Bilateral Free Trade Agreements and International Expansion of Thai Multinational Enterprises in the Food Industry: Cases of Thai Food Processors

A Thesis Presented by:
Nipawan Thirawat

Supervisors:
Dr. Frederick Robins and Dr. Georges Baume

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Adelaide School of Business
University of Adelaide
South Australia, Australia
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ABSTRACT

This study investigates the influence of bilateral free-trade agreements (FTAs) on the international expansion of developing-country multinational enterprises (MNEs). The study includes ten case studies of Thai MNEs in the food industry. The study explores the responses of these firms to three of Thailand’s bilateral FTAs (Thailand–Australia FTA, Thailand–New Zealand Closer Economic Partnership and Thailand–Japan Economic Partnership Agreement). All the case firms regard these Agreements favourably. The findings offer insight into the role of bilateral FTAs in Thai MNEs’ internationalisation. The Agreements help firms to internationalise, at the same time influencing the corporate adjustments they have to make. The firms in this study share a number of common responses, which include adjustments in product strategy and the development of new business networks. The findings also suggest differences among firms in their internal adjustments in response to FTAs. First, some firms respond much more vigorously than others. Second, in order to reap the full benefit of the FTAs and internationalise successfully, some have to develop new strengths; for example, the ability to coordinate and integrate activities more closely. The analysis of the research findings of this study suggests some modification of the inherited theoretical framework, by means of which the impact and role of government trade policy in the internationalisation of firms is assessed. The overall impact of bilateral FTAs on Thai MNEs in the food sector is positive but modest. Directly, FTAs influence the development of firms’ internal strategies, capabilities and resources. Further studies are recommended to test if FTAs impact on other types of firms, other sectors of business, and other countries in the same ways.
STATEMENT OF DECLARATION

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Sally Howes, English Language Editor
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of South-East Asian Nations</td>
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<tr>
<td>BoD</td>
<td>Board of Directors</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CEP</td>
<td>Closer Economic Partnership</td>
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<td>CMO</td>
<td>Chief Marketing Officer</td>
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<td>COO</td>
<td>Chief Operation Officer</td>
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<td>CSFs</td>
<td>country-specific factors</td>
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<tr>
<td>EC</td>
<td>European Community</td>
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<td>ECP</td>
<td>European Community Pact</td>
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<td>EHPs</td>
<td>Early Harvest Programs</td>
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<td>EHSs</td>
<td>Early Harvest Schemes</td>
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<td>EPAs</td>
<td>Economic Partnership Agreements</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>foreign direct investment</td>
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<td>FIRB</td>
<td>Foreign Investment Review Board</td>
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<td>FSAs</td>
<td>firm-specific advantages</td>
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<td>FSFs</td>
<td>firm-specific factors</td>
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<td>FTAs</td>
<td>free trade agreements</td>
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<td>FTI</td>
<td>Federation of Thai Industries</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>HACCP</td>
<td>hazard analysis and critical control points</td>
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<td>HS</td>
<td>Harmonised System</td>
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<td>IDP</td>
<td>Investment Development Path</td>
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<td>ISO</td>
<td>International Organization for Standardization</td>
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<td>IT</td>
<td>information technology</td>
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<td>JDBA</td>
<td>Joint Doctoral Program in Business Administration</td>
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<td>JTEPA</td>
<td>Japan–Thailand Economic Partnership Agreement</td>
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<td>MAI</td>
<td>Market for Alternative Investment</td>
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<td>MBA</td>
<td>Master Program in Business Administration</td>
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<td>MD</td>
<td>Managing Director</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>MNEs</td>
<td>multinational enterprises</td>
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<td>MOC</td>
<td>Ministry of Commerce</td>
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<td>MOFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>NFI</td>
<td>National Food Institute of Thailand</td>
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<td>NICs</td>
<td>newly industrialised countries</td>
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<td>NTBs</td>
<td>non-tariff barriers</td>
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<td>OCCs</td>
<td>Opening Coastal Cities</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>PTA</td>
<td>Preferential Trade Agreement</td>
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<tr>
<td>RBV</td>
<td>resource-based view (of the firm)</td>
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<tr>
<td>RTA</td>
<td>Regional Trade Agreement or Regional Trade Arrangement</td>
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<td>SEA</td>
<td>South-East Asia</td>
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<td>SET</td>
<td>Stock Exchange of Thailand</td>
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<td>SETSMART</td>
<td>SET Market Analysis and Reporting Tool</td>
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<td>SEZs</td>
<td>Special Economic Zones</td>
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<td>SPS</td>
<td>Sanitary and Phyto-Sanitary</td>
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<td>TAFTA</td>
<td>Thailand–Australia Free Trade Agreement</td>
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<tr>
<td>TCC</td>
<td>Thai Chamber of Commerce</td>
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<tr>
<td>TDEP</td>
<td>Thai Department of Export Promotion</td>
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<tr>
<td>TDTN</td>
<td>Thai Department of Trade Negotiation</td>
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<tr>
<td>TFPA</td>
<td>Thai Food Processors’ Association</td>
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<tr>
<td>THB</td>
<td>Thai Baht</td>
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<tr>
<td>TNZCEP</td>
<td>Thailand–New Zealand Closer Economic Partnership</td>
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<tr>
<td>WCO</td>
<td>World Customs Organization</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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CHAPTER 1
INTRODUCTION

1.1 Objectives of the study

The emergence of preferential trade arrangements among countries is a critical part of regionalisation and globalisation. There is a clear tendency for the world economy to become increasingly globalised and Thailand is inevitably part of this phenomenon. Thailand has been one of the more prosperous economies in the South-East Asian (SEA) region and has been of interest to researchers since its rapid growth after 1980. Recently, Thailand’s international trade policy has been geared towards a higher degree of trade liberalisation. Thailand is a member of trade organisations at both regional and global levels and is actively involved in the development of trade agreements at bilateral level. Apart from being a member of the Asia Pacific Economic Cooperation (APEC) forum and the World Trade Organization (WTO), Thailand aims to develop better bilateral trade and economic relationships with its trade partner countries. It is thought that these free trade measures and policies expedite trade in goods and international investment and generate a sound environment for firms involved in international business activities.

Some Thai multinational enterprises (MNEs) in the food industry, which is one of Thailand’s most competitive and internationalised industries, are global players demonstrating outstanding performance in both export and international investment. Others are actively internationalising themselves in order to be able to compete in the new era of globalisation. These Thai firms are faced with an increasing number of competitors in global markets. Recently, many have lost their competitive advantage to lower cost producers from Vietnam and China. Such a change emphasises the significance of bilateral free trade agreements (FTAs) as a policy tool creating supplementary advantages. Porter (1998: 669) argued that:

“A pressing goal for government is to pursue open market access vigorously in every foreign nation … trade policy should not just passively respond to complaints … but must seek to open markets wherever a nation has competitive advantage.”

Trade policy can be a major driving force, leading firms to become more internationalised (Porter 1986; Yip 1995). In principle, Thai government policies in favour of a higher degree of trade liberalisation should encourage Thai firms to become more competitive and become increasingly active in international business. However, there are some doubts about what
really happens to firms in practice. This study will investigate the internationalisation adjustments that Thai food processors employ in order to take advantage of Thailand’s FTAs.

The main objectives of this study are to develop a theoretical framework for, and provide empirical evidence of, the impact and role of government trade policy in the internationalisation of Thai MNEs. To achieve these objectives, the study begins with an investigation into the relative importance of the internal *firm-specific factors* (FSFs) and the external *country-specific factors* (CSFs) that influence the internationalisation of Thai MNEs. Then, this study explores how a sample of Thai firms in the food sector have internationalised since three bilateral free-trade agreements became effective. These are Thailand-Australia Free Trade Agreement (TAFTA), Thailand-New Zealand Closer Economic Partnership (TNZCEP) and Japan-Thailand Economic Partnership Agreement (JTEPA). The study also seeks to identify and explain the main changes in internal firm-specific factors (FSFs) employed to take advantage of these particular bilateral trade agreements; itself a country-specific factor (CSF). It analyses how and why firms have responded to these developments in Thailand’s trade liberalisation policy.

### 1.2 Rationale of study

- **The importance of new bilateral FTAs in Thailand**

Pressures on Thailand to globalise its economy together with the slow progress of multilateral trade agreements, have resulted in active negotiation of bilateral free trade agreements with many countries. These agreements are considered to be one of the crucial tools for Thailand to move towards a more open and integrated trading economy. This is proving faster than other forms of trade liberalisation. At the same time, the Thai government acknowledges the importance of and complementarity between bilateral and multilateral trade negotiations (Thai Ministry of Commerce, www.moc.go.th; and Thai Department of Trade Negotiation, www.thaifta.com). The free trade agreement regime was developed in 2001 to improve Thailand’s international cooperation with its trading partner countries, as well as to achieve the targets of Thailand’s Ninth National Economic and Social Development Plan (2002–2006) in reaching a position of greater bargaining power in global trade and investment (Thai National Economic and Social Development Board, www.nesdb.go.th).

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1 See Chapter 2 for details of the discussions.
Bilateral trade agreements are one of a number of contemporary environmental factors that Thai firms need to take into consideration in the formulation and implementation of their internationalisation strategies. It is anticipated that while the Doha Round still awaits full completion, bilateral FTAs will cause firms to adjust in the short to medium term to exploit the benefits. In some cases this will involve a deeper level of integration into the global economy. Development of appropriate and workable strategies is critical for the survival and growth of firms operating in globalising markets (Porter 1986). Although Thailand has been actively engaged in the process of opening up new markets through bilateral FTAs for almost a decade, only three comprehensive agreements have been successfully agreed up to now. TAFTA and TNZCEP became effective in 2005 while JTEPA came into force in 2007. Little is yet known about the practical implications of these recent FTAs for Thai firms; in particular, the internal adjustments in terms of business strategies, capabilities and resources. This study aims to analyse how Thai firms have responded to such agreements. By doing so, it will add empirical evidence to the existing knowledge base.

- The importance of Thailand’s food industry

Thailand’s food industry began internationalising in 1970. Since then it has generated double-digit export growth rates until the year 2007 when the rate declined to one digit level of 9.52 per cent. The sector generates export revenue of approximately US$13.82 billion per year for Thailand (from 2003 to 2007). More importantly, the sector comprises of a great number of significant Thai food producers and exporters. These firms are an engine for Thailand’s economic and developmental growth. Together, they help Thailand achieve its position as one of the biggest food exporters in the Asia-Pacific region and in the world.

Over time there have been many changes in business circumstances, most noticeably the gradual loss of competitiveness in this industry and its firms. The Thai government aims to improve this situation by including the food industry as a priority sector in the national economic development strategy; this includes its free trade negotiation strategy. It anticipated that many food products would gain tariff advantages and investment advantages from the three established bilateral FTAs; namely TAFTA, TNZCEP and JTEPA. This research

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2 Many free trade agreements (FTAs) are still under negotiation such as the Thailand-US FTA (Thai Ministry of Commerce, www.moc.go.th; and Thai Department of Trade Negotiation, www.thaifta.com).
3 See Chapter 2 for details of the discussions.
4 See Section 2.3.3 for details.
5 See Section 2.3.5 for details.
explores these agreements’ actual impact on Thai firms in the food industry and the implications for government.

- **Limited research on Asian developing-country MNE responses to free trade policy**

Earlier studies have described the influences on the internationalisation of developing-country MNEs. Some, like Aggarwal and Agmon (1990); Zhou, Delios and Yang (2002); and Peng and Delios (2006) have pointed out the importance of CSFs. Others have focused on firm-specific competitive advantages of the Asian MNEs themselves (Wells 1983; Monkiewicz 1986; Ulgado, Yu & Negandhi 1994; Pananond & Zeithaml 1998; Sim & Pandian 2003; Pananond 2007). Several studies have focused on a comparison between developing-country MNEs and those from developed countries (Wells 1983; Monkiewicz 1986; Ulgado et al. 1994; Luo 1999).

Yet, there is only limited literature on Asian developing-country MNEs’ responses to changes in government bilateral trade policy. Yeung (1994), Sim and Pandian (2003), and Li and Peng (2008) have all suggested that research into the role of the government in the internationalisation of Asian developing-country MNEs would contribute to the current literature. This study intends to extend research in this area. Specifically, it addresses the impact of bilateral FTAs on developing-country MNEs’ international expansion and their internal adjustments. This is unlike most research on FTAs in the developing-country context, which focuses on macroeconomic analysis of exports, imports, trade balance and welfare (Cheong 2004; Chirathivat 2004; Toh 2006). This study contributes to a fuller understanding of developing-country MNEs’ responses to FTAs.

- **Limited research into role of bilateral FTAs in influencing firms’ internationalisation**

Only a small number of studies have investigated the intra-company impact of FTAs on firms’ internationalisation. These analyses have been mainly based on developed-country firms, with the focus on MNEs’ strategic responses. These include the work of Porter (1986 & 1990); Yip (1989, 1995 & 2003); and Rugman and Verbeke (1990 & 1991). These researchers demonstrated the impact of governments’ trade rules and regulations on firms’ strategies. Porter (1990) included the role of government in his “Diamond” model. However, he did not provide a comprehensive analysis of the impact of specific government policies like FTAs. Instead, he provided overall descriptive implications for economic policy makers derived from his theory of government policy impacting through the four major industry and
organisational determinants, of which firms’ strategies are an integral part. Yip’s (1989, 1995 & 2003) framework for global strategy helped further explain the impact of government trade policy on firms’ internationalisation strategies. Government itself is a main industry globalisation driver in his global strategy framework. Similar to Porter (1990), Yip (1989, 1995 & 2003) provided descriptive analyses of various government trade policies, including the Canada–US free trade agreement and Europe 1992. Both argued that favourable government trade policies would enable firms to implement their strategies, such as export strategy, more effectively, yet there has been a lack of searching analysis of preferential trade agreements and their implications on MNEs in detail. Rugman and Verbeke’s (1990 & 1991) work concluded that Canadian and US firms were opting for a more internationalised strategy to obtain benefits from the Canada–US FTA. Their conceptual framework was based on a 2 X 2 matrix, with the dimensions of corporate preferences and perceived impact of trade policy. It was a powerful tool for analysis of the impact of the FTA on corporate strategy. However, other internal adjustments, like the enhancement of production efficiency, were only briefly discussed.

As mentioned, it is noticeable that most of the studies of government trade policy’s influence on firms’ internationalisation are based on MNEs from developed countries, especially those from the USA and the European Union. There are fewer studies on FTA influences on the internationalisation of MNEs from developing countries. This research gap provides an opportunity for empirical study and new evidence. This study aims to address this gap and extend the current theoretical framework to cover the effects of bilateral FTAs on developing-country firms’ internationalisation. The newly developed framework resulting from this study is potentially useful for examinations of how firms adjust internally to free trade agreements. These adjustments may involve changes in their strategies, capabilities and resources.

1.3 Methodology
This study is exploratory, employing a case study approach comprising ten Thai MNEs. A case study approach is appropriate to answer the following research questions:

1a) Are country-specific factors (CSFs) more important than firm-specific factors (FSFs) in internationalisation?7

1b) Do firms rank government trade policy high among CSFs?8

6 See Figure 3.2 in Chapter 3.
7 See Sections 5.4 and 6.3.
8 See Sections 5.2, 5.3 and 6.3.
2) How, if at all, do bilateral FTAs influence Thai MNEs’ internationalisation?9

3a) How, if at all, do Thai MNEs respond to bilateral FTAs?10

3b) If they respond, Why do they respond?11

As Yin (1984) pointed out, the case study approach is useful for gathering complex and holistic data. Yin also argued that the approach is applicable to a study focusing on contemporary events. In order to gain more insight into complex research issues, a multiple data collection method is used to explain how Thai firms have internationalised after free trade agreement initiatives came into force in 2005. Interviews, questionnaires, field notes, documentation and archival records all contribute to the analysis of this study.

Table 1.1 summarises the case study research process employed in this study. Justification for employing a multiple case-study research design and a detailed case-study method are provided in Chapter 4.

**Table 1.1 Case study research process**

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<th>Research process</th>
<th>Main research tool</th>
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<tbody>
<tr>
<td>Identify gaps in the existing literature</td>
<td>Literature review notes and preliminary secondary data summary</td>
</tr>
<tr>
<td>Develop theoretical propositions and preliminary frameworks</td>
<td>Literature review notes and preliminary secondary data summary</td>
</tr>
<tr>
<td>Select cases and design data collection protocol</td>
<td>The Stock Exchange of Thailand (SET) database including relevant readings on data collection procedures and data collection plan</td>
</tr>
<tr>
<td>Collect data—fieldwork</td>
<td>Interviews and questionnaires</td>
</tr>
<tr>
<td>Organise and manage research findings</td>
<td>Data matrixes and NVivo7</td>
</tr>
<tr>
<td>Analyse data</td>
<td>Within case analysis and cross case analysis; multiple sources of evidence; pattern matching; explanation building; comparison with literature</td>
</tr>
<tr>
<td>Modify existing theory</td>
<td>Within case analysis and cross case analysis; multiple sources of evidence; pattern matching;</td>
</tr>
</tbody>
</table>
1.4 Organisation of the thesis

This study comprises seven chapters. It develops an empirical and theoretical study of Thai food-processing firms’ responses to FTAs. The structure of the thesis is as follows:

![Research Structure Diagram]

Chapter 1: Introduction. This chapter presents an overview of the research. It describes the objectives and rationale of the study, the research method used, and an outline of this thesis.
Chapter 2: Context of research. This chapter offers an overview of Thailand’s international trade strategy with bilateral FTAs as the major focus of the discussion and explains the importance of Thailand’s food sector in both domestic and international arenas.

Chapter 3: Literature review. This chapter comprises selective literature reviews on internationalisation and theories relating to developing-country multinational enterprises. It also theoretically describes the role of government trade policy in the international expansion of firms.

Chapter 4: Research methodology. This chapter sets out the research methodologies employed and how data were collected and analysed to achieve the aforementioned research objectives. It also discusses limitations of the case study research method.

Chapter 5: Research findings. This chapter presents empirical findings collected from Thai firms in the food sector. The findings on their responses to changes in government trade policy and regulations, bilateral FTAs in particular, were critical to the acceptance or rejection of the theoretical propositions developed and to addressing research questions of this study.

Chapter 6: Discussion. This chapter analyses and discusses the research data in light of practical and theoretical propositions. Data from various sources—for example, Thai government agencies and officers as well as relevant trade and industry associations—are triangulated and discussed. The chapter provides an in-depth analysis of the research findings, with implications for firms and other relevant groups. An enhanced theoretical framework for an analysis of bilateral FTAs and firms’ internationalisation responses is proposed.

Chapter 7: Conclusions. This chapter summarises all major findings of the research. It discusses major contributions and limitations of the study. It also recommends research areas for future study.

1.5 Summary
This chapter provided an overall picture of this study, which aims to contribute to the scant literature on the influence of government trade policy on internal adjustments of developing-country MNEs. It included the rationale for the study and research method used. It argued that it was worth exploring whether government-created country-specific factors like bilateral FTAs act as critical influences on developing-country firms’ internationalisation. Last but not least, it specified the organisation of the thesis.
CHAPTER 2
CONTEXT OF RESEARCH

2.1 Introduction
This chapter describes Thailand’s bilateral free-trade agreements (FTAs) and its food sector. Data and information on both are presented as background to this research. This includes definitions of the FTAs and a comment on Thailand’s reasons for developing bilateral FTAs. The three established FTAs are compared with one another and summarised. Then, the Thai food industry is defined. Its importance to both Thailand and to the world market is described. Data on aggregate food exports to countries party to the FTAs (Australia, New Zealand and Japan), and examples of selected major food products exported to the world, are presented.

2.2 Bilateral free-trade agreements
2.2.1 Definitions
Terminologies used in this study are those defined by the Dictionary of trade policy terms (Goode 2003). The dictionary includes entries contributed and used by the World Trade Organization (WTO) which recommends the dictionary as a key reference in its own trade policy course. It was therefore considered both appropriate and acceptable, given the nature and focus of this study.

Goode (2003: 146) defined a free trade agreement (FTA) as:

“A contractual arrangement between two or more countries under which they give each other preferential market access, usually called free trade.”

An FTA is a trade arrangement between the parties to the agreement. FTAs help to liberalise trade between the countries party to the agreements, but not with others. FTAs can be bilateral, regional or multilateral. The WTO has often referred to an FTA as a “regional trade agreement” or “regional trade arrangement (RTA)” (World Trade Organization, www.wto.org). In addition, the WTO defines regionalism, according to the Dictionary of trade policy terms, as:

“Actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions.” (World Trade Organization, www.wto.org)
In this research, the term “regional trade arrangement (RTA)” is defined according to Goode (2003: 292) as “A free-trade agreement, customs union or common market consisting of two or more countries.”

In certain cases, the terminology “preferential trade agreement (PTA)” is used instead of FTA to indicate that the agreements provide special preferences to partner countries. The FTA and PTA terminology are sometimes used interchangeably. During the development and negotiation processes of FTA arrangements, interim trade agreements such as Early Harvest Programs (EHPs) are used. However, this study will not include these interim agreements in the analysis of this research. This research focuses solely on fully negotiated FTAs between two countries, otherwise known as “bilateral FTAs”. It excludes other forms of trade arrangements and economic integration involving a larger number of countries; for example, the European Union (EU) and the ASEAN Free Trade Area (AFTA).

Bilateral FTAs lead to trade liberalisation and other preferential arrangements between the countries party to the agreements, such as investment and other economic cooperation. This terminology embraces Closer Economic Partnership (CEPs) and Economic Partnership Agreements (EPAs) as well as FTAs. It is accepted that both CEPs and EPAs are also agreements promoting trade liberalisation, covering wider areas and deeper levels of economic integration than FTAs (Thai Department of Export Promotion, www.depthai.go.th). These EPAs are a comprehensive form of conventional FTAs, which are quite common among East Asian countries—for example, the Japan–Singapore EPA, covering services, movement of natural persons and technical cooperation (Urata 2004: 40).

2.2.2 Motivations for developing bilateral free-trade agreements in the Asia-Pacific

In general, trade liberalisation policy aims to open markets and encourage freer trade practices. Anti-free trade policy would do harm by sheltering economic inefficiency from competition. Hence the importance of free trade negotiations around the world. Since the development of multilateral trade agreements has been disappointing, as shown by its sluggish pace of progress over past years, many countries pursue regional and bilateral free-trade agreements with their trading partners (Low 2003; Urata 2004: 42). In the Asia-Pacific region, interestingly, these new FTA developments are sometimes characterised by the term “new bilateralism”, as most of them involve only two countries (Lloyd 2002). Countries in

12 Discussed further in Section 2.2.3.
favour of bilateral FTAs\textsuperscript{13} argue that such policy is complementary to multilateral trade negotiations (Lee, Choi & Kang 2003; Liang 2005; Taleringsri & Vonkhorporn 2005; Toh 2006). In this view, FTAs are helpful in merging product markets between countries party to the agreements, whilst also helping them to achieve their trade liberalisation objectives. Opponents of these preferential agreements, on the contrary, reason that regionalism is not the best way to increase global economic welfare (Bhagwati, Greenaway & Panagariya 1998; Trebilcock & Howse 1999).

The major reasons for developing bilateral trade agreements include: the improvement of trade and factor flows; maintaining and widening market access; side-stepping the slow progress of the WTO multilateral trade negotiation; and deepening economic integration, including foreign direct investment (FDI) inflows (Lloyd 2002; Dent 2006). Arguably, these reasons are applicable to Singapore’s policy focus on active development of bilateral FTAs (Sen 2004; Toh 2006). Some governments, like that of Korea, adopt FTA policy both to get rid of trade barriers, and to accelerate trade and industrial reform (Lee, Choi & Kang 2003). Interestingly, a bilateral FTA between Japan and Mexico was established out of necessity, to defend Japanese firms operating in Mexico from losing competitive advantages caused by the North American Free Trade Agreement (NAFTA) (Manger 2005). In any case, developing countries and their respective firms have not much bargaining power in the international trade negotiation arena. So, many countries, including Thailand, put a great deal of effort into developing bilateral FTAs with both developed and developing countries as a means to strengthen their position in world markets (Ravenhill 2003). Interconnected economies and the increasing importance of global competitive advantages seem to be the crucial push factors for a developing country to pursue FTA arrangements as part of economic development strategy.

In the case of Thailand, the free trade agreement regime aims to strengthen existing trade relationships with trading partner countries, increase trade and investment opportunities and establish gateways to new markets. These are in accordance with the goals of the Ninth National Economic and Social Development Plan of Thailand (2002–2006) in obtaining bargaining power in international trade and investment (Thai National Economic and Social Development Board, www.nesdb.go.th). The Thai government employs a bilateral FTA policy that partially helps them to achieve international trade and investment goals.

\textsuperscript{13} For example: Singapore, Japan, Korea and Thailand.
2.2.3 Development of bilateral free-trade agreements in Thailand

The Thai government has undertaken free trade initiatives as a critical part of its overall international trade strategy. The policy began in 2001, following the example of Singapore, which was the first ASEAN (Association of South-East Asian Nations) country to implement a bilateral free-trade agreement regime. There are different stages of developments and success in each free trade agreement negotiation process. In Thailand, many active free trade negotiations have been in progress for some time, for example, Thailand–United States. Others are already in effect, for example, Thailand–Australia, Thailand–New Zealand, and Thailand–Japan (Thai Department of Trade Negotiation, Thai Ministry of Commerce, www.thaifta.com). Among these, Thailand’s first bilateral free-trade agreement with a developed country, the Thailand–Australia Free Trade Agreement (TAFTA), was successfully agreed on 5 July 2004. Table 2.1, below, summarises the bilateral FTAs between Thailand and its leading trading partners.

Table 2.1 Thailand’s Bilateral Trade Agreements

<table>
<thead>
<tr>
<th>FTA arrangements</th>
<th>Agreement signed</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand–China EHP(^a) only</td>
<td>18 Jun 2003</td>
<td>1 Oct 2003</td>
</tr>
<tr>
<td>Thailand–India EHS(^b) only</td>
<td>9 Oct 2003</td>
<td>1 Mar 2004</td>
</tr>
<tr>
<td>Thailand–Australia FTA</td>
<td>5 July 2004</td>
<td>1 Jan 2005</td>
</tr>
<tr>
<td>Thailand–New Zealand CEP(^c)</td>
<td>19 Apr 2005</td>
<td>1 Jul 2005</td>
</tr>
<tr>
<td>Thailand–Peru EHS only</td>
<td>19 Nov 2005</td>
<td>1 Jul 2009 (Expected)</td>
</tr>
<tr>
<td>Thailand–Japan EPA(^d)</td>
<td>3 April 2007</td>
<td>1 Nov 2007</td>
</tr>
</tbody>
</table>

\(^a\)EHP stands for “Early Harvest Programme”; \(^b\)EHS stands for “Early Harvest Scheme”; \(^c\)CEP stands for “Closer Economic Partnership”; and \(^d\)EPA stands for “Economic Partnership Agreement”

Source: Compilation from the Thai Department of Trade Negotiation, Thai Ministry of Commerce (www.thaifta.com) and Thai Ministry of Foreign Affairs (www.mfa.go.th/jtepa)

Thailand remains actively involved in the negotiation of bilateral FTAs. As Table 2.1 illustrates, five bilateral agreements entered into force during 2003–2007. They fall into two categories: namely, fully negotiated agreements and interim agreements, like the Early Harvest Schemes (EHSs). The interim trade agreements help to accelerate trade liberalisation between the parties before bilateral FTAs are fully negotiated. They comprise only one part of broader framework agreements. While the framework agreements cover trade in goods, services and investment embracing comprehensive economic cooperation, EHPs or EHSs focus on just one sector (mainly trade in goods). The interim trade agreements, like the
Thailand–China EHP and the Thailand–India EHS, are less relevant to this research, since they include very few categories of the food-processing industry in tariff reductions. Goods under the former are mainly fresh fruits and vegetables, while the latter covers only 84 items of agricultural and industrial goods. Further, these interim agreements do not cover liberalisation of investment or movement of people, which is relevant to this research. Therefore, these interim agreements are not included in the analysis of this study.

The focus here is on those bilateral FTAs that are in force, namely the Thailand–Australia Free Trade Agreement (TAFTA), the Thailand–New Zealand Closer Economic Partnership (TNZCEP) and the Japan–Thailand Economic Partnership Agreement (JTEPA). Even though these agreements have only recently come into effect, their comprehensive content makes them highly relevant to Thai firms in the food industry.

The Thai Ministry of Commerce considered Australia and New Zealand as potential markets, while Japan was already a major market but capable of enlargement. This is the motivation for the Thai government’s bilateral trade development with these countries. Additionally, the government encourages Thai exporters to start looking at new markets in China, India, Africa and Russia. In the past, Thai exporters focused only on big, conventional markets, such as the USA, Japan and Europe. The Director of the Thai Trade Centre states that it is now time for Thai firms to pay greater attention to new markets, in order to expand internationally and achieve higher revenues and growth. Specifically, Australia and New Zealand have diverse markets, limited environmental NTBs, and seasonal demands complementary to existing major markets:

“The population in Oceania is approximately 24 million in total—Australia (20 million) and New Zealand (4 million). These figures seem small. Thai exporters should not only look at the numbers of population in prospective markets, but also characteristics in those markets, for example, diverse consumers in Australia and New Zealand (with increasing numbers of immigrants from Asia). Export products for both Asian and European regions can be exported to Australia and New Zealand. In addition, Australia and New Zealand have less non-tariff barriers (NTBs), especially in environment-related issues, than the EU. Another good thing about the two countries is that they are located in the Southern Hemisphere. As a result, Thai exporters could take the benefits of different seasons to those of other countries. This would help them sell their products throughout the year.”

(Director, Thai Trade Centre, Sydney, Australia, November 2006)
When investigating each bilateral trade agreement in detail, there are common elements among the agreements in terms of expected benefits. In general, FTAs help to expedite trade in goods and services through a reduction of tariffs on various tradeable products. Higher levels of investment are encouraged by liberalisation of the production and service sectors, as well as facilitation of natural person mobility. Trade and economic cooperation and better practices can be strengthened by working together more closely in some areas explicitly included in the agreements, for example, competition policy, industrial standards, quarantine procedures, intellectual property and government procurement. Notwithstanding, the bilateral trade agreements are diverse in timing, commodity coverage, degrees of trade and investment liberalisation and cooperation.

The development of free trade agreements between Thailand and its trading partners has brought about a wider market opening for trade in goods. Tariff reductions are considered to be high in all these bilateral agreements. JTEPA, for example, eliminates tariffs from 95 per cent of Thai goods. TAFTA and TNZCEP reduce tariffs for Thai products—including processed food, processed seafood and ready-to-eat food—by 83 per cent and 79 per cent respectively. These directly expand trade opportunity by widening market access for processed food products. The FTAs provide Thai firms with competitive advantage over those competitors whose governments have not yet liberalised their trade regime. In addition, there is provision of technical assistance and cooperation, especially in agricultural technology (under TAFTA and TNZCEP). It is postulated here that this cooperation will enhance productivity and the quality of Thai agricultural products used as inputs in processed food production.

The bilateral agreements also liberalise services and investment. This provides Thai firms with greater opportunities for investment in both service and non-service sectors in the three countries party to the Agreements. However, degrees of openness in different sectors vary from country to country. For example, TAFTA and JTEPA cover the liberalisation of trade in services in areas in which Thailand has existing potential. There are new opportunities for Thai investors to enter services in the hotel, restaurant, spa, consulting and architecture sectors. TNZCEP, on the other hand, opens up investment only in non-service sectors—except for fisheries—with negotiation on liberalisation of trade in services yet to commence. This is expected to occur within three years from the date of the Agreement entering into effect.

\(^{14}\) See Table 2.1.
force. Liberalisation in services and investment in these three developed countries is good for Thai firms in the food industry, since almost all value-adding activities are open to Thai investment, with the exception of actual fishery and forestry activities.

With regard to movement of people, the most relevant feature is that all countries party to the bilateral FTAs with Thailand agree to facilitate temporary business entry for Thai citizens. In addition, simplified and transparent immigration formalities for business people are employed and encouraged. There is also a relaxation for Thai chefs who are certified by the Thai Ministry of Labour and meet the national requirements to work in each country. The deregulation of movement for both business people and Thai chefs helps Thai firms to relocate their human resources when they invest in these countries, for example, in sales and distribution offices, or in restaurants. Table 2.2 summarises similarities and differences among the three FTAs.
<table>
<thead>
<tr>
<th>Description</th>
<th>Thailand–Australia FTA</th>
<th>Thailand–New Zealand CEP</th>
<th>Japan–Thailand EPA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goods under the agreement</strong></td>
<td>Australia has eliminated tariffs on 83% of Thai goods from date of entry into force, including processed food products, e.g. processed seafood and other processed food.</td>
<td>New Zealand has eliminated tariffs on approximately 79% of Thai goods from date of entry into force, including processed food products, e.g. canned tuna, processed seafood and other processed food (including ready to eat).</td>
<td>Japan has eliminated tariffs on 95% of Thai goods from date of entry into force, including processed food products, e.g. chilled, frozen or preserved shrimps and prawns, as well as other processed food.</td>
</tr>
<tr>
<td><strong>Trade opportunity</strong></td>
<td>- Technical assistance and cooperation, especially in agricultural technology, information technology and education. - Market access for labour-intensive products, including processed food products. - Australia could be one of the major distribution bases and channels for Thai exports in the South Pacific region. - Markets for Thai fruits and vegetables due to different season and climate between Thailand and Australia. - Markets for processed food products due to increasing and large numbers of Asian immigrants in Australia.</td>
<td>- Technical assistance and cooperation, especially in farming (cattle and livestock). - Market access for processed food products, e.g. frozen shrimp, canned tuna, canned seafood, cereal, pasta, biscuits and pet food.</td>
<td>- Technical assistance and cooperation, especially in steel, automotive, as well as trade and investment promotion for “Kitchen of the World project of Thailand”. - Market access for processed food products, e.g. processed shrimp, cooked chicken, processed fish, processed fruits and vegetables, and fruit juices.</td>
</tr>
<tr>
<td><strong>Service and investment opportunity</strong></td>
<td>- Investment in all production and service sectors (100%), except in the areas of newspaper, media (radio), aviation, international air transport and airport. Investment that exceeds A$10 million is required to get an approval from relevant Australian authority (Foreign Investment Review Board—FIRB).</td>
<td>- Market access to and liberalisation of trade in service will be negotiated within 3 years from the date of entry into force. - Investment in all non-service sectors (100%), except fishery. Investment that exceeds NZ$50 million is required to get an approval from relevant New Zealand authority.</td>
<td>- Investment in all production and service sectors (100%), except in the areas of aviation, international air transport and airports. - Greater opportunity than other members of WTO, as agreed in General Agreement on Trade in Services (GATS). JTEPA includes additional service sectors to</td>
</tr>
<tr>
<td>Description</td>
<td>Thailand–Australia FTA</td>
<td>Thailand–New Zealand CEP</td>
<td>Japan–Thailand EPA</td>
</tr>
<tr>
<td>-------------</td>
<td>------------------------</td>
<td>--------------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>-Greater opportunity than other members of WTO in any investment in the areas of legal consultancy, architecture, culinary institute, Thai language institute, spa and massages, Thai restaurants, mining and so on. -Deregulation of some labour rules and regulations, encouraging greater labour mobility, as well as facilitation of temporary business entry for Thai citizens, e.g. abolish labour market test. In addition, more simplified and transparent immigration formalities for business persons are employed and encouraged.</td>
<td>-Deregulation of some labour rules and regulations, encouraging greater labour mobility, as well as facilitation of temporary business entry for Thai citizens, e.g. mutual recognition of qualification. In addition, more simplified and transparent immigration formalities for business persons are employed and encouraged.</td>
<td>GATS-65 sub sectors. New opportunities for Thai investors to enter the potential industries in Japan, especially on the services investments in hotel, restaurant, spa, consultancy and architecture. - Deregulation of some labour rules and regulations, encouraging greater labour mobility, as well as facilitation of temporary business entry for Thai citizens. For example, relaxation for Thai chefs who have certificates issued by the Thai Ministry of Labour and meet the criteria to work in Japan, as well as the reduction of Thai chefs’ qualification from 10 years’ experience to only 5 years in Japan. In addition, more simplified and transparent immigration formalities for business persons are employed and encouraged.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Compilation from the Thai Department of Trade Negotiation, Thai Ministry of Commerce (www.thaifta.com) and Thai Ministry of Foreign Affairs (www.mfa.go.th/jtepa)
2.3 Thailand’s food industry

2.3.1 Definition

This study employs the same definition of the food industry as that of the Thai Ministry of Industry, which defines “the food industry” in the national master plan for Thailand’s food industry as:

“Food industry means an industry that uses agricultural products such as plants, livestock and fisheries as main raw material in productions. The productions are based on technologies in order to get products for consumption uses or for other uses in further production processes. It is a method of preservation of agricultural products by primary manufacturing processes or intermediate manufacturing processes or final manufacturing processes.” (Thai Ministry of Industry 2002)

2.3.2 Thailand’s major food exports

A large proportion of Thailand’s food exports are processed foods, accounting for about 20 per cent of total food exports. As Table 2.3 indicates, in 2007, Thailand’s major exports of processed food products totalled US$3.41 billion in value, and grew at an annual rate of nine per cent (Thai Food Processors’ Association, www.thaifood.org); comprising canned seafood (US$1.79 billion), processed fruits and vegetables (US$1.14 billion), ingredients and ready-to-eat food (US$483 million). These categories grew at five, six and 32 per cent respectively. These processed food exports comprise critical components of Thailand’s export structure. Moreover, higher value-adding products—like ready-to-eat food—are the fastest growing, even though they involve more complicated production processes than the others.

Table 2.3 Thailand’s major processed food exports in 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>Value 2007 (US$)</th>
<th>Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canned Seafood</td>
<td>1.79 billion</td>
<td>5%</td>
</tr>
<tr>
<td>Processed Fruits and Vegetables</td>
<td>1.14 billion</td>
<td>6%</td>
</tr>
<tr>
<td>Ingredients and Ready-to-Eat</td>
<td>483 million</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: Thai Food Processors’ Association, www.thaifood.org

Thailand has achieved a significant reputation in exporting processed food, especially in the following categories (National Food Institute of Thailand, www.nfi.or.th):

1) Pineapple, including pineapple juice and concentrates—world’s largest exporter
2) Seafood products—world’s second largest exporter (notably, world’s largest exporter of shrimp and tuna products)

3) Chicken products—one of the world’s top ten exporters.

Table 2.4 presents the export value of two processed food products selected from the first two categories. They are among the most important export products of Thailand:

1) HS 160414—Tuna, skipjack and bonito, whole or in pieces, but not minced, prepared or preserved

2) HS 200820—Pineapples, otherwise prepared or preserved (other than prepared or preserved in vinegar).

This study uses the Harmonised System (HS) or Harmonised Commodity Description and Coding System. The HS is a legal and logical international product nomenclature developed through the World Customs Organization (WCO), formerly known as the Customs Co-operation Council, based in Brussels. The HS covers 1,241 headings designated by a six-digit code (World Trade Organization, www.wto.org). The major purposes of the HS are tariff classification, and identification of goods subject to import and export controls. The HS is also used in trade statistics and country of origin determination (World Customs Organization, www.wcoomd.org).

Table 2.4  Thailand’s exports of HS 160414 and HS 200820 to the world

<table>
<thead>
<tr>
<th>Processed tunas, skipjack and bonito (160414)</th>
<th>Value: Mil. US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>160414 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Total</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>72.77</td>
</tr>
<tr>
<td>2004</td>
<td>60.77</td>
</tr>
<tr>
<td>2005</td>
<td>71.35</td>
</tr>
<tr>
<td>2006</td>
<td>100.89</td>
</tr>
<tr>
<td>2007</td>
<td>100.35</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Processed pineapples (200820)</th>
<th>Value: Mil. US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>200820 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Total</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>22.64</td>
</tr>
<tr>
<td>2006</td>
<td>31.23</td>
</tr>
<tr>
<td>2007</td>
<td>36.13</td>
</tr>
</tbody>
</table>

Source: Compilation from Thai Department of Trade Negotiations in cooperation with Customs Department
Both products’ export values grew during 2003–2007. Exports of processed tuna, skipjack and bonito increased from US$828.01 million in 2003 to US$1.38 billion in 2007. At the same time, processed pineapples’ export value in 2003 was US$281.51 million, but rose to US$419.14 million in 2007. Figure 2.1 shows monthly data of these two items, which confirms that their export values are on an upward trend.

![Graph showing monthly data of exports of selected items to the world during 2003–2007](image)

Figure 2.1   Thailand’s exports of selected items (HS 160414 and HS 200820) to the world during 2003–2007

2.3.3   Role of food industry in the Thai economy

The significance of the food industry as one of the country’s major export sectors has grown over time. In the 1970s, Thailand’s food industry began to play a role in international trade, and the industry successfully achieved a 26 per cent export growth rate in 1990 (National Food Institute of Thailand, www.nfi.or.th). By 2007, the industry’s export growth rate had declined to 9.52 per cent, but the industry remained robust (National Food Institute of Thailand 2008b). In addition, the Ninth National Economic and Social Development Plan of Thailand (2002–2006) stressed the importance of Thailand’s food industry by aiming to maintain Thailand’s position as a major food producer and exporter (Thai National Economic and Social Development Board, www.nesdb.go.th). The sector is considered to reflect one of Thailand’s competitive strengths, and is judged important in the national economic development strategy. It is identified as one of Thailand’s globally competitive sectors (Thai Ministry of Industry, www.m-industry.go.th).

Consequently, this study focuses on the food industry as the research domain from which case studies are selected. Thailand’s food industry is substantial and it is one of the most rapidly internationalising sectors in Thailand (as well as making Thailand one of the largest food
exporters in the world). As shown by its export values, food exports from Thailand to the world increased from US$11.35 billion in 2003 to US$17.41 billion in 2007 (see Table 2.5). On average, the industry generated income for Thailand of about US$13.82 billion per year during 2003–2007.

Table 2.5  Thailand’s food exports to the world

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>885.66</td>
<td>866.83</td>
<td>877.75</td>
<td>912.00</td>
<td>1,020.87</td>
<td>939.42</td>
<td>934.30</td>
<td>971.80</td>
<td>960.80</td>
<td>987.31</td>
<td>1,021.89</td>
<td>975.22</td>
<td>11,353.85</td>
</tr>
<tr>
<td>2004</td>
<td>922.65</td>
<td>935.51</td>
<td>917.00</td>
<td>897.09</td>
<td>1,034.75</td>
<td>1,178.67</td>
<td>1,060.50</td>
<td>1,060.52</td>
<td>1,128.86</td>
<td>1,146.26</td>
<td>1,173.29</td>
<td>1,102.24</td>
<td>12,557.35</td>
</tr>
<tr>
<td>2005</td>
<td>920.60</td>
<td>892.18</td>
<td>1,053.62</td>
<td>967.17</td>
<td>1,152.26</td>
<td>1,117.04</td>
<td>1,169.78</td>
<td>1,212.83</td>
<td>1,160.27</td>
<td>1,081.80</td>
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<td>1,329.58</td>
<td>1,486.65</td>
<td>1,336.54</td>
<td>1,469.37</td>
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<td>1,638.89</td>
<td>1,580.27</td>
<td>17,411.46</td>
</tr>
</tbody>
</table>

Source: Compilation from Thai Department of Trade Negotiations in cooperation with Customs Department

The researcher obtained monthly and annual data on Thailand’s processed food exports (from 2003 to 2007) to the world, and to countries party to bilateral FTAs with Thailand. This data is based on the same Harmonised System Codes used by the National Food Institute of Thailand (NFI). These codes are based on the food industry as defined by the Thai Ministry of Industry. Under this definition, there are 985 categories of food products. However, Thailand does not have international competitiveness in all these items. The number of food products that Thailand regularly exports to foreign countries is about 575.15

Thailand’s food exports are, however, growing at a declining rate. This emphasises the need to deepen current markets and, at the same time, expand into new markets. It is anticipated that the established FTAs will facilitate this process (National Food Institute of Thailand, www.nfi.or.th). The food industry is one of the key sectors in Thailand’s free trade agreement strategy (Thai Department of Trade Negotiation, Ministry of Commerce, www.thaifta.com).

As a result of successful negotiations, tariffs for some food products are subject to eliminations over time, while some others are immediately reduced to zero.16 This may well encourage firms to take bilateral FTAs into account and to gain benefit from the favourable trade policy. This study explores the dynamic responses by firms to the bilateral FTAs in their internationalisation strategies, capabilities and resources.

15 See Tables 2.5 and 2.6.
16 See Appendix A.
2.3.4 Thailand’s food exports and bilateral FTAs

There are some linkages between Thailand’s food export patterns and the implementation of Thailand’s bilateral trade agreements with trading partner countries. Inevitably, the food industry is influenced by internationalisation forces like bilateral FTAs, through tariff reductions. Table 2.6 shows Thailand’s yearly and monthly export values of food products to Japan, Australia, New Zealand and the rest of the world.

Table 2.6 Thailand’s food exports to Japan, Australia, New Zealand and other countries

<table>
<thead>
<tr>
<th>JAPAN</th>
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<tbody>
<tr>
<td>Jan</td>
<td>Feb</td>
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<tr>
<td>2003</td>
<td>186.80</td>
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<tr>
<td>2004</td>
<td>175.65</td>
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<tr>
<td>2005</td>
<td>162.20</td>
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<td>2006</td>
<td>174.44</td>
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<td>2007</td>
<td>154.93</td>
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<td>2006</td>
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<td>2003</td>
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<td>2004</td>
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<td>2005</td>
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<td>2006</td>
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<td>2007</td>
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<th>OTHER COUNTRIES</th>
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<td>2003</td>
<td>671.25</td>
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<td>2004</td>
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<td>815.93</td>
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<td>2007</td>
<td>1,057.09</td>
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Source: Compilation from Thai Department of Trade Negotiations in cooperation with Customs Department

Unsurprisingly, among the three markets, Japan is ranked first by value, followed by Australia and New Zealand. There is no doubt that Japan is the major export market for Thailand in this group. Total food exports from Thailand to Japan, at US$2.29 billion, were very much greater
than to the Oceania countries in 2007.¹⁷ Yet, it is noticeable that export values to the latter countries have increased since TAFTA and TNZCEP became effective in 2005. Food products exported to Australia increased from US$360.48 million in 2005 to US$438.71 million in 2007, while those exported to New Zealand increased from US$54.86 million in 2005 to US$76.05 million in 2007.¹⁸ In addition, the impact of the two bilateral agreements on Thailand’s total exports to these destinations is consistent with those of the food sector. This is confirmed by the following statement:

“TAFTA began on 1 January 2005. In 2005, Thai exports to Australia grew up to 32.5 per cent in 2005, which was greater than the growth rate in 2004 (approximately 17%). Thai exports to the world were growing at the rate of 13 per cent in 2005. These figures reflect the impacts of TAFTA on Thai exports. TAFTA motivates Thai exporters to increase their exports to Australia ... In the case of New Zealand, Thai exports to New Zealand grew up to 51 per cent in 2005, which was greater than the growth rate in 2004 (approximately 28–32%). TNZCEP helps accelerate trade between the two countries and induce higher Thai exports to New Zealand.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

Undeniably, TAFTA and TNZCEP are partially responsible for increases in food exports to the Oceania region. However, there are other reasons as well, including an increased number of immigrants and tourists who are already familiar with Thai food products:

“Thai food exports grow at 10–15 per cent approximately. This may be due to the fact that Australia is a diverse market and Thai food is popular among Australians. There is a tendency to grow further in terms of Thai exports of this sector to Australia. On the other hand, New Zealand is still a small market for Thai food products. However, New Zealand is a potential market for Thai exporters based on various reasons, for example, increasing immigrants, diverse market and big tourism sector.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

The full potential impact of JTEPA is still unclear. At this stage, due to the fact that JTEPA came into force only in November 2007, it is too early to see any substantial impact in the annual data. A closer look at monthly data is useful to see the possible future impact of JTEPA. Thailand’s monthly food exports to Japan increased from US$200.23 million in October 2007 to US$216.63 million in November 2007, and then declined to US$178.12 million in December 2007.¹⁹ However, this pattern may reflect seasonal effects, since food

¹⁷ See Table 2.6.
¹⁸ See Table 2.6.
¹⁹ See Table 2.6 and Figure 2.2.
exports to Japan in December are always slightly less than those of the preceding month. Monthly export values of Australia, New Zealand and the rest of the world are also displayed in Figures 2.3, 2.4 and 2.5. Overall, Thailand’s food products exported to these markets increased steadily after bilateral FTAs came into force.
Figure 2.2 Thailand’s food exports to Japan

Figure 2.3 Thailand’s food exports to Australia
Figure 2.4 Thailand’s food exports to New Zealand

Figure 2.5 Thailand’s food exports to the rest of the world
2.3.5  Role of Thailand’s food industry in the world market

One of the reasons that Thailand’s food sector is selected for this investigation is that it is one of the most important food exporters in Asia. As illustrated in Table 2.7, Thailand was the fifteenth largest food exporter in the world from 2000 to 2006, and its rank rose to fourteenth in 2007. Among the world’s food exporters, there are only two major Asian players: namely, China and Thailand. The sector is characterised by high degrees of internationalisation as reflected in exports (as described in Sections 2.3.2, 2.3.3 and 2.3.4) and foreign investment.

In 2006, total foreign direct investment (FDI) in the food industry amounted to US$0.94 billion, which is 23.2 per cent of total outward FDI made by all Thai private non-bank companies (Bank of Thailand 2006).20 They made greater outward investment in the food industry than in other industrial sectors in that year, though less than in electrical machinery and appliances in 2007 (Bank of Thailand 2007). Still, the food sector includes major Thai players in world markets. This is consistent with research by Vernon-Wortzel and Wortzel (1988), who claimed that most developing-country MNEs could be found in the manufacturing sector; which includes food processing.

20 These figures were calculated based only on equity capital and reinvested earnings.
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<td><strong>Thailand</strong></td>
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Source: Compilation from World Trade Organization, Time Series (http://stat.wto.org)
There are plenty of opportunities in global markets for Thai firms in the food industry since global demand for their products is rising. The main cause of this growing demand is the fact that consumption patterns of food products are becoming internationalised through international migration, communication and tourism (Athukorala & Jayasuriya 2003). In addition, climate change and resultant shortages of food supplies around the globe are leading to higher demand for Thai food products unaffected by such changes. For example, Thai rice, fruit and vegetable products can be increasingly exported to world markets in larger amounts, yielding increased revenues to Thai exporters (National Food Institute of Thailand 2008a).

The global market share and growth of Thailand’s food exports to the world market is relatively small. The most recent figures indicate that Thailand’s food exports are approximately 2.40 per cent of the world’s total (National Food Institute of Thailand 2008a), and grew at a rate of 9.52 per cent in 2007 (National Food Institute of Thailand 2008b). Total world food exports grew at 18.50 per cent in the first half of 2007 (National Food Institute of Thailand 2008a). It follows that Thailand’s food exports are growing at a slower pace than the world average. This suggests there are large market opportunities still to be tapped by Thai food exporters. Hence the importance of appropriate internationalisation strategies and the development of internal company strengths to enable Thai firms to capitalise on the increasing demand for food in the world market.

Last but not least, Athukorala and Jayasuriya (2003) stated that supply side developments and increasing degrees of trade liberalisation have facilitated the exchange of processed food globally. These developments can be encouraged through effective government policies. Athukorala and Sen (1998) stated that among all country-specific factors, government policy is the most significant determinant of processed food export success. Bilateral trade policy could directly affect firms in the industry as tariffs on processed food are reduced. Developing-country exports come from low cost producers who try to exploit country-specific advantages. These products are sensitive to tariffs, such that developing-country firms may react to trade barriers by locating some of their activities in a foreign country, especially a neighbouring developing country (Lecraw 1977). When trade liberalisation occurs, it is interesting to investigate how developing-country firms respond to lower trade barriers. Some benefit from higher exports. Others engage in international investment.
2.4 Summary

This chapter described the context of this research. The Thai MNEs belonging to the food industry have to decide their responses to newly introduced bilateral FTAs. Thailand is in favour of trade liberalisation and openness, as reflected in its effort to deregulate in conformity with the requirements of the WTO, as well as with the establishment of FTAs. It is still unclear whether the wider market access created by these arrangements will be efficiently tapped by Thai firms. Will this change in trade policy be perceived by firms as a source of trade and investment opportunities? How will the FTAs facilitate Thai firms’ export and investment? How will the FTAs influence Thai firms’ internationalisation strategies, capabilities and resources? These questions, when answered, will provide a better understanding of the value of FTAs to business. The answers will also have implications for the private sector more broadly and for government. This research seeks to address the aforementioned questions. They are explored and discussed in Chapters 5 and 6. The next chapter will review the existing literature.
CHAPTER 3
LITERATURE REVIEW

3.1 Introduction
The Industrial Revolution in Western countries took place in largely the nineteenth century. Since then, many researchers have studied the internationalisation of MNEs from these countries. From this research, a number of core theoretical models of internationalisation emerged including: the stages models (Johanson & Widersheim-Paul 1975; Johanson and Vahlne 1977); the product life cycle model (Vernon 1966 & 1979), the investment development cycle model (Dunning 1986); and the so-called eclectic framework (Dunning 1988). The Uppsala stages model helps explain the internationalisation processes of firms. Other internationalisation models, like the product life cycle model and investment development path, indicate that firms from developed countries have superior capabilities to firms from developing countries. Developed-country MNEs, being at a more advanced stage of the internationalisation process, tend to make large-scale investments in foreign countries. The focus of all the aforementioned models was initially on firms from developed economies. However, they were later tested in more varied contexts. In some cases, the results have been inconclusive or ambiguous. Given that the business environment and internationalisation processes have changed and evolved, further work in this area is desirable.

Since 1976, our understanding of internationalisation of developing-country MNEs from countries such as Singapore, Hong Kong, India, Brazil and Mexico has steadily grown (Wells 1983; Fong & Komaran 1985). Although mainstream research is still largely based on firms from developed countries, studies of firms from developing countries have increased in recent years. These latter firms now receive a great deal of attention, especially from researchers and policy makers who have recognised their role in international competition and economic development. In fact, these firms’ characteristics have become a major subject of discussion (Lecraw 1977; Wells 1983; Lall 1983; Fong & Komaran 1985; Ulgado et al. 1994; Sim & Pandian 2003). The later literature documents the development of these firms’ competitive advantages over time, including their technological development, their ability to analyse foreign markets, and their networking capabilities (Dunning et al. 1998; Pananond 2007). Of course, some country-specific factors, such as labour costs and government policy, are also important for their international expansion. These factors offer diverse comparative advantages that firms can capitalise on (Aggarwal & Agmon 1990; Peng 2000; Lee 2004; Sim
Although studies of the internationalisation of MNEs from the Asia-Pacific region have increased, there is still insufficient theoretical framework to truly reflect local culture and experience. Many of these studies continue to rest on the developed, Western perspective (Yeung 1994; Li & Peng 2008). In particular, research on the relationships and interplay between firms and developing-country governments warrants more attention.

In the past, most work in the field of international business focused on the role of government as a regulator (Yeung 1998). Yet, government also plays an important role in facilitating and promoting business operations in emerging economies of the world. In East Asia each government tries its best to support and strengthen its MNEs, through, for example, industrial and trade policies, since the increasing involvement of MNEs in international business positively affects nations’ economic advancement (Porter 1990). These government policies support globalisation and help firms expand their international activities. Both home and host countries may influence their ownership, operational and organisational characteristics. Firms’ unique characteristics, such as export orientation, are often a reflection of government policy. At the same time, some domestic policies may be protective and result in higher costs. Firms have to adjust to these circumstances, which inescapably impact on their internationalisation. Consequently, newly emerging MNEs become selective about where to locate their value-adding activities. They cannot afford to ignore the advantages different locations or countries offer. Some firms choose to expand their international activities in many foreign countries in order to diversify economic and political risk (Lecraw 1977; Khan 1986). Others choose to concentrate their limited resources on just a few foreign markets.

It is argued by many that globalisation of markets and increasing trade and economic integration play significant roles in the internationalisation of MNEs (Porter 1986 & 1990; Yip 1989, 1995 & 2003). Two co-existing schools of thought that form a theoretical foundation in this area are the resource-based view (RBV) of the firm (Barney 1991; Peteraf 1993) and the competitive-positioning framework or, Five Forces Model (Porter 1980). Understanding of both concepts helps investigation into the role of contemporary free trade policies in influencing the dynamics of firms’ adjustments to the global marketplace. This contributes to better understanding of issues arising between the public and private sectors. To date, both the empirical evidence and theoretical frameworks remain limited, especially in the developing-country context, where economic development takes place at rapid rates. This is not surprising since in most of these countries MNEs have only recently emerged.
This chapter reviews the extant literature and offers a preliminary conceptual framework for the analysis of developing-country firms’ responses to free trade agreements. It begins with a literature review of the internationalisation of Asian developing-country MNEs. Later, it focuses on government policy’s influence on firms’ strategies, capabilities and resources. The impact of free trade agreements on firms is then described. Finally, it summarises significant conceptual research, and proposes the theoretical propositions of this research.

3.2 Asian MNEs’ international expansion

In the 1950s and 1960s, most firms that internationalised were from developed countries. There are many studies on the internationalisation of these firms. One of the pioneer theories was the product life cycle model, developed by Vernon (1966 & 1979). Vernon argued that developed countries were important bases where new products were first developed. However, the locations of the production activities of these firms would eventually move to developing countries, to gain location-specific advantages when the products became standardised. It could therefore be that developing-country MNEs might play a major role in manufacturing of mature products in the declining stages of the product life cycle. These firms could then acquire technology that had become well-known, together with the necessary managerial and marketing skills. Developed-country MNEs’ investments in developing countries would be mainly for existing market protection and the exploitation of their ownership advantages (Vernon 1966). The model basically predicted that only firms from more advanced economies could progress with activities and investment in less-developed economies. These developed-country firms, with high technological and innovative capabilities, would be responsible for creating new and innovative products. With such assumptions, there seems to be little room for developing-country firms, especially at the introductory stage of the product life cycle.

However, Vernon’s later work, in 1979, further discussed the implications of the product life cycle model for developing-country firms. He recognised that developing-country firms often created innovative products suitable for their own market conditions. These firms exported to, and located production activities in, other developing countries, less developed than their home country counterparts (Vernon 1979). In short, the product life cycle model (Vernon 1966 & 1979) is useful in explaining the expansion of international activities of capable developing-country MNEs in other developing countries.
In the 1970s, the dynamic process of firm internationalisation was first given serious study by researchers at Uppsala University (Johanson & Widersheim-Paul 1975; Johanson & Vahlne 1977). They found that firms go through an orderly and gradual process of internationalisation: namely, export through domestic intermediaries, then through sales subsidiaries in foreign markets and, finally, establishment of a production subsidiary abroad. Their “stages models” stressed the importance of knowledge accumulation about foreign markets and psychic, or cultural, distance. These concepts are widely accepted and utilised by practitioners, academicians and managers (Bartlett & Ghoshal 1991). Nonetheless, in the 1990s, many studies pointed out that various types of firms do not grow sequentially and slowly as described by stages model theorists, for example, “born international firms”, which can leapfrog some stages and succeed in their internationalisation (Rennie 1993; Oviatt & McDougall 1994; Coviello & McAuley 1999).

Application of the stages model to the cases of experienced and giant MNEs is limited, as these firms’ international growth strategies involve sophisticated and extensive decision-making processes. However, the model is applicable to newly internationalising MNEs from developing countries to a certain extent. Wells (1983) and Khan (1986) pointed out that many of these MNEs’ internationalisation activities were located in other developing countries, especially their neighbouring countries. This is consistent with the “stages models” of Uppsala University, as described above (Johanson & Widersheim-Paul 1975; Johanson & Vahlne 1977). Because of the lesser psychic distance, firms initially internationalised their activities in neighbouring countries.

Later on, in the 1980s, internationalisation was explained by the “eclectic paradigm”, which emphasised both firm-specific advantages and country-specific advantages as critical determinants of engagement in foreign production (Dunning 1988). The focus of Dunning’s work was the dynamics of internationalisation. In fact, Dunning’s (1988) eclectic paradigm can be applied to developing-country MNEs, especially the role of ownership-specific advantages in internationalisation, as well as the international expansion of the MNEs in developed countries. Recent empirical evidence has illustrated that developing-country firms often have relatively advanced technological abilities and have started to invest and locate activities abroad, in both developed and developing countries, to gain market access and technology advancement (Sim & Pandian 2003). The eclectic paradigm may be an
Dunning’s (1986) investment development path (IDP) included the principles of his eclectic paradigm in the analysis. He argued that internationalisation activities, like international production via foreign investment, were linked to the economic development of a nation. He further posited that economic development affected not only levels of outward and inward investment, but also the nature and pattern of internationalisation activities. He regarded country- or location-specific factors, such as government development policy, as vital in determining the stage of economic development of a nation and the internationalisation strategies of firms (Dunning 1986). According to this view, many developing-country firms are at the third stage of the IDP: that is, inward investment is declining while these firms are increasingly making outward investment abroad.

Later, Dunning et al. (1998) confirmed this stylised fact, which is attested by Asia’s newly industrialised countries (NICs). They argued that the internationalisation of these firms might be partly due to globalisation and regionalisation of markets and the pursuit of value-adding activities. According to Dunning’s investment development path, increasing internationalisation activities of these MNEs could be related to an advance in the economic development of their countries. During the period 1977–1985, most of the developing-country MNEs’ international investment was in countries less developed than their home countries, typically with lower wage rates and less-sophisticated development (Lecraw 1992). Nevertheless, these MNEs increasingly invested in developed countries also, as reported by Lall (1983). This may imply that some developing-country firms have developed their firm-specific advantages through time. In short, research on internationalisation of firms based on developed-country MNEs is at least partially applicable to developing-country MNEs.

Firms from Eastern countries, like China, Japan, and other newly industrialised countries (NICs) successfully internationalised and achieved global prominence in the late twentieth century. Developing-country MNEs tend to locate production activities and facilities in their home nations, while locating limited marketing activities in foreign nations (Vernon-Wortzel & Wortzel 1988). In many cases, they locate international activities in neighbouring countries in their own region (Khan 1986; Dunning 1986). Lecraw (1977) suggested that developing-country firms may not possess sufficient experience and technological capability for
successful foreign investment in developed countries. In other words, their safest option would be to expand activities in other developing countries, where they could utilise their existing capabilities, skills and resources to the full, without much adaptation. Developing countries often share common characteristics in terms of input costs and market size, which are suitable for small-scale and labour-intensive production technology (Lecraw 1977).

As these MNEs’ international skills and experience develop, they tend to expand their international activities to more distant countries (Johanson & Widersheim-Paul 1975; Johanson & Vahlne 1977). This view is supported by the fact that MNEs from Korea and Taiwan increasingly expand their international activities in the Triad countries (Dunning et al. 1998). Ohmae (1985) emphasised the significance of the “Triad” consisting of the US, Western Europe and Japan. Developed-country firms have high market shares in the Triad countries, which are strategically important to firms’ growth and success. Increasingly, developing-country firms, especially those from Asian NICs, also try to access these major markets. For example, Creative Technology from Singapore, now a global player in multimedia and PC equipment markets, has located many international activities in North America and Europe. The company has the vast majority of its turnover in these markets (Sim & Pandian 2003). Samsung places its research and development activities in the US and Japan (Lee 1995). This international expansion can be explained by improvement in firm-specific advantages—such as production and marketing capabilities—and fundamental changes in motivation—such as asset-seeking (Dunning et al. 1998).

In more recent literature, Mathews (2006) developed his LLL (Linkage, Leverage and Learning) framework which helps explain the success of Asian MNEs. In his model, he argued that some firms lacked firm-specific factors but they internationalised rapidly by developing and utilising global linkages (through partnerships and joint ventures); leveraging resources of others and learning processes. This framework is clearly complementary to Dunning’s eclectic paradigm (Dunning 1988). However, it does not include country-specific factors which are critical to firms internationalising in the globalised business environment and operating in more than one country. Although both useful and relevant, it seems that the LLL model provides only limited applications especially when compared to Dunning’s work.

Similar to Dunning (1988) and Dunning et al. (1998), Mathews (2006) emphasised the importance of resource seeking and investing in a developed country, which can give firms
access to advanced technology and skilled employees. Accordingly, by locating international activities in developed countries (where most global firms are still located), developing-country firms can improve their innovative capabilities, leading to product improvement and new product development. Developed-country markets can be large in size and possess a great number of consumers demanding leading-edge products (Vernon-Wortzel & Wortzel 1988). Asian MNEs that locate their international activities in developed countries are generally aiming to access those markets and their advanced technology (Dunning 1986). For example, Flextech, one of Singapore’s most rapidly internationalising firms, established a production subsidiary in the US (Sim & Pandian 2003). These asset-seeking activities and investments can be facilitated by economic policy and the developmental role of governments (Dunning et al. 1998).

The role of ethnic communities in the internationalisation of developing-country MNEs is especially prominent in Asia. Joint ventures within these business networks, with minimal control and investment, may be a good option for newly internationalising MNEs and those that aim to acquire physical capital quickly (Lecraw 1992). In the long run, however, when these MNEs acquire more international experience and knowledge of foreign markets, other types of ownership—such as a wholly owned subsidiary—may be a more suitable strategic option. This view was supported in a survey by Ulgado et al. (1994), which demonstrated that about 62 per cent of Asian developing-country MNEs were wholly owned subsidiaries. Case studies by Sim (2006) similarly showed that Singaporean firms in the electronics industry tended to employ wholly owned subsidiaries as their preferred mode of foreign market entry in order to capitalise fully on their technological capabilities and production expertise.

Many Asian MNEs employ a regional activity configuration strategy, locating distribution and service activities in other Asian countries. For example, case studies of Malaysian and Singaporean MNEs indicate that a majority locate their international operations in other Asian countries (Sim 2006). The explanation of this internationalisation pattern is tied to limited resources, inexpensive inputs and low psychic distance, as predicted by the “stages” model (Sim & Pandian 2003). Additionally, this may be facilitated by the presence of ethnic networks or regional economic integration (Khan 1986). It seems that these firms’ current level of knowledge and internationalisation capabilities may still be at an early stage of development. However, some of them become successful global players pursuing a global market strategy. On a larger scale, Samsung from Korea has targeted the US, Japan and
Germany as major foreign markets ever since its early internationalisation in 1970–1975 (Lee 1995). Samsung targeted these large strategic markets right from the start. Samsung’s global market and activity configuration strategies, supported by Korean government policies, are arguably the reasons for its success.

3.3 Factors involved in the internationalisation of Asian developing-country MNEs

There are two major kinds of advantage: specifically, competitive advantage and comparative advantage. Traditional trade theory is based on the latter, “comparative advantage”, as the basis of internationalisation. It stresses the importance of productive resources stating that countries export products that are efficiently produced from those factors of production such as labour, capital and natural resources that they possess in abundance. More recent trade theory challenges the roles of conventional comparative advantage and shifts towards the roles of government in influencing internationalisation patterns and structure. In this view, government can create country- or location-specific advantages that help firms in determining the location of value-adding activities and the depth of market participation (Kogut 1985).

However, international business and strategic management fields of study have increasingly focused on the role of “competitive advantages” in the internationalisation of firms. Firm-specific or ownership advantages are deemed to be competitive advantages. They help to decide which activities a firm should undertake and resource (Kogut 1985). Porter (1985 & 1986) underlined the importance of competitive advantages and mentioned that, among other things, these advantages can be obtained from the configuration of a firm’s international value-adding activities. These advantages are critical to the analysis of internationalisation in this study, since the analysis is based on micro-level investigation of individual firms.

Both comparative and competitive advantages are discussed in the literature on Asian MNEs. Some describe the importance of country-specific factors (CSFs), for example, Aggarwal and Agmon (1990), and Peng (2000), while others focus on competitive advantages of Asian MNEs (Wells 1983; Ulgado et al. 1994; Pananond & Zeithaml 1998; Pananond 2007). According to Dunning (1988), these firm-specific advantages (FSAs) may be one or a combination of intangible asset and multi-nationality advantages, such as brand names; know-how and technology; production management; organisational and marketing systems; wider market access; and better knowledge of foreign markets. Sections 3.3.1, 3.3.2, 3.3.3 and 3.3.4 describe major CSFs and FSFs of Asian MNEs.
3.3.1 Country-specific factors (CSFs): cost drivers

Asian developing-country MNEs rely heavily on low input costs as a basis for their internationalisation (Sim & Pandian 2003). These firms mainly employ labour-intensive production processes, since labour costs are inexpensive in their countries compared with developed-country costs (Lecraw 1977; Lall 1983; Wells 1983; Khan 1986). Vernon-Wortzel and Wortzel (1988: 31) argued:

“The MEDECs (multinational enterprises from developing countries)’ principal competitive advantages have been comparative advantages. Comparative advantages are location based, and are neither activity- nor firm-specific...The MEDECs’ comparative advantages fall to them naturally because of their locations in developing countries...The MEDECs’ primary source of comparative advantage has been low labour costs in their home countries...Low raw materials costs have made a further contribution to comparative advantage.”

Sim and Pandian’s (2003) research on Taiwanese and Singaporean firms’ experiences confirmed that low input costs are country-specific advantages that developing-country MNEs often seek when they decide to go international. The firms can gain competitive advantage by locating their operations in countries where they can exploit low cost resources and/or outsourced factors of production. It is therefore usual to see international activities by these developing-country firms in less-developed countries, where input costs are lower than in their home nations (Wells 1983; Sim 2006).

Foreign direct investments by developing-country MNEs are often designed to achieve cost-saving production methods, low cost capital goods and relatively low salary and remuneration packages to staff (Khan 1986). These help to strengthen their ability to compete on price by employing low cost strategies based on cheap factors of production (Wells 1983; Lecraw 1977). However, some firms do invest in developed countries, employing operational characteristics that are capital-intensive (Khan 1986). In many such cases, they capitalise on country-specific advantages and turn them into competitive advantages, for example, efficient utilisation of skilled labour and managers in a foreign country may bring them advantages in production technology or marketing. This is understandable, since most of these MNEs possess production expertise but are relatively weak in marketing expertise (Lecraw 1977).
3.3.2 Country-specific factors (CSFs): government drivers

Some researchers investigate the role of government in supporting their native MNEs’ international expansion (Dunning 1986; Aggarwal & Agmon 1990; Yeung 1998; Lewis et. al. 1999; Peng 2000; Lee 2004). Given the fact that many developing-country markets are small, developing-country firms have to produce and sell their products to other countries (Lecraw 1977). Exporting is a first step to reach these foreign markets. Developing-country MNEs are predominantly exporters, which typically obtain government support. In many cases, Asian governments grant export incentives through the provision of infrastructure and utilities to their exporters (Young, Huang & McDermott 1996; Yeung 1998). The Korean government helps to promote the country’s exports as well as the globalisation of Korean “chaebol”. Its general trading company program is a means to expand Korean marketing networks on a global basis (Dunning et al. 1998). There may also be an import substitution policy supported by trade barriers (Vernon-Wortzel & Wortzel 1988). Pananond (2004) found that Thai firms emerging after the Asian financial crisis were in those sectors supported by government promotion programs; these included petrochemicals and agribusiness; fishery and animal farming; animal feed; sugar; tourism and related services. She hypothesised that these new MNEs successfully internationalised because of government support, a favourable business environment, and focus on their core businesses.

Aggarwal and Agmon (1990) argue that government plays an important role in creating and developing new comparative advantages in a developing country through import substitution, export promotion and funding outward investments. They point out that these government-led advantages can partially explain developing-country firms’ internationalisation success. These advantages are additional and complementary to conventional comparative advantages, such as low labour costs and other country-specific factors, which initially allow developing-country firms to expand internationally. Economic integration and trade liberalisation, together with export-oriented programs, encourage local firms’ internationalisation (Dunning et al. 1998). For instance, many Singaporean firms in the electronics industry internationalise by exploiting their government’s regional economic integration program (Sim & Pandian 2003). Malaysia’s outward foreign investment promotion (through promotion activities and tax incentives) and guarantee programmes (through Exim bank and FDI advisory assistances) have helped its indigenous firms (Sim 2006).
Asian governments, in particular, play an active, direct and often leading role in internationalisation through their economic development policy (Yeung 1998; Sim & Pandian 2003; Lee 2004). This is clearly shown by the record of the Korean government’s growth policy during the 1960s and 1970s (Lee 2004). Additionally, the Singaporean government took an entrepreneurial role in searching for and creating new business opportunities, including establishment of industrial parks in other countries (Yeung 1998). It is therefore not surprising to find that a significant amount of equity is owned by the Singaporean government. In fact, state-owned MNEs are quite usual (Fong & Komaran 1985). These Singaporean MNEs and their institutional framework may be a factor in Singapore’s economic success. Interestingly, high levels of government intervention, such as price and domestic expansion controls, as well as economic instability, also drive firms to increase exports and to diversify risk (Young, Huang & McDermott 1996). At the same time, the government retains its minimal direct control over international activities. In China, many firms are nowadays free to exercise their export and import activities by themselves (Young, Huang & McDermott 1996). This is consistent with Aggarwal and Agmon (1990) who argued that the role of government diminishes when a country is progressing towards a more sophisticated phase of economic development. Then, firms increasingly play a greater role in determining their own progress in the internationalisation process. Nevertheless, Asian governments still remain active in promoting economic development and internationalisation of their firms (Lee 2004).

3.3.3 Firm-specific factors (FSFs): internationalisation strategies

Asian country economies are among the most rapidly growing and prosperous economies in the world. Rapid economic growth and improved levels of income in Asian countries are partly generated by their respective MNEs, which today play an important role in global markets. These firms’ internationalisation strategies have recently attracted greater attention from researchers worldwide (Vernon-Wortzel & Wortzel 1988). Sim and Pandian (2003) emphasised that the internationalisation strategies of developing-country firms were largely based on country-specific advantages, such as low input costs, ethnic networks and government support. However, they argued that these firms would become more successful if they actively developed additional competitive advantages.

Vernon-Wortzel and Wortzel (1988) studied past strategies of developing-country MNEs, including those from the Asian region, and recommended globalising strategies to compete
with global competitors. Their work focused mainly on developing-country MNEs in the manufacturing sector. They posited that a change in developing-country firms’ strategies is necessary to obtain new sources of competitive advantages. They therefore recommended strategic changes in production and marketing. These included production expansion in developed countries, employing more capital-intensive technology, enhancing technological capability and increasing the number of product lines. Recommended marketing strategies were to employ brand development and enhance international marketing capabilities.

Recent work has indicated the advance of these internationalisation strategies over time. Among others, Haier, a leading Chinese MNE, developed a foreign market-oriented strategy with a strong customer and product focus (Liu & Li 2002). The company also invested in developed countries in order to enhance its technological capabilities. The adjustment in internationalisation strategies of Asian developing-country MNEs after the 1997 Asian crisis is illustrated by a case study of Thai MNEs carried out by Pananond (2004). She discovered four diverse responses: namely, decline, replication of pre-crisis, reform, and new emergence. She found that many Thai firms that had employed opportunistic internationalisation strategies exploiting their networking capabilities alone were damaged by the crisis due to the fact that they lacked other competitive advantages. The majority of Thai MNEs in her study adjusted their internationalisation strategies by focusing on their core businesses, locating these activities in neighbouring countries, and capitalising on competitive advantages other than their networking capabilities. These strategic adaptations to changes in the business environment caused by the crisis led Thai MNEs to ambitiously develop new firm-specific advantages that may endure in the longer run. Sim and Pandian (2003) conducted a comparative analysis of the internationalisation characteristics and strategies of Taiwanese and Singaporean MNEs. Their work was based on 12 case studies. They found that these firms increasingly differentiated themselves from their competitors by developing new innovative products and technology as well as increasing investment in research and development, both at home and abroad. They argued that this could lead them to achieve significant positions in world markets. These changes in internationalisation strategies would help to develop competitive advantages that are firm-specific.

Asian MNEs becoming global players in the world market are actively implementing more global strategies. These strategies help firms to gain competitive advantage from appropriate configuration and coordination of value-adding activities (Porter 1998). For example, Korean
firms are increasing international production in both developed and developing countries (with a large share of investments in Asian developing countries), focusing on achieving economies of scale and acquiring advanced technologies (Chung et al. 1997). Internationalisation of activities is commonly found among firms in the Korean electronics industry, which is one of Korea’s most global industries. Value-adding activities of firms in the Korean electronics industry, across production, research and development, and marketing, are widely dispersed abroad (Jun 1995). Another example of an Asian company opting for a global strategy is the Tatung company, one of the leading Taiwanese MNEs. This company internationalised through establishing manufacturing subsidiaries in foreign countries (both developed and developing countries) and joint ventures with firms in other developing countries, while at the same time setting up sales and purchasing operations abroad (Schive 1995). This global focus has brought Tatung’s success. The importance of global focus was also discussed at length by Mathews (2006) in his work on Asia Pacific firms. Although a majority of investments are located in developing countries, these firms’ greater investments in developed countries were facilitated by economic liberalisation and their global focus.

3.3.4 Firm-specific factors (FSFs): internationalisation capabilities

Many studies focus on the competitive advantages of developing-country MNEs, with rising attention given to those from Asian newly industrialised countries (NICs) like Singapore, Hong Kong, Korea and Taiwan. Japan excepted, they are the most advanced internationalising economies in the region. More recently, rapid growth economies like China, India, Malaysia and Thailand have received attention as well. Initially, the emerging MNEs have typically had limited foreign market access, low marketing capability, and out-of-date technology (Lecraw 1977; Wells 1983; Lall 1983). However, these firms internationalisation capabilities have evolved through time. This section summarises four key capabilities of developing country MNEs, namely, technological capabilities, ability to coordinate and integrate activities, networking capabilities and ability to analyse foreign markets.

Developing-country MNEs possessing firm-specific advantages were most likely to be found in industries that utilised available skills and well-known technology for producing standardised products (Dunning 1986; Dunning et al. 1998). Existing technologies were adapted to better exploit factor conditions, and products were developed to meet demand conditions in particular host nations (Wells 1983; Luo 1999). The home-grown capability of coping with legal barriers and other market obstacles provided developing-country MNEs
with another advantage. Where legal barriers and low income levels exist, firms cannot achieve economies of scale. They have to modify production methods and technology to suit the local factor and demand conditions (Khan 1986). Ulgado et al. (1994) found that Asian developing-country MNEs’ technological characteristics were consistent with previous research in being flexible, adaptable, low overhead and labour-intensive. However, the companies themselves rated their technology as intermediate to advanced, which contradicts studies stating that developing-country MNE technology is typically old and underdeveloped. It could be that these particular MNEs may have paid more attention to their weaknesses in technological capability and tried to upgrade over the years.

Improved technological capabilities of developing-country MNEs prevail in many Asian MNEs. Dunning (1986) found that firm-specific advantages in technology are not only found in mature industries, but also in advanced technological industries of developing countries, especially the NICs. One example again, is Creative Technology, a Singaporean leader in multimedia and PC equipment markets, which was established on the basis of high technological capabilities and innovative products (Sim & Pandian 2003). Other developing-country MNEs, including those from Thailand, show significant progress in the development of their technological capabilities. Pananond (2007) postulated that some Thai firms adjusted their internationalisation following the Asian financial crisis by developing their technological capability and advancing up their value chains.

The literature has pointed out that Asian developing-country MNEs are increasingly able to coordinate and integrate activities regionally and globally, which has helped them to augment existing competitive advantages (Wells 1983; Dunning et al. 1998). Asian firms seem to coordinate and integrate their activities largely on a regional basis (Sim & Pandian 2003). Some progress ahead of the others by globally coordinating and integrating activities. The Korean “chaebol” are good examples of Asian developing-country firms that have globalised with high levels of integration (Dunning et al. 1998). A case study of Korean firms by Lee (1995) illustrated that Samsung locates production activities in both developed countries (e.g. the US and the UK) and developing countries (e.g. Malaysia, Indonesia and Thailand). Samsung demonstrated an ability to integrate its activities on a global basis.

Networking capability seems to be a critical internationalisation factor for Asian developing-country MNEs. International business networks among Asian MNEs are created largely in the
form of joint venture investments (Monkiewicz 1986; Sim 2006; Mathews 2006). These firms benefit from having special arrangements with foreign firms that are their suppliers of intermediate products and of marketing skill. Many have not yet developed international brand names and specialised distribution channels of their own (Khan 1986). Their foreign partners help to widen market access (Vernon-Wortzel & Wortzel 1988). In addition to distribution channels in foreign countries, they obtain marketing expertise and knowledge from their foreign partners (Lecraw 1977). Pananond (2004) conducted research on a wide range of Thai MNEs after the 1997 Asian crisis, and found that networking capability was vital for them, especially in the initial phase of internationalisation. She also argued that Thai MNEs that had declined in their international activities had done so because they lacked both technological and networking capabilities. It can be argued then that Asian MNEs possessing a high level of networking capability have an enhanced possibility of success in internationalisation and of becoming global players.

Asian Developing-country MNEs have mobilised their networking capability to establish and expand ethnic networks. These networks in foreign countries provide knowledge, information and access to particular foreign markets, as well as access to distribution channels and finance (Luo 1999: 79–80; Sim & Pandian 2003). Successful internationalisation of MNEs from Taiwan, for example, is aided by extensive mobilisation of their Chinese community networks (Dunning et al. 1998). This is also true of MNEs from Hong Kong and Macau which establish production facilities in China (Luo 1999). Firms find initial foreign business partners from their ethnic networks which, in many cases, develop into global networks comprising a wide range of firms from a similar culture (Kao 1993: 24–25). This may imply that even if these firms do not have high levels of networking capability at the start, they have a high potential to develop it and subsequently establish global networks. Indeed, developing and exercising networking capability through ethnic networks is of proven significance to emerging firms aiming to be globally competitive (Kao 1993: 34–36). These Asian ethnic networks can be an important stepping stone to internationalisation and deeper integration into global markets. However, the significance of ethnic communities diminishes as firms gain more international knowledge and experience (Khan 1986).

Knowledge and understanding of foreign markets underlies the success of Asian MNEs. Luo (1999: 91) found that Asian MNEs possessed a firm-specific advantage in terms of Chinese market knowledge gained from ethnic networks and international experiences in developing
countries, while developed-country MNEs still lagged behind in this regard, partly because of operating in a different culture and unknown circumstances. The knowledge and ability to analyse markets, such as developing-country business practices and market requirements, forms a competitive advantage that can last in the long run (Luo 1999: 91). This judgment is supported by Lecraw’s (1992) work on Indonesian firms, and that of Sim and Pandian (2003) on Taiwanese and Singaporean firms. Pananond and Zeithaml (1998) also confirmed that knowledge accumulation and the ability to analyse foreign markets are driving forces of Thai MNEs’ internationalisation. Even though their conclusion was based on a single case study—of the giant CP group—their study contributes to our understanding. As others have found, market information and the ability to analyse foreign markets is no less important a competitive advantage than other factors (Ulgado et al. 1994).

Vernon-Wortzel and Wortzel (1988) stressed the importance of competitive advantages in general, as an engine for firms’ growth, and stated that there is a shortage of these advantages in developing-country firms. The foregoing suggests this stylised fact may well be true. As time goes by, however, these firms have proven to be successful players in global markets, first by exploiting their existing competitive advantages then, later, by developing new ones. These studies illustrated the enhanced importance of competitiveness. Asian MNEs improved their competitiveness through developing ownership advantages, such as technological capabilities, and networking capabilities.

The immediately preceding paragraphs discuss country- and firm-specific advantages, which, in turn, influence the internationalisation progress of newly emerging MNEs from developing countries. However, the literature did not provide a comparative analysis of the relative importance of these two categories of internationalisation factor, nor did they rank the importance of individual factors. The dynamics and linkages of CSFs and FSFs are explored in this study.

3.4 Influence of government policy and regulation on firms’ internal factors
Influential theoretical work on the role of government in impacting firms’ strategic decisions was developed by Porter (1980). His basic “five forces” model identified factors that affected industry competition. He stated that assessment of the roles of government regulation and policy in strategic analysis was vital, even though a government only indirectly influences levels of competition. Changes in government regulations affecting firms’ business strategy
are more thoroughly discussed in Rugman and Verbeke’s works. Rugman and Verbeke (1990 & 1998) argued that government regulation change is crucial to firms, since it affects them directly. It causes a shift in firms’ strategies in the direction of change in government regulation. In their later work, Rugman and Verbeke (2000) extend Porter’s (1980) basic “five forces” model to include government regulation as a major force directly affecting firms’ strategy (Figure 3.1).

![Figure 3.1 Roles of government regulations on firms’ business strategy](Rugman & Verbeke 2000)

Rugman and Verbeke (2000) applied their developed framework to six case studies of multinational enterprises (MNEs) engaged in strategy alteration as a result of changes in environmental regulations. MNEs operating in different industries are the focus of their study. The authors found that MNEs’ strategies change according to the regulations each country imposes on them. They agreed that the indirect effects of policy changes, mediated through Porter’s five market forces, can lead to strategy alteration. However, their study strongly supported the view that changes in government environmental regulations had a direct impact.
on firms’ green strategies and concluded that government regulations form a “sixth force” in Porter’s basic “five forces” model. As Rugman and Verbeke (2000: 379) argued:

“Government regulation may have an impact in its own right, irrespective of its possible influence through the five conventional forces driving industry competition. This also implies that a change in regulation may not only call for a change in the firm’s strategy vis-a-vis these conventional market forces, but also a change in strategy toward government itself.”

In this view, government regulations drive industry competition, as well as influencing firms’ strategic management. Although this conclusion is different from Porter’s earlier work, it is consistent with his “Diamond” model, developed in 1990, in which the importance of government influence on firm strategy was revisited and explicitly given a place in the model. This supports the existence of direct links between external changes in government policy and firms’ internal adjustments.

In the developing-country context, the significance of institutions was highlighted by Peng (2000). Firms from transitional and emerging economies extensively build networks with governments in order to secure access to critical resources, to gain policy information and to identify new opportunities (Peng & Zhou 2005: 326–327). In short, internationalisation strategies of Asian NICs can be greatly influenced by government policy. 21 Dunning et al. (1998) argued that differences in government policy could affect local firms’ choice of strategies. With respect to the forms of investment, their work demonstrated that the Korean government preferred licensing agreements between local firms and their foreign partners to foreign direct investment. Such a policy encouraged Korean firms to use licensing strategies that helped to augment their firm-specific advantages. In addition, Asian government policies and regulations affect foreign firms’ internationalisation through diversification and international investment strategies (Peng & Delios 2006). For example, the Chinese government’s Special Economic Zones (SEZs) and Opening Coastal Cities (OCCs) were effective in providing foreign direct investment incentives influencing locational choices of Japanese firms from 1980 to 1990 (Zhou, Delios & Yang 2002). These policies induced higher levels of investment by Japanese firms in these selected areas (Zhou, Delios & Yang 2002). Thus, it is clear that government policy can play an important role in influencing firm behaviour, since these policies help create comparative advantages that firms can eventually capitalise on (Aggarwal & Agmon 1990).

21 See also Section 3.3.1.
There are linkages and interactions between external CSFs, like government policy, and internal FSFs, like company capabilities and resources. The importance of internationalisation capabilities and resources is recognised in the resource-based view of the firm (RBV), which focuses on the importance of core competences and internal factors in international competition (Barney 1991; Peteraf 1993; Prahalad & Hamel 1990; Kay 1993; Sanchez & Heene 1997). This approach is different from Porter’s framework of competitive positioning (Porter 1980) in that it looks within individual firms, rather than at environmental factors. However, the two approaches are closely interrelated. This is clearly demonstrated by Yip’s (1995 & 2003) “global strategy framework”.22

Yip’s (1995 & 2003) inclusion of organisational ability in his global strategy framework reflected the importance of these internal FSFs to successful internationalisation. Internal firm-specific factors help firms to generate competitive advantages, some of which last and become sustainable competitive advantages. Rugman (1981) describes these firm-specific advantages (FSAs) as high value skills and know-how. A firm with more FSAs is better able to perform in the market as these FSAs often allow the firm to reduce its costs and achieve differentiation advantages. At the same time, Yip also includes various kinds of CSFs in his model. One is the so called “government driver”. He recognises that the success or failure of firms’ international expansion also partially depends on the formulation and implementation of government rules and regulations. Highly restrictive rules and regulations result in low productivity, while moderate government support for competition and economic development may be favourable (Porter 1990 & 1998).

A wide range of government policies could affect firms’ capabilities and resources. Rugman and Verbeke (2000) argued that changes in environmental policy would require the development of green capabilities that were locally based, yet internationally transferable. In addition, individual Asian governments’ investment in social capital (education and infrastructures) helps to increase the productivity of human resources in its private sector, while government intervention in market systems may lead to economic inefficiency (Lee 2004). This is the case for Singapore, whose government encourages domestic firms to internationalise regionally through the provision of training and finance (Sim 2006). The Chinese government has also provided special favours to exporters through tax rebates and a

22 See Figure 3.3.
well-developed industrial infrastructure that can be exploited by firms for their internationalisation activities (Young, Huang & McDermott 1996).

As argued above, it is commonly accepted that government policy is an important factor affecting firms’ strategies, capabilities and resources. Government regulations can drive industry competition, as well as cause firms to make adjustments to their internal FSFs. However, government policies may involve issues of compliance with rules and regulations, which may serve as entry barriers to firms. This is not so in the case of changes to international trade policy like bilateral FTAs. These free trade agreements relax existing rules and regulations, which previously constituted entry barriers. Their influence on developing-country firms’ strategies, capabilities and resources is not immediately obvious but merits exploration.

3.5 Influence of free trade agreements on firms’ internationalisation

Bilateral FTAs encourage regionalisation, which is a relatively new phenomenon in many developing countries. They are more limited than regional blocs like NAFTA (North American Free Trade Agreement) and the EU (European Union). Although many Asian countries, including Thailand, are members of AFTA (ASEAN Free Trade Area), that integration has not yet fully established and has progressed only slowly (Low 2003; Talerngsri & Vonkhorporn 2005; Dent 2006). This adds to the importance of more focused trade tools, like the FTAs negotiated at bilateral level during the mid-1990s. This was half a century after the development of such bilateral trade agreements by developed countries (Dent 2006). It is therefore not surprising that most of our knowledge of FTA influences at firm level rests on Western experience, as their FTAs came into force much earlier.

The impact of government trade rules and regulations on firms’ strategies has been the subject of many studies, with findings generally supporting the view that a relationship between government trade regulations and firms’ internationalisation strategies does indeed exist (Porter 1986 & 1998; Yip 1989, 1995 & 2003; Rugman & Verbeke 1990 & 1991; Tu & Wright 1992; Jun 1995; Schive 1995; Segal-Horn et al. 1998; Buckley et al. 2001). All preferential trade arrangements potentially affect firms’ strategies through their impact on economies. As Segal-Horn et al. argued:

“They affect potential economies to be derived by companies from the way they structure their activities in research and development, sourcing, design,
Tu and Wright (1992) divided outcomes of the Canada-U.S. FTA (as perceived by Canadian and US firms) into four main categories: market, trade, production and investment. Examples of each category are: increased demand for products in the larger combined market, greater competition, lower unit costs as a result of greater production volume, and more flexibility of capital investment. They confirmed that perceived changes in the business environment are likely to induce adjustments in firm strategies. However, their work did not explore how firms would change their strategies, capabilities or resources.

Rugman and Verbeke’s (1991) work provided a conceptual framework for an analysis of strategic responses by MNEs to a bilateral free-trade agreement between Canada and the USA. They divided entry barriers into two major categories: namely, economics-based and shelter-based entry barriers. They categorised “government policy” as a shelter-based entry barrier, while the others, such as economies of scale and product differentiation, are categorised as economic-based and not subject to government intervention. Their study analysed the relationship between perceived impact of trade policy and corporate preferences for shelter-based strategies. They stated that firms opted for trade liberalisation because they anticipated new opportunities in trade and investment in foreign countries. This would place them in quadrant 2 of figure 3.2. A majority of Canadian and US firms were of this view.

![Figure 3.2 Conceptual framework of corporate trade policy preferences](image)
According to Rugman and Verbeke (1991), they would adjust by increasing internationalisation through both exports and foreign investment. This takes advantage of the new opportunities offered by the FTA and protects their foreign market standing. Rugman and Verbeke (1991: 70) found that a majority of Canadian MNEs (50%) and US MNEs (70%) anticipated that the Canada–US FTA would boost their investment in other member countries by up to 20 per cent. There was no evidence that trade liberalisation as a result of the agreement caused firms to employ exit strategies. No firms were identified in quadrant 4 of figure 3.2. This confirms that the FTA had no severe negative impact on developed-country MNEs. The conceptual framework is useful for an analysis of the impact of bilateral FTAs on corporate strategy. However, the framework is static rather than dynamic in that it omits the effect of experience, or “learning”.

Karimi, Gupta and Somers (1996) studied firms’ strategic response to a reduction of trade barriers as a result of the Europe 1992 initiative and the Canada–US free trade agreement. They concluded that both contributed positively to globalisation, but that firms’ responses were subject to internal constraints. They employed a contingency approach, which included competitive strategy, information technology (IT) maturity, and firm size. All contingency factors were found to affect firms’ strategy. Their work reflects the importance of changes in trade policy and regulations on firms’ strategy. Interestingly, firms’ IT maturity was found to play a significant role in increasing IT investment. The more firms integrate IT into their competitive strategy, the more likelihood that firms will employ a well-developed IT strategy. However, their model is limited to changes in IT investment strategy alone. It would be useful to investigate such impacts more broadly.

Later, Vasquez-Parraga and Felix (2004) identified the North American Free Trade Agreement (NAFTA) as a crucial driver that encouraged Mexican firms to expand their foreign direct investment (FDI) in the United States but the benefits of the agreement were, at first, offset by a financial crisis in Mexico. Additionally, Buckley et al. (2001) argued that NAFTA increased the possibility of non-member country firms’ undertaking reorganisation and rationalisation. It follows that there would be higher foreign direct investment from European MNEs in the USA (Buckley et al. 2001).
Porter (1986) described low tariff barriers as a driver of globalisation, facilitating the implementation of global strategies. He also stated that regional economic integration, especially the Europe 1992 initiative, would expedite trade and investment among countries in the region. In his later work, he included government in his “Diamond” model, which illustrates that government does affect firm strategy and vice versa (Porter 1990). This allows for the importance of government influence on firm strategy. He acknowledged that government policy including trade policy influences the four major “Diamond” determinants.

In addition, Yip (1989, 1995 & 2003) confirmed the impact of government rules and regulations on firms’ implementation of their global strategies. He included government as an industry globalisation driver in his global strategy framework (Figure 3.3).

![Figure 3.3](image)

**Figure 3.3  A framework for global strategy (Yip 1995)**

Yip (2003: 50-51) argued that:

“Host governments affect globalisation potential in a number of major ways: import tariffs and quotas, nontariff barriers, export subsidies, local content requirements...The easing of government restrictions can set off a rush for expanded market participation...Favourable trade policies increase rivalry among existing international competitors by making it easier for them to compete in each other’s markets.”
He clearly stated that the reduction of trade barriers is one of the major forces influencing firms to be more involved in global markets. Buckley and Ghauri (2004) argued, similarly, that regional economic integration of the European Union (EU) opened up business opportunities to firms to compete internationally and to enlarge their existing home market into a single integrated European market. Rugman and Verbeke (1990) analysed the impact of Europe 1992 on corporate strategy. They employed an economic integration – national responsiveness grid. They found that European firms were moving towards a more globalised strategy because they expected to benefit from cross-border integration. They posited that the majority of European firms would adjust their production and marketing strategies by integrating related production and marketing activities across Europe. Obviously, firms take government rules and regulations into account, as these affect the implementation of their strategy (Yip 1989, 1995 & 2003). More generally, it follows that free trade agreements encourage firms to employ more internationalised strategies.

There is little research on how government trade policy and regulations influence firms internally. We know little about adjustment in their capabilities and resources, since the main focus of research in this area has been on strategic adjustment. Yip (1989, 1995 & 2003), among others, has argued that favourable government trade policy, together with firms’ capabilities and resources, influences firms’ internationalisation strategies. This links the role of CSFs (trade policy) and FSFs (firms’ capabilities and resources) in the international expansion of firms. Yip’s framework is therefore useful to this study, which analyses how firms adjust their internal FSFs to match their global opportunities. Firms may well strengthen current abilities and build up new ones in response to free trade initiatives.

For example, the Canada–US free trade agreement motivated some Canadian MNEs to develop new internal strengths in order to take advantage of the wider, integrated market. However, the FTA did not affect those firms whose industries remained protected and were not included in the agreement (Rugman & Verbeke 1990). The adjustments mostly involved cost reduction through economies of scale (Rugman & Verbeke 1990 & 1991). Buckley et al. (2001) argued similarly that NAFTA strengthened member country firms in terms of cost competitiveness. Rugman and Verbeke (1991) stated that firms that fall into quadrants 3 and 4 of Figure 3.2 require greater internal adjustments to compensate for loss of advantage derived from trade barriers. Clearly, firms seeking shelter from trade liberalisation possessed
competitive weaknesses. Although these studies provide valuable information on MNEs’ adjustments, the core value of their work lies in the identification of strategic responses to the FTAs, rather than in documenting the development of new internal strengths.

Most research has stressed the influence of government trade policy on the internal adjustments of MNEs from developed countries. Only a few studies focused on Asian developing-country MNEs. For example, Jun (1995) stated clearly that global environmental changes, in particular globalisation and regionalisation, do affect firm strategies. Even though the Korean firms in his study were, in general, more responsive to globalisation drivers, they did respond to regionalisation by adapting their production and marketing strategies to local and regional market requirements (Jun 1995). Taiwan’s Tatung company (MNE) adapted its internationalisation strategies to its changing business environment by establishing more manufacturing subsidiaries in Europe around the time of the market unification drive of Europe 1992 (Schive 1995). In many cases, trade barriers created by other governments have played an important role in stimulating developing-country firms’ decisions to invest (Khan 1986; Sim & Pandian 2003). These MNEs preferred foreign direct investment (FDI) to exports or licensing as a mode of foreign market access, due to the fact that importing countries imposed trade barriers on their exports (Lecraw 1992). These choices of internationalisation adjustments may change with FTA arrangements since free trade policy and regional economic integration in Asian developing countries helps to accelerate firms’ internationalisation (Khan 1986). However, FTAs in the region have not yet had time to yield clearly demonstrated results. There are still gaps in our knowledge of their influence on the internal developments of developing-country MNEs. Further empirical evidence of this is desirable.

3.6 Preliminary conceptual framework

The preliminary framework and its constructs (Figure 3.4) are based on the total picture as it emerges from the existing research already discussed. This includes the research discussed in Section 3.5, which explains the impact of free trade agreements on how firms internationalise and adjust their strategy, capabilities and resources. Rugman and Verbeke (1991) focused on the impact of government trade policy on firms’ investment and export strategies. Even though their studies do not directly address the research question, they are useful; especially Rugman and Verbeke’s 1991 framework. More importantly, Porter (1986) and Yip (1989 & 1995) analysed the impact of a favourable trade policy on how firms implement global
strategies. Their work provides a starting point for this study; especially Yip’s total global strategy framework. The aforementioned literature offers a platform for the conceptual framework developed here.

![Diagram]

**Figure 3.4** Framework for an analysis of influence of bilateral FTAs on developing-country firms’ internationalisation

This analysis requires an interdisciplinary and holistic approach. Literature reviews of the internationalisation of developing-country MNEs and the role of government policy on firms’ internal adjustments provide a basis for developing an integrated conceptual framework for FTA influence on Asian developing-country firms’ internationalisation. Drawing on Yip’s (1989, 1995 & 2003) framework for total global strategy as a base, supplementary building blocks comprising firm internationalisation strategies, capabilities and resources—plus trade policy as a globalisation driver—are developed. The preliminary constructs are used as building blocks for development of a more complete theoretical framework (Eisenhardt 1989).
Firm-specific factors involved in the internationalisation of developing-country MNEs are integrated into the framework. This is because successful developing-country MNEs increasingly rely on these factors for their internationalisation. FSFs create sustainable competitive advantages that can endure and be enhanced in the long run. They comprise the ability to analyse potential foreign markets (Lecraw 1992; Pananond & Zeithaml 1998; Luo 1999), the ability to coordinate and integrate activities (Wells 1983; Dunning et al. 1998), networking capability (Kao 1993; Sim & Pandian 2003), and technological capability (Lall 1983; Dunning 1986; Ulgado et al. 1994; Pananond 2007). These factors enable developing-country firms to internationalise and differentiate themselves at the same time. They are thus critical for their international expansion. They should be included in any comprehensive analytical framework. The developed preliminary framework in this study also incorporates firm resources, as they are important for the alteration and implementation of firms’ internationalisation strategies (Yip, 1989, 1995 & 2003). A sufficient level of resources is required for effective strategy implementation, even in cases where firms employ existing internationalisation strategies without change. Firm resources may be human, financial, physical, technological, legal or informational.

Significant country-specific factors, like the cost of factors of production (cost drivers) and government policies (government drivers), are included in the framework. Conventional country-specific factors, like cheap labour costs and abundance of natural resources, create non-firm specific advantages. Such advantages can equally support the internationalisation activities of foreign competitors relocating their operations into countries endowed with favourable CSFs. However, the focus of the framework is trade policy. Bilateral FTAs are at the centre of this research. FTAs are emerging policy tools, adopted by various developing countries, to achieve wider market access for their firms. This study endeavours to explore their impact.

It is argued that FTAs facilitate the internationalisation of firms (Yip 1989, 1995 & 2003). Ceteris paribus, tariff reductions on tradable goods as a result of FTAs, make exports from a firm cheaper than those from competitors in other countries. FTAs also induce firms to increase export and investment between member countries (Rugman & Verbeke 1991). It follows that FTAs can be perceived by firms as a source of opportunity for new business
development. In such cases, there is a tendency towards more internationalised firm strategies as a means to capitalise on these new opportunities (Porter 1986).

At the same time, the influence of free trade arrangements on the development of competitive advantages in firms is mentioned in the work of Rugman and Verbeke (1990 & 1991) and Buckley et al. (2001). These researchers have demonstrated that firms need to adjust their firms’ business strategy, in particular. They also tend to adjust their capabilities, focusing on the enhancement of production efficiency, in order to take advantage of larger markets. FTAs can stimulate this adjustment.

While earlier work on the impact of FTAs on firms’ international business expansion is fragmented, with the focus mainly on developed-country MNEs, the framework developed here integrates them to provide a more complete picture. Here, both firm- and country-specific factors are incorporated into a single framework specific to the developing-country context. This framework guides this research into the case of Thai firms’ responses to the Thailand–Australia free trade agreement (FTA); the Thailand–New Zealand closer economic partnership (CEP); and the Japan–Thailand economic partnership agreement (EPA).

3.7 Theoretical propositions
How and to what extent the FTAs affect Thai MNEs’ internationalisation is still unclear. This study aims to extend research in this area. The focus is on the role of the Thai government’s bilateral FTAs as drivers in terms of Yip’s global strategy framework. The study investigates how firms’ internationalisation strategies, capabilities and resources change as a consequence of this kind of market opening.

Based on previous literature on internationalisation of Asian developing-country MNEs and the role of government policy in influencing firms’ internal adjustments, it may be hypothesised that:

Proposition I: “Country-specific factors are more important than firm-specific factors in influencing internationalisation of Thai MNEs.”

Proposition II: “Bilateral FTAs facilitate the internationalisation of Thai MNEs.”

Proposition III: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation strategies.”
Proposition IV: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation capabilities.”

Proposition V: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation resources.”

3.8 Summary

Only more recent research sheds light on factors involved in the internationalisation of developing-country MNEs. Two sets of factors loom large in this literature. On the one hand, there are country-specific advantages; on the other hand, there are firm-specific advantages. Country-specific advantages include low input costs and supportive government policy. Major firm-specific advantages of Asian developing-country MNEs are the ability to analyse potential foreign markets, the ability to coordinate and integrate business activities, networking capability, and technological capability. It is argued here that firm-specific advantages are more sustainable in the longer run than country-specific advantages. However, the role of country-specific advantages in internationalisation of MNEs should not be neglected, as some of them may help firms to build specific advantages of their own. Several studies of Asian developing-country MNEs demonstrate the improvement of firm-specific advantages over time. Yet, many of them still benefit greatly from country-specific advantages at the same time.

Based on the foregoing literature review of FTA impact on internationalisation mostly by developed-country MNEs, free trade agreements are recognised as a source of opportunity for new trade and investment. In general, these FTAs accelerate regionalisation and globalisation of markets and economies. Drawing on the evidence from developed economies, it may be hypothesised that FTAs, which are a kind of country-specific feature of internationalisation, help firms to achieve competitive advantage by stimulating the firms to adjust and adapt to more intensive competition and wider market access. It may also be hypothesised that FTAs facilitate the implementation of MNEs’ internationalisation strategies.

Existing theories can be used to partially explain the internationalisation of MNEs from developing countries, even though these theories were mainly developed from evidence of developed-country MNEs. The theoretical frameworks so far developed are scattered around the issues. Specifically, those frameworks dealing with the role of government trade policy on developing country firms’ internationalisation may require extension to explain the impact of trade policy on firms’ internal development. The preliminary framework developed in this
chapter integrates literature on developing-country MNEs’ internationalisation and the role of government trade policy on firms’ internal adjustments. The framework and the developed theoretical propositions are starting points for in-depth, empirical examination of how firms have internationalised under current free trade agreements negotiated by developing-country governments. There is a need for further comprehensive study in this area. The next chapter will describe a case study method used in this study followed by research findings in Chapter 5.
CHAPTER 4
RESEARCH METHODOLOGY

4.1 Introduction
This chapter specifies the research methodology applied in this study. It explains the rationale for using the case study method and multiple case study research design. It also justifies the data collection procedures employed. Issues relating to data collection which include selection of cases, numbers of cases, multiple data collection methods and data collection procedures are described. Last but not least, data analysis techniques and processes applied to this study are explained.

4.2 Research method: justification for using the case study method
- Limited data on the internationalisation of Thai MNEs
Available data on international activities of Thai firms, especially with regard to their responses to bilateral free trade agreements (FTAs), are very limited since official data collection of either private or public sectors in developing countries including Thailand is not that well developed. Even listed companies quoted on stock exchanges provide only limited information to the public. The amount of data available from non-listed companies is even less. This is because most information from non-listed companies is not subject to any disclosure requirements. It is, therefore, hard to obtain rich data without employing systematic and holistic data collection methods and processes. The case study method is suitable for filling this data gap since it allows a holistic approach to data collection and enables an in-depth investigation of issues being studied (Gerring 2007).

This study design is consistent with other researchers working on the internationalisation of developing country multinational enterprises (MNEs). They have increasingly employed case studies as their main research method (e.g. Pananond & Zeithaml 1998; Sim & Pandian 2003; Sim 2006; Pananond 2007). Many have argued that there is still a great need for empirical evidence in the field of internationalisation of developing country firms (Melin 1992; Yeung 1998; Li & Peng 2008). This case study research contributes new evidence to the existing literature.
Suitability of the case study method for the investigation of changing context impact on firms’ responses

This study examines the impact of regionalisation, through bilateral FTAs, on the internationalisation of Thai MNEs. Bilateral FTAs may provide opportunities for Thai MNEs to expand internationally. It is, as yet, unclear how these bilateral FTAs influence these firms’ internationalisation strategies, capabilities and resources. The case study method was deemed suitable for the exploration of this area. As Patton (1987: 19) argued:

“regardless of the unit of analysis, a qualitative case study seeks to describe that unit in depth, in detail, in context, and holistically.”

Miles and Huberman (1994: 25) further contended that a case study method examines phenomena within their context and natural settings. Thus, the method allows the researcher to explain the topic of interest with detailed data (Yin 2003; Hartley 2004: 323; Gerring 2007: 49) and to explore its dynamics within a particular context (Eisenhardt 1989: 534). It is a means of conducting an in-depth study of context, especially of how the context influences behaviour (Hartley 2004: 323).

Suitability of the case study method for contemporary and new subject domains

This study is an exploratory study to investigate how Thai firms in the food sector are influenced by bilateral FTAs. Further, FTAs between Thailand and its trading partners have only recently become effective. It is consequently a new area of study, involving analysis of a great deal of detailed and multi-level data. Eisenhardt (1989: 532) stated that novel subject domains should be explored by the case study method. Yin (1984 & 2003) argued that this approach is suitable and applicable to a study focusing on contemporary events, which require gathering complex and holistic data. Consequently, this study employs the case study method as a means of organising and evaluating these holistic and detailed data of the current topic.

Suitability of the case study method for addressing the research questions of this study

The case study approach permits the researcher to explore and answer the following research questions:

1a) Are country specific factors (CSFs) more important than firm specific factors (FSFs) in internationalisation?23

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23 See Sections 5.4 and 6.3.
1b) Do firms rank government trade policy high among CSFs?\textsuperscript{24}

2) How, if at all, do bilateral FTAs influence Thai MNEs’ internationalisation?\textsuperscript{25}

3a) How, if at all, do Thai MNEs respond to bilateral FTAs?\textsuperscript{26}

3b) If they respond, Why do they respond?\textsuperscript{27}

The case study method is related to a set of research questions (Stake 2000). Hartley (2004: 325) stated that case studies help the researcher address questions on how the organisational and environmental contexts affect processes. Yin (2003) and Hartley (2004: 328) affirmed that the case study method helps answer research questions especially those starting with “how” and “why”. The case study method is, therefore, appropriate for tackling the research questions of this study.

- **Suitability of the case study method for further theoretical development**

Even though studies on the internationalisation of developing country MNEs have begun to appear for quite some time (e.g. Wells 1983; Lall 1983; Lecraw 1992; Pananond & Zeithaml 1998; Sim & Pandian 2003; Sim 2006; Pananond 2007), a large number of research issues in this area remain unexplored. The purpose of this study is to raise understanding and contribute to the literature on the internationalisation of developing country MNEs and the role of government trade policy on firms. Specifically, use of the case study method helps us to understand the impact of bilateral FTAs on the internationalisation of Thai MNEs. It may also help the researcher to discover new evidence of relevance to existing internationalisation theories.

The case study method is helpful for developing theories (Eisenhardt 1989: 532). Hartley (2004: 324) argued that the case study allows ideas and issues to emerge as the research progresses. Indeed, theoretical orientation is an important aspect of the case study method. Both Eisenhardt (1989) and Hartley (2004) postulated that the method is appropriate for theory-developing research aiming to explain and understand a phenomenon which is new and complex in nature.

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\textsuperscript{24} See Sections 5.2, 5.3 and 6.3.

\textsuperscript{25} See Section 5.5, and 6.4.

\textsuperscript{26} See Section 5.6, 5.7, 5.8, 6.5, 6.6, and 6.7.

\textsuperscript{27} See Section 5.6, 5.7, 5.8, 6.5, 6.6, and 6.7.
Glaser and Strauss (1967) and Strauss and Corbin (1998) strongly supported the use of the grounded theory approach to generating theory. However, this study adopts a case study method because the grounded theory research process is quite unstructured and unsuitable for inexperienced researchers. In addition, this research aims to contribute additional insights into existing theories, not to build totally new theory. Yet, this study employs several grounded theory tactics which are helpful when conducting a case study research, such as theory driven sampling strategies and comparative analysis methods. These tactics are widely used in research (Charmaz 2006: 9), especially by those that aim to advance theoretical developments.

The research process of case study research may be different from that of grounded theory guidelines. In case study research, a researcher often has a preliminary theoretical framework before conducting data collection. Grounded theorists such as Glaser and Strauss (1967) and Strauss and Corbin (1998) do not recommend any predetermined theoretical propositions and frameworks since they believe that theories emerge from data. This sets a boundary between case study method and grounded theory (Yin 2003: 28-29). As a result, preliminary theoretical propositions and frameworks based on the literature discussed in Chapter 3 were developed at an early stage of the study. However, there is some adaptation and modification of the theoretical propositions and frameworks in the course of the research process.

- **Suitability of the case study method for dealing with planned and emergent issues**

It is often postulated that one advantage of the case study method is that it allows some flexibility in the research process (Gerring 2007: 33). This attribute enables researchers to explore a particular case in great detail. Hartley (2004: 324) argued that a case study enables researchers to accommodate both planned and emergent issues. The case study method as used here is illustrated in Figure 4.1.

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28 See Section 4.4.
Figure 4.1   Case study method (adapted from Yin 2003 and Eisenhardt 1989)

Figure 4.1 illustrates that the case study method involves an iterative series of data collection and analysis (Hartley 2004: 329). This is important, for some emergent issues may require modification of the data collection process, such as an increase in the number of cases, repeat interviews with respondents, or questions to a guided line of inquiry as well as a questionnaire (Eisenhardt 1989: 539). These changes can help in interpreting existing theories and also in developing new theoretical frameworks.
4.3 Research method: justification for using a multiple case study research design

- Enhancement of theoretical developments

There are two main design options available, namely a single case study or multiple case studies (Miles & Huberman 1994; Yin 2003; Hartley 2004). Miles and Huberman (1994: 25) stated that “the case is, in effect, your unit of analysis.” Specificity and boundedness are important attributes of case studies which may comprise of more than a single case (Stake 2000). A case study research could be designed for many levels of analysis within a single case study or for only one level of analysis across several cases (Yin 2003).

There are no universal answers about what is the most appropriate number of cases when a researcher chooses to use the case study method. The method does not limit research to the analysis of a single case. In fact, it encourages the analysis of multiple cases (Yin 2003). This fact is not surprising since even a single case and, more, multiple cases can help enhance existing literature and theoretical developments (Eisenhardt 1989 & 1991). It is well recognised that multiple case study research design is preferable and more powerful than a single case study (Yin 2003: 53).

The multiple case study method involves multiple data collection from several cases and plural data sources from individual cases. These data can be used to compare with extant research in order to provide additional insights leading to new theoretical developments. This study employs a multiple case study research design with a single level of analysis. The unit of analysis is the Thai MNE. Given that the proliferation of bilateral FTAs is a contemporary phenomenon, the multiple case study is appropriate for an in-depth exploration of this research topic as it allows new issues and theoretical insights from different cases to be studied.

- Enhancement of the credibility and validity of this study

Multiple case studies enhance the credibility and validity of research results. The benefits of using a multiple case study research design are that the design helps shed light on similarities and differences among cases in the selected context (Hartley 2004: 326). In addition, multiple cases allow comparative evaluation and replication of the results between cases which may belong in different categories. This may be helpful in reinterpreting and shaping theoretical frameworks (Brown & Eisenhardt 1998). Detailed empirical evidence derived from multiple cases can be contrasted, one against another (Eisenhardt 1989: 540-541). However, a
multiple case study research design involves a great amount of data (Hartley 2004). As a result, the researcher will probably need to spend more time on the data collection and analysis processes.

- **Enhancement of the generalisability of this study**

Rigorous triangulation can be seen in the multiple case study design. Triangulation is defined as “a process of using multiple perceptions to clarify meaning, verifying the repeatability of an observation or interpretation” (Stake 2000). There are several ways to triangulate; for example, use of several data sources and multiple data collection methods (Patton 2002: 247).

The triangulation between various sources of data and comparison between different cases enhances the generalisability of the findings. In this research, the multiple cases help identify common and different responses of Thai MNEs to the implementation of the Thai government’s bilateral FTA policy. Bilateral FTAs affect each Thai MNE distinctively. Some Thai firms adjust their internationalisation strategies, capabilities or resources, while others do not.

**4.4 Data collection: selection of cases**

Selection of cases helps determine the scope of the study as well as the generalisability of results (Eisenhardt 1989: 537). It helps minimise extraneous variation, identify the limitation of results to a certain extent as well as strengthen external validity. In this study, case firms were selected from a population of Thai MNEs listed on the Stock Exchange of Thailand (SET), in one sector; the food industry. The selection of one specific sector helped control environmental variation. The listed Thai MNEs were chosen as the unit of analysis of this study.

In conducting a multiple case study, a researcher has to make decisions on types and numbers of cases for the study. This section focuses on the former, while numbers of cases is discussed in Section 4.5. At the starting point, selection can be based on the derived conceptual framework and research questions (Miles & Huberman 1994: 30). Maxwell (2005) postulated that qualitative research substantially rests on the appropriate selection of cases. In fact, the selection of cases for qualitative study is often purposive (Patton 1990; Maxwell 2005). Random selection is also a possible option but not necessarily optimal (Eisenhardt 1989: 537).
There are several strategies of purposeful sampling. This study employs “two critical strategies” for case selection, namely criterion sampling and theoretical sampling.

Criterion sampling aims to “review and study all cases that meet some predetermined criterion of importance, a strategy common in quality assurance efforts” (Patton 2002: 238). Each case is complex in itself: there is a need to set a boundary to what should be studied and for how long (Stake 2000: 439). A researcher can specify standards that the cases must meet in order to be included in the study (Patton 1990). There are always questions as to whether firms meet the set criteria of the study (Hartley 2004).

The criteria for selecting Thai case firms for this study are given in Section 4.6. The selected Thai MNEs in the food industry have all entered international markets prior to 2005. The focus of the study is on the internationalisation of Thai MNEs since the bilateral FTAs became effective in 2005. Strategies, capabilities and resources of case firms which were set for domestic market growth and expansion are not the focal point of this study. A comparative analysis approach was systematically pursued in order to compare what happened across case firms.

Another case selection strategy used in this research is theoretical sampling. Yin (2003) stated that, in general, the case selection is best when it rests on a conceptual basis. Miles and Huberman (1994) added that qualitative sampling is an incremental theoretically driven process. In addition, Eisenhardt’s (1989) work confirmed that conceptual case selection is preferable to random case selection because the researcher can concentrate on cases that are helpful for theoretical advance. It also helps set the boundary of data analysis (Charmaz 2006: 97).

Charmaz (2006: 96) described theoretical sampling as:

“means seeking pertinent data to develop your emerging theory. The main purpose of theoretical sampling is to elaborate and refine the categories constituting your theory. You conduct theoretical sampling by sampling to develop the properties of your category(ies) until no new properties emerge.”

The selected cases of this study were chosen on the basis of a theoretical principle. Suitable cases are essential for the multiple case research design because they could help in developing theoretical insights. They help enhance the possibility of better comprehension of phenomena.
under study (Patton 1990; Yin 2003). Even though theoretical sampling can be used in order to achieve conceptual advance, it cannot generate findings that can be statistically generalised for the whole universe (Charmaz 2006: 100-101).

Thai MNEs in the food sector were then divided into two main categories: those with international focus and those with domestic focus. However, all firms have a significant level of internationalisation potential. Later, another category emerged after a comparative analysis of incremental data during the data collection process. This was added to existing theoretically driven categories. This new category is labelled “refocusing MNEs”, which means MNEs that were originally focusing on international markets but have moved strategically towards a domestic focus over time. Empirical data collected from the selected cases were contrasted against the literature, the developed theoretical propositions and frameworks. Thus, it is recognised that the findings of this study can be generalised to the theoretical propositions, but not the whole population of firms.

4.5 Data collection: number of cases

The number of cases is an issue among qualitative researchers who choose the case study research method. A judgment on this issue rests on the complexity of the subject of study and the quality of each available case (Miles & Huberman 1994: 30). Miles and Huberman (1994) asserted that sometimes the researcher ends up having only a small amount of data from each case when there are too many complicated cases to be included in a research project. If it is possible, the researcher should increase the number of cases until no new knowledge is gained (Eisenhardt 1989; Glaser & Strauss 1967). However, commonly, time and financial constraints determine the number of cases that can be added to a study (Eisenhardt 1989: 545).

The number of cases included in a study should also be based on the objectives of the research, levels of analysis and limitations on timeframe and resources as well as access to target sites and availability of respondents. It is also practical to determine the desired number of cases at an early stage of the research, especially when time and resource constraints prevail (Eisenhardt 1989: 545). Initially, in this study there were 13 suitable firms that met the selection criteria. Following preliminary estimation it was expected that approximately half of these firms would be willing to participate in the research. Fortunately, the final number of cases was ten. Although this increased the level of field work and the time required to
complete this work, the increased number of case firms enhances the reliability and generalisability of research.

So the number of cases in this study is ten. This is theoretically adequate to answer the research questions and provide a significant amount of detailed empirical evidence. Eisenhardt (1989) stated that a theoretical framework developed from less than four cases may lack in-depth insight into the subject and provide insufficient empirical findings. On the other hand, if the number of cases is greater than ten, the researcher may be overloaded with complex and uncontrollable data. This is consistent with Miles and Huberman (1994: 30) who advised that studies with numbers of cases greater than 15 could cause a problem of unmanageable detailed data if these cases were very complicated. Nevertheless, it is widely accepted that an appropriate number ranges from four to ten cases (Eisenhardt 1989: 545). This researcher opted for the higher range in order to ensure completeness of data and enhance the quality of this research.

4.6 Data collection: selection of Thai case firms
Apart from being one of Thailand’s most important export sectors, the Thai food sector comprises major MNEs competing in the global market; as discussed previously in Chapter 2. In order to answer the research questions and accomplish the research objectives, Thai firms in the food industry were selected using the following criteria:

1. Selected firms must be multinational enterprises (MNEs) according to the United Nations’ (1973) definition as:

“all enterprises which control assets – factories, mines, sales offices and the like – in two or more countries.”29

2. Selected firms are Thai MNEs in the food industry as defined by the Thai Ministry of Industry (2002):

“Food industry means an industry that uses agricultural products such as plants, livestock and fisheries as main raw material in productions. The productions are based on technologies in order to get products for consumption uses or for other uses in further production processes. It is a

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29 The definition of MNEs employed in this study parallels Rugman and Verbeke’s (2000) work and that of Buckley and Casson (1976) who stated that “MNE may be defined as an enterprise which owns and controls activities in different countries.”
method of preservation of agricultural products by primary manufacturing processes or intermediate manufacturing processes or final manufacturing processes.”

3. Selected firms are currently listed on the Stock Exchange of Thailand (SET).
4. Selected firms entered the international marketplace prior to 2005.

Firms which meet these criteria will be likely to possess high potential for further internationalisation based on their prior internationalisation experiences, strategies, capabilities and resources. All case firms are MNEs which have already been successful in their international expansion. However, they are very different in their market focus. Some case firms focus mainly on the domestic market. Other case firms have a significant proportion of existing sales in international markets. These latter firms have an international focus, actively seeking business opportunities in the worldwide market. The influence of the bilateral FTAs on all selected case firms’ internationalisation is analysed.

Table 4.1 summarises internationalisation characteristics of the selected Thai MNEs in the food sector. All figures shown in Table 4.1 are for 2006.
Table 4.1 Internationalisation characteristics of Thai MNEs in the food industry

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<thead>
<tr>
<th>Company Name</th>
<th>Established Year</th>
<th>Total Revenue (mil. US$)</th>
<th>Domestic Sales (%)</th>
<th>Foreign Sales (%)</th>
<th>Foreign Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1978</td>
<td>56</td>
<td>1</td>
<td>99</td>
<td>1 Joint Venture</td>
</tr>
<tr>
<td>B</td>
<td>1988</td>
<td>1584</td>
<td>10</td>
<td>90</td>
<td>6 Subsidiaries</td>
</tr>
<tr>
<td>C</td>
<td>1976</td>
<td>113</td>
<td>44</td>
<td>56</td>
<td>1 Subsidiary</td>
</tr>
<tr>
<td>D</td>
<td>1978</td>
<td>119</td>
<td>60</td>
<td>40</td>
<td>1 Subsidiary</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 Joint Venture</td>
</tr>
<tr>
<td>E</td>
<td>1993</td>
<td>35</td>
<td>60</td>
<td>40</td>
<td>1 Subsidiary</td>
</tr>
<tr>
<td>F</td>
<td>1978</td>
<td>3644</td>
<td>82</td>
<td>18</td>
<td>19 Subsidiaries (1 subsidiary has 20 trade branches/offices in 17 countries dividing into 2 Joint Venture and 18 wholly owned offices)</td>
</tr>
<tr>
<td>G</td>
<td>1985</td>
<td>438</td>
<td>83</td>
<td>17</td>
<td>2 Subsidiaries</td>
</tr>
<tr>
<td>H</td>
<td>1972</td>
<td>177</td>
<td>83</td>
<td>17</td>
<td>4 Joint Ventures</td>
</tr>
<tr>
<td>I</td>
<td>1984</td>
<td>28</td>
<td>90</td>
<td>10</td>
<td>1 Joint Venture</td>
</tr>
<tr>
<td>J</td>
<td>1973</td>
<td>109</td>
<td>99</td>
<td>1</td>
<td>20 Subsidiaries (mainly restaurants)</td>
</tr>
</tbody>
</table>

Source: Companies’ form 56-1 submitted to SET (various years), companies’ annual reports (various years) and interviews
4.7 Data collection: justification for using a multiple data collection method

This study employs a multiple data collection method, as this is deemed appropriate for the investigation of detailed and complex issues. The following points summarise the many reasons for using multiple data collection methods:

- Multiple data collection methods are a part of the definition of case studies (Yin 2003). It is common to see a case study comprising of various kinds of data collection methods (Eisenhardt 1989: 534; Hartley 2004).
- Multiple data collection helps answer research questions and complex issues through a mix of strategies; e.g. interviews, documentation and questionnaires (Hartley 2004).
- Multiple data collection methods allow the triangulation of multiple empirical data which is critical for the development of theories, especially when a researcher chooses a case study as his or her research strategy (Eisenhardt 1989: 538; Hartley 2004).
- Combined uses of data collection methods help enhance validity (Yin 2003; Hartley 2004). Hypotheses and variables are validated through the triangulation process (Eisenhardt 1989).
- Hartley (2004) emphasised the importance of developing research evidence systematically; e.g. through multiple and triangulated methods, including data collection methods, multiple informants and checking evidence for alternative explanations and disconfirming data versus confirming data. In a nutshell, multiple data collection methods enable researchers to obtain empirical data in an organised manner.

A combination of data collection methods considered suitable and practical to this study were chosen. This study employed interviews, questionnaires, field notes, documentation, and archival records. A chain of empirical evidence gathered from these methods is a crucial and integral part of the case study database. Details of the empirical evidence follow.

4.7.1 Interviews

Gillham (2000: 65) argued that the semi-structured interview “is the most important form of interviewing in case study research”, since it has flexibility attribute and predetermined structure focusing on the main research issues being explored. The semi-structured interview allows the researcher to obtain insight as well as factual information of the case firms (Yin 2003). On the
contrary, a structured interview is not appropriate for flexible research design (Robson 2002: 277-278). Robson (2002: 270) stated that

“the semi-structured interview has predetermined questions, but the order can be modified based upon the interviewer’s perception of what seems most appropriate. Question wording can be changed and explanations given; particular questions which seem inappropriate with a particular interviewee can be omitted, or additional ones included.”

This study employs the semi-structured interview as the main research tool. Informal interviews, which are a kind of unstructured interview, were also used during site visits and seminars to get additional relevant information. Probing questions were used from time to time as appropriate. The strategy employed was to ask questions first and listen to the informants’ answers and respond to their answers by linking to other questions as shown in the guided line.

The design of the guided line of inquiries was centred around the research issues.\(^{30}\) This was helpful since it enabled the researcher to get required empirical evidence for addressing the research questions of the study. Interview questions were revised and developed along a data collection process as illustrated in Figure 4.2.

\(^{30}\) See Appendix B.
Both face-to-face and phone interviews were used. Gillham (2000: 62) stated that “the overwhelming strength of the face-to-face interview is the ‘richness’ of the communication that is possible.” When possible, the face-to-face interview was chosen. In certain cases, phone interviews were conducted as required by the respondents and the locations of company site. For
instance, two of the phone interviews were conducted with an executive of Company A which is located in Songkla province, in the southern part of Thailand.

The phone interview has the same advantage as the face-to-face interview in terms of responsiveness and reflexivity (Gillham 2000: 77). In practical terms, both types of interviews can be recorded. The preparation process is similar to that of the face-to-face interview. The main difference is that the phone interview lowers costs and reduces the time required for arranging meetings at the company sites. Additionally, some physical interactions of the respondents cannot be observed through the phone interview. However, the physical interactions are not central to this study. Good preparation and arrangements prior to the interview being conducted helped the researcher succeed. All major questions were asked of and answered by the informants.

Table 4.2 specifies the numbers and types of interviewees, including the number of times respondents participated in the interviews either face-to-face (FTF) or by phone (PH). The interview sequence is summarised in the following table arranged in simple chronological order.

Table 4.2  Summary of data collection by interviews

<table>
<thead>
<tr>
<th>Company</th>
<th>Status</th>
<th>Interviewees</th>
<th>No. and types of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>TDEP, MOC(^a)</td>
<td>N/A</td>
<td>1 Director of Thai Trade Center (Sydney, Australia)</td>
<td>1 (FTF)</td>
</tr>
<tr>
<td>MOFA(^b)</td>
<td>N/A</td>
<td>1 First Secretary of Thai Embassy (Wellington, New Zealand)</td>
<td>1 (FTF)</td>
</tr>
<tr>
<td>Consulting Company</td>
<td>Not listed in SET</td>
<td>1 MD</td>
<td>2 (FTF)</td>
</tr>
<tr>
<td>Thammasat University</td>
<td>N/A</td>
<td>2 Associate Professors 3 Lecturers 1 JDBA student(^c) 1 Graduate of the executive MBA(^d)</td>
<td>2 (FTF), 1 (PH) 3 (FTF) 2 (FTF), 2 (PH) 1 (FTF), 1 (PH)</td>
</tr>
<tr>
<td>Dhurakijpundit University</td>
<td></td>
<td>1 Researcher and lecturer</td>
<td>1 (FTF), 2 (PH)</td>
</tr>
<tr>
<td>Mahidol University</td>
<td></td>
<td>1 Graduate 1 Graduate</td>
<td>1 (FTF), 2 (PH) 2 (FTF)</td>
</tr>
<tr>
<td>Company X</td>
<td>Listed in SET</td>
<td>1 Executive Director</td>
<td>1 (FTF)</td>
</tr>
<tr>
<td>Company C</td>
<td>Listed in SET</td>
<td>1 Chairman of the BoD 1 Operation Director-Export Business</td>
<td>1 (FTF), 1 (PH)</td>
</tr>
<tr>
<td>Company</td>
<td>Status</td>
<td>Interviewees</td>
<td>No. and types of interviews</td>
</tr>
<tr>
<td>-------------</td>
<td>----------</td>
<td>-----------------------------------------------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>TFPA&lt;sup&gt;c&lt;/sup&gt;</td>
<td>N/A</td>
<td>1 Manager of TFPA 1 Senior officer</td>
<td>1 (PH) 1 (FTF)</td>
</tr>
<tr>
<td>TDTN, MOC&lt;sup&gt;d&lt;/sup&gt;</td>
<td>N/A</td>
<td>1 Director of TDTN (Australia and New Zealand section) 1 Senior officer</td>
<td>1 (FTF), 1 (PH)</td>
</tr>
<tr>
<td>TCC&lt;sup&gt;e&lt;/sup&gt;</td>
<td>N/A</td>
<td>1 Senior Executive 4 officers</td>
<td>1 (FTF) 7 (PH)</td>
</tr>
<tr>
<td>FTI&lt;sup&gt;f&lt;/sup&gt;</td>
<td>N/A</td>
<td>1 Senior Executive</td>
<td>1 (FTF)</td>
</tr>
<tr>
<td><strong>Company F</strong></td>
<td>Listed in SET</td>
<td>1 Executive Vice President 1 Senior Vice President 2 Vice Presidents 2 Managers 1 Assistant manager</td>
<td>1 (FTF) 1 (FTF) 2 (FTF) 2 (FTF)</td>
</tr>
<tr>
<td><strong>Company Y</strong></td>
<td>Not listed in SET</td>
<td>1 Executive Director</td>
<td>1 (PH)</td>
</tr>
<tr>
<td><strong>Company A</strong></td>
<td>Listed in SET</td>
<td>1 Director of Sales and Marketing</td>
<td>2 (PH)</td>
</tr>
<tr>
<td><strong>Company D</strong></td>
<td>Listed in SET</td>
<td>1 Chairman of the BoD and CEO</td>
<td>1 (FTF)</td>
</tr>
<tr>
<td><strong>Company J</strong></td>
<td>Listed in SET</td>
<td>1 Vice President 1 Key Account Manager-Export</td>
<td>1 (FTF) 1 (FTF), 2 (PH)</td>
</tr>
<tr>
<td><strong>Company I</strong></td>
<td>Listed in SET</td>
<td>1 Executive President and CEO 1 President Office Director</td>
<td>1 (FTF) 1 (FTF), 1 (PH)</td>
</tr>
<tr>
<td><strong>Company H</strong></td>
<td>Listed in SET</td>
<td>1 President 1 Financial controller</td>
<td>1 (FTF) 1 (PH)</td>
</tr>
<tr>
<td><strong>Company B</strong></td>
<td>Listed in SET</td>
<td>1 Financial controller 1 President Office Director</td>
<td>1 (FTF), 2 (PH) 1 (PH)</td>
</tr>
<tr>
<td><strong>Company G</strong></td>
<td>Listed in SET</td>
<td>1 Executive Vice President 1 International Market Manager</td>
<td>2 (FTF) 1 (PH)</td>
</tr>
<tr>
<td><strong>NFI&lt;sup&gt;i&lt;/sup&gt;</strong></td>
<td>N/A</td>
<td>2 Officers</td>
<td>1 (FTF), 2 (PH)</td>
</tr>
<tr>
<td><strong>Company Z</strong></td>
<td>Not listed in SET</td>
<td>1 COO and CMO 1 Marketing Section Manager</td>
<td>1 (FTF) 1 (FTF)</td>
</tr>
<tr>
<td><strong>Company E</strong></td>
<td>Listed in SET</td>
<td>1 MD</td>
<td>1 (PH)</td>
</tr>
</tbody>
</table>

Notes: <sup>a</sup>TDEP, MOC stands for Thai Department of Export Promotion, Ministry of Commerce; <sup>b</sup>MOFA stands for Thai Ministry of Foreign Affairs; <sup>c</sup>JDBA stands for Joint Doctoral Program in Business Administration- Joint program among Thammasat, Chulalongkorn Universities and National Institute of Development Administration; <sup>d</sup>MBA stands for Master Program in Business Administration; <sup>e</sup>TFPA stands for Thai Food Processors' Association; <sup>f</sup>TDTN, MOC stands for Thai Department of Trade Negotiation, Ministry of Commerce; <sup>g</sup>TCC stands for Thai Chamber of Commerce; <sup>h</sup>FTI stands for Federation of Thai Industries; and <sup>i</sup>NFI stands for National Food Institute of Thailand.

The guided line of inquiries was addressed to respondents who hold positions at senior management level such as Chairman of the Board, Chief Executive Officer, President, Executive Vice President, Senior Vice President, Vice President and Director. Senior executives of all case firms included in this study were interviewed at least once and respondents were re-interviewed.
as necessary. Senior management are best placed to provide the most relevant information to this research, since they are the direct decision makers who respond to changes in the business environment in which they operate. The focus was on the responses of the companies to bilateral FTAs, through their respective internationalisation strategies, capabilities and resources. Interviews were also conducted with senior executives of non-listed companies who belong to the food sector even though these companies failed to meet the selection criteria for inclusion in this research. This was done to capture industrial level information, to triangulate data from other sources and to obtain links to executives of the case firms.

Key managers of relevant departments of six case firms participated in the interviews either face-to-face or by phone. The other firms’ executives were either not willing to participate or not available. Participating departments are those involved with the case firms’ internationalisation; for example, export departments, international business departments and international marketing departments, including president offices. All the information and data received could be used in cross-checking with other sources of data. The detailed empirical evidence allows an in-depth study of each particular case.

The developed interview questions were first used in a pilot case study. The pilot case is defined by Robson (2002: 185) as “a small-scale version of the real thing, a try-out of what you propose so its feasibility can be checked.”

Alternatively, Yin (2003: 79) described the pilot case as “a laboratory for the investigators, allowing them to observe different phenomena from many different angles or to try different approaches on a trial basis.”

The pilot case study was selected. The case firm had satisfied the selection criteria. In addition, the researcher has personal connections to a number of senior management. This helped make company access possible within a determined timeframe. The Chairman of the Board of Directors of Company C was interviewed. Information and data obtained were very helpful for developing interview questions and for the questionnaire, including theoretical propositions and framework. Section 4.9 describes data collection procedures, including the pilot case study and changes made
Another source of information was discussion with other researchers whose specialisation and research interest lie in the field of Thai MNEs’ international expansion and Thailand’s trade policy. Academic staff of Thammasat and Dhurakijpundit Universities contributed interviews to the research. There was also discussion with a Managing Director (MD) of a consulting company and senior executives of three other Thai firms in the food industry, namely Company X, Company Y (not listed in SET) and Company Z (not listed in SET). Talking to Thai senior management and experts in the area of study proved informative. Apart from acquiring general knowledge of Thai firms’ internationalisation, Thailand’s food industry and Thailand’s bilateral trade diplomacy, they provided valuable anecdotal data and practical advice on field procedural issues such as access and interview protocol; suitable for the Thai cultural environment. Last but not least, some of these informants were willing to use their connections to senior management of Thai MNEs and officers of Thai government agencies to help secure interviews.

Information received from interviews with Thai trade associations and Thai government agencies was helpful in giving the overall picture of the issues being studied. This information, from both the private and public sectors, was contrasted and checked against each other. The interviews were conducted with senior executives and officers of the Thai Chamber of Commerce (TCC); The Federation of Thai industries (FTI); Thai Food Processors’ Association (TFPA); Thai Department of Export Promotion, Ministry of Commerce; Thai Department of Trade Negotiation, Ministry of Commerce and Thai Ministry of Foreign Affairs.32 Thai government agencies cooperating in this study also include the Thai Office of Industrial Economics, Ministry of Industry.

4.7.2 Questionnaire
The questionnaire is another data collection tool employed in this research. Data received from questionnaires are complementary to data collected from the interviews. The developed questionnaire is very useful for triangulation of multiple evidence which helps enhance the

31 See Table 4.2.
32 See Table 4.2 for details and the chronological sequence.
validity and reliability of this research. It is considered an additional tool to the main data collection method of this study, which is the semi-structured interview. It helps the researcher cross check issues and data collected by other methods. Similar issues seen across multiple data collection methods enhance research validity. There were also some contradictory issues in this study between data collected from interviews and those collected from questionnaires. The issues were addressed by additional follow-up interviews. The inconsistency was not with actual methodology or research instruments but with factual statements. As a result of this double-checking, research reliability of this study can be warranted.

The case study questionnaire was developed to reflect all comments and recommendations received from researchers, lecturers, exporters, MBA and JDBA students as well as the pilot case study.33 Some of the questions from the draft guided line of inquiries, which are specific, were incorporated into the draft questionnaire. The literature on qualitative research, developing country MNEs and bilateral FTAs was all helpful. This study follows the development process of the questionnaire, as shown in Figure 4.3.

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33 See Appendix C.
Questions included in the questionnaires are more specific and mostly close-ended, unlike those designed for semi-structured verbal interview questions. The developed questionnaire is included in Appendix C. The answers gathered from the questionnaires were very useful, as some of them indicate how much impact the FTAs have on their firms. In order to answer the questions relating to firm-specific and country-specific factors in internationalisation, the informants had to identify the importance of the selected factors by placing them on a five point scale from 1 (least important) to 5 (most important). For example:

1) Which of the following firm factors are influencing the international expansion of your company? Please place an ‘X’ in appropriate columns to indicate the importance of the selected factors.

2) Which of the following country factors of Thailand are influencing the international expansion of your company? Please place an ‘X’ in appropriate columns to indicate the importance of the selected factors.
The questions about the impact of bilateral FTAs were set in the same way in order to gauge the relative importance of each agreement for the case firms. In addition, questions related to how Thai case firms respond to the FTAs were also included. The obtained information was used for triangulation purposes and enhances confidence in the findings. Examples of questions relating to impacts of bilateral FTAs are as follows:

1) How does the bilateral FTA affect your foreign sales in Australia? Please tick one box only.

2) How does the bilateral FTA affect your foreign investments in New Zealand? Please tick one box only.

3) In response to the newly signed bilateral trade agreement between Thailand and Japan (Japan-Thailand Economic Partnership Agreement: JTEPA), your company has to …

All those providing information received the developed questionnaires by having it either handed to them right after the interview or sent by mail. When individuals failed to respond, the researcher followed up by calling the prospective respondents or the respondents’ assistants. Table 4.3 summarises numbers and types of respondents, including the status of Thai case firms.

Table 4.3  Summary of data collection by questionnaire

<table>
<thead>
<tr>
<th>Company</th>
<th>Status</th>
<th>Respondents</th>
<th>Questionnaire</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Listed in SET</td>
<td>1 Director</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>Listed in SET</td>
<td>1 Financial controller</td>
<td>Yes</td>
</tr>
<tr>
<td>C</td>
<td>Listed in SET</td>
<td>1 Chairman of the BOD</td>
<td>Yes</td>
</tr>
<tr>
<td>D</td>
<td>Listed in SET</td>
<td>1 Chairman of the BOD and CEO</td>
<td>Yes</td>
</tr>
<tr>
<td>E</td>
<td>Listed in SET</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>F</td>
<td>Listed in SET</td>
<td>1 Senior Vice President 1 Vice President</td>
<td>Yes Yes</td>
</tr>
<tr>
<td>G</td>
<td>Listed in SET</td>
<td>1 Executive Vice President</td>
<td>Yes</td>
</tr>
<tr>
<td>H</td>
<td>Listed in SET</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>I</td>
<td>Listed in SET</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>J</td>
<td>Listed in SET</td>
<td>1 Key Account Manager-Export</td>
<td>Yes</td>
</tr>
</tbody>
</table>
There were eight questionnaires filled out by the informants, but only seven of them were properly answered and useable for this research. Fortunately, the unusable questionnaire belongs to Company F where there are two respondents to the same questionnaire. This left the researcher with seven questionnaires received from seven out of ten case firms to work with. All informants are senior executives of the Thai MNEs. They are the same individuals that were interviewed, as discussed in Section 4.7.1.

4.7.3 Field notes
Field notes were created during and after each company visit. These notes helped the researcher record the first impression and important issues arising from the fieldwork. Each case study field note includes the firm’s background and history, firm’s international expansion, firm’s motivation for internationalisation, and factors involved in the internationalisation of the firm. Impression and preliminary evaluation of the case firms’ level of knowledge and awareness of the bilateral FTAs and their roles are also included. Most importantly, influences of the bilateral FTAs on the internationalisation of the case firms are recorded.

These notes reveal issues that may require more attention. In this study, recorded field notes are used to cross-check the preliminary idea and emergent themes. The pilot case study showed that bilateral FTAs may affect international purchasing strategies of the firm. The field notes together with the transcriptions confirmed that this issue was worth further exploration.

4.7.4 Documentation
Many different types of company documentation were used. These documents formed the basis against which other data collected from other methods was compared (Gillham 2000). These included annual reports, press releases, publicity documents and company profiles as well as corporate news from the companies, newspaper or magazines (see Table 4.4 for details).
Thai government agencies’ documents were also useful since this study tried to answer research questions about the impact of Thai government trade policy. Relevant Thai government agencies’ websites and libraries were therefore another source of information, especially those of the Thai Ministry of Commerce, Thai Ministry of Industry and Thai Ministry of Foreign Affairs.

In addition, Thai trade associations and other institutes such as the Thai National Food Institute (NFI) provided valuable documents and information for this study. Documents received from site visits and websites helped provide general knowledge and better understanding of the Thai food industry as a whole. Some important sub-industries are also highlighted and documented.

4.7.5 Archival records

At the early stage of this study, the SET database was very useful for the researcher to search for Thai MNEs in the food sector and be familiar with potential case firms. The SETSMART (SET
Market Analysis and Reporting Tool) package was purchased at the start of the study in 2005 and re-purchased in 2006, 2007 and 2008 in order to gain access to the SET database (http://www.setsmart.com/ism/login.jsp). The database provides historical and statistical data of Thai firms registered with SET. The data is backdated for up to five years. Most importantly, all listed Thai firms have to submit Form 56-1, as required by SET. This information includes risk factors, company profiles and details of businesses, research and development, financial statements and performance, future projects, financial structures, management profiles and details, and future projects and plans. Initially, this study extensively used the information contained in Form 56-1 for the selection of cases. At a later stage, the database became an important source of data which was used in combination with other data collection methods for analysis of the case firms.

Another essential database is the Statistics Database of National Food Institute (http://www.nfi.or.th/bi2/statistics/index.asp), which provides annual data. This database comprises food exports’ and imports’ volume and value, trade balance of food products, rates of change in both food exports and imports, export and import shares of each food product category as well as unit prices. The researcher can obtain reports by harmonised system code (HS) or by country or by region. Some of these data are incorporated into Chapter 2. This background information about Thailand’s food sector is very important as it provides the context of the study. In addition, World Trade Organization’s Time Series of trade statistics were used to rank Thailand against other world food exporters (http://stat.wto.org). These figures are included and discussed in Chapter 2.

The most important archival record used in this study is the Thailand Trading Report System of the Thai Ministry of Commerce. The system provides information on Thailand’s import, export and trade balance monthly and annually. Information on Thailand’s foreign trade by country is also available. The system enables the researcher to acquire data on principal exports by destination, principal exports and imports, export and import structures and major destinations and suppliers. The researcher visited the Department of Trade Negotiation, at the Thai Ministry of Commerce during both the first and second field trips in Thailand in 2007 and acquired relevant data (both monthly and yearly) from the database. Monthly and yearly data on food products were selected and reported by the system. These product items were chosen from the
same harmonised system code (HS) used by the National Food Institute and Ministry of Industry. It is noticeable that raw data such as export and import figures of each product category are similar in all these Thai agencies since they all cooperate with the Customs Department; their main data source. However, some database systems are better than the others (e.g. more customised to users’ needs). The Ministry of Commerce’s database is most suitable for this research since it allows the researcher to obtain not only yearly but also monthly data of food products exported to countries party to the established FTAs with Thailand; as well as the rest of the world. Later, updated data for November and December 2007 were sent via email by an officer who kindly cooperated with the project.

4.8 Data collection procedures: preparation prior to fieldwork

A data collection protocol enables the researcher to locate systematically relevant participants and develop empirical data (Hartley 2004: 328). A case study data collection protocol was developed. This included introduction to the case study, relevant readings, data collection procedures, the data collection plan and case study questions. The protocol is helpful in setting out important steps to follow and to identify issues to be aware of in the data collection process. However, the actual data collection schedule was slightly different from the planned one. Some appointments were postponed to fit the informants’ availability and convenience.

The researcher had two interviews with Thai officials, in November 2006, in order to get relevant information prior to commencing field trips. One of the Thai government officials was the Director of the Thai Trade Center in Sydney, Australia. The center is one of Thailand’s trade promotion offices overseas. Another was with the First Secretary of the Thai Embassy in Wellington, New Zealand. Both provided useful information on the impact of bilateral FTAs on Thai firms, including those locating in Australia and New Zealand. Both of them provided useful contact details of Thai firms. Nevertheless, the researcher did not interview all the recommended firms because of time and financial constraints. In addition, most of them are non-MNE and some of them are in the service sector. The senior Thai officials permitted the researcher to use their names as references. One of the case firms that participated in the study did so largely because the Director of the Thai Trade Center supported the research.
There was some other preparation prior to site visits; including reading the relevant literature and information on potential case study firms. Information on these firms’ respective senior management, which can be downloaded from the SET database, companies’ websites and newspapers, is crucial. Preparation of the introductory letter, information sheet and consent form, including complaint forms, as required by the University of Adelaide’s human ethics committee, were completed before conducting data collection in Thailand. The prepared documents were later amended to incorporate the positions and personal details of informants. The documents, questionnaires and guided interview questions were translated from English into Thai.

4.9 Data collection procedures: collecting data in Thailand

Data collection in Thailand commenced in February 2007. The testing of the clarity and workability of the research instruments was carried out by asking for suggestions and comments from Thai researchers, lecturers and experts in the field of study, including some local MBA and JDBA students. Both interview questions and questionnaires were distributed and discussed with them in meetings. In addition, some informants were followed up by phone when there were unfinished or additional issues. The time spent at each site varied according to the number of informants that were willing to meet the researcher.

The information received provided theoretical insight and also practical aspects of data collection in Thai culture. Some informants kindly provided contact details of senior executives of the case firms, while others recommended useful sources of information such as relevant persons at research institutes and government agencies.

It is important to conduct a pilot case study early. Doing so helps in testing the research instruments for their clarity and workability. Data received from semi-structured interviews of Company C (pilot case) were useful for developing a final draft questionnaire and improving the guided line of inquiries for future interviews. For example, some international business terminologies such as ‘internationalisation’, ‘country specific’ and ‘firm specific’ factors were removed from the draft questionnaire and rewritten in layman’s terms. Additionally, the impact of bilateral FTAs on international purchasing strategies emerged during the pilot case interview. A few questions on this were subsequently added to the interview questions of this research. In certain circumstances, a pilot case study would be helpful in reshaping hypotheses and research
questions as well. In this study the pilot case indeed helped the researcher rethink and review existing theoretical propositions. As a result, paraphrases of the theoretical propositions followed in order to make them more easily understood. Last but not least, the pilot case study enabled the researcher to learn about issues arising from the data collection process and actual time likely to be needed at each site.

Following the pilot case study, case study questions for semi-structured interviews and questionnaires were revised and finalised. Case study guided interview questions for Thai MNEs in the food industry are contained in Appendix B. The developed interview questions were sent, together with the information sheet and introductory letters from the researcher and the Adelaide Graduate School of Business, to Thai MNEs’ senior management by facsimile. Phone calls were made to the prospective informants and senior management’s assistants. This was done to introduce the researcher, mention some mutual contacts, explain the nature of the study to relevant persons and ask for their help in arranging appointments with their respective superiors. Getting prospective informants’ participation proved to be a major hindrance of the fieldwork, except for Company C (the pilot case) where the researcher has personal connection to senior executives. Overall, it was very time consuming.

The development process of the questionnaire employed in this study is depicted in Figure 4.3 and its details are described in Section 4.7.2. A number of questionnaires were directly handed to the respondents after each interview. In certain cases, the questionnaires were sent to them by local mail. Completed questionnaires were copied, scanned and kept in both hard copy and electronic copy. Seven out of ten case firms answered the questionnaires. The rest were followed up by phone calls and emails but were unsuccessful. This is not an issue since the researcher can utilise data received from other methods such as interview and documentation for the analysis of the study. Further, missing data was sought from informants either by additional face to face or phone interviews.

All interviews were recorded digitally either on video or audio, depending on the willingness of participants. The one week time gap in each month during the data collection in Thailand was

34 See Table 4.3 for a summary of data collection by questionnaire giving numbers of questionnaires completed by respondents as well as details of respondents from each case firm who completed them (e.g. Director, Chairman of the BOD, CEO, Executive Vice President, and Senior Vice President).
pre-scheduled for the transcription process, reviews and follow-up visits. After each interview, the interviews were transcribed in Thai and then sent to the informants for their approval and/or amendments. Only the Chairman of the Board of Directors of Company C asked for minor amendments, mostly relating to linguistic issues, to the draft transcript sent. The researcher revised accordingly and had the final transcript approved by each respondent. All quotations presented in this research were translated from Thai into English.

There were follow-up phone calls and visits to some of the case firms afterwards for various reasons; for example, to get additional data and materials and also to discuss issues with the same informants or new relevant persons. The number of interviews with all informants, either by phone calls or face to face, is shown in Table 4.2 of Section 4.7.1.

After the first data collection was accomplished, two case firms still had some contradictory statements between data collected from the interviews and the questionnaires. As a result, another data collection was conducted later in the same year (November, 2007). Additional data of the two case firms, comprising three interviews with their executives, were triangulated and analysed. During the second data collection process, the researcher had a chance to follow up on earlier research by interviewing one more executive of Company C and calling again on a few informants who were previously interviewed. Moreover, considerable information was provided by the Ministry of Commerce, the Ministry of Industry and the National Food Institute. That information adequately filled the data gaps in the first data collection conducted in Thailand.

4.10 Data collection procedures: organising and managing data

All the empirical data is organised and managed by employing data analysis assisting tools. These are data matrices, graphs and the NVivo7 program. These tools help organise, manage and display empirical data in a systematic way (Miles & Huberman 1994). In other words, they make data analysis easier and more feasible, especially when data is overloaded during a cross-case analysis process.
Cassell and Nadin (2004: 271) described a matrix as:

“It typically takes the form of a table, although it may also take the form of ‘networks’ – a series of nodes with links between them. Each row and column is labeled, with rows usually representing the unit of analysis ... The columns typically represent concepts, issues or characteristics pertinent to the research questions.”

At the beginning of the study, tabular displays such as developed company profile, characteristics and internationalisation summary sheets were intensively used. Later, additional data matrices and graphs were helpful in data organisation and management during the data collection phase. They allow the researcher to discover both similar and dissimilar patterns among case firms.

However, researchers are frequently faced with data overload during the data analysis process (Cassell & Nadin 2004: 273). This is because the qualitative research method involves huge amounts of data (Bryman & Bell 2007). This research gathers data from multiple sources by employing multiple data collection methods, as shown in Section 4.7. Since most of the collected data for this study is in text – such as field notes, interview transcripts and corporate news – manual inputting methods into tabular and graph displays were not the most efficient option. The NVivo7 program developed by QSR International Pty Ltd was more useful in organising and managing these detailed empirical data, as well as maintaining the chain of evidence. The program enabled the researcher to arrange data from different sources systematically, to code collected data into nodes, to build models and to generate reports. The program helped save time spent on data analysis and also enhanced refinement of data analysis procedures.

The definition of nodes is taken from the NVivo7 workbook provided for participants in a QSR International’s introductory workshop, which the researcher attended on the 30th of August (2007) in Adelaide. Nodes are:

“...storage containers for data on specific people or groups, nodes are also where you store data about those themes that you see as you work in your project. Thus they become far more than just organizational tools, they become central to your research – they are the tools you use to develop the categories and theories as your research progresses”.

90
New nodes were created to store data from both preliminary and emergent themes. Examples of nodes for this study are “FTAs and international market participation” (preliminary node) and “FTAs and international purchasing” (newly created node). In addition, sub-nodes were added to existing nodes, and the structure of nodes was regularly checked and adapted to best accommodate new data and issues. For example, empirical findings on responses of case firms to bilateral FTAs were stored in sub-nodes: “Develop new networks”; “Increase production capacity”; and “Acquire new informational resources”. All responses are also categorised further under either “JTEPA” or “TAFTA and TNZCEP” sub-nodes, as firms respond to individual bilateral agreements differently. However, they all consider Australia and New Zealand as one market. Consequently, TAFTA and TNZCEP belong to the same sub-node. Overall node structure, nodes and sub-nodes are presented in Appendix D.

4.11 Data analysis

Gerring (2007) stated that “one of the primary virtues of the case study method is the depth of analysis that it offers.” The depth of analysis involves two main data analysis techniques. One is “within case analysis” and the other is “cross case analysis” (Eisenhardt 1989; Yin 2003). The “within case analysis” is used from the beginning of the data analysis process. It is during the “within case analysis” process that a theory may first be developed (Eisenhardt 1989: 540). At the beginning of this study, the researcher developed data analysis by means of a pilot case study. All other case firms are analysed individually. As discussed earlier in Sections 4.7 and 4.8, several data collection methods were used, such as documentation, field notes, transcription of interviews and questionnaires.

The “within case analysis” helped in identifying research issues of individual case firms. It also enabled the researcher to gain in-depth understanding of the internationalisation of each particular Thai case firm. Certain relationships between variables such as bilateral FTAs and firms’ international purchasing strategies emerged from the pilot case firm. This issue, arising from the “within case analysis”, was then included in the review and development process of theoretical propositions and guided line of interview questions.

After individual cases were systematically analysed, the researcher started to employ “cross case analysis”. Cross case analysis enables a researcher to look for rival themes to his or her
preliminary analysis of individual case data and also to identify similarities and dissimilarities among the case firms (Eisenhardt 1989: 540). Contradictory and challenging evidence to existing theory is vital for new theoretical development (Gillham 2000). In this research, the impact of bilateral FTAs on Thai case firms’ internal adjustments was somewhat different from previous research findings.35 This was cautiously dealt with. Explanations of the findings were sought. The internal validity of the research was also checked.

An explanation building technique was employed to explain individual cases. Later, findings derived from employing the technique were compared and analysed across all case firms. This technique involved an iterative process as Yin (2003: 120-122) pointed out:

“1. Making an initial theoretical statement or an initial proposition about policy or social behaviour
2. Comparing the findings of an initial case against such a statement or proposition
3. Revising the statement or proposition
4. Comparing other details of the case against the revision
5. Comparing the revision to the facts of a second, third, or more cases
6. Repeating this process as many times as is needed.”

Multiple sources of evidence were utilised in order to achieve construct and internal validity. Empirical data from different sources were organised and grouped according to the data source. The NVivo7 program was very helpful in managing and organising the data. Discovered relationships and themes were supported by reinforcing evidence from several sources. This enhances confidence in the research findings (Eisenhardt 1989: 541). It also helps reduce bias resulting from the initial phase of the study (Hartley 2004).

Data matrices were used to display data. Data were organised in a logical order. They were continuously inputted into the matrices over the period of data collection and were rearranged for final reporting formats as shown in this thesis. The developed matrices were helpful in data analysis since they helped reflect common and different issues or patterns among case firms (Miles & Huberman 1994). Data were compared with the extant literature and emergent patterns were observed.

35 See Chapter 6 for detailed discussions of the similarities and differences to the existing research.
This study also employed pattern-matching tactics to ensure internal validity. This was done by comparing and specifying similar patterns between different groups of case firms; namely, international market focus MNEs; primarily domestic market focus MNEs; and refocusing MNEs. Patterns of bilateral FTA responses of case firms were matched with different categories of case firms and compared to predicted patterns.

Additionally, Yin (2003: 37) recommended the use of replication logic across cases to secure external validity. The replication logic is very important and universally applied in multiple case studies. Numbers of cases supporting relationships or themes help in substantiating the existing theory, while conflicting cases help in further developing the existing theory (Eisenhardt 1989). The replication logic was extensively used in this study in order to identify responsiveness to the bilateral FTAs among the three different groups of case firms.

Appropriate data collection procedures and methods, described earlier, and data analysis techniques and processes helped the research meet the criteria for research evaluation. These criteria are construct validity, internal validity, external validity and reliability. Table 4.5 summarises the criteria for case study research evaluation and the techniques for achieving them.

**Table 4.5  Criteria for case study research evaluation**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Case study techniques</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct Validity</td>
<td>Multiple sources of evidence; Chain of evidence; Review draft case study report; Iterative tabulation of evidence for each construct; Comparison with conflicting and similar literature</td>
</tr>
<tr>
<td>Internal Validity</td>
<td>Pattern matching; Explanation building; Search evidence for ‘why’ behind relationships; Careful checking of constructs and theory against multiple sources of evidence; Comparison with existing literature</td>
</tr>
<tr>
<td>External Validity</td>
<td>Replication logic across cases</td>
</tr>
<tr>
<td>Reliability</td>
<td>Case study protocol; Case study database</td>
</tr>
</tbody>
</table>

Source: Adapted from Yin (2003); Eisenhardt (1989) and Hartley (2004)
As discussed in various sections of this chapter, this research employs most case study techniques to ensure that all the criteria are met and maximum validity achieved. It should be noted that the various techniques were employed at different stages of this study.

4.12 Limitations of the case study research method
Case studies do not provide statistical generalisation of whole populations. The case study research method is most suitable for micro-level investigation (Gerring 2007). Yin (2003: 10) stated that “case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes”. In other words, the studies can be generalised analytically in order to develop, modify, or, confirm theories.

Conducting case study research involves small numbers of subjects being studied, unlike other research methods which may involve a large sample enabling a statistically valid conclusion for particular populations. This study comprises ten case studies aiming at extending existing theories about the impact of government trade policy on the internationalisation of developing country firms. The findings can be generalised to the theoretical propositions developed but not universally.

Common criticism of the case study method is its alleged “lack of rigor” (Flyvbjerg 2004: 428; Yin 2003: 10). This can be overcome by strictly following a case study protocol which embodies a systematic research design, data collection and data analysis.

4.13 Summary
Case study research method is considered appropriate for this study as it aims to provide an in-depth exploration of a contemporary issue in a bounded context. This involves a systematic and holistic way of collecting detailed data. The method is helpful in addressing the research questions of this study and also for refining and advancing knowledge on the role of government trade policy in influencing the internationalisation of developing country MNEs.

There are ten case studies in this research. The selection of the case firms is based on theoretical sampling and criterion sampling. These Thai case firms are contrasted against one another. Empirical data from different sources within each case firm provide insights into the research
issues and allow triangulation of the data. Multiple case study design enhances the confidence and validity of the research.

Multiple data collection method was employed in this study. The five main data collection tools were interviews, questionnaires, field notes, documentation and archival records. This proved efficient and effective since the data and methodological triangulations increased the robustness of data analysis.

Data collection procedures and data analysis processes were progressively described in detail. These processes included developing the case study protocol, database and evidence chain; pattern matching and explanation building. Research validity and reliability were accomplished by following step-by-step processes. The next Chapter will focus on findings of this research.
CHAPTER 5  
RESEARCH FINDINGS

5.1 Introduction
This chapter presents the research findings on the impact of bilateral FTAs on the internationalisation strategies, capabilities and resources of Thai MNEs. The empirical evidence includes internationalisation drivers for Thai MNEs in the food industry, as well as their responses to bilateral FTAs. It will be demonstrated that each firm in the study has been subject to both country-specific and firm-specific influences. The case firms responded to the FTAs in different degrees. The findings are organised as follows: country-specific factors (CSFs), firm-specific factors (FSFs), CSFs versus FSFs; and the influence of bilateral FTAs on firms’ strategies, capabilities and resources.

5.2 Country-specific factors
The case firms identified several country-specific factors that were affecting their internationalisation. These CSFs included costs of factors of production; quality and abundance of factors of production; government policy; access to clusters of related activities; geographical location; and the attractiveness of the home market. Natural resources, labour, and government trade policy ranked high among these CSFs. Even though Thailand’s CSFs were important to Thai firms’ international expansion, the strength and, therefore, commercial importance of Thai CSFs were diminishing. This was due to the rising costs of raw materials and the increasingly short supply of critical inputs such as unskilled labour.

5.2.1 Natural resources
Nine out of ten case firms indicated that natural resources positively supported their international expansion. Thai firms gained competitive advantage in terms of low costs from Thailand’s natural resources, even though their costs were steadily increasing. While many firms contended

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36 Information received from both interviews and questionnaires are very useful for judging the importance of each CSF. In most cases (seven out of ten), data from interviews and questionnaires were triangulated and additional data on internationalisation CSFs was acquired when there were discrepancies between them. The researcher had to rely on interview data alone for three case firms which did not fill in questionnaires; but the respondents provided adequate information. The respondents of case firms included in this research were asked to rank different CSFs influencing their internationalisation. After individual case firms’ analysis, each CSF was ranked across case firms by giving higher priorities/importance to CSFs considered as most important by a greater number of firms.
that raw material costs were reasonably low, a few case firms were concerned that rising costs affected their ability to compete in international markets. They stated that the costs of some raw materials were higher than in neighbouring countries, such as Vietnam and China. However, only Company C recommended that the Thai government should focus on the enhancement of agricultural productivity as a remedy to climbing raw material and production costs.

A majority of the case firms judged that Thailand had abundant, high quality natural resources. They specifically mentioned Thai Hom Mali rice (or fragrant rice), pineapples and prawns. Some firms affirmed that the attributes of these products were unique. Availability, and variety and diversity of agricultural products contributed to the competitiveness of Thailand’s food industry and the successful globalisation of Thai firms. As one interviewee commented:

“Our country’s strength is that we can produce a variety/diversity of agricultural products. Our country has advantages in the agricultural sector, with both diversity and abundance of natural resources. We have a great deal of surplus from our production, which cannot be entirely consumed by domestic markets. This helps Thailand become successful in producing food for the world. We can export food products to foreign countries because we have these advantages.” (Vice President, Company F, July 2007)

All the case firms utilised domestic raw materials to the fullest possible extent and imported only a very small percentage of their inputs. The latter were items which were not always available in Thailand. This reflects the importance of this country-specific factor. It benefited the case firms and enabled them to internationalise with greater ease. However, Thai firms may not be able to rely on the exploitation of Thai natural resources in the future as these are becoming steadily more expensive through time.

5.2.2 Labour

A majority of case firms specified that labour was one of the most important CSFs influencing their international expansion. They judged that the cost of Thai labour was still relatively cheap and it still offered them a source of competitive advantage since they had to compete on price. Thai firms in the food industry gained efficiency in production partly on account of labour cost competitiveness. However, the senior executive management of most case firms shared a

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37 Six out of ten case firms.
38 Eight out of ten case firms.
common opinion that labour costs were on the rise. They noted that, in some circumstances, Thai labour costs were higher than in Vietnam and China.

With regard to labour availability, the case firms agreed that Thailand still had an abundance of labour. Even though the numbers had decreased over time, at present the case firms did not have recruitment problems—with the exception of Company C, which faced a lack of unskilled labour. Company C solved the problem by employing immigrants from neighbouring countries. This company argued that the Thai government should fully support the use of foreign labour, and adjust labour rules and regulations accordingly. This may reflect the fact that the production of Company C was more unskilled labour-intensive than that of other case firms.

These findings also highlighted the importance of the quality of Thai labour. Five case firms judged that Thailand had produced specialised and high quality labour in the food industry. The Thai labour force possessed well-established expertise, and relevant experience and capabilities. The following statement best illustrated this factor:

“Readiness of human resources that are in food production lines for export is a vital component. I think that we have capable and specialised human resources, which are better than in many countries.” (Executive Vice President, Company G, June 2007)

Overall, cost, quantity and quality of labour strongly supported the success of Thai firms in the global food industry.

5.2.3 Government trade policy

All firms considered government trade policy to be very useful in opening and widening access to new foreign-country markets. This applied both to negotiation at the government-to-government level, and to export promotion support. Seven out of the ten case firms identified government trade policy as one of the most important CSFs in their internationalisation. Several executives specifically mentioned the FTAs with key trade partners as an example of “useful” trade policy. Bilateral FTAs and regional FTAs—like ASEAN—facilitate the case firms’ trading activities. All case firms wanted freer and fairer trade. They thought that Thailand was moving in a good direction. The FTAs helped them grow internationally and compete in international markets.
Many case firms suggested that the Thai government should aim to achieve the greatest number of FTAs, with a condition that there were net gains from these freer trade establishments. This was reflected clearly in the statement below:

“I believe that our country is an open country. We must open ourselves to the world. But we must prepare ourselves and get ready. The free trade agreements are a good policy. When the Thai government signs FTAs, it should sign FTAs with as many countries as possible. There will be people who receive negative effects and some who receive positive effects. As long as the benefits are greater than the costs, it is okay. The government has to help people who are negatively affected. It is impossible to gain only benefits; otherwise, who would agree with such an agreement?” (Chairman of the Board of Directors and CEO, Company D, April 2007)

Only a few case firms suggested that if Thailand could not get a good deal, there was no need to sign a bilateral free-trade agreement. They also shared a common view that Thailand needed to choose and negotiate with trading partners strategically. However, there were still issues relating to effective implementation of the signed FTAs, especially at regional level. This was partly due to the lack of common interpretation. The regulations of countries party to agreements were diverse, while some were not even practical. These matters, voiced by the case firms, warrant the Thai government’s attention.

Export promotion policy was considered very supportive of export-related activities and export success. All case firms actively participated in information sessions, trade fairs and exhibitions initiated by the Thai Department of Export Promotion (DEP):

“The Thai Department of Export Promotion is an outstanding Thai government agency. I think all Thai exporters receive some assistance from the department. The visions of the executives are clear and good. There are many useful activities that help accelerate Thai exports, such as exhibitions abroad and trade fairs, as well as informational and consulting services.” (Managing Director, Company E, July 2007)

This leaves no doubt that Thailand’s export promotion policy, implemented through both local and overseas offices, facilitates Thai firms’ international expansion.

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39 Two out of ten case firms.
5.2.4 Other country-specific factors

The case firms explicitly stated that government industrial policy, the availability of clusters of related activities, country image, attractiveness of the home market, well-developed infrastructure, and the geographical location of Thailand were all important. Four case firms stated that government industrial policy, especially the reductions of tariffs on imported raw materials and the Board of Investment (BOI) tax holidays scheme, helped them to go international. The policy encouraged Thai food processors to export. In addition, the availability of clusters of related activities was deemed important for the growth of Thai firms in the food industry. Many case firms capitalised on the local availability of complete value chains, and some integrated their own activities either horizontally or vertically. It was noticeable that large Thai MNEs with high potential tended to integrate these activities more than smaller sized Thai MNEs. Clusters made Thailand an appealing location for processed food production, since familiarity and support services helped save costs and time, as well as enhance efficiency in production. A minority of case firms pointed to other country-specific factors, such as the good image of the Thai food industry and international tourism (Company I), attractiveness of the home market (Company B), well-developed infrastructure (Company J), and the geographical location of Thailand (Company H). All of these factors were said to play important roles in the internationalisation of Thai firms in the food industry.

5.3 Firm-specific factors

The FSFs most affecting the internationalisation of Thai MNEs were found to be: an ability to produce in a cost-efficient manner; human resource strengths; the ability to provide high quality products; the ability to analyse foreign markets; and networking capabilities. Other FSFs found to be of secondary importance were: technological capabilities; internationalisation strategies; marketing capabilities; and an ability to provide high quality services. Details of each are presented below.

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40 Information received from both interviews and questionnaires are very useful for judging the importance of each FSF. In most cases (seven out of ten), data from interviews and questionnaires were triangulated and additional data on internationalisation FSFs was acquired when there were discrepancies between them. The researcher had to rely on only interview data of three case firms which did not fill in questionnaires but the respondents provided adequate information. The respondents of case firms included in this research were asked to rank different FSFs influencing their internationalisation. After individual case firms' analysis, each FSF was ranked across case firms by giving higher priorities/importance to FSFs that a greater number of firms considered as most important.
5.3.1 Ability to produce in an efficient manner

A majority of case firms agreed that the ability to produce in an efficient manner was the most important internationalisation firm-specific factor. This may be rather obvious, but it is noteworthy that the case firms stated it explicitly and considered it as their first priority. They possessed this ability, exploiting low cost production to yield maximum profit. This followed from the fact that the food sector was still competing overseas, mostly on price. Competitors in the world market, from other developing countries like Vietnam and China, enjoyed a lower cost of production than Thai food processors. This fact placed a lot of pressure on Thai firms to acquire new technology and to identify cheap sources of supply. For example, to be a least-cost producer was one of Company B’s explicit objectives. In a company document presented by its Managing Director at “Thailand Global Non-Deal Roadshow”, it stated that the objective of its technology policy was to improve efficiency and lower the cost of operations. This was done by steadily integrating new applications of technology into all its business processes: procurement, manufacturing and trading processes. The company aimed to improve not only its own manufacturing processes but also its global supply-chain management, and thereby secure low cost inputs.

Thai firms possessed the ability to supply efficiently, and increasingly focused on value chain management and logistics. They did that both internally and externally. While many firms managed their value chain via international sourcing and outsourcing, some firms internalised this. The degrees of internalisation depended greatly on each case firm’s resources and capabilities. Among the case firms, Company F was the biggest firm by total value of sales. Its main strength lay in production efficiency, through lean production, advanced technology, and an integrated supply chain. The company integrated its value-adding activities both horizontally and vertically. This helped the company to minimise the cost of production and maintain its status as a leader in Thailand, and as a significant player in the world market. Other case firms were not wholly integrated, though some had integrated value-adding activities vertically within their limited resources and capabilities. It was clear that some firms had less internal resources and abilities with which to achieve this than others. As a result, the degree of vertical or horizontal integration among case firms was quite varied.

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41 Nine out of ten case firms.
42 By Credit Suisse in Singapore, London and New York City from 28 May to 1 June 2007.
Contract farming was usual for some of the case firms. It was a part of their preferred supply chain management system. Apart from enabling firms to control the quality of raw materials, it helped firms achieve stable supplies for their production process. One company representative pointed out that:

“Overall, we are different from other packers in that we can manage from farms to the ports, because we use a contract farming system. This helps guarantee the amount of supply. We have raw material that is quite stable. We can manage our supply chain.” (Director—Export Business Operations, Company C, December 2007)

Each company was aware of rising labour costs, which negatively affected the long-established firms. While the newly established firms gained some competitive advantage from paying minimum wage rates to the majority of their employees, more established firms had to pay employees who stayed with the companies for a long time at higher rates. Only in a few cases was labour scarcity an issue, but it was resolved by recruiting rising numbers of immigrant workers. This, in turn, stimulated investment in machines and technology. The case firms currently employed semi-automated systems, but were moving towards more automatic production processes in the future. They continuously integrated automated technology into their production lines. The investment was worthwhile because it enhanced productivity and reduced labour usage and costs. One Executive Vice President explained:

“We enhance efficiency by adapting and using machines that require less human resources. We replace existing machines with better ones that help improve our production efficiency.” (Executive Vice President, Company F, July 2007)

One company did not invest in new technology even though such technology could reduce production costs and raise efficiency. This was due to the high cost of investment required. The company continued to use existing technology. This reflected its more limited resources:

“Some new factories use new production systems and freezing systems so their costs are lower than ours … Imported freezers use less time for freezing and help improve the quality of products. The technology also helps decrease the gross weight of products. It is a new technology available in the market, but we do not invest in this.

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43 Three out of ten case firms.
44 Due to annual pay increases for both skilled and unskilled employees.
They may gain some advantage but not much … We use existing technology because the improvement in production technology needs too high a level of investment.”

(Director of Sales and Marketing, Company A, April 2007)

Findings showed that efficiency in production was a necessary condition to compete in international markets. Thai MNEs definitely paid very close attention to efficiency in production as a critical firm-specific factor in internationalising. The case firms normally possessed this capability. They minimised their costs of production. Some succeeded and, as a result, gained respected positions in foreign markets.

5.3.2 Human resources

A majority of the case firms specified that human resources were critical to their internationalisation success.45 They believed that their human resources possessed internationalisation skills, such as the ability to understand, write, read and speak English; computer skills; and the ability to analyse foreign markets and accomplish international business-related tasks. These skilled human resources were inexpensive when compared to those of competitor countries. Competitive advantage was derived from the availability, affordability and capabilities of human resources of Thai MNEs in the food industry. This was important. Investment in human resources confirmed that the firms understood and valued this.

All case firms provided training programs to develop and strengthen skills. This included support for both in-house and outsourced programs. All case firms had their own “training centre” within one of their departments. However, only one large company had set up a specific subsidiary as a training service provider. The subsidiary delivered a range of staff development programs, and investment in training proved to be an integral part of its internationalisation success. This company also employed a leader-teach-leader program for knowledge transfer and capacity building among its managers; especially at middle and senior management levels. These executives were driving the expansion of the company’s international businesses. One Executive Vice President stated:

“We have to build the capacities of our human resources so senior personnel teach junior personnel. Our people have experience in business ... Currently, we use leaders to teach leaders. Experienced leaders have to be transferred to our subsidiaries

45 Seven out of ten case firms.
abroad. They have to expand our businesses abroad. Junior leaders will be promoted in their place. Our organisation grows by developing human resources.” (Executive Vice President, Company F, July 2007)

Executives of many case firms expressed similar thoughts to those of Company F. Some of their high calibre human resources worked abroad in foreign subsidiaries.

5.3.3 Ability to produce high quality products

The ability to produce high quality products that meet customers’ requirements was deemed vital by six of the companies researched. It was a key source of competitive advantage for them. This research suggested that Thai firms did more than just produce low cost products. Many case firms were, in fact, focused on producing premium products. This differentiated their products from those of competitors from other developing countries. In addition, they knew that customers valued consistency in product quality. Firms that were able to offer this gained the trust and confidence of their customers, leading to long-term supply contracts:

“Our customers have to compare buying from this country or this company, or buying from us. Many times, our competitors’ prices are cheaper than ours. But our customers support us due to their trust in our high product quality. This is the main reason that they continue their support, even though our prices are higher than those of neighbouring countries or even those of other Thai packers … Customers still trust us and buy from us.” (Director of Sales and Marketing, Company A, April 2007)

A few case firms stated that despite the FTAs they still faced non-tariff barriers, especially quarantine or Sanitary and Phyto-Sanitary (SPS) measures. Both sophisticated customers’ demands and strict quarantine rules and regulations forced the Thai firms to work on their product quality. Managers felt that only firms that could overcome these hurdles would be able to internationalise successfully. This reality was supported by one Managing Director in the following statement:

“Quarantine regulations of foreign countries, especially of Australia, are very strict … we all need to prepare ourselves for those stringent rules and regulations … In addition, we have to meet many regulations required when selling our products to big retailers. Every single regulation has to be fulfilled … Since their screening processes are very tough, there are only a small number of companies that pass those rules and regulations relating to food hygiene. Only a few foreign firms are qualified after such strict screening procedures … We are qualified and, hence, those markets belong to
This is our strategy. To expand internationally, we have to produce products that meet the objectives and expectations of those markets.” (Managing Director, Company E, July 2007)

Excellent quality was an integral part of many case firms’ reputations in international markets. This was evidenced by the fact that they were able to meet independent, industry-wide standards, for example, the Good Manufacturing Practices (GMP) and the Hazard Analysis and Critical Control Point (HACCP). All case firms aimed to achieve these international standards. However, some were more successful than others. Two case firms became the first to achieve these international standards in their sub-industry (pineapple- and chicken-processing sectors). One of these was the first in the world to reach the International Organization for Standardization (ISO) standards (ISO 9002 and ISO 9000). The other was the first company outside the EU to meet the Animal Welfare Standard. One executive stated:

“Our international market expansion policy is to stress the importance of quality. To guarantee our quality, you can see that our factory was the first factory to obtain ISO 9002 and ISO 9000 in the world. We think that quality is a crucial part of our business principles and policy. Therefore, we put a great deal of effort into developing our quality. We received ISO certification before other factories in the USA, Philippines and Indonesia … We also meet many other quality standards, which you can see on our website and in company documents.” (Chairman of the Board of Directors, Company C, March 2007)

Some companies focused on traceability to keep a check on the quality of their raw materials. Contract farming helped some case firms ensure high input quality. The ability to produce high quality products involved integrated quality control systems of critical parts of the value chain; namely, the primary value-adding activities: manufacturing and direct support activities: technology development and procurement. Building up this ability required a great deal of investment and commitment. One long-established and internationalised firm, Company F, was a good example of adopting a policy of integrated quality control. The company itself was highly integrated, both vertically and horizontally. A Senior Vice President stated:

“We become bold when it comes to investing in quality and standards ... We are willing to invest in measures that enhance our quality and standards, including animal welfare and traceability. We began this a long time ago. We meet the standards of each country. We are the number one exporter from Thailand in the food industry … Our standards are accepted internationally ... What we are doing is to compete using
world standards. We are proud of ourselves in this matter … Our key accounts and leading customers include TESCO, CARRFOUR, McDonalds and KFC, who do not risk purchasing from factories that cannot meet their standards, or that are small in size and unreliable.” (Senior Vice President, Company F, June 2007)

All case firms recognised the importance of their ability to produce high quality products. This ability enabled Thai MNEs to position their products as “premium food products and brands”. It helped them to access markets that had high purchasing power and sophisticated requirements. Rich and demanding customers were a source of higher profit margins. Yet, it was noticeable that the case firms tended to compete on both price and quality. This made sense as, in the food industry, many product items share similar features and attributes. Quality improvement differentiated Thai firms from competing foreign firms from countries like China. They differentiated on quality, while keeping prices at a reasonable level.

5.3.4 Ability to analyse foreign markets

The ability to analyse foreign markets was vital for all case firms. Most identified it as one of their most important competitive strengths. Some companies had deep information and knowledge about international markets, especially developed markets such as the USA. This was derived from their long experience and knowledge of those markets. For example:

“We are well informed about foreign markets … We are lucky in that our executives have experience and knowledge of the American market. Some of them graduated there. We can be confident about selling our products in the USA.” (Financial Controller, Company B, June 2007)

The case firms assessed new foreign markets based on characteristics such as market size, population size, proximity, and demand growth for processed food product categories. These factors drove market potential. The case firms also assessed operational costs in foreign countries, prospective foreign partners, and host countries’ rules and regulations. Knowledge of competition and competitors in foreign markets was deemed essential. All these factors influenced the case firms’ decisions to expand internationally. As one Executive Vice President stated:

46 Six out of ten case firms.
“For exports, we will go for markets in which we have potential to compete, on condition that all competing players are playing under the same rules. We want to compete on fair terms. For investment, we consider the foreign investment conditions of host countries and market size for the products in which we have expertise. Demand growth for our products in those markets is another reason for our international investment.” (Executive Vice President, Company G, June 2007)

All case firms utilised many sources of information on market trends, demand trends for products, and availability of raw material supply. Price, product and input data were sourced both externally and internally. They often acquired information about international markets from external sources, primarily through business partners, such as agents and distributors domiciled in those markets. They utilised their international business or export departments to coordinate with these business networks. Two case firms set up separate subsidiaries to deal with their international trade, which brought all their export- and import-related transactions together. These firms internalised these through their subsidiaries in foreign countries. One Financial Controller explained:

“We are lucky that we have subsidiaries abroad. This helps us understand market trends. Our subsidiaries know that we are efficient in terms of production, and that we have the capacity to produce. They inform us of the market trends and new products. We share information. This helps us achieve marketing success in foreign markets.” (Financial Controller, Company B, June 2007)

Thai MNEs’ ability to analyse potential foreign markets was based on information, experience and knowledge. They judged business networks and subsidiaries in foreign countries to be one source of information critical for their internationalisation success.

5.3.5 Networking capabilities

More than half of the case firms—namely, Companies D, E, G, H, I and J—still focused their efforts on building and strengthening their networking capabilities. They regarded networking capabilities as very important. Two of the case firms had only recently started internationalising (Companies E and J), and they, at least, were using networking capabilities extensively in their international expansion. These findings suggested that networking efforts and capabilities helped the case firms to develop their international businesses. Good relationships helped to achieve a win-win success for all parties involved. They exercised their networking capabilities quite well,
as shown by a number of their existing networks. For example, Company C had business partners in more than 70 countries around the world.

The networking capabilities of the case firms reflected the way they developed and maintained their relationships with both business and government partners. They knew how to choose their partners wisely. The case firms had many criteria for selecting their foreign business partners, such as good logistics and warehouse systems, as well as solid financial status. The selection of well-qualified partners was vital for sustainable partnerships.

The business partners were predominantly those agents and distributors based in foreign countries. These business networks were crucial, as overseas operators accomplished foreign market transactions on behalf of the case firms. These included marketing-related tasks, such as promoting and distributing products. Business networks helped the firms to expand their marketing channels. They also saved the case firms a lot of time and money. Instead of setting up their own foreign subsidiaries to deal with international transactions and marketing in foreign markets, they utilised the capabilities of others. In certain instances, the case firms relied on their business partners as another source of cheap raw material supply. Additionally, these networks had become useful sources of information and knowledge about foreign markets. For example, Company D succeeded in marketing its products and brands in domestic markets, but at first found it hard to achieve the same result in international markets. In order to remedy this problem, it took advantage of its strength in networking capabilities, and used its extensive international business networks as a source of marketing help. The company carefully screened and picked its business partners. In addition, it treated these partners transparently, by visiting them in foreign countries and inviting them to Thailand to learn more about the company and its successful domestic marketing activities and strategies, as well as providing relevant marketing information to them.

Thai firms tended to maintain strong bonds with their networks by coordinating closely with these partners. Long-term relationships could be linked to long-term and repeat business. Reliable service—including on-time delivery, product guarantees, quick responses and troubleshooting—were key to network development and maintenance. Some case firms provided comprehensive factory-visit programs and information sessions to share knowledge between themselves and
prospective foreign business partners. In some cases, companies offered investment as a means to maintain and strengthen existing networks with business partners. Company A, for example, had invested in only one international joint venture factory, in Malaysia. This was entirely due to the fact that one Malaysian shareholder wanted to set up a business in Malaysia, but had insufficient financial resources at the time to do so. The company owned 45 per cent of the Malaysian joint venture in 2006. In this case, it could be argued that networks affected Company A’s foreign investment very forcefully indeed.

Thai MNEs also developed and maintained relationships with governments, both in Thailand and abroad. Information-sharing between these firms and the Thai government agencies could be a positive force for change in policy. In some cases, government networks directly helped to reinforce companies’ reputations in international markets through information provision by embassies, and participation in trade and investment promotion activities of other overseas government offices. All case firms collaborated with the Thai government. Leading companies actively built and maintained good relationships with government. This was illustrated by Company F. One interviewed executive explained:

“It is necessary to have a good relationship with government, as we help each other. We support the Thai government in terms of information, which is deemed critical for developing a good and effective policy. In return, government policy affects business. In many cases, Thai government agencies and officers help promote our company and its products in foreign countries … We give them cooperation both in Thailand and abroad. In foreign countries, we have many subsidiaries and joint ventures abroad. We cooperate with Thai embassies and trade offices. We try to cooperate, help and build relationships.” (Senior Vice President, Company F, June 2007)

Some of them played important roles in the formulation of government policy through trade and industry associations. For example, during the negotiation process of establishing bilateral FTAs with partner countries, the Thai government arranged several meetings with the private sector to gather information; the case firms judged these meetings useful in obtaining relevant information to make trade deals favourable to Thai firms. Many case firms capitalised on these opportunities to raise issues and propose recommendations to the government through their representatives, some of whom held important positions in the Thai Chamber of Commerce and the Federation of Thai Industries.
5.3.6 Other firm-specific factors

Other FSFs contributing to our understanding of Thai MNEs’ internationalisation were: technological capabilities; internationalisation strategies; marketing capabilities; as well as the firms’ ability to provide high quality services and resources.

In the context of technological capabilities, it was noticeable that each case firm possessed a different level of capability. Most case firms relied on acquiring and adapting well-developed technology to meet their production requirements. Their adapted technology was considered to be flexible and suitable for labour-intensive production. Additionally, they aimed to move towards more automated production as Thai labour costs climbed. However, the characteristics of technology of a few of the companies were quite progressive. Only Companies F, G and H asserted that their main strengths lay in technological capabilities and advanced technology development in the agri-business industry. Foremost among these was Company F, which identified technological capabilities as its most important internationalisation FSF. This company was looking ahead and intending to develop new competitive advantages in technology. In order to exploit its technological strength efficiently, the company used its agri-business technological know-how in foreign subsidiaries and joint ventures.

Four case firms—Companies A, B, E and F—considered marketing capabilities to be important. Company A, for example, developed its own brands and positioned the company’s products as “premium”. This company gained considerable success in creating and internationalising its brands, especially in the Japanese market. On the other hand, Company B extended its marketing capabilities from domestic markets to foreign markets by purchasing well-established companies in the USA. This was in order to acquire and control existing brands, one of which was ranked third in its category in the American market. Companies E and F’s own brands were already very successful in their respective domestic markets. These companies had internationalised their brands, and continuously tried to enhance brand awareness to their advantage in foreign markets.

Three case firms—Companies B, F and J—affirmed that their “strategies” were critical in influencing internationalisation. They employed proactive internationalisation strategies. They aimed to implement global internationalisation strategies, which involved exporting, international investment and international purchasing. However, only two case firms demonstrated success in
this endeavour. In 2006, Company F had many subsidiaries (19) and joint ventures (five) around the world. Company B had six subsidiaries, four in the USA, one in China and one in Indonesia. In terms of international market participation, both companies participated in many foreign markets with significant market shares in their major markets. International purchasing was pursued more actively in both cases than in the case of the third firm. This may have been due to the fact that both firms had a greater number of international production facilities abroad, while Company J had none. Their intra- and inter-organisation purchasing across borders helped reduce costs of production. In contrast, Company J succeeded only in overseas expansion of its restaurant business. The company’s export performance still lagged behind the others. The company had just recently started exporting and at the time had little foreign market experience or knowledge. As a result, its internationalisation strategy yielded better and clearer results only in the core business (restaurants) than in other international activities.

Provision of good service in an efficient manner was thought to be an integral part of internationalisation. The case firms practised this in their normal business life. However, only a minority of case firms specified their ability to provide high quality services as a major factor affecting their internationalisation.\textsuperscript{47} On-time delivery and no-delay shipment were deemed essential components. Providing good service to customers helped them to maintain long-term relationships.

The international expansion of most case firms was based on utilising existing resources rather than acquiring or developing new ones. However, it was noticeable that Company D had quite limited capital in comparison with the other firms. An executive of Company D stated that he made decisions based on existing resources and information at hand. For example, setting up a subsidiary abroad would not be the first priority option, since that would require a great amount of financial resources. In contrast, Company F—which was the largest and most internationalised case firm, and possesses resources in abundance—was not at all reluctant to invest in foreign countries (with economic potential) as a means to expand its businesses and achieve higher revenues.

\textsuperscript{47} Three out of ten case firms.
5.4 Country-specific factors versus firm-specific factors

These findings illustrated that Thai MNEs relied on both CSFs and FSFs, but that they increasingly emphasised the importance of their internal firm strategies, capabilities and resources. At the same time, favourable CSFs were utilised to the case firms’ advantage. The case study firms admitted that, in the past, low cost inputs were one of the main factors determining internationalisation success. Without low cost-based strategies, none of these companies could have internationalised in the first place. They depended on the local endowment of Thailand. However, the weight and significance of the conventional CSