SOME CHARACTERISTICS OF INWARD FOREIGN DIRECT INVESTMENT INTO THAILAND: A PERSPECTIVE FROM A GERMAN FIRM’S EXPERIENCE

Stephan Nuber, Stefan Reutlinger, Jonathan Schmickl, and Pornpimol Chongphaisal†
School of Management Technology
Sirindhorn Institute of Technology, Thammasat University
Sirindhorn International Institute of Technology
Email: pornpimol@siit.tu.ac.th

ABSTRACT
Through the history record companies do not only focus on the market in their home country. According to the Book ‘International Business – The challenges of Globalization’ more and more firms try to combine the best circumstances they could have to maximize their profit and to ease their business. The world and especially companies get more multinational and skilled in intercultural behavior. For this reason companies start to invest abroad in a foreign country where working conditions, overall cost and required knowledge is available. In this case it is possible to merge with companies with the same goals or the same business field as well as try to explore a whole new market and its potential. Nowadays there exist a lot of international rules and regulations, which simplify the processes between multinational companies and the states where they are located. This study shows the benefits and the reasons why German companies undertake Foreign Direct Investment as an instrument to achieve higher revenue, reduce overall cost and enter newfound markets. Also it aims to uncover potential problems, which can occur during the process of building up and implementing a new facility or a new business branch in a foreign country. And last but not least we try to establish a relationship between our information and the German firms that undertook a FDI in Thailand.

Keywords: Inward foreign direct investment, characteristics of investment, motive and type of investment, case-study, german firm

1. INTRODUCTION
One quarter of the total global Foreign Direct Investments flows into Asia. The FDI inflow in 2011 in South-East Asia amounted 115 billion US$. Excluding leading states like China or India, it leads to the smaller states, which attract foreign investors. Especially plenty of investors decide to invest their capital in Thailand. In 2012 the Foreign Direct Investment inflow amounted 8.6 billion US$.

Compared to other Asian countries the figure of 8.6 billion US$ shows that Thailand is very attractive for foreign countries to invest in. This raises the question why companies invest here and what fuels them? Firms like Mercedes Benz, Bosch or BMW have chosen to build a facility in Thailand. Our report
focuses on the strategies, motives and benefits of the Foreign Direct Investments of these companies in Thailand in the chemical sector. In this case knowledge transfer, innovation seeking and development of internal departments as well as labor training are considered as major topics to profit from. German firms and Thai customers or even joint ventures make capital out of it equivalently. Based on research this case study points out details in the chemical materials and products sector and consolidates our statements and findings with the interview of the BAYER Thai company.

2. LITERATURE REVIEW

2.1 Definition

FDI occurs when a firm invests directly in production or other facilities to make sure that the company gains a percentage of control in the field they invest in. It involves the direct control of the capital invested and more importantly, a movement of factors of production other than capital such as skilled labor, technological knowledge and management. Nations set different thresholds at which they classify an international capital flow as FDI.

In the USA 10%, but most other governments set it in between 10 and 25 %. (Purchase of physical assets or a significant amount of the ownership (stock) of a company in another country to gain a measure of management control.)

Nations set different thresholds at which they classify an international capital flow as FDI. In the US it is 10%, but most other governments set it at anywhere from 10 to 25%.

2.2 Types of FDI

The following paragraph will describe types of FDI. The first are Mergers and Acquisitions, which means that the investing company takes over or incorporates with an already existing company in the target country. With the intention to develop and use existing facilities, structures and experiences. The advantage of this kind of investment is that the company can implement the basic business structure of this company and develop it, in the way of distribution, facilities, labor base, market share and image as well. Furthermore with the merges or acquisitions of an existing firm there will be one competitor less in the market. On the other hand in general there is mostly a higher basic investment needed and there is the possibility that there could be negative effects of the restructuring and rearranging of existing behavior in this company. The Cross boarder M&A is the main vehicle through which companies undertake foreign direct investments. On the other hand there is the Greenfield investment, which we can define of the completely new establishing of a company in the target country. We have to face the problems that there is nothing already established. So if you are not the first company in this business field you need to handle a lot of competition to receive new market share. However the advantage is the possibility to give the whole new company the structure, which is needed and required.
2.3 General

2.3.1 Policies

This section will discuss the governmental restrictions and the encouragement, which can be made to influence FDI. As in the section before the view form the home country and from the host country will be considered. What can country do to help their local enterprises on one side to grow in a foreign market and on the other side protect them from foreign competitors? The home country government can encourage their firms with government-backed insurance programs which cover the risks of investing in areas in which normally no investment take place as a result of a negative surrounding and unsettlement. So the insurance covered the risks of eventual loses which appears as a result of the instability for example war loses. Another possible instrument is the implementation of special funds or banks that provide loans for the FDI purpose as well as the elimination of double taxation of foreign income. Also the political influence from a country government can be used to bring the own home firms in a better position in the host market.

On the other side the host country wants to attract foreign companies into the country for improving its economy. The most common ways are incentives in form of tax concession, low-interest loans, grants and subsidies.

However benefits earned from the government are restrictions what in some cases make it difficult for FDI.

The home countries can sometimes set limitations in capital outflow, unfavorable taxation rules and sometimes governments prohibit firms from investing in special countries for example U.S. firms should not take any investments in Iran or North-Korea. On the other side the possible host countries set kinds of restrictions, too. Often there are ownership restraints for example it is required that a significant part of the equity must be hold by local entrepreneur or foreign companies are completely excluded from specific business fields. Another type could be requirements about the performance of the firms. Means control over the behavior of the multinational enterprises by s local subsidiary.

2.3.2 Benefits and cost

This section shows, which benefits and costs FDI has for the home country as well as for the host country. At first there is a short definition about host and home country. Host country means the country where the investment flows in. The home country is the source of the capital, which flows into the host country.

With a FDI there occurs benefit however concurrent to this there is cost for both as well.

Now we take a look on the benefits, which can be obtained with an FDI. On one side the balance of payments benefits from the inward flow of foreign earnings, which are generated in the foreign country. Another way is that through the foreign business there is a positive effect on the demand in the home country, which leads to an increase in the balance of payments, too. On the other side the FDI could have employment effects, when the foreign subsidiary creates demand for home-country exports e.g. Toyota and its Europe / Japan connection, means the new facility abroad needs supplies from the home country. Finally the home country can earn valuable skills from its exposure of foreign markets.

Also you have to consider the advantages for the host country. One positive
contribution is the resource-transfer, which can have a positive effect on the home economy by supplying capital, better technology and management knowledge, which may not be available otherwise. As a result this can increase the economic growth, if the investment has the form of a Greenfield investment, which leads to a more competitive market. The result is a reduction of the price and an increase of the customer economic welfare as well as to a stimulation of the investments in facilities, R&D and equipment. A long-term result of this behavior could be a significant increase of productivity and innovations. Also we can assume that the FDI creates new jobs in the host country. This can have indirect and direct effects on the employment. Direct effects with the creation of jobs in the new own facilities. Often the indirect effects are more important in case of the employment. This leads to an effect on the employment of local companies as a result of higher supplier activity or the employment increase when new jobs are created because of the increased local spending from the employees financed by the new FDI. After all there is the effect on the balance-of-payments. Countries usually try to get a surplus in their current account, which tracks the export and import of services and goods. FDI can achieve this in two ways. One is that the new produced products subtract the imports. The other way is that the new products will be exported. In both ways the current account benefits from it.

However there are not only benefits, but also cost. For the home country the balance of payments suffer under the outflowing investment capital but normally there will be more offset by subsequent inflow of foreign earnings. The current account suffers too, if the FDI is used to serve the home market with low-cost-products and in the end there can be negative effects on the employment if the FDI is used parallel with a relocation of jobs.

For the host country cost will appear, too. There could be negative effects on the market competition by driving the other firms out of business and establish nearly a monopoly. Also if there is a strong FDI company structure in the country, it will lose a lot of national sovereignty and autonomy, because these foreign companies will just consider their benefits and may be influenced from the home country policies.

2.3.3 Why FDI

There are several reasons for an FDI. The first is that a company try to minimize the production cost by rationalize the production and produce in the country with the lowest cost and assemble it in another. But the transportation cost should be considered, too. The problem is that, if the production in one-country stops, the whole line suffers.

A second problem could be the customer knowledge if the production site and the customers are in two different countries. It could be better to place the production site close to the target market, because this may help to understand the customer behavior better and improves the reputation of a the country if you consider this action as a marketing instrument. The third and fourth reason is dependent from the competitors. On one side the supplier companies usually start a FDI when their client already involved in this region. Meaning that they follow the client. On the other side there is the strategy of following the rivals. Meaning that if one firm out of a large variety of firms with the same business field invests in a foreign country, some others may follow, because they don’t want to lose market share. Finally there are the interests of the host and the home country, which we will consider in the next section.
Why should a company invest in FDI instead in the alternatives like exporting and licensing, which is actually cheaper, and with less risk?

The disadvantages of both alternatives are obvious. For exporting we can conclude that the cost of transporting low-value-to-high-weight ratios are too expensive. Trade barriers have a negative influence on the business, too. For example import tariffs and quotas could harm a business. For the licensing process we need to consider the possibility that we have to give potential competitors valuable knowledge as well and as a result the company loses parts control over manufacturing, marketing and management strategies in some fields of the company. The last disadvantage is that it is often not possible to put every required detail in the contract.

2.3.4 History

Diplomatic relations between Thailand and Germany exist since 1862 when his Majesty King Mongkut and Friedrich zu Eulenburg signed the treaty of Friendship and Trade and Shipping. At this time German merchants and economist had a big influence in Thailand’s economy for the development of a modern infrastructure. Today Thailand is one of the most important political partners for the Southeast Asian region. More than 500 German companies operate in Thailand. The interest of German business focuses on transport infrastructure projects, the chemical and automotive industries, environmental technology and energy. In 2011 Germany invested about EUR 60 million in Thailand. In 2012 it amounted EUR 70 million. From January to October 2012, German companies exported to Thailand goods worth some EUR 3.5 billion and imported from goods worth approximately EUR 3.4 billion. In 2012, Germany was Thailand’s principal trading partner in the European Union. Overall, Germany ranked 17th in Thailand’s export and 13th in its import statistics in 2011.

In the past 30 years there was a market increase in both flow and stock of FDI in the world economy. The average yearly outflow of FDI increased from $25 billion in 1975 to $1.4 trillion in 2012.

Most FDIs have been directed at the developed nations of the world when firms based in advance countries invested in other markets. Most recent inflows into developing nations have been targeted at the emerging economies of South East Asia.

For more than 150 years a good trade connection has existed between Germany and Thailand. More than 500 German companies are now located in Thailand. Many of them are medium-sized companies. But also nearly all-30 German DAX companies are already established in Thailand e.g. Mercedes Benz, Bosch, or BMW. In 2012 the new investments of German companies were over 70 million Euros. The main German business in Thailand is transport infrastructure, chemical, automotive, energy and environmental technology.

This report focuses on the chemical industry in Thailand. The chemical industry has been one of the most dynamic industries in Thailand, who has a perfect set of basic infrastructure from production to logistics and the industry’s revenue is more than one trillion baht. Chemical companies have played an important role in supporting the following industries: food processing, plastics, detergents, textiles, automobiles, furniture, and pharmacy and water purification. In Thailand, there are many domestic chemical companies and foreign invested chemical companies, such as Thai National Oil Corporation, Siam Cement Group,
Rayong Olefins Company, Thai Petrochemical Storage Company, Dow, Mitsubishi, Tung Pei Industrial Company Ltd., Mobil Oil and the world's largest chemical manufacturer BASF who has engaged the chemical business in Thai for over forty years.

3. WORKING METHODOLOGY

3.1 Research

There is the need to get an overview of the general subject. For this reason, reports and statistics as well as literature were found through the web and textbooks about Foreign Direct Investment. Afterwards after getting a better idea about the subject, the specific field in which the research would be done, was chosen. The chemical industry and products sector was chosen, because there is a huge amount of companies and joint ventures in Thailand. There are over 28 German companies working in the chemical industry located in Thailand. The next step, which was undertaken, is to create and launch a survey. It should sort out the necessary information about the topics we would like to discuss.

3.2 Survey Preparation

Our Survey is based on a web platform, where the user is able to complete our questionnaire within a few minutes online. The platform is called www.surveyplanet.com. First of all the topics were decided, which should cover the survey questions. There is some general data, which should be gained from the firms as well as information about our key issues. For example the knowledge transfer, success of the FDI, purpose of the FDI and Research and Development are from major concern. After generating the online link of the survey, it has been attached to the email that was send to all companies, which relate to the FDI topic. Responses of our participants were grouped to evaluate specific results for the
market research of FDI. In addition to the general data a problem, which appears after the evaluation, should be found out. So after the analysis, the major company was chosen regarding to sales or the number of employees, an arrangement for an interview with the right contact person to gain a more aggregate and adjusted picture of FDI in Thailand was made.

<table>
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<tr>
<th>Topic</th>
<th>Possible Question</th>
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| General Information          | • Size of the branch in Thailand  
                              | • Number of Employees  
                              | • Investment budget  
                              | • What kind of departments available |
| Reasons and Experiences      | • Why Thailand?  
                              | • Introduction of new products  
                              | • Difficulties  
                              | • Capital Structure of the branch  
                              | • Connection to the Head Office |
| Specific Questions relating to the topic | • Knowledge Transfer  
                              | • R&D department  
                              | • Future prognoses  
                              | • Cultural and linguistic problems |

This table shows the possible topic, which we like to cover with our survey. You can see that the specific topics covered by the survey are Knowledge transfer, R&D departments and past, present and future problems. For the general part it is also necessary to obtain a quick and short overview about the companies. Experiences made and difficulties found out, are a point discussed in the survey as well as in the interview too.

3.3 Interview Preparation
For our interview with the Bayer HealthCare department the survey questions as well as topics, which we can receive firsthand, were prepared. More information should be achieved about the structure of the Bayer Company worldwide, its future plans and the experience in Thailand referring to the current situation with the culture, the country and the the Thais itself. For this getting a better idea of what Bayer does to ensure quality standards and trained and educated employees at the same time was from major concern. What measures does Bayer take to make their working life easier and what was the major reason to come to Thailand. Furthermore the availability of a Research and Development department was asked. The last issue, which was considered, was the biggest problems appearing in the branch in Thailand.

4. EVALUATION OF THE SURVEY
Unfortunately the survey caused a lot of problems, because not even one company worked with the survey and replied to the survey. It is very difficult to reach the right person who knows all the information needed for the project. And of course in most cases it is maybe problematic for them to give this kind of confidential data because firms want to stay competitive and don’t want to publish
this data. Headquarter policies might be a problem too. Some replied that they would like to know what happens with the evaluation of the project after the final presentation to make sure that it won’t be published. Also some wanted that the name of the company remains secret, but that would have been useless for our internal evaluation.

Generally speaking this report concentrates on the interview held with BAYER Thai it discusses the knowledge received from the meeting in the following point.

5. EVALUATION OF THE INTERVIEW

This paragraph focuses on the meeting with the marketing Project Manager of BAYER Thai. He could answer us a lot of questions about the general structure of the company, knowledge transfer and experiences the firm made in Thailand.

First of all the Bayer company has no Research and Development department in Thailand. The market with duplicates and fake products in Asia is huge, so it is not cost-efficient for the company investing in new products in Asia, especially in Thailand. Also the employees in Thailand do not have the education standards like employees in Europe, so it is difficult for Bayer to invest in this sector.

Secondly, if Bayer Thai would like to invest in Research in Thailand, it is not secure that they are able to introduce a new product to the market because all product launches are under supervision of the headquarters in Europe and USA. So without permission it is restricted. The structure of Bayer Thai is the same like in every country. It is compulsory by the head offices. The portfolio of products can vary but altogether the same ones are offered. In Thailand there are some governmental restrictions that there has to be a percentage of Thai citizens employed in the company, but investments even out this law. But nevertheless at Bayer Thai there are only a few European people employed. Almost everyone is Thai. The reasons for that are cheaper resources and the fact that Bayer wants to invest in the future, meaning that they want to raise the educational level. Bayer promotes its employees with projects exchanges and advanced trainings. But it can be very difficult to keep your own personnel because other firms try to headhunt good staff and specialist in particular fields to stay competitive. This problem and a few more appear in everyday life in the company. Recommitting on the educational differences, it is from benefit on both sides when companies invest in the development of schools and universities, so Bayer is in Permanent Corporation with educational establishments. But if you compare the natural occurrence of Asia and Europe, it is common sense that sea biologist are more skilled and trained here in Asia than in Europe, so it depends what kind of product you want to sell and how you want to develop it. Another big topic is the criticism factor. It could be hard for managers in higher positions to separate private and work life and that could lead to difficulties to get to the point in discussions, especially when it comes to admit mistakes and problem solving. Most of times denouncement or a refusal of work could follow.

6. CONCLUSION

Concluding the project we can mention, that the Thai market is still very attractive for German firms, because Thailand is a fast developing state and it has highly available resources. Also using Thailand as a Hub to reach surrounding
target markets is very efficient for companies. The research and findings part of the project gave us a pretty good idea about what FDI is, what are stands for and how you can work with it. Also problems and difficult situations were a major point of the discussion and it was very helpful to gain further knowledge in the problem highlighting and solving processes. The preparation of the survey questions and the determination of the topics we wanted to work with showed what and the way how we have to arrange the interview with BAYER Thai we want to receive from the meeting. This final step of our project educated us in topics like knowledge transfer, innovations and Research and Development.

The future will show us that Asia will develop in consideration of education, skills and knowledge. So more and more companies will start to invest in Asia, especially in Thailand, because of its closeness to the sea and the growing market. The FDI inflow will rise again, if the governmental restrictions remain the same or decrease. There has to be more investment in Research and Development for the growth of the country. Big companies and the responsible persons are in great demand to make business life easier and try to get rid of problems and mistakes made in the past, because the world gets more and more international. The same is essential for business life.

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