (%)	34.63	31.15	30.29	32.25	38.58	32.72	36.87	36.68	38.73	51.05	

Source: Trade Registration Department, Ministry of Commerce, 1989

It is interesting to note that the growth rate of registered firms was as high as 113% in 1987 and 81% in 1988. In the service sector, particularly, the number of newly-registered companies increased from 70 firms in 1986 to 113 firms in 1987 and 258 firms in 1988.

There have also been some changes in business services as the number of Japanese people living in Thailand has increased to about 25,000 persons. There are many kinds of services set up for Japanese clients exclusively, such as Japanese bars and nightclubs, educational services (Gakujuku), travel agencies, and other business services. It could be said that the boom of investment in the manufacturing sector has induced the increase in service-related business and it is expected that this trend will continue in the future.

It should be noted that there are also some new activities in the field of real estate and industrial land use which have been the forms of joint investments by Japanese and Thai partners. However, if this type of business increases beyond a certain level, it may become the target of popular criticism, since the Thai people are very sensitive to the problem of foreign ownership of land.

On the other hand, the last line in Table 4 also shows that the percentage of Japanese equity in Thai-Japanese joint venture firms has increased in recent years. This reflects the Thai government policy of promoting foreign investments and of allowing export-oriented firms to have a majority or even 100% share of foreign ownership.

2. Changes in Japanese Objectives towards more Export-Oriented Investment

Until the end of 1985, the majority of Japanese investment projects in Thailand were able to fulfill their objectives of import substitution investment and local market development by utilizing the relatively cheap labour and various kinds of government incentives schemes. However, since the G5 meeting in September 1985, the Japanese yen has greatly appreciated and Japanese companies have changed their overseas strategies, leading to the new wave of Japanese investment seen in Thailand since the second half of 1986. There are more and more export-oriented investments from Japan.

About 70% of Japanese investment projects which received promotion approval from the Board of Investment of Thailand during 1986-1990 were export-oriented projects exporting over 80% of their total sales. If projects which will export a smaller percentage of total sales, are also included, of course, the number of export-oriented

projects could probably be much higher.

According to a survey of 114 Japanese firms taken by the JETRO Bangkok Office during September and October, 1987, 39 firms concentrated only on the local market while a much large number (75 firms or about 65%) exported their products to Japan and other countries.

Concerning the product market for Japanese firms involved in export activities, a total of 191 multiple responses was received, for which the average ratio of domestic market sales was 24.1%. Of the overseas markets, 22.5% of total sales went to Japan, 15.2% to the U.S.A., 13.6% to East Asian NIEs, and 24.6% to other countries, mainly in ASEAN and the Middle East.

The Japanese firms involved in export activities were mainly in the textile, transportation equipment, food, electronic and chemical product industries. Japanese firms which had started or were planning to export their products to overseas market had also increased in numbers in recent years. Thus, we can expect that Japanese investment in Thailand will contribute more to Thai export expansion, particularly in areas such as electronics and electrical appliances.

It is worthy of note that Thailand has become an overseas production base for Japanese industrial firms. Also when relatively large-scale projects are initiated in Thailand, small- and medium-sized sub-contractors affiliated with the Japanese investors have also been induced or persuaded to set up production bases in Thailand in order to continue the sub-contracting relationship or to provide industrial support. At the same time, many sub-contractors and specialized parts makers in Japan are also seeking new and relatively cheaper production bases for supplying their products to the Japanese market, which is highly competitive due to the challenge from Korean and Taiwanese imports.

Many Japanese manufacturers have also found that their production bases in East Asian NIEs are no longer advantageous. Some of these Japanese manufacturers have reconsidered their strategy and decided to invest in Thailand in recent years.

The appearance of regional economic blocs in Europe with the 1992 EC and within ASEAN in the future is also stimulating Japanese overseas investment. Particularly in the field of exports, Japanese products made in Thailand will go not only to the Japanese market but also to other countries. This business opportunity has expanded greatly with the recovery and growth of the world economy.

As the Japanese yen has appreciated together with the Korean won and Taiwanese dollar, the Thai baht, which is closely linked to the U.S. dollar, has fallen in value. In this sense, Thai exports are relatively competitive in the world market, particularly in the field of natural resource-oriented products. As the result of this trend, the number of export-oriented firms is increasing at present.

According to the results of a business environment survey of 157 manufacturing firms taken by JETRO in October 1988, 128 firms or about 72% of the total were currently exporting their products. Among these firms, 59 firms or 38% of the total had an export ratio over 50% of their total sales, and 31 firms or 20% of the total were fully export-oriented firms with an export ratio of 100%. Only 29% firms or about 18% had no export activities at all.

3. Economic Impact and Contribution

According to the results of a survey of 114 Japanese firms taken by JETRO in 1987 (see Table 5), 93 responses or 28.8% of the total indicated that the firms involved believed that they had contributed to an increase in employment opportunities. 87 responses or 26.9% indicated a contribution in transferring technology to Thailand; 51 responses or 15.8% indicated the purchase of local materials and parts; and 50 responses or 15.5% indicated a contribution to the increase in Thai exports. At the same time, Japanese investment also increased the degree of competition among existing local firms, which were vitalized as a result.

