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FDI Trends, Pull Factors and Policies in Thailand

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List of Acronyms

ACIA	ASEAN Comprehensive Investment Agreement
AFAS 8	ASEAN Framework Agreement on Services Eighth Package
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
BE	Buddhist Era
BIBF	Bangkok International Banking Facilities
BOI	The Board of Investment of Thailand
ESB	Eastern Sea Board Development Program
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
OECD	Organisation for Economic Co-operation and Development
MNC	Multinational Corporation
NEDB	National Economic Development Board
NESDB	National Economic and Social Development Board
UNCTAD	United Nations Conference on Trade and Development
US	The United States

Abstract

The objective of the research is to investigate the pull factors that have impacted on FDI inflows in Thailand. It seeks to explain the decline of inward FDI in Thailand over recent years, in light of competition from inward FDI into Southeast Asia countries. The study uses empirical exploratory data analysis to examine the inward pull factor in Thailand compared to neighbouring countries in ASEAN which are: Indonesia, Malaysia, Singapore, and Vietnam, covering the period from 2004 to 2015. The main pull factors derived from the literature findings include: labour cost, infrastructure quality, institutions, FDI restrictions, and tax rates. The results of the research show that Thailand has lost competitiveness on labour cost, infrastructure quality, political stability, while FDI restrictions seems play some role in attracting FDI and it was not the case with tax rates.

Relevance to Development Studies

Foreign direct investment (FDI) is considered as being responsible for economic growth because it generates advantages for the host countries such as: job creation, technology transfers, and enhancing human capital. The Thai government has prioritised FDI as a driver of domestic development revealing favourable policies on foreign investment promotion. Therefore, the critical study of the competitiveness of Thailand in comparison to other nations could contribute to future policy making by the State, in terms of strengthening the competitiveness and FDI attractiveness of a country.

Keywords

Foreign direct investment; FDI; pull factor; Thailand; labour cost; infrastructure; institution; tax rate; FDI restrictiveness

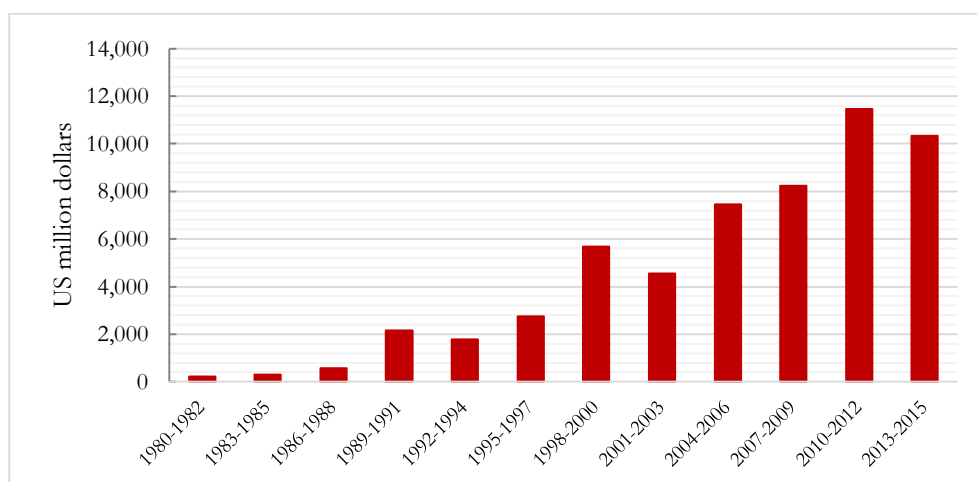
Chapter 1 Introduction

1.1 Background

Foreign Direct Investment (FDI) has been seen as an important driver of economic growth for most developing countries. The reasons given range from technology spillover to aiding the development of human capital (Borensztein et al. 1998; Makki and Somwaru, 2004). This is also true of Thailand, especially since its transition from an agricultural based economy to an industrial based economy around the early to mid 1980s. In 1970, FDI net FDI flows were 42.80 million US dollars. This amount increased to 55.21 million US dollars in 1979 and 411.99 million US dollars in 1984. From 1985 onwards FDI flows rose sharply (largely due to inflows from Japan as Japanese companies sought to re-locate production from high costs Japan following the so-called plaza accord in which the Japanese yen appreciated significantly) reaching 2,575 million US dollars in 1990.

According to Figure 1.1, the net flow of FDI in million dollars has risen significantly after Plaza Accord period. The graph shows the flows of FDI went up considerably in 1989 to 1991 period, it was increased later after Plaza Accord occurrence. Even though, the flows had dropped between 1992 to 1994. The FDI inflows has risen and reached a high point in 1998-2000 after Asian financial crisis in 1997. Although the flows of FDI had fluctuated from 1998 to 2004, the amount of flows were at high level compared to before Plaza Accord incident.

Figure 1.1 The net flows of FDI in Thailand (1980-2015)

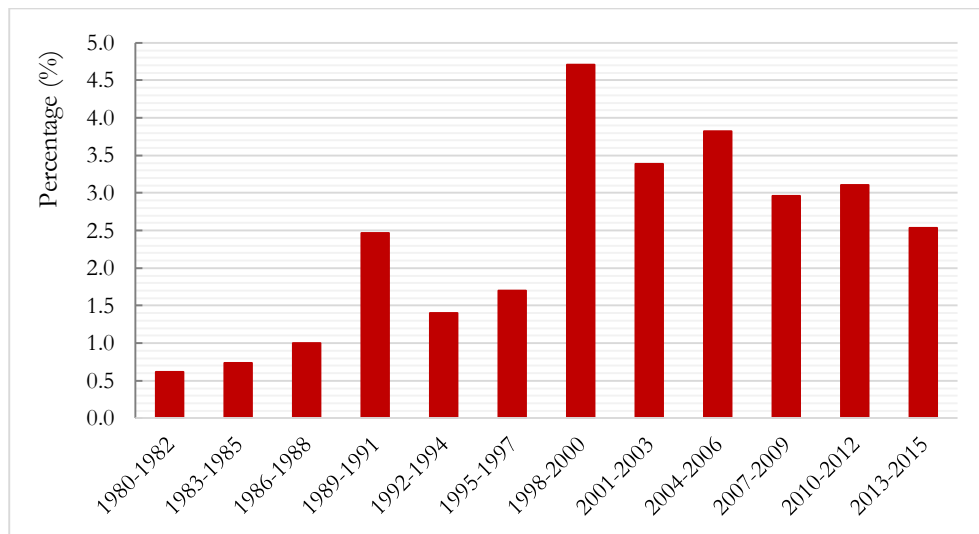


Source: UNCTAD

Regarding the FDI net flows to percentage of Gross Domestic Product (GDP) in Figure 1.2, overall, FDI net flows to percentage of GDP also has increased after Plaza accord incident and after financial crisis in 1997, however, the period of 2004 to 2015, there is a downward trend in 2007-2009 which the global financial crisis occurred in 2008/2009. In period 2013-2015, FDI net

flows to percentage of GDP declined significantly which it could also consider political instability incidents in Thailand in 2014 as one of the impact on the decline of FDI flows.

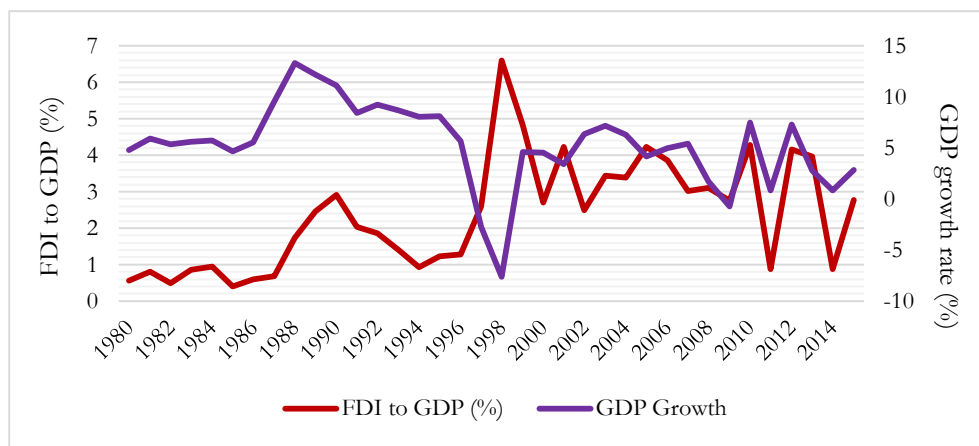
Figure 1.2 The net flows of FDI to percentage of GDP (1980-2015)



Source: UNCTAD

As Figure 1.3, there were the different trends between of FDI net flows to percentage of GDP and GDP Growth Rate from 1990 to 2001. However, the trend of FDI net flows to percentage of GDP has been consistent with GDP Growth rate from 2002 to 2015. It seems that the rate of GDP growth related to the trend of FDI flows in Thailand.

Figure 1.3 GDP growth rate compared to FDI net flows to percentage of GDP (1980-2014)

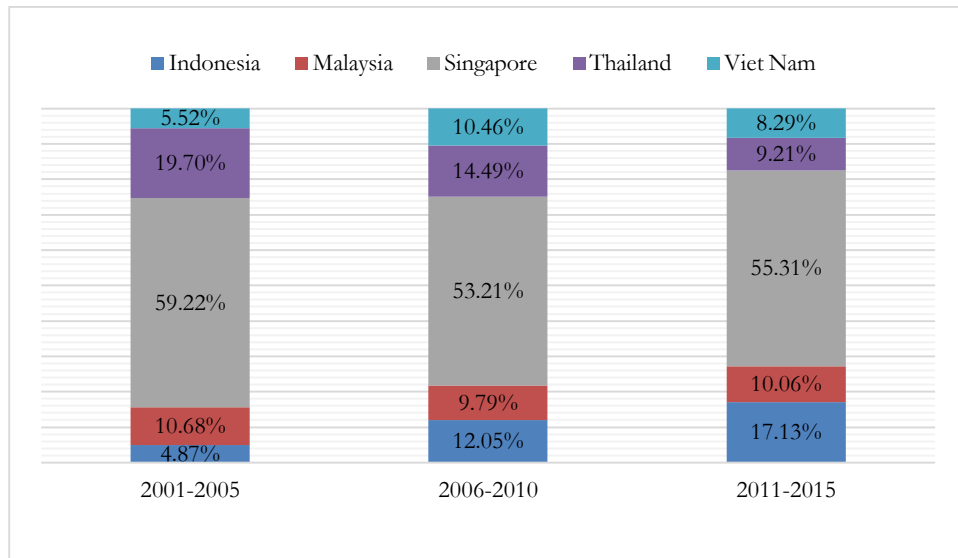


Source: UNCTAD

The decline of FDI flows in Thailand made the concerns on economic growth in Thailand. Regarding the trends among ASEAN countries, as figure 1.4, in 2011-2015, Singapore shared largest share of total FDI inflow at 55.31 percent, followed by Indonesia, Malaysia, Thailand, and Vietnam which the

shares are at 17.13 percent, 10.06 percent, 9.21 percent, and 8.29 percent respectively. The figure shows that Indonesia FDI inflows has raised continuously. Meanwhile, Singapore, Malaysia and Viet Nam FDI Flows has increased after drop in the period 2006 to 2010. Conversely, Thailand FDI inflows has reduced significantly over the periods.

Figure 1.4 Cumulative net FDI (%) of total FDI



Source: UNCTAD, Calculated by Author

Moreover, many economists also concern that the loosing competitive of Thailand lead to downward trend of inward FDI in Thailand. As the report of Bank of Thailand (Chantapong et al. 2015) founds that inward FDI in Thailand between 2000 to 2012 still higher than country's economy size. However, it reports that foreign investors tend to invest more in Singapore, Vietnam, Malaysia, and Indonesia because Thailand's competitiveness has not improved in recent years. In similarity, the Moody's Investors Service (Global Credit Research 2016) reports that Thailand faces the decline of share of inward FDI into ASEAN during last decade. It is a result of dropping country's competitiveness which tend to affect on country's growth in long term.

Given the relatively poor recent performance of FDI flows, and the above mentioned belief of economists regarding the importance of FDI flows as a driver of economic growth, that there has been a renewed interest in the determinants of FDI flows, and why they have been tailing off in the case of Thailand. Certainly data on the economic growth rate of Thailand and FDI flows as a percentage of GDP appear to reinforce this concern (see Figure 1.3), this figure shows that since the early 2000s GDP growth and FDI flows have been moving quite closely together.

Thailand Policy to Attract FDI

The widely belief of the impact of FDI in enhancing the economic growth lead to many developing countries have launched policies to attract FDI

into countries. Also, Thailand continued the policies to induce the inward FDI from foreign firms. The first investment promotion act had been implemented in 1977 followed by the revised version in 1991 and 2001. In the same way, the foundation of Thailand Board of Investment (BOI) in 1966 also shows that Thai government recognised FDI as the key drives of Thai economy. During the fifth national plan (1982-1986), the Eastern Sea Board Development Program (ESB) (Tsuneishi 2005) as the industrial area for heavy industry in eastern region of Thailand has been created. It can attract a huge amount of investment, especially from foreign investors. Currently, Thailand Board of Investment has launched the new Thailand Five-Year Investment Promotion Strategy from 2013 to 2017 (BOI 2013). The new strategy has refocused to eligible projects and prioritised incentives depending on the promotion investment instead of attracting as board-based investment promotion.

1.2 Research objectives

There have been a number of studies that have looked at the determinants of FDI flows to Thailand (e.g., Siamwalla et al. 1999; Tosompark and Daly 2010) but most of these, like the literature as a whole, have focused on finding the push factors of FDI flows. It is this gap that the present study seeks to address, by focusing on the pull factors influencing FDI flows to Thailand. More specifically the study seeks to;

1. Look at the nature and composition of FDI flows to Thailand
2. Consider the relative importance of pull factors with respect to FDI flows to Thailand, focusing on manufacturing sector
3. Assess the policy implications of the findings

1.3 Research questions

1. What have been the trends in FDI flows to Thailand?
2. Which pull factors, if any, have been important?
3. What significance do these factors have for policy?

1.4 Research hypotheses

1. Trend FDI flows have stagnated in recent years.
2. The main pull factor explaining the decline in FDI flows to Thailand appears to be a loss of competitiveness. Also important, however, has been an increasingly less favourable policy environment.

The study of pull factors is necessarily based on a comparison of Thailand with other countries. The other countries chosen are other Southeast Asian economies since these are the main competitors of Thailand, and what matters is the pull factors in relation to those of these countries. The empirical method used will be exploratory data analysis, in part due to data limitations. Most of

data is from Thai government sources and international agencies. However, some is from academic research papers.

As noted above, there are limitations with regard to data availability both for Thailand and other competitor countries. It needs noting that this research paper is not concerned with push factors influencing FDI flows to Thailand or the impact of FDI on economic growth.

1.5 Chapter Outline

Chapter One: The first chapter provides the rationale for the focus of the study and indicates the research objectives, questions and tentative hypotheses of the paper, as well as its scope and limitations.

Chapter Two: This chapter considers the general literature on the pull factors influencing FDI flows to developing countries, and Thailand and its competitors in particular

Chapter Three: This chapter will provide a brief introduction to the Thai economy, focusing in particular on the growth process, trends in FDI flows, and policies towards FDI. It is in this chapter that the first of the research objectives/questions will be addressed.

Chapter Four: This is the analytical part of the paper that aims to identify the key pull factors affecting FDI flows to Thailand.

Chapter Five: This chapter will draw together the main findings of the paper and discuss their policy implications.

Chapter 2 Literature Review

2.1 Introduction

The literature on foreign direct investment is vast and extremely difficult to navigate. Fortunately, it can be compartmentalised in a way that makes it more manageable; basic push factors and basic pull factors. The focus of the present study is concerned with the latter, and in particular pull factors pertaining to FDI flows into developing economies. To narrow this down even further, it is of note that the concern is with pull factors pertaining to a particular sector, manufacturing, and a particular region, the Southeast Asian region. Hence, the concern is with relative pull factors relating to FDI flows into manufacturing.

2.2 Pull factors

The first of these factors is labour costs. Many studies see this as perhaps the most important of the pull factors attracting foreign direct investment (see, for example, Culem 1988; Bevan and Estrin 2000; Cheng and Kwan 2000; Kinoshita and Campos 2003; Kang and Jiang 2012). Yeats (1998) has found that labour costs were important as a pull factor for US firms going to the Caribbean and Latin America, and European firms going to developing countries in general.

Different studies have used different proxies of labour costs. For example, a study by Cheng and Kwan (2000) on FDI flows to China used wage rates as the proxy for labour costs. Other studies have used labour productivity as proxies of relative labour costs (see Van Ark et al. 2005; 3). Specifically, the higher the labour productivity of a country the lower their labour costs and the more competitive they are. This is, incidentally, consistent with Dunning (2000) that firms are more interested in efficiency than availability of resources when it comes to FDI flows. Unit Labour cost is a measure that attempts to capture both the wage cost and productivity of labour (see Van Ark et al. 2005; Andreff 2009; Kang and Jiang 2012).

Whatever the measure used, most studies have found that unit labour cost have an important pull effect on FDI (e.g., Culem 1988; Bevan and Estrin 2000; Kang and Jiang 2012). The study by Culem (1988) is on the bilateral FDI flows between six industrial countries (United States, Germany, France, the United Kingdom, the Netherlands and Belgium) from 1969-1982. It finds that relative unit labour costs were important in explaining FDI flows between the countries (Culem 1988; 893). A study by Kang and Jiang (2012) on Chinese FDI flows to eight countries in Southeast Asia between 1997 and 2007 finds that unit labour costs were an important determinant of these flows.

A second important pull factor to be found in the literature is the quality of the available infrastructure (Biswas 2002; 492). The quality of physical infrastructure is argued to enhance the general investment environment since it in

effect subsidises the total investment cost of investment, especially for those foreign firms seeking to relocate to low wage cost countries (see Kumar 2001; 2). In a study on the impact of infrastructure on FDI flows to developing countries Kumar shows that these flows are quite sensitive to the availability and quality of infrastructure (Kumar 2001; 2). Similar findings have been reported by the World Bank (1994; 2). Rehman et al. (2011; 269) see infrastructure as one of the main factors encouraging vertical FDI through its impact on the reduction of operational costs. Conversely, poor infrastructure raises transaction costs and obstructs access to domestic and international markets – and has a considerable bearing on decisions by foreign firms to invest.

Although proxies of infrastructure are varied, some such as Kumar (2001) uses a single composite index to examine the impact of infrastructure on FDI flows. The composite he uses combines measures of transport, telecommunications, information, and energy. He computes this for 66 countries covering the period 1982 to 1994 and uses principal component analysis to study these. He finds that the availability of adequate infrastructure is important in attracting FDI and is particularly important for FDI flows in respect of production for exports. A similar study was conducted by Biswas (2002) who found that the infrastructure factor influenced US FDI flows to 44 countries over the period 1983 to 1990, taking as a proxy of infrastructure per capita electricity production and telephones per 100 inhabitants. Studies by Moosa and Cardak (2006) and Asiedu (2002) using only telephone lines per 1000 people as the proxy of infrastructure found that infrastructure has an impact on attracting FDI.

Other studies have questioned the validity of the use of telephone lines as a proxy of infrastructure, and even found no evidence of the link between this variable and FDI flows. One such study is that by Quazi (2007). This study could not find any such relation between numbers of telephone lines and FDI flows in the study of FDI flows to seven Asian countries - China, Indonesia, Malaysia, Philippines, Singapore, South Korea, and Thailand - over the period 1995-2000. The author suggest that it is reasonable that the proxy of the natural log of number of telephones lines per 1000 populations “inadequately captures their true effects on FDI” (Quazi 2007; 340).

An alternative to telephone lines as a proxy of infrastructure some indicator of transportation efficiency including “the length of paved roads per square kilometre of area”. One such study is that by Khadaroo and Seetanah (2007), involving the links between FDI flows to African Countries over the period 1984-2002 and transport infrastructure. The results show a positive impact of transport infrastructure on FDI (Khadaroo and Seetanah 2007; 26). Other studies, such as that by Hong (2007) found that the access of seaport and railway density induced foreign logistics investment into China cities.

The third pull factor cited in the literatures is the quality of institutions in host country; better institutions tend to attract more FDI (Busse and Hefeker 2007; Bissoon 2011). A particular institution mentioned is good governance (see

Bissoon, 2011). In the study by Bissoon (2011), good governance is often measured by the political stability as contribution of consistency of fiscal system in host country. Also, the bad governance in form of corruption could induce the high burden cost of firms in doing the businesses and influence negatively on foreign investment. As Busse and Hefeker (2007; 398-399), the investment of multinational companies could be affected by “the change of government policies and/or political institutions” which it has impact on investment project cooperation. In addition, as Brada et al. (2006; 657-658), the political instability or conflict in FDI recipient countries tend to have impact on the investment decision of multinational firms. It is because political instability would decrease the profits of firms due to the decline of exports and domestic sales, as well as the disruption or damage of facilities in host country. Also, the instability in the host country would impact on local currency which devalues firm’s assets and profitability.

There are various papers studied on the impact of institutions, political stability and corruption on FDI. As Busse and Hefeker (2007), the study probes the impact of political risk and institution on FDI by using data on 83 developing countries over period 1984 to 2003. The study took the indicators on political risk and institution from the International Country Risk Guide. The results show that government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy influence on FDI inflows significantly. It is similar to Bénassy-Quéré et al. (2007), they studied on the FDI determinants in developing countries and also examined institutions role by using cross section analysis of 52 countries which found that quality of bureaucracy, corruption, availability on banking sector, information on firm, and legal institutions all have an impact on inward FDI. In addition, the proximity of institutions between home and host country affected inward FDI matters, thereby affecting the host country to the MNCs.

In the similar way, according to Bissoon (2011), the study on the relationship between FDI inflows and institutions on 45 developing countries in Africa, Asia, and Latin America covering the years from 1996 to 2005 harnesses the indicators from World Development Indicators by World Bank which are: the regulatory quality, control of corruption, and the political stability as consideration on quality of institutions. The results show that the low level of corruption, the good regulatory, and appearance of political stability exhibit positive impact on FDI inflows.

The forth pull factor considered in the literatures is regulatory environment. In many countries, even though they welcome foreign investors by encouraging liberalization, there are some limitations of foreign investment in host countries. Since the host countries changed perspective on inward FDI, the restrictions and control on entry and operations of multinational enterprises has changed to be attracting inward FDI (Banga 2003; 1). According to Mudambi et

al. (2013; 493-494), during 1990s and 2000s, the trends of government regulation reductions among countries, continues in recent years. In this regard, the decrease of regulation of government related to economic outcomes, also includes participation of foreigners in particular country economies. The inflows of FDI is likely to have a positive relation with lower level of regulation environment. Hence, the expansion of bilateral and regional agreements among countries also decline the restrictions on entry and operations opposed the investment of multinational firms (Banga 2003; 1).

Nevertheless, according to Sun (2002; 6), there are restrictions on foreign investment in particular sectors. The host countries have authority to legitimate some business activities, limit foreign investment such as sensitive sectors which foreign firms can only perform in “minority positions or under special conditions”. It is obvious that this kind of government methods limits FDI inflows in some sectors, there are trends of reduction of the restrictive sector as “negative list” in many developing countries.

Banga (2003) studied the effect of “removal of restrictions” on aggregate inflows of FDI into 15 countries of South, East, and Southeast Asian countries from 1980 to 2000. The variables used as removal of restrictions proxies were: the scores of access to industries (the number of restricted industries), restrictions on ownership of foreigner, ease of entry (the need of approval or license to start businesses), and the level of requirement on firm performances which the score are combined for analysis which close to zero means high restrictions. Thus, the high scores of removal of restrictions related to high level of FDI inflows. The results show that the removal of restriction affects the aggregate FDI.

To measure of statutory FDI restrictions, currently, OECD (2010) has calculated the FDI restrictiveness index among OECD and non-OECD countries. It covers four kinds of restrictiveness which are the limitation of foreign equity, the requirements in prior approval and screening, the regulations for key persons of firms who are directors and managers, and other restrictions which mainly related to the requirements in creating “domestic value added” and group of “other” measures. The range of score is from 0 to 1 which 0 means no restrictions and 1 means full restrictions.

Nevertheless, FDI restrictiveness index estimated by OECD does not cover most countries. Thangavelu (2015) calculates FDI restrictiveness index in ASEAN countries following OECD methodology. The study examines the difference between FDI restrictiveness in 2010 and 2014, in which there is the introduction of ASEAN Framework Agreement on Services Eighth Package (AFAS 8) and ASEAN Comprehensive Investment Agreement (ACIA) which it is applied in ASEAN Free Trade Area (AFTA). The study on FDI restrictiveness is estimated in six areas which are foreign ownership or market access, national treatment, screening and approval procedures, board of directors and management composition, movement of investors, and performance requirement. It

considers both regulations: that horizontal commitments apply to all sector and specific commitment which apply regulatory for specific sector. The results show that most countries have more openness on manufacturing but have different level of openness in service sector.

