Foreign Direct Investment and Emerging Markets: A Study of Direct Investment in Thailand with a Focus on Australia Investment

Kesinee Tanomponkang, and Martin Hovey

***Abstract*—**This study will contribute to the academic literature concerning the factors affecting all inwards Foreign Direct Investment (FDI), as well as the Australian investor's decision to be involved in FDI in Thailand. The procedure of this study will be to review foreign direct investment empirically to discover the key factors involved. Then, from an applied perspective, the factors affecting all inwards FDI as well as the Australian investor's decision to be involved in FDI in Thailand will be analyzed. A linear panel data model applying a random or fixed effect model, being determined by a Hausman test, are employed on the panel data set consisting of annual frequency data of 10 years period from 2002 to 2011 to specific the determinant of FDI inflow into Thailand.

***Keywords*—**Emerging Market, Foreign Direct Investment

I. Introduction

THE foreign direct investments result in a net flow of foreign investments into a country. Foreign Direct Investment plays an extremely vital role in increasing the gross national product (GNP) of a country. FDI as well serves as a measure of economic globalization. Some of the largest foreign investments come from countries like Japan, Western Europe and North America. The United States of America is one of the biggest investors of FDI in the world. These flows help the underdeveloped countries to grow and prosper [1]. This study aims to demonstrate the general feasibility for Foreign Direct Investment perspective in Thailand. Thailand is a developing country, so it needs funds to develop the country. As a result, even though Thailand faces political problems, different governments support investors who want to invest in the country, which is achieved through the organization known as The Board of Investment of Thailand (BOI).

In addition, Thailand is a gateway into the heart of Asia and one of the members of ASEAN, so it is the key to connect to the countries in ASEAN. As a result, investment in Thailand leads to opportunities for market-seekers, as market-seeking is the main point that companies use to expand their business. In addition, there are positive benefits of FDI, particularly from emerging markets. Moreover, the exploitation of additional foreign markets may be possible at considerably lower costs. In some industries, foreign market entry may be essential for obtaining economies of scale, or the unit cost decreases that are achieved through volume production. Characterized by high fixed costs relative to variable costs, firms in industries have to connect with amount selling just to break even. These large volumes may be forthcoming only if the firms expand overseas. For example, companies manufacturing products such as computers that require huge R&D expenditures often need a larger customer base than that provided by even a market as large as the United States in order to recapture their investment. Similarly, firms in capital-intensive industries with enormous production economies of scale may also be forced to sell overseas in order to spread their overheads over a larger quantity of sales [2]. In response, foreign direct investment in emerging markets by multinationals has soared over the past decade.

Therefore, the objectives of this study are to empirically analyze the important factors relating to all inwards FDI in Thailand, followed by a similar study of Australian-specific FDI in Thailand, and interpret these in an applied way for Australian businesses investing in Thailand.

II. Literature Review

Foreign Direct Investment is an important method for driving world business. There are advantages both in the host country (the recipient of investment) and in the investing country (the source of investment). Studies show that no one FDI theory is perfect. However, a multiplicity of theory models attempt to clarify FDI. There are many factors which affect both increase and decrease in the number of firms considering FDI, including inflation rate, exchange rate, manufacturing output, employment negatively, tourism positively, skills and knowledge, infrastructure, and the level of consumer income. Moreover, multinational firms and cost minimization have significant roles in increasing FDI. This study aims to review the literature and the vital theories of FDI for the purpose of gaining, in order to find the aspects that have not been studied and to develop research questions. In addition, we wish to discover the factors that affect the foreign investor when investing in Thailand.

This section considers some theoretical papers relating to FDI which are: raw material seekers, cost minimization,

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political stability seekers, production efficiency seekers, including the literature on FDI which is related to Thailand. In addition, it studies the literature on the relationship between the countries which are in the same environment (closer to Thailand), such as in ASEAN. The aim is to develop the research questions for foreign direct investment in Thailand.

Raw material seekers pursue the resources wherever they can be found at the best price or most suitable quality, whether for further processing or for export and sale of the products in the countries in which they were found. The primary firms in this category are the firms in mining, forest industries and plantations [3]. However, as we move to a globalized economy, this is expanding to many sectors that source raw products.

Cost minimization is another category of firm that do business internationally. To maintain the cost competitiveness of domestic and international production, these firms find and invest at a lower production cost in a foreign country, for instance, China, India, Hong Kong, Taiwan, and Ireland [4]. To increase profitability they seek out the country that is able to reduce cost [5]. Due to cost of production as the main factor for doing business, so this is the main reason that the firms consider seeking the most suitable location for savings`` on cost [4].

Political stability seekers obtain or construct new operations in a country which is considered not likely to impede activity or confiscate assets with the use of personal enterprise [6]. For instance, Hong Kong firms invested greatly in the United States, the United Kingdom, Canada, and Australia in expectancy of the consequences of China's 1997 assumption of the British settlement [7]. This protects the property or profit from being commandeered by the government and provides safety to the owner.

Production efficiency seekers produce in countries in which one or more of the production factors are underpriced relative to their productivity. A noticeable example of this incentive is labour-intensive manufacture of electronic mechanisms in China, Mexico, Taiwan, and Malaysia [8]. These production efficiency seekers often seek out countries where the government supports training people to become specialized in some skills so that production is more effective [9].

Literature Relating to Thailand

Siripaisalpipat and Hoshino [10] examined access method options on presentation of their international subsidiary and the influences of multinational firms' firm-specific advantages. An attractive end result was the downside effect that international management experience and the size of parent MNEs had on the joint venture presentation, since the experienced and large firms theoretically and generally did not have the desire for global joint venture arrangements.

The positive impacts of FDI on economic growth or the economic success of the four "little tigers" - the highly developed economies of Taiwan, South Korea, Hong Kong, and Singapore - could be attributed to the export-oriented manufacturing strategy under the government, the sense of responsibility of Confucian culture, high rates of investment and savings and a fairly economical quality workforce derived from the level of education [11-13]. In contrast, Hahm and Heo [14] argue that the government's role in the economic growth of three countries, Indonesia, Malaysia and Thailand (East Asian NICs), was rather marginal during the period of high growth. They showed that the economic growth in the four "little tigers" was helped by FDI from Japan and the US, but this was not the case in Thailand, Malaysia and Indonesia.

As well, Pradhan [15] explored the interdependence of FDI between India and ASEAN-5 countries, that is the Philippines, Singapore, Thailand, Indonesia, and Malaysia, by the individual and cluster level. The findings suggested the interdependence of firms of FDI between India and ASEAN-5 countries and the policy implication was that, with the increasing interest of economic integration around the globe, especially with the India-ASEAN Regional Trade and Investment Area (RTIA), the existence of interdependence of FDI between member countries was an important feature for maintaining growth sustainability in the Asian economy. In addition, Tosompark and Daly [16][16] found that Thailand was the least affected amongst Asian countries to experience falling levels of FDI inflow over the recent global financial crisis. In terms of accounting for Thailand's FDI experience since the Asian 1997 financial crisis, they showed that the determinants in their model performed satisfactorily overall with the diagnostic tests generally indicating a lack of misspecification. The individual results for the variables indicate that growing market size and Thailand's increasing average real wage had positive effects on FDI inflow. However, the relationship between the trade variables and FDI inflow, although insignificant, was generally correctly signed. At the national level, FDI had positive relationship with exports. The strengthening exchange rate appeared to be negatively related with FDI but was not highly significant. As regards cost of capital, the increasing local spread did indicate a concern with increasing perceived risk, but, as discussed, the significance of this variable's influence on decisions to invest in Thailand can only be revealed in a case-by-case study. Moreover, there was strong support of bidirectional causality between FDI and GDP in two countries in South East Asia, Thailand and Malaysia [17].

The finding of this literature survey relating to Thailand shows that the other countries in ASEAN - the Philippines, Singapore, Indonesia and Malaysia - have a mostly similar environment to that of Thailand. However, there are some different factors determining for Foreign Direct Investment (FDI) to invest in any country, including inflation rate, exchange rate, manufacturing output, employment negatively, tourism positively, skills and knowledge, infrastructure and the level of consumer income. In the case of Thailand, there were some significant factors affecting consideration of investors to invest in Thailand: inflation rate, exchange rate and economic growth rate. Moreover, external factors, such as the Asian financial crisis in 1997, had a minor effect on FDI in Thailand.

On the other hand, the significant effects on FDI in Thailand might be internal factors, for instance, government policy.

III. Methodology

The aim of this study is to consider the major problems relating to the current endeavour to study the influences on Australians to investment in Thailand with reference to the effective factors for decision-making and with suggestions for development of FDI. Then, secondly, this is extended specifically to the case of Australian investors and to aspects that may impact on FDI from Australia. The research question is: what are the factors that affect the decisions of investors to undertake foreign investment in Thailand? Do human resources, natural resources, financial resources availability, transportation opportunity, market opportunity, government incentives, policy lending, political stability, political risk, exchange rate, cost, GDP and economic growth affect the decisions of investors in investing overseas? What factors may specifically impact on Australian FDI investors? To examine these research questions, two main hypotheses have been developed leading to some subsidiary hypotheses.

Hypothesis generation

Based on those research questions, two main hypotheses (H_1), which includes eight sub- hypotheses (as shown below), are developed for this study:

The effect of factors on Australians to investment in Thailand is a linear function of factor. It is not a constant.

A. Hypothesis

$H_1$1: The effect of economic, political, business and resource factors (which includes eight sub-hypotheses that are shown below) on investment in Thailand is zero.

Eight sub-hypotheses which are:

$H_{1.1.1}$: Thai resources, such as human, natural and transportation opportunities, influence the investor decision to be involved in FDI in Thailand.

$H_{1.1.2}$: The market opportunity affects the investor decision to undertake FDI in Thailand.

$H_{1.1.3}$: Thai financial resource availability and policy lending impacts on the investor decision to be involved in FDI in Thailand.

$H_{1.1.4}$: The exchange rate influences the investor decision to undertake FDI in Thailand.

$H_{1.1.5}$: The cost associated with doing business in Thailand affects the investor decision to be involved in FDI in Thailand.

$H_{1.1.6}$: Government incentives impact the investor decision to undertake FDI in Thailand.

$H_{1.1.7}$: Political stability and political risk affect the investor decision to be involved in FDI in Thailand.

$H_{1.1.8}$: GDP and economic growth influence the investor decision to undertake FDI in Thailand.

$H_1$2: Thai economic, political, business and resource factors influence Australian investor decision as to their FDI investment in Thailand.

B. Research Methodology

Based on the literature review as mentioned in the previous section, and according to the model that has been chosen, which is the random or fixed effect model are employed on the panel data set consisting of annual frequency data of 10 years period from 2001 to 2012 to specific the determinant of FDI inflow into Thailand. A Hausman Test for panel data models will be applied to determine which is most suited. We use the following model to determine the effects of various factors on the FDI of Thailand.

$$Y_{it} = \alpha_i + \beta X_{it} + \varepsilon_{it}$$

$$\begin{aligned} FDI_{it} = \; & \alpha_i + \beta_1 HRes + \beta_2 NatRes + \beta_3 FinRes + \beta_4 TranOp \\ & + \beta_5 MKOp + \beta_6 GovIn + \beta_7 PolLen + \beta_8 PolStab + \\ & \beta_9 PolRisk + \beta_{10} Forex + \beta_{11} LCost + \beta_{12} GDP + \\ & \beta_{13} EcGrth + \varepsilon_{it} \end{aligned}$$

Where;

FDI	represents	Foreign Direct Investment
α_i	represents	An unknown parameter
β_1	represents	Constants of the equation
HRes	represents	Human Resource Factor
NatRes	represents	Natural Resource Factor
FinRes	represents	Financial Resource Availability Factor
TranOp	represents	Transportation Opportunity Factor
MKOp	represents	Market Opportunity Factor
GovIn	represents	Government's Incentive Factor
PolLen	represents	Policy Lending Factor
PolStab	represents	Political Stability Factor
PolRisk	represents	Political Risk Factor
Forex	represents	Exchange Rate Factor
LCost	represents	Cost Factor, Labour and Rental
GDP	represents	GDP Factor
EcGrth	represents	Economic Growth Factor
ε_{it}	represents	An error term

C. Data and its collection

The particularity of this research is to consider the determination of the relationship between FDI and the variety of factors that may affect the FDI. According to the literature review previously discussed, the factors that may affect the FDI of Thailand consist of human resources, natural resources, financial resources availability, transportation opportunity, market opportunity, government incentives, policy lending, political stability, political risk, exchange rate, cost, GDP, economic growth, and the amount of FDI from the Australian investor to Thailand.

Consequently, the data set is limited by the quantity of statistics obtainable for each factor involved from the past 10 years, covering the period from 2002 to 2011 (due to Australian investor interest in investment in Thailand for just the last few years). All of these factors' raw data will be collected based on the time series analysis by sum of total

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yearly data in US dollars. Information is obtained from Thailand from sources such as the Bank of Thailand (BOT), The Board of Investment of Thailand (BOI), The Thai Chamber of Commerce (TCC), and the Ministry of Labour, as that information is used to find out the basic information concerned with human resources, natural resources, financial resources availability, transportation opportunity, market opportunity, government incentives, policy lending, political stability, political risk, exchange rate, cost, GDP, economic growth in Thailand, and the amount of FDI from Australian investor to Thailand. Some data will be gathered from DataStream, the World Bank, Organisation for Economic Co-operation and Development (OECD), The *Asian Development Bank (ADB)*, the International Country Risk Guide (ICRG), and other data sources as required.

IV. EXPECTED CONTRIBUTION OF THE STUDY

This study will contribute to the academic literature concerning the factors affecting all inwards FDI, as well as the Australian investor's decision to be involved in FDI in Thailand. The procedure of this study will be to review foreign direct investment empirically to discover the key factors involved. Then, from an applied perspective, the factors affecting all inwards FDI as well as the Australian investor's decision to be involved in FDI in Thailand will be analyzed.

Those who may benefit from this study are:

- Australian businessmen investing in Thailand (main group)
- Investors in Australia taking part in Thailand's markets and the markets of other countries
- Thai government representatives involved in investment
- Australian representatives involved in investment in Thailand
- Entrepreneurs and Thai executives in international organizations

The findings from this study are expected to reveal the significant factors that are crucial for investment decision-making regarding foreign direct investment, particularly by Australian investors. After the results have been revealed, these results might help to improve the policy instruction of attracting Australian investors and increase investment from Australia.

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