It is very difficult to make a complete assessment of the economic contribution of Japanese investment. In some cases, Japanese investment is thought to have been instrumental in setting up domestic production creating forward and backward linkages, and helping to diversify the industrial structure of Thailand. However, it is

Table 5. Japanese Investment Contribution

Contribution	Responses	Percentage
1. Increase in employment opportunities	93	28.8
2. Technology transfer	87	26.9
3. Purchase of local parts and materials	51	15.8
4. Increase in exports	50	15.5
5. Vitalization of local industry through competition	38	11.8
6. Other	4	1.2
Total	323	100.0

Source: JETRO, Bangkok, 1988.

necessary to consider both the positive and negative aspects of these issues.

Although Japanese investment has helped to speed up the pace of development of some modern industries in Thailand, there is also a negative side. That is, the products introduced by most Japanese firms are modern consumer goods which generally cater to the consumption of high- and medium-income people. The production of these goods may divert some resources which might have been used for the production of basic needs. Thus, Japanese investment has had a partially negative impact on Thailand's allocation of resources.

For the economic development of Thailand, rapid technological transfer from Japanese firms is generally considered to be necessary. Most Thai entrepreneurs consider joint venture arrangements as a means of access to the required technology. However, the ability to adopt and utilize technical know-how and production technology is said to be limited. The lack of qualified personnel, the high rate of turnover or job-hopping among skilled workers, and the language barrier between Japanese expatriates and local staff are cited as the main constraints on technology transfer. Nevertheless, if the Japanese firms have strong intentions and concrete measures to support or encourage local manpower skills development and local research and development, and if both the public and private sector in Thailand put more effort into upgrading capacity to absorb technology, the process of technology transfer will be effectively speeded up.

In fact, most Japanese firms have their own skill 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, usually in conjunction with the introduction of new production lines and production technology.

Besides the transfer of technology, Japanese-related firms in Thailand have also transferred management know-how and other managerial resources which are necessary for smooth production and improvements in productivity. The "work-place oriented" and "quality first" philosophy and attitude related which is one part of Japanese managerial resources has also been widely transplanted in Japanese factories. Various kinds of productivity improvement activities such as the "5S's" (Seiri, Seiton, Seiso, Seiketsu and Shitsuke), Quality Control Circles (QCC), the Suggestion System, the Safety Movement, the Zero Defect Movement, and Total Quality Control are also gradually being diffused to local Thai suppliers or subcontractors and other Thai manufacturing firms. These managerial resources are considered to be a great contribution to the development of the Thai manufacturing

sector over the long run.

Relating to the contribution of Japanese investment in Thailand, the majority of Japanese firms in the JETRO survey responded that they had increased employment opportunities. It is a fact that Japanese investment has created many jobs for Thai employees. According to BOI statistics, about 50,000 Thai employees have been hired by Japanese-related projects during the past 5 years (from 1986 through September, 1990). Of course, if all Japanese-related firms in Thailand, including those which do not receive promotion from BOI, are taken into consideration, the magnitude of the contribution to employment would be higher than that figure.

It was estimated by the Japanese Chamber of Commerce in Bangkok in 1983 that 369 Japanese member firms had created jobs for 62,980 Thai persons. In this sense, we can estimate that the total employment generated by Japanese-related firms should amount about 200,000 persons at present. However, this figure still accounts for only a small portion of the total work force in Thailand.

4. Conclusion

The increase of Japanese investment in Thailand has its most immediate impact on employment in this country. The number of Thai people employed by Japanese companies has increased remarkably in recent years. However, the shortage of skilled engineers and technicians is becoming a great problem. Since Japanese companies and some large-scale Thai companies can afford to pay high salaries to these groups of people and are now in a battle to entice capable manpower from other companies, the most serious shortage is now faced by local medium-sized companies.

On the other hand, Japanese direct investment has also created domestic demand for industrial raw materials and intermediate goods as well as parts and equipments. Thus, Thailand has to import a large amount of industrial raw materials and capital goods from Japan and other countries, which in recent years has exacerbated the trade deficit with Japan. In the long run, if a horizontal division of labour between Japan and Thailand is actually realized and Thai products achieve competitiveness in the world market, Thailand's problem of trade deficits will become less important.

However, since Thailand has become a production base for Japanese products exported to third countries, trade friction between Thailand and other regions, particularly America and the European Community, might become a big problem in the near future. This problem will affect the existing business of local Thai companies as well.

At present, there are many new Japanese investments in export-oriented industries

which make use the benefits of cheap labour and Thailand's status as a developing country to gain access to the developed countries' markets under favourable conditions. If these conditions change therefore, these footloose industries might move out of the country. As a result, the present positive impact might become negative, causing unforeseen problems in the future. This problem should be carefully considered by the authorities in Thailand who are responsible for promoting the present export-oriented industrialization policy.

Finally, the problem of how to achieve a comprehensive transfer of technology and management know-how is still a matter of great concern to Thai officials and academicians. This problem should be discussed in order to promote mutual understanding and benefits.

In conclusion, we should understand that Japanese direct investment in Thailand has increased to such a remarkable level that a problem of over-presence might easily occur, given the fact that Japanese investment has both positive and negative impacts on the Thai economy and on living conditions of the Thai people. How to maximize the positive aspects and minimize the negative aspects of present Thai-Japanese economic cooperation is the immediate problem for all people concerned.

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