The fifth pull factor studied in the literatures is tax rates. Taxation is usually the compulsory cost that firms have to account for which impedes on their net profits. The differential taxation among countries is regarded as an underlying factor impacting on multinational firms' decision on location of investment (Bénassy-Quéré et al. 2005; 583). As OECD (2008; 1). The policies on taxes can affect the inward foreign direct investment, governments usually implement policies to create "a competitive tax environment" to induce foreign direct investment inflows. According to Cassou (1997), the paper examines the relation between tax rates and US FDI flows into other countries. The results show that corporate tax rates have significantly negative impacts on FDI flows in both host and home countries.

Nevertheless, there is an issue about appropriate level of tax rates which is the question about the effect of taxation on FDI and the estimating results from tax reform which it tends can result in different outcomes (OECD 2008). According to OECD (2008; 2), statutory corporate income tax rates (CIT) is one of the taxes considered in many research (OECD 2008; 2). In another way, some studies also concern on average effective tax rates (AETRs) or marginal effective tax rates (METRs) rather than statutory corporate income tax rates. It is because these two value "incorporate rules determining the percentage of profits that are taxable" (OECD 2008; 2). In term of average effective tax rates, it is the cost of tax payment in average of investment. Meanwhile, marginal effective tax rates concern on margin "on the last unit of capital invested in a given project, where profits are exhausted" of tax payment. Conversely, statutory tax does not consider in term of effective tax rates but which it regards on "taxable profits" rather than real profits of business (OECD 2008; 2).

The study of Bellak and Leibrecht (2009), which investigates on role of tax rates on FDI between seven home economies which are the United States and in the Europe Union and eight countries of Central East European as host countries covering years from 1995 to 2003. The study tests both corporate tax rates and effective tax rates and found out that the bilateral effective average tax rates provide more accurate effects on FDI rather than statutory tax rate. Also, as Grubert and Mutti (2000), the study investigates on the impact of tax rates in host countries on foreign direct investment of 500 US multinational firms. The results present that there is a significant influence of average effective tax on location choice, also, amount of investment.

2.3 Concluding Remarks

Labour cost and infrastructure availability dimensions are considered as traditional FDI pull factors (Biswas, R. 2002). This is also corroborated with:

various studies (Culem 1988; Cheng and Kwan 2000; Kumar 2001; Asiedu 2002; Biswas 2002; Kinoshita and Campos 2003; Van Ark et al. 2005; Moosa and Cardak 2006; Rehman et al. 2011; Kang and Jiang 2012). It is not only labour cost and infrastructure that are key factors of FDI inflows. Also, institutions factor is mentioned in many papers (Bénassy-Quéré et al. 2007; Busse and Hefeker 2007; Brada et al. 2006; Bissoon 2011). In addition, government policies on FDI which reflects on FDI regulation restrictiveness and tax rates can be regarded as the direct policy on FDI which are used in various studies and created measures to investigate the impact on FDI inflows (Grubert and Mutti 2000; Banga 2003; Bénassy-Quéré et al. 2005; OECD 2008; Bellak and Leibrecht 2009).

Chapter 3 Background on FDI in Thailand

3.1 Introduction

The present chapter aims to provide the reader with some background information of the Thai economy, the history and role of FDI flows into the economy, and government policies towards FDI flows. The purpose of all of this is to put into context the analysis of the determinants of FDI flows which follows.

3.2 An overview of the development of the Thai economy

Until the 1960 Thailand was essentially an agricultural economy, whose main export product was rice (Wiboonchutikula 1987; 1). It is in the 1960s that a remarkable structural change began, which pushed Thailand towards industry and manufacturing. The push for this came in the form of a government sponsored import-substitution development strategy. This strategy followed the well-known path of high tariff barriers to protect domestic products (Wiboonchutikula 1987; 1) along with infrastructure development, including an improvement in the transport system (Hirono 1987; 18). Spear-heading the strategy was the so-called Industrial Promotion Act (1960), which sought to promote private enterprises instead of state enterprises, and the first national development plan (Siriprachai 1998; 1). Along with this the Board of Investment of Thailand was established in 1966 (BOI, n.d.).

The limited size of the domestic market resulted in the abandonment of the strategy by the early 1970s and a shift towards an export-oriented development strategy. To mark the shift, the Thai government introduced the Export Promotion Act in 1972 which sought to encourage exports by providing exporters with tax and other incentives (Hirono 1987; 18). Manufactured exports grew rapidly, from 25 percent of the total value of exports in 1970 to 65 percent by 1980 (Wiboonchutikula 1987; 2). The main growth sector in this period was garments and textiles (Hirono 1987; Siriprachai 1998). One problem was that Thailand had not fully abandoned its import-substituting strategy, and the two strategies came into conflict with one another (Hirono 1987; Wiboonchutikula 1987).

Aside from garments the other manufactured products produced included chemicals, machinery, and transport goods (Wiboonchutikula 1987; 2). In the early 1980s, the government tried to diversify the economy further, by attempting to develop its own energy sources in the form of a large-scale gas project (Wiboonchutikula 1987; 2). Nevertheless, in the early 1980s the Thai economy was only semi-industrialised. In fact, it was still largely agricultural with 70 percent of labour in the agricultural sector and the sector accounting for a higher percentage of GDP than manufacturing (Hirono 1987; 19). This slow progress led to the government attempting to expand the manufacturing export base of

the economy more rapidly in the fifth national plan (Hirono 1987; 19) with an increased emphasis on FDI flows.

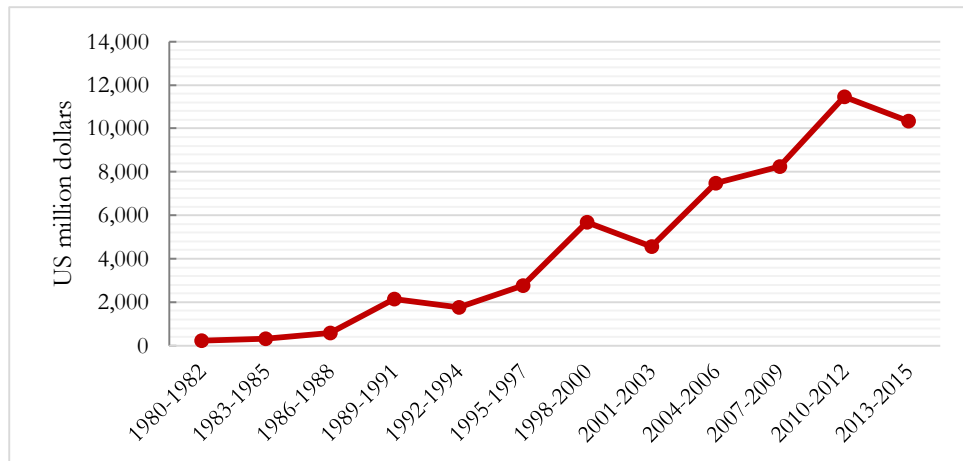
The Thai government sought to encourage FDI flows through tax incentives, exemptions from all manner of import duties on machinery and raw materials. The promotions by tax incentives covers “exemption and reduction” on import duties of ‘machinery and raw materials, and, tax holidays. There were also non-tax incentives which allowed foreign employees on projects to remit salaries (Sosukpaibul 2007; 130-131). For its part, the BOI encouraged ‘industrial and technology development’, research and development, “basic transportation networks, public utilities, and environmental protection systems” (Sosukpaibul 2007; 130). BOI adopted policies to encourage and diversify investments geographically, including in areas outside the capital city, Bangkok (Sosukpaibul 2007; 81). Investment Promotion Zones were located outside of Bangkok and received further intensives (Sosukpaibul 2007; 131).

The emphasis on FDI flows has continued in the New Five-Year Investment Promotion Strategy for 2013 to 2017 (BOI 2013), The new emphasis is on new projects, projects involving advanced technologies, “Thainess” and local resources based businesses, and global chain value industries. The aim is to develop the country’s competitiveness rather than provide yet more tax incentives.

3.3 FDI flows into Thailand

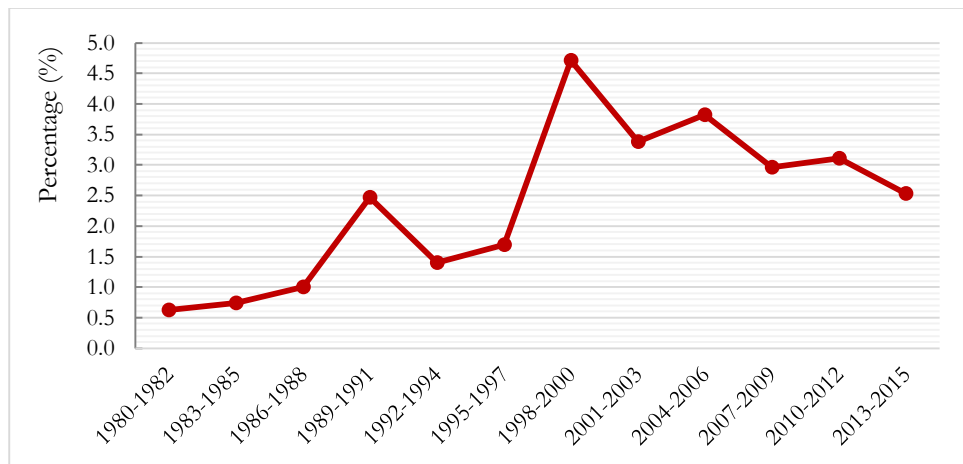
According to Chareonporn (2015), inward FDI in Thailand increased significantly in the middle of the 1980s. In 1986 to 1996, after the expansion of international trade and the increase of trade liberalisation, Thailand became export based in production which needed intensive labour. As figure 3.1 shows, the trend of FDI increased significantly after the Plaza Accord in 1986, along with higher liberalisation on international trade. The devaluation of the Thai baht after the Asian financial crisis in 1997 and the deregulation impacted considerably upon the rise of FDI inflows in 1998 (Chareonporn 2015; 3). As figure 3.2 demonstrates, the inward FDI to GDP in percentage increased significantly after 1986. Indeed, FDI increased considerably in Thailand especially after financial crisis in 1997.

Figure 3.1 Inward FDI flows into Thailand at current prices (1980-2015)



Source: UNCTAD

Figure 3.2 FDI to Percentage of GDP in Thailand (1980-2015)



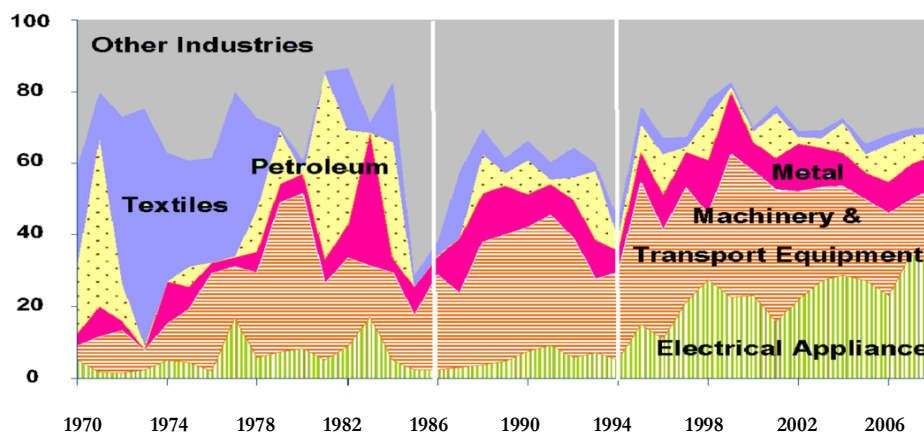
Source: UNCTAD

According to Chantapong et al. (2015; 2), after the global financial crisis period of 2009-2012, the FDI to GDP rate of Thailand was about 2.2 percent. It was below the period before the financial crisis which was around 3.6 percent. The high level of FDI after the Asia financial crisis in 1997, is because of the merger and acquisition in the financial and bank sectors. As Santiprapob (2015) states, even though there was an increase of flows of investment after Thailand's great flood in 2011, in the first three quarters of 2012, the expenditure for machinery damaged from flood and the investment from private investors have not increased at a high level.

Foreign direct investment created the change of Thai industry structure, as Chareonporn (2015; 4-5) argues. Thailand had been invested mostly from the United States, Japan, and European countries. However, the occurrence of the Plaza Accord shifted the trend of investment. FDI from Japan, Singapore and Hong Kong increased the investments in the manufacturing sector. The first period reflected a high intensity of labour and then developed capital goods and

intermediate products. The trends of FDI in manufacturing pushed the Thai economy from an agricultural based economy to be an industrial based economy. It developed to import-substitution production. This required high intensive labour to be export-oriented and used technology. The manufacturing of electronics and machinery, automobile and automobile parts become underlying industries in Thailand. Even though these industries need less local resources and high intensive labour, it still needs FDI and advanced technology from abroad. As figure 3.3 demonstrates, there is an overall trend of the evolution of Thailand's economy structure.

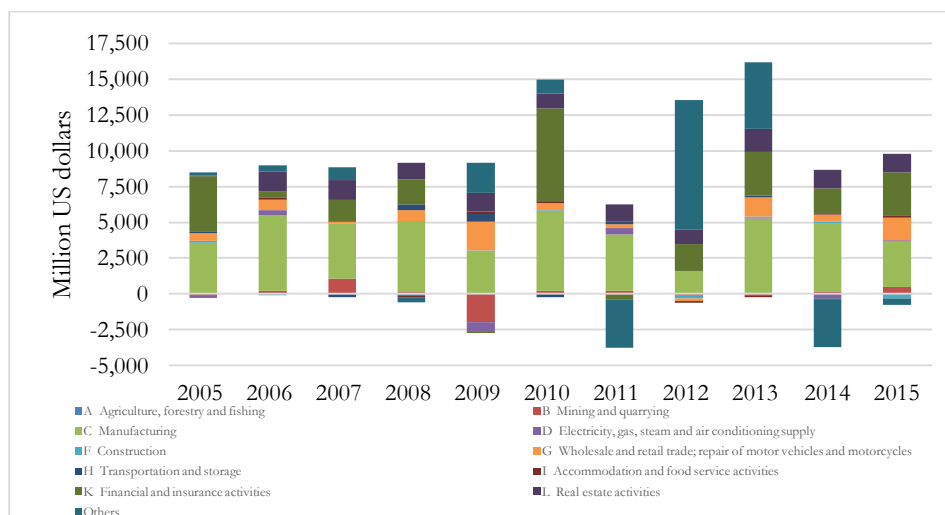
Figure 3.3 Share of FDI in different industrials (1970-2006)



Source: Chareonporn (2015)

As figure 3.4 shows, in a recent 10-year period the FDI manufacturing was the main sector of Thai inward investment, excepting for after the financial crisis in 2008-2009 which FDI on financial and insurance activities flowed to Thailand. Also, the positive increase of the others category improved after Thai great flood in 2011.

Figure 3.4 FDI inflows in Thailand categorised by business sector of Thai enterprises (2005-2015)

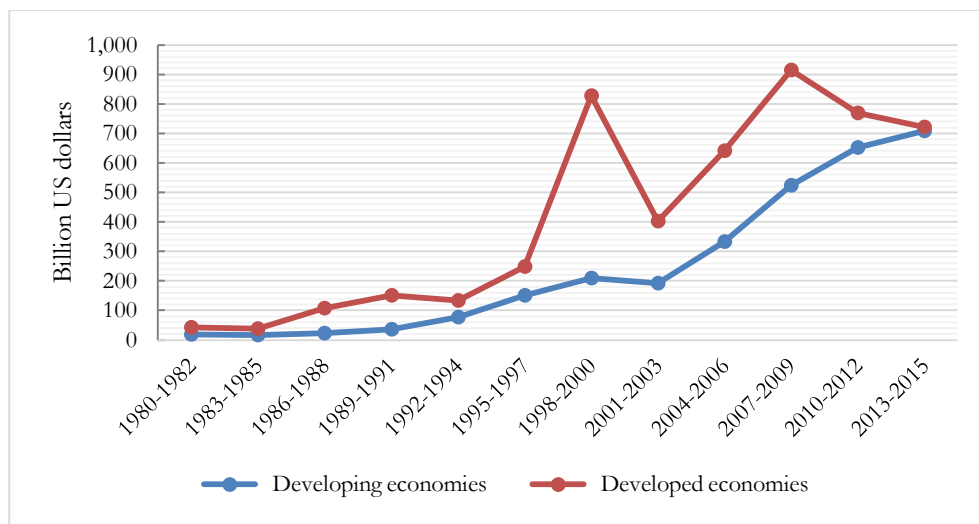


Source: Bank of Thailand

According to the UNCTAD database on foreign direct investment, the trends of inward FDI flows in the world can be divided by developing and developed countries. Such a presentation results in the divergence of flows in developing and developed economies (Figure 3.5). Even though World Investment Report by UNCTAD (2016; x) points out that in 2015, inward FDI flows into developed countries doubled from 2014, to a level of 962 billion US dollars to share as 55 percent of global FDI, the developing economies in Asia also faced the constant increase of inward FDI flows.

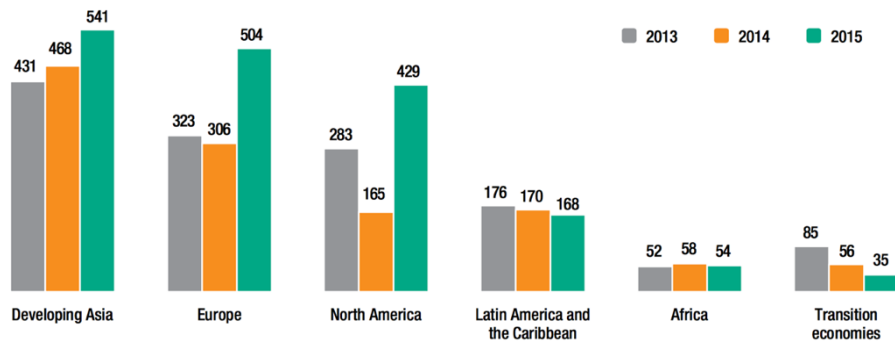
In 2015, World Investment Report 2016 indicates that Developing countries in Asia continues to be the largest recipient region of FDI in the world, compared to Africa Latin America and Caribbean. It results in the remaining of Asia’s developing countries being the largest FDI recipient region in the world. It is the new record that developing economies in Asia has raised the FDI inflows to 541 billion US dollars as a new record (UNCTAD 2016; x-xi). As figure 3.6 highlights, the increase of FDI flows in Developing Asia is distinguished from other developing regions. Even though the total inward FDI increases among developing countries around the whole world, it is mainly because of the increase FDI inflows in Asian economies. Conversely, the investment in Africa dropped at 7 percent, which is 58 billion US dollars in 2015 compared to a previous year in which the Latin America and Caribbean countries fell down at 3 percent (168 billion US dollars), and transition countries decreased at 38 percent (35 billion US dollars) (UNCTAD 2016; 4).

Figure 3.5 Inward FDI flows at current prices in Developed and Developing countries (1980-2015)



Source: UNCTAD

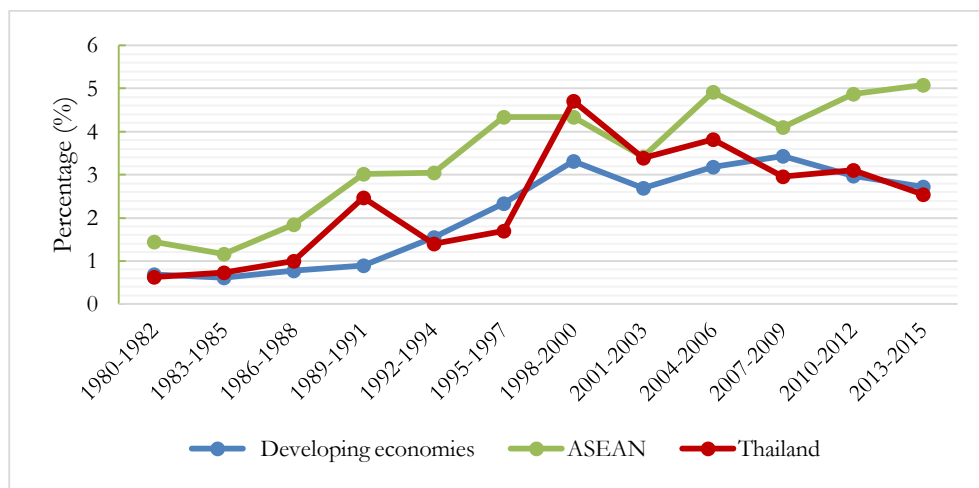
Figure 3.6 FDI inflows by region in billions of US dollars (2013–2015)



Source: World Investment Report 2016 based on UNCTAD FDI/MNE database

In ASEAN, even though inward FDI flows dropped by 8 percent which is highlighted in a decrease from 130 billion US dollars in 2014 to 120 billion US dollars in 2015 (UNCTAD 2016; xv), ASEAN countries remained a main FDI recipient with 16 percent of FDI flowing into the developing economies (UNCTAD 2016; 3). As figure 3.7 shows, the FDI to GDP as a percentage of ASEAN has increased trends. Developing countries have minimal decreases of FDI to GDP ratio in percentage. Meanwhile, Thailand has decreased trends in recent years.

Figure 3.7 Compared FDI inflows to GDP as a percentage between Developing economies, ASEAN, and Thailand (1980-2015)

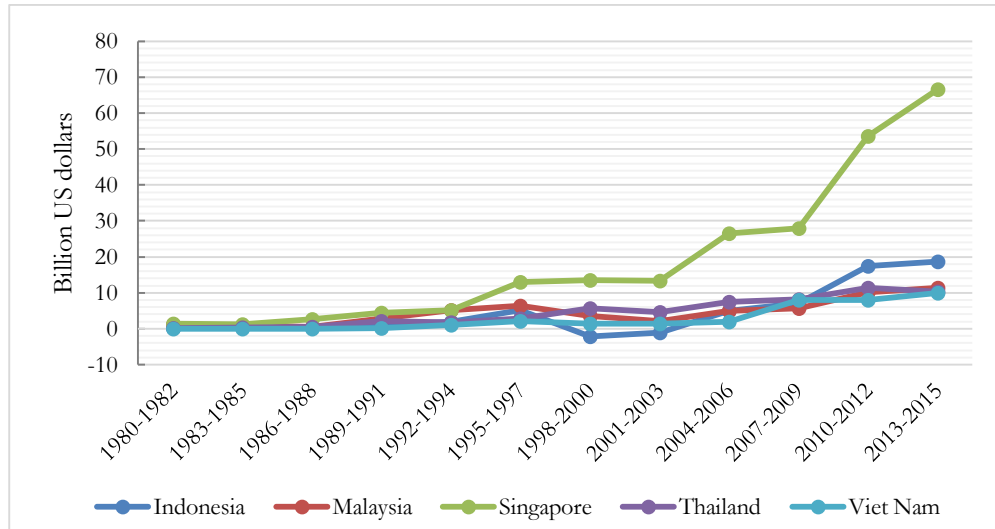


Source: UNCTAD

Regarding the trends among ASEAN countries, as figure 3.8 shows, the top 5 FDI recipient countries in ASEAN which are: Indonesia, Malaysia, Singapore, Thailand, and Vietnam. In recent times, the amount of FDI in most countries has reflected an increase-trend even though there was a drop after the financial crisis 2008/2009 period. Also, the figure shows that Singapore has allocated the highest amount of FDI per capita compared to other countries. In

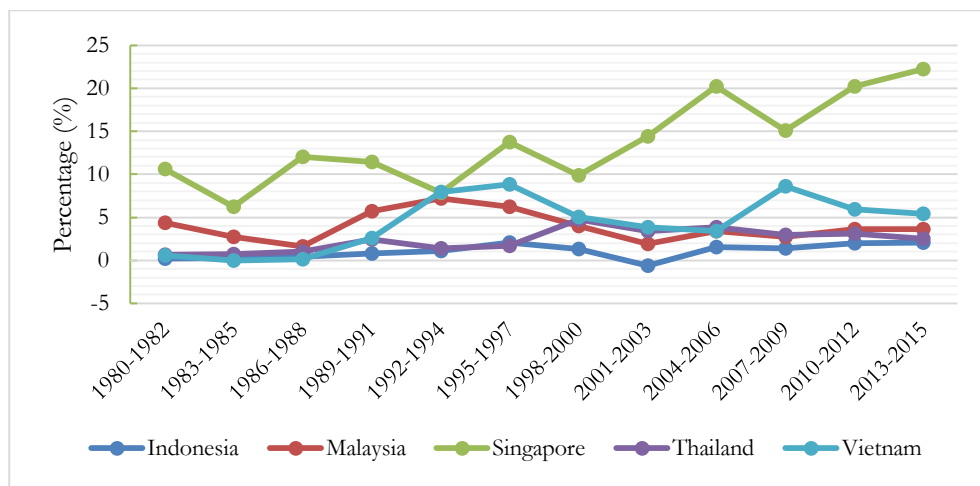
addition, according to figure 3.9, FDI inflows to GDP as a percentage, which removes the effect of market size shows that there is a downward trend in Thailand after the financial crisis. Meanwhile, the most of the countries have experienced upward trends. Even though Vietnam's FDI to GDP has dropped recently, it is still at a high level after the 2004-2006 period.

Figure 3.8 FDI inflows at current prices in selected countries (1980-2015)



Source: UNCTAD

Figure 3.9 FDI inflows to GDP as a percentage in selected countries (1980-2015)



Source: UNCTAD

3.4 Policies with respect to FDI in Thailand

National development plan and foreign investment promotion

The large encouragement in foreign investment from the Thailand national plan is mostly in the first national development plan to the seventh national development plan. The first plan (1961-1966) promoted private investors

to encourage industries and development in country which it results in an increase of private investment significantly. The amount is three times of total public investment (NEDB 1967; 4). After the implementation of the first plan, it resulted in an expansion of agriculture-based industries and manufacturing industries as part of import-substitution investment (NEDB 1967; 6-7). It was along with the development of infrastructure like: railway, air transport, and port improvements (NEDB 1967; 6-7). In the second national plan (1967-1971), the growth of private investment remained encourage (NEDB 1966; 2). Additionally, the foreign investment and domestic investment through the Board of Investment tended to improve the facilities for private investment (NEDB 1966; 6).

In the third national plan (1972-1976), government has encouraged export-oriented investment in both agriculture and industrial products. The investor has benefited from the government (NESDB 1971) and “unnecessary” import reductions by adopting tax measures and duties of imports (NESDB 1971; XII). The main industries were encouraged to promote; “utilizing local labour and raw materials, support balance of payment, located in rural areas, heavy industries” (NESDB 1971; XIII). The evaluation found that the growth of “industrial production” and exports was higher than targets (NESDB 1996; 7). The manufacturing sector expanded at 6.8 percent during the third plan which less than the second plan which is at 11.4 percent due to economic recession in 1974 (NESDB 1996; 8).

In the fourth plan (1977-1981), the government encouraged the growth of export industries like sugar, textiles and cement, and agro-industries (NESDB 1996 ;31-32). Also, the development of heavy industries such as: “steel, petrochemical, and chemical industries (NESDB 1996; 32). Also, in this plan, the government invested in other regions out of the capital area (NESDB 1996; 40). The fifth plan (1982-1986) witnessed the decrease of import dependence, promote exports and expand the industrial to provincial area. In this regard, the government plans to invest in the eastern seaboard project in eastern provinces of Thailand (NESDB 1981;10).

It continued in the sixth plan (1987-1991) which government promote the large-scale industries investment in new economic area which is the eastern seaboard development (NESDB 1986;10). In the seventh (1992-1996) plan, the State continues to encourage foreign investment and the development of industrials by encouraging private investor play leader role (NESDB 1991; 13). Also, this plan encouraged the industry investment in industrial zones, particularly in the eastern seaboard project area and the upper central region (NESDB 1991;15).

It can be seen that the government strategies between the first to the seventh plan has encouraged foreign investment, especially in industries which transforms Thailand’s economic structures from agriculture to industries.

Investment Promotion Act in Thailand

The first investment promotion law in Thailand was introduced in 1954 after the decline of income on rice exports, which affected the balance of payment deficit. The Industrial Promotion Act B.E. 2497, 1954 emerged after government decided to reduce its role in domestic investment and promote investment from private sector instead of state-owned enterprises. Hence, foreign enterprise was encouraged to invest in Thailand and assure to repatriate their profits. Nevertheless, the first investment law was not successful in promoting private investment since only 6 projects were approved out of only 9 projects application, it is because the Act. was not clear and the process was complicated that the Thai government revised the Act. The Promotion of Industrial Investment Act in 1960 provides extended tax exemption incentives from 2-5 years to 5 years. This occurred alongside the establishment of the Board of Industrial Investment (BOI, n.d.).

In 1972, the National Executive Council Announcement No.227 was launched which introduced the incentives of the oriented-exports businesses and investment in regional zones for businesses. Also, this law deleted the word “industrial” from the name of ‘the Board of Industrial Investment’ to be ‘the Board of Investment’ because the government intended to extend the focus not only for the promotion for manufacturing industrials but also covered agriculture, mining, and services (BOI, n.d.). The revised investment promotion law was in 1977, and called the Investment Promotion Act B.E. 2520 (1977). This Investment Promotion Act, 1977 involves the Prime Minister and the Ministry of Industry who are assigned as the chairman and the vice chairman of the Board of investment.

The current investment law is heralded by the Investment Promotion Act, 1997 amended by the Investment Promotion Act (No.2) B.E. 2534 (1991) and the Investment Promotion Act (No.3) B.E. 2544 (2001) (BOI, n.d.). The current investment promotion law provides investment incentives which mainly covers the benefits on tax exemption for machinery imports, the tax exemption for income tax maximum 8 years, the permission to bring foreign nationals who are skilled worker and experts into country, the permission to own lands which used for activities approved as investment promotion from board of investment. Also, the special incentives are provided for investment in locations or zones especially in regional areas: the oriented-export enterprises which receive exemption for imports of the materials, re-exports products and exemption of exports on produced commodities. In this Investment Promotion Act, the government guarantees to not nationalize the businesses, introduce the new business to compete, not monopolize the same type of commodities produced by investment promoted person, not enforce the price of products excepting in the case of economic and social necessary and security of country (Government of Thailand 2002).

There is the improvement of policy toward FDI investment through the development of Investment Promotion Acts which has amended by the new Acts several time. It shows that Thai government has encouraged the investment from outside countries through times. It reflects the intentions and the important of inward FDI to Thai economy.

Tax Policy

Regarding tax rates incentives provided, in Thailand, as the Department of Revenue (2015), foreign firms which do the business in Thailand should pay 20 percent of corporate income tax on profits derived in Thailand (accounting periods 2015). In the case of operating the regional headquarters and the bank deriving profits from Bangkok International Banking Facilities (BIBF), the company must pay a tax rate of 10 percent of profit. With regard to tax incentives, as Investment Promotion Act (BOI 2016), Thailand provided tax incentives for the specific type of businesses which the business related to high knowledge-value and technology. Indeed, such companies can gain a tax-exemption of corporate income tax for a maximum of 8 years. Also, some specific types of businesses, particularly high knowledge-value and technology can obtain additional 5-year 50 percent deduction of corporate income tax, double deduction for transportation cost, electricity and water supply, and additional deduction of facilities improvement cost.

Thailand FDI regulatory restrictions

Thailand has restrictiveness on some businesses which are identified in the Foreign Business Act of 1999 and Activities Restricted to Thai Nationals (BOI 2015). The restriction lists are categorised into 3 groups which include the lists of activities that foreign investors are not allowed to embark upon.

Firstly, the list 1 is the list of activities that foreign nationals are completely not allowed to do. Businesses in these activities are forbidden due to special reasons. The businesses lists are included to cover: the media businesses which relate to newspaper, radio and television business, farming and animal husbandry, forestry in natural forests, fisheries in Thai water boundary, businesses in extracting Thai herbs, trade on Thai antiques assets, business related to Buddha images and alms bowls, as well as land trades.

Secondly, in list 2, it comprises 3 sub-groups. The businesses categorised in this group are concerned with national security such as the production of firearms and military equipment, the business that is possible to have effect on art and culture which mainly related to Thai handcrafts, and also effect on natural resources or environment. In this list, it mainly covers the products of cane sugar, salt, mining, and timber furniture. In this second list, the foreign investor can invest in the businesses categorised in this group. However, it requires the foreign investor to apply for obtaining the approval from the cabinet to operate the business in Thailand.

Thirdly, the list 3, it mentions on the businesses that Thai enterprises are not ready to compete with foreign enterprises. There are various businesses in the list that mainly are in high skilled activities and service sector such as accountancy, legal services, architecture, engineering, advertising, hotel operation, and tourism. To receive the approval on the list 3, foreign investors need to receive Foreign Business License from the approval of the Department of Business Development, Ministry of Commerce.

Even though Thailand has encouraged the foreign investment, there are many businesses that remain reserved for Thai nationals. It can be seen that these negative lists can obstruct the inward FDI flows into Thailand. If other countries have more openness on FDI regulatory restrictions than Thailand, their ability to stimulate economic growth may be more pronounced.

3.5 Concluding Remarks

Thailand has achieved a significant increase of inward FDI from the mid-1980s. It was along with the import-substitution and oriented-export regimes, that foreign investment thrived. Thailand's Industrial Promotion Act in a relatively early period, followed by the revised investment law typified by the Investment Promotion Act, has developed. The Thai economic structure has changed from an agriculture-based economy to an industrial-based economy.

Nevertheless, Thailand has attained a recent decline in trends of inward FDI. Other ASEAN nations exhibit an upward trend of FDI inflows to GDP. It reflects that Thailand has lost the competitiveness in attracting FDI compared to other countries in ASEAN, particularly among the 5 top FDI recipients in ASEAN. In this regard, the investigation on the FDI pull factors should be introduced to find the explanations of the decrease of inward FDI in Thailand in Chapter four as an analysis section.

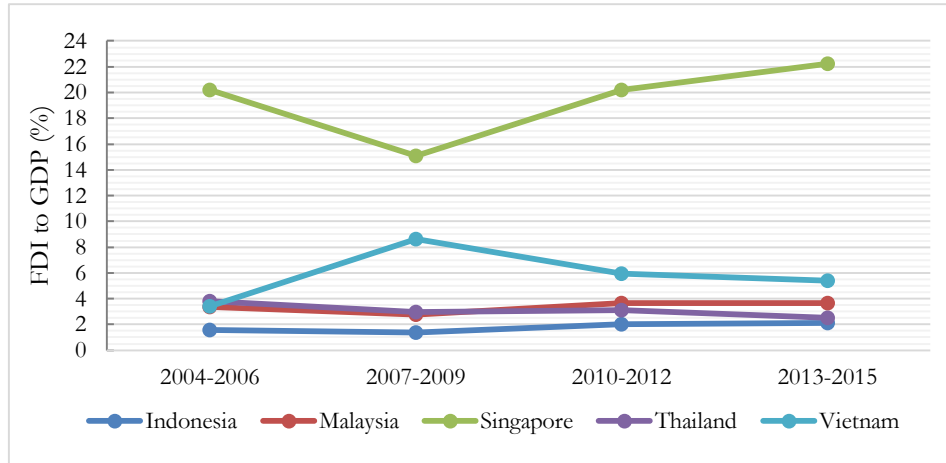
Chapter 4 Empirical Data Analysis

4.1 Introduction

In this chapter, the study will examine the main pull factors that emerged from the literature review. These factors are relative labour costs, infrastructure, the quality of institutions, the regulatory environment, and tax rates. The assessment of the significance of these factors in explaining the relative poor performance of Thailand in attracting FDI in recent years will be done by means of exploratory data techniques for reasons given earlier. The data are drawn from both national and international sources. The countries which Thailand is compared with are four other South East Asian countries; Indonesia, Malaysia, Singapore, and Vietnam. The time period of study is 2004-2015, which is the period during which relative FDI flows to Thailand fell most sharply. It needs noting that there are serious limitations with regard to available data for some of the variables being considered in this chapter.

As shown in the preceding chapter Thailand experienced a slowdown in FDI flows taken as percentages of GDP in the period 2004 to 2015, especially when compared to other ASEAN countries. The relevant data are presented in Figure 4.1. These data show firstly that Singapore has been by far and away the best performer among the 5 countries under consideration, notwithstanding a fall in inflows during the recent global financial crisis. The inflows to Singapore are large both in absolute and relative terms – relative to GDP. Indeed, relative to GDP. The data also show that Vietnam is the second largest FDI recipient in relative terms among of five countries. Over the period under consideration FDI flows have more than doubled as a percentage of GDP, although they have fallen somewhat more recently. Malaysia and Indonesia have experienced similar, though less pronounced, increases, with Thailand, along with Indonesia, attracting the smallest flows in relative terms, but unlike Indonesia, experiencing a declining trend in these flows.

Figure 4.1 FDI as a percentage of GDP in selected countries (2004-2015)



Source: UNCTAD

4.2 Causes

The question is, what could be the causes of this poor performance. I will concentrate on the pull factors since it is clear that as a whole, the region has been attracting a growing amount of FDI flows (see chapters 1 and 3).

Labour cost

To study the impact of relative labour costs I will use relative unit labour costs, noting in passing that this has not been used by many other studies (see chapter 2). The relevant data are obtained from OECD with the computation of unit labour costs following the computation found in Abeysinghe and Chen (1999). The formula they use is;

$$ULC = \left(\frac{ULC_{nc}}{E} \right) \quad (1)$$

$$ULC_{nc} = \left(\frac{LC_{nc}Emp}{GDP} \right) = \left(\frac{LC_{nc}}{LabourProductivity} \right) \quad (2)$$

Where ULC = unit labour cost, nc indicates unit labour cost values in national currency, E = nominal exchange rate in terms of national currency units per US dollar, LC = nominal labour cost per employee, Emp = total employment, and GDP is in real terms.

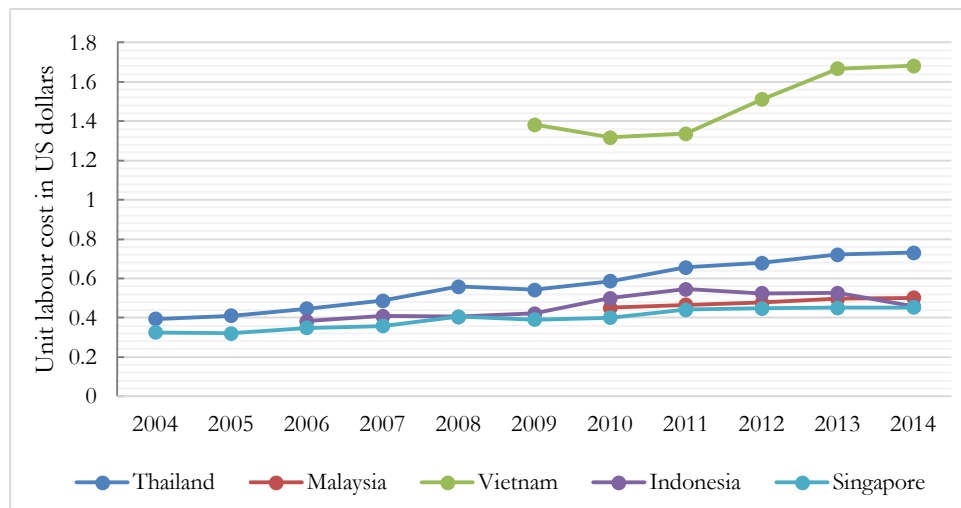
Even though it is recognised that labour costs include both wage and non-wage items such as social contribution, I will use wage costs as the proxy of labour costs since it can be assumed that the wage is the main part of the labour cost. The data on wages is average monthly wages and number of employed workers is derived from national and international sources which including; the National Statistical Office and Central Bank for Thailand, the Department of Statistics for Malaysia, Statistics Indonesia and International Labour Organisa-

tion for Indonesia, the General Statistics Office for Vietnam, and the Department of Statistics for Singapore. Unfortunately, the time periods for which the data are available varies. The wage rates are made equivalent to one another using the dollar exchange rate.

The labour cost data (figure 4.2) shows that Thailand's unit labour cost is consistently higher than that for Singapore, Malaysia, and Indonesia over the period 2004 to 2014. Although unit labour costs in Singapore increased over the period, it has consistently had the lowest unit labour cost with the exception of 2008 when that of Indonesia was marginally lower. Although Malaysia and Indonesia also experienced increases in unit labour costs over the 2004-2014 period, their labour costs remained relatively low. The odd one out is Vietnam. The data on Vietnam suggests that its labour costs have been much higher than those in the other four countries, without showing any appreciable signs of converging with these. One mitigating factor for Vietnam is the fact that its wage rates are the second lowest among the five countries (figure 4.3). It is of note here that Thailand's wage rate is the second highest.

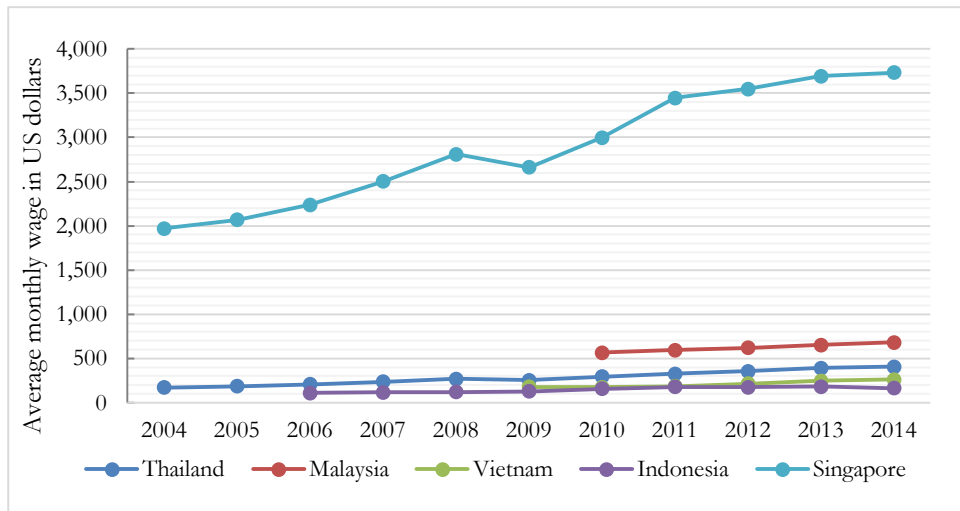
The implication of these data is that relative unit labour costs, and especially relative wage rates, do appear to have some bearing on FDI flows. Thus, it can be seen that Thailand not only has the second highest level of unit costs among the five countries, these costs have been rising relative to all the other countries, except for Vietnam, which has also experienced a fall in relative FDI flows in recent times.

Figure 4.2 Unit labour costs among five selected countries (2004-2014)



Source: Calculated by Author

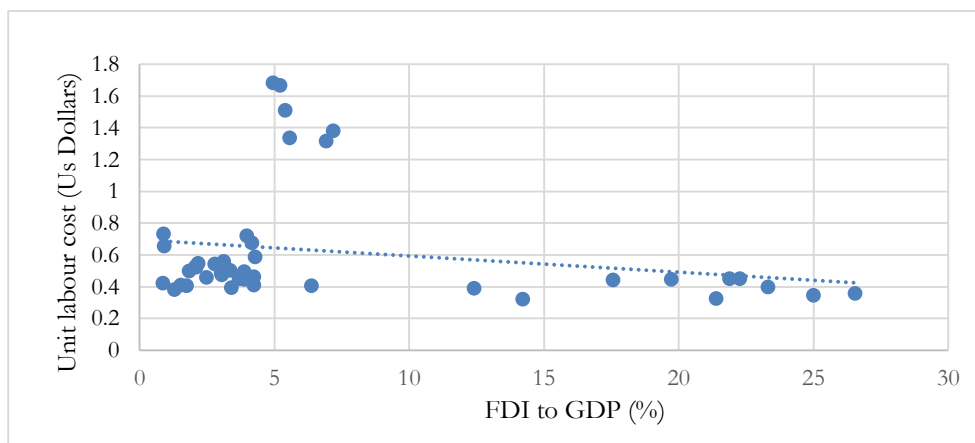
Figure 4.3 Average monthly wage (2004-2015)



Source: Calculated by Author

A scatter plot of the relation between unit labour costs and FDI as a percentage of GDP is provided below to shed further light on the hypothesised relation significance of labour costs as a pull factor. If one ignores the outliers in this scatter, there appears to be something of a strong negative relationship between the two variables, suggesting that Thailand's relatively high unit labour costs (and wage rate) may have had a considerable role to play in the downward trend in FDI inflows. Certainly this finding is consistent with those of a number of studies discussed in the literature review, which arrived at similar conclusions using econometric techniques.

Figure 4.4 Scatter plot of unit labour cost and FDI as a percentage of GDP



Source: Calculated by Author

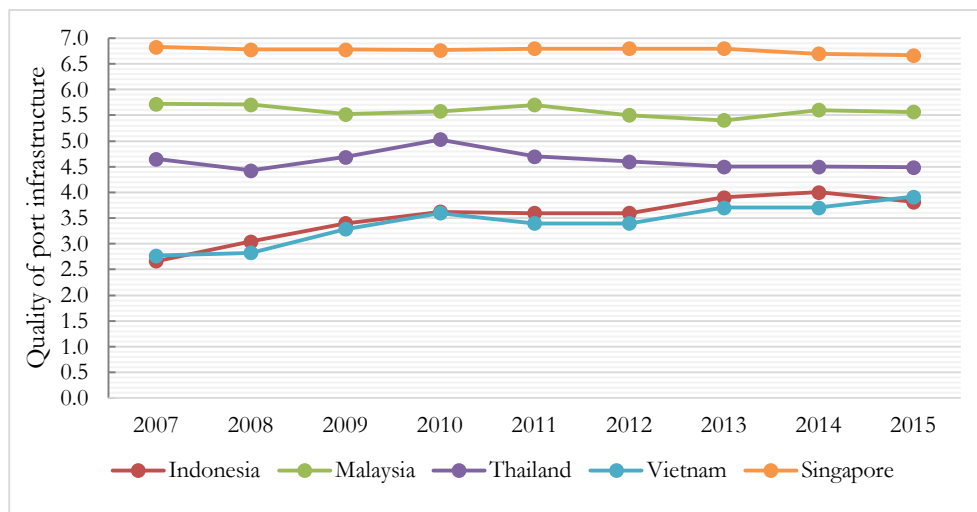
Infrastructure

To examine the importance of infrastructure as a pull factor data on the 'quality of port infrastructure' from the World Bank (World Development Indicator) is used as the proxy variable. Aside from the fact that other studies have used a similar variable to test the importance of infrastructure as a pull factor, it

would seem logical that transport infrastructure is among the most important of the general infrastructure developments in a country attracting FDI. If nothing else, it can have an important bearing on costs to the direct producer. The indicator is an index number that ranges from 1 to 7, with 1 being “extremely underdeveloped” and 7 being “well developed and efficient”. The surveys were collected from business executives’ perception of port facilities which were collected through online interviews and surveys, with the results weighted by sector. One problem with these data is that they are only available for the period 2007 to 2015. Given this limitation, there is still some useful information to be derived from the data.

The results show that Thailand’s quality of port infrastructure is lower than Singapore and Malaysia, but superior to that of Indonesia and Vietnam (figure 4.5). However, in comparison with Indonesia and Vietnam Thailand’s port infrastructure has been deteriorating. Indeed, it appears to have the largest deterioration in its port facilities among the 5 countries.

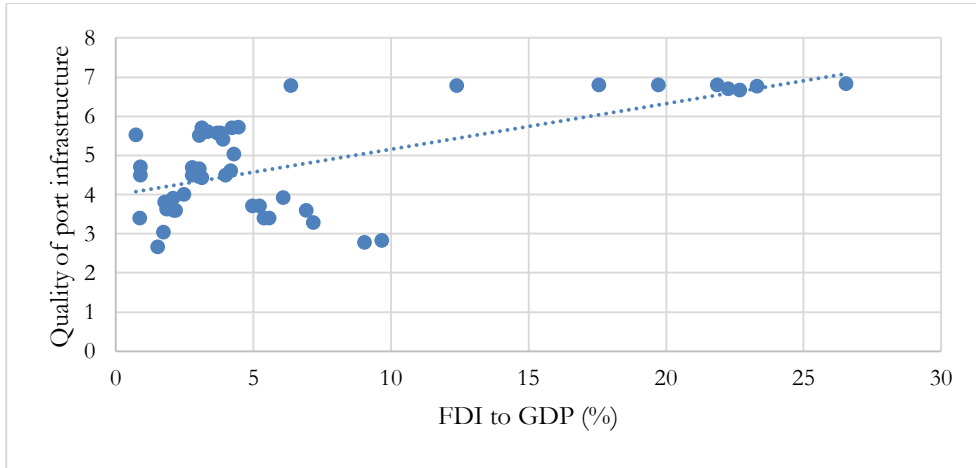
Figure 4.5 Quality of port infrastructure (2007-2015)



Source: World Bank (World Development Indicators)

A scatter plot of the quality of port infrastructure to FDI as a percentage of GDP affirms the strength of the relationship between the two variables (see Figure 4.6) and confirms the view arising from the earlier data analysis that quality of infrastructure may have added to the negative impact of relatively higher unit labour costs on FDI flows, also confirming the evidence on this variable found in the literature.

Figure 4.6 Scatter plot of quality of port infrastructure to FDI to GDP as a percentage



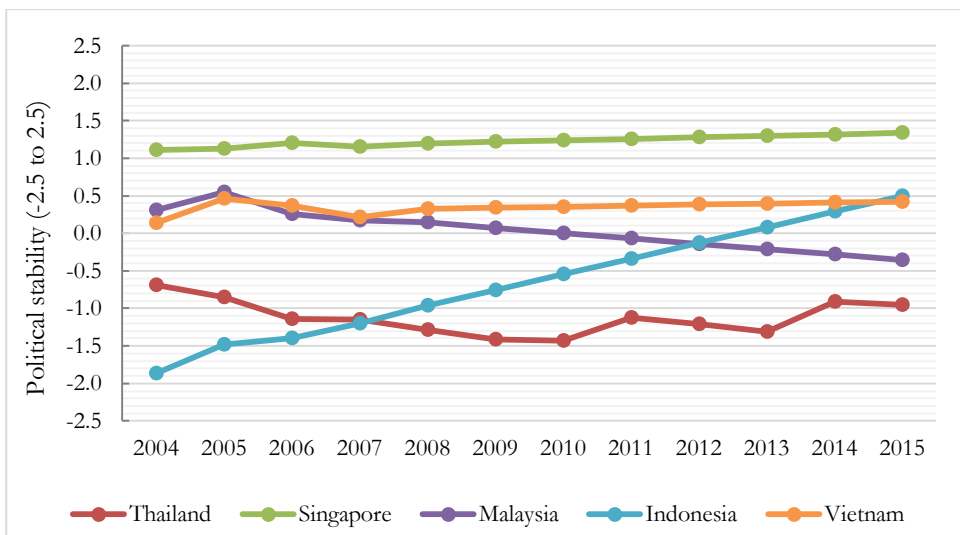
Source: Calculated by Author

Institutions

The institutions considered most important in the literature are, on the one hand, political stability and an absence of violence/terrorism, and, on the other hand, the control of corruption (see chapter 2). Data on these are provided in the World Bank's Worldwide Governance Indicators database. The data covers period 2004 to 2015. Both indicators have values from -2.5 to 2.5.

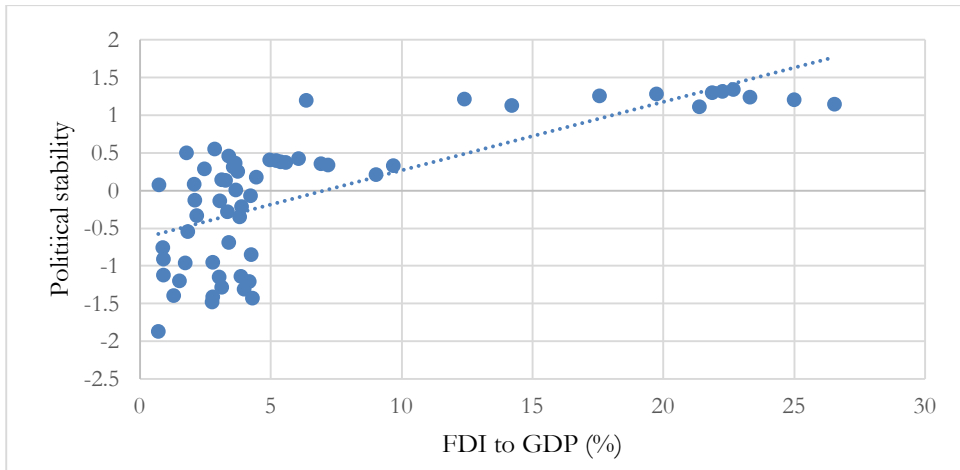
The indicators are plotted in figures 4.7 to, and including, 4.9. It may be seen from Figure 4.7 that Thailand comes bottom in terms of political stability, although there is some improvement from round 2010. The corresponding scatter plot does not however suggest a strong relationship between political stability and FDI flows. Of note is the high level of stability in Vietnam and the considerable improvement in that of Indonesia.

Figure 4.7 Political stability and absence of violence/terrorism (2004-2015)



Source: World Bank (Worldwide Governance Indicators)

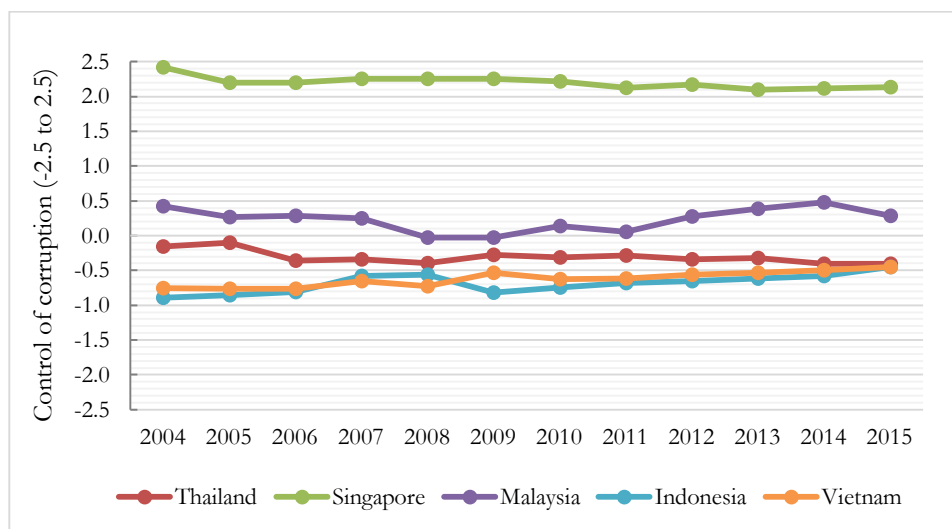
Figure 4.8 Scatter plot of political stability and absence of violence/terrorism to FDI to GDP as a percentage



Source: Calculated by Author

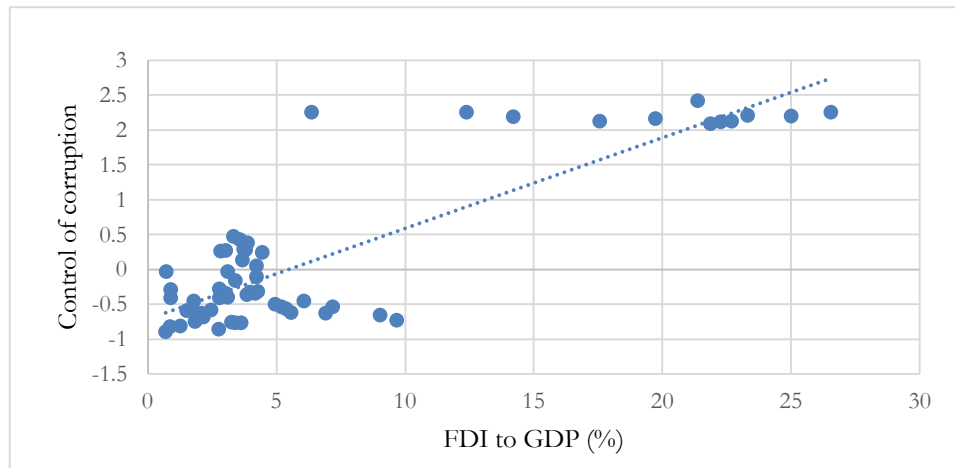
Thailand does somewhat better when it comes to the corruption indicator (see Figure 4.9), although even here the trend is downwards, with the index being similar to the lowest countries among the five; Vietnam and Indonesia. Although the scatter plot of the relationship between corruption and FDI flows is also not particularly convincing, it is somewhat more convincing than that between political stability and FDI flows.

Figure 4.9 Control of corruption (2004-2015)



Source: World Bank (Worldwide Governance Indicators)

Figure 4.10 Scatter plot of control of corruption to FDI to GDP as a percentage



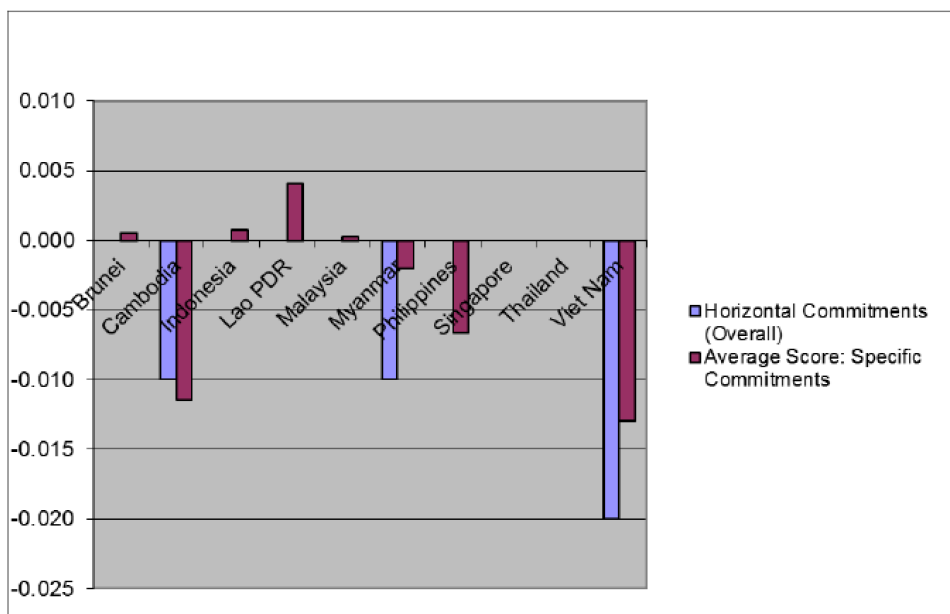
Source: Calculated by Author

Regulatory Restrictiveness

The literature suggested that there is no consensus as to the best indicator of regulatory restrictiveness, hence the use by different authors of a wide variety of proxies, with results differing between studies as a result of this divergence. One variable frequently used is a FDI restrictiveness index. Unlike the previous sections, in this section I will not directly look at secondary, but rather a study that looks at this data - Shandre Mugan Thangavelu (2015).

The first piece of evidence of note is the change in FDI restrictiveness from 2010-2014 for the five countries under consideration. These data suggest that Thailand has not tightened increased FDI restrictions in recent times, certainly not relative to other countries in the region.

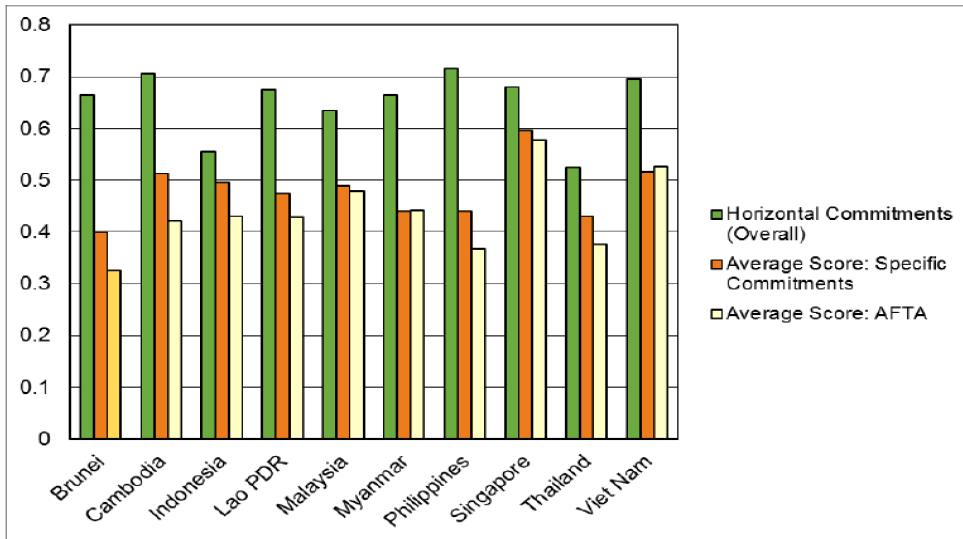
Figure 4.11 Changes in FDI Restrictiveness Index between 2010 and 2014



Source: Thangavelu (2015)

At the same time Figure 4.12, which shows the overall restrictiveness for the several countries in the Southeast Asian region in 2014, not only the 5 considered above, puts Thailand near the bottom for overall horizontal commitments and similar to Indonesia, Malaysia, Singapore and Vietnam for specific commitments under AFTA.

Figure 4.12 Overall FDI Restrictiveness Index in 2014

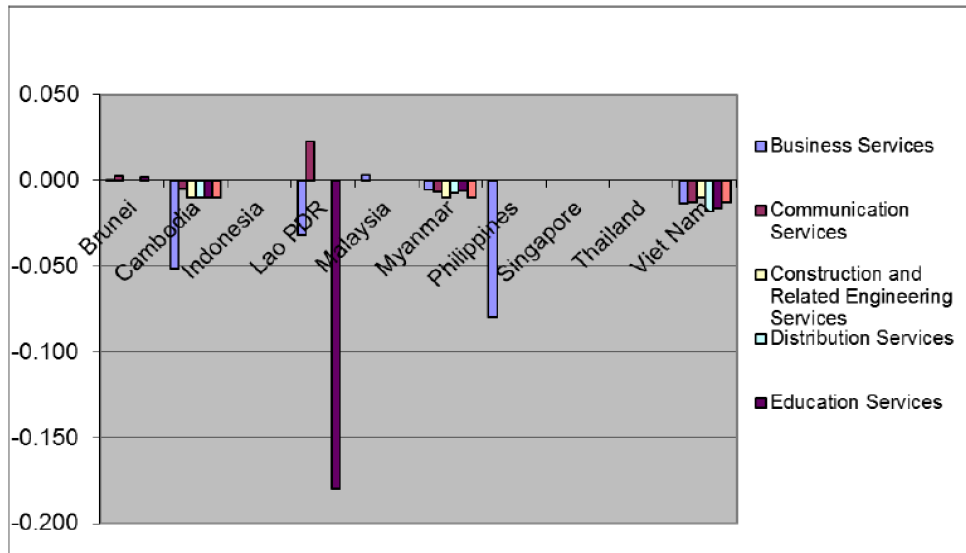


Source: Thangavelu (2015)

Figure 4.13 and 4.14, extend this analysis sectorally and show that while Singapore and Thailand have not changed their regulations related to FDI openness between 2010 and 2014 other countries have loosened them. Thus, Malaysia has loosened them in the services sector and Indonesia in the manufacturing (pharmaceutical) sector.

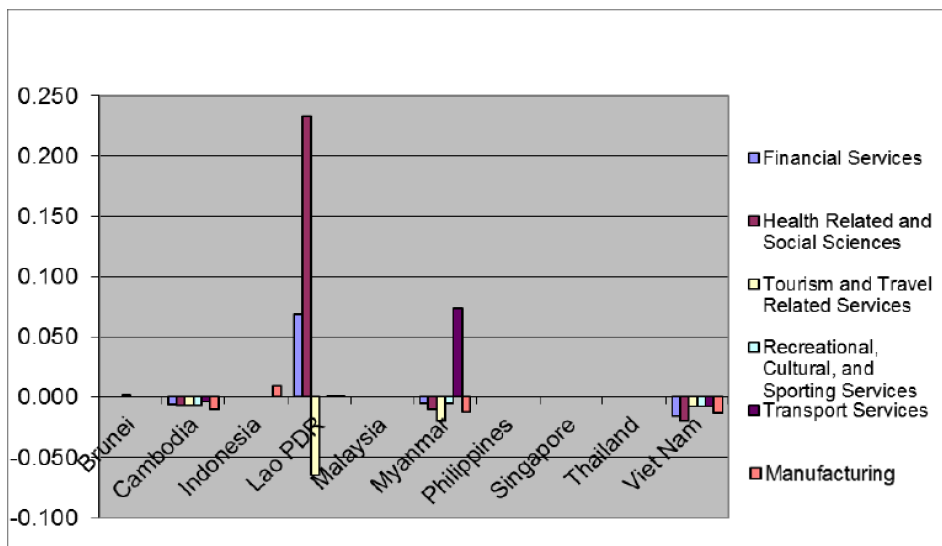
As figure 4.15 and 4.16, overall FDI restrictiveness indices show that Thailand has less openness in many businesses compared to other countries, especially, communication services, construct and related engineering services, health, financial service, and tourism and travel related service. In fact, Thailand's restrictiveness in the business sector is only better than Indonesia.

Figure 4.13 Change in FDI Restrictiveness Index by sector between 2010 and 2014



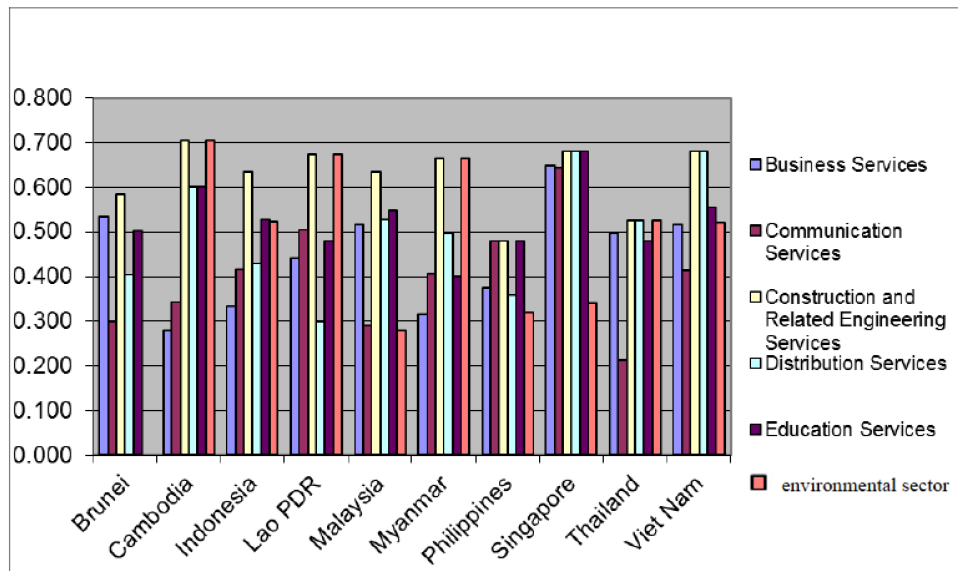
Source: Thangavelu (2015)

Figure 4.14 Change in FDI Restrictiveness Index by sector between 2010 and 2014



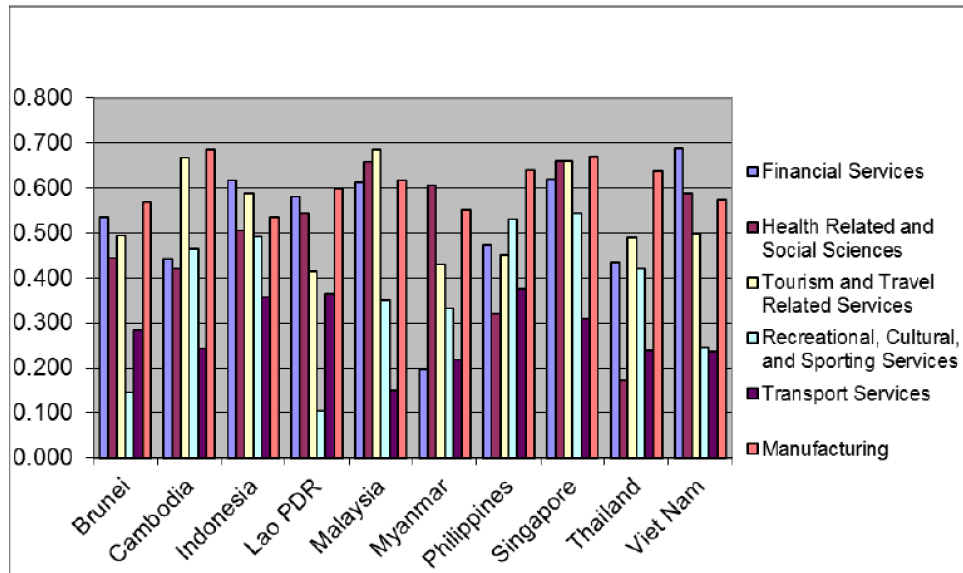
Source: Thangavelu (2015)

Figure 4.15 FDI Restrictiveness Index by sector in 2014



Source: Thangavelu (2015)

Figure 4.16 FDI Restrictiveness Index by sector in 2014



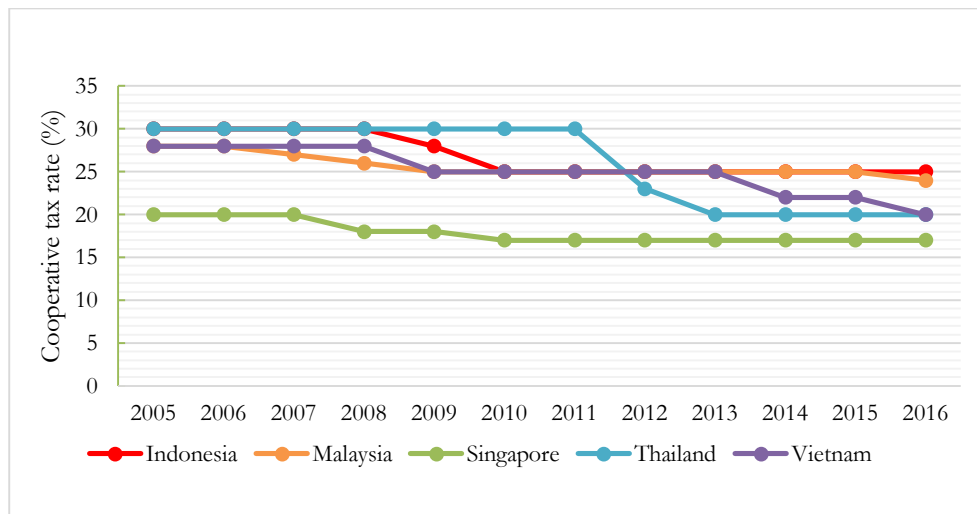
Source: Thangavelu (2015)

Tax rates

The last of the variables that require some consideration is corporate tax rates. Once again secondary data are obtained from another study – that of Muthitacharoen (2016). He compares the effective corporate tax rates among four countries, including Indonesia, Malaysia, Thailand, and Vietnam over the period 2005 to 2016.

Figure 4.17 shows that Thailand has not had an exceptionally high rate of corporate tax throughout the period, and is currently the second lowest among the four countries.

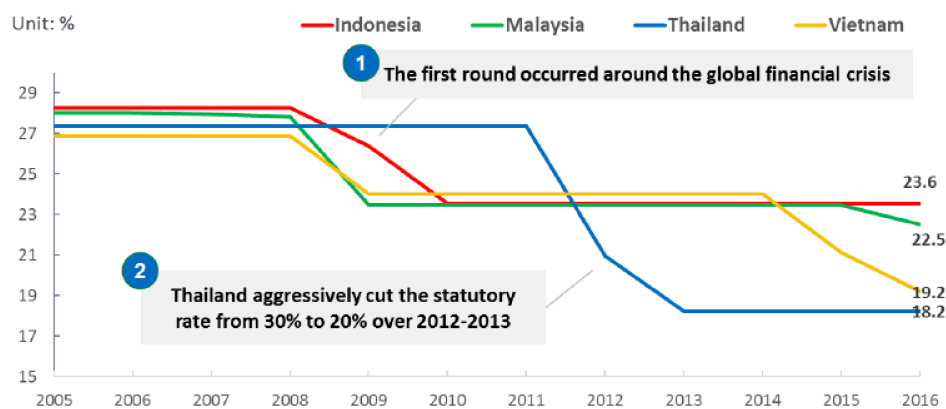
Figure 4.17 Cooperative tax rates (2005-2016)



Source: KPMG

Figure 4.18 depicting effective tax rates reaffirms the above that a high rate cannot be one of the explanations for the relative fall in FDI flows. Indeed, currently Thailand's effective corporate tax rates are the lowest in the above-mentioned group. This contradicts findings in similar studies for other countries, which have found the impact of tax rates to have been significant. One reason could, of course, be that the influence of the other factors, especially the labour costs and political stability factors, has tended to overwhelm that of corporate taxation.

Figure 4.18 Standard Effective Average Tax Rate (2005-2016)



Source: Muthitachoen (2016)

4.3 Concluding Remarks

The results from the preceding analysis of pull factors arising from the literature suggest that many of these are of relevance in explaining the recent decline in relative FDI flows to Thailand. Of particular importance appear to be relative unit labour costs, infrastructure quality, institutions and regulatory environment. These findings support those in the literature, but not with respect to all the pull factors cited. Of note is the negative finding on tax rates, but it has to be said this was based on the findings of a single study.

Chapter 5 Conclusion

This paper has attempted to provide some reasons for the relative decline in FDI flows into Thailand, focusing on the main pull factors since trend FDI flows to the region as a whole do not appear to be in decline. The study compares FDI flows to Thailand to those going to Indonesia, Malaysia, Singapore and Vietnam, since flows to these countries appear to have done considerably better. The study uses exploratory data analysis to examine the inward pull factors, and looks at data covering, for the most part, the period 2004 to 2015.

A review of the literature on pull factors in explaining FDI flows was undertaken with a view to establishing the major pull factors. It was found that these are; unit labour costs, quality of infrastructure, political stability, the regulatory environment and tax rates. Exploratory data analysis was used to look at the first three of the five factors identified in the literature review. In each of these cases charts of the basic trends in the variables were plotted alongside FDI as a percentage of GDP to see if a discernible relationship could be identified and then a scatter plot was used to see if such a relationship could be confirmed. The analysis suggested the existence of a positive impact of all three variables on relative FDI flows to Thailand. Secondary sources were used to test the other two variables, and these suggested that while the regulatory environment may have had some role to play, this was not the case with corporate taxation. That the evidence suggests corporate taxation is not particularly important is of considerable importance given that there has been a major policy emphasis on lowering tax rates in Thailand in recent times with the express purpose of attracting FDI flows. It has to be said however that the evidence on tax rates comes from a single recent study and that more work needs to be done on this issue.

Overall the findings would seem to suggest that more attention should be paid to factors such as political stability, competitiveness and transportation infrastructure. While the first of these is out of the hands of policy makers, the other two (and the regulatory environment) are not.

Another study about FDI in Thailand could extend its analysis to examine the trends and push factors of outward FDI from Thailand to other countries, including intra-regional trends in Southeast Asia countries. Most notably, there is a need for investigating why government policies tend to stimulate external FDI trends. Alternatively, there is a definite academic space to probe the level of competitiveness of Thailand in terms of being open to FDI flows, especially in comparison to its ASEAN neighbours.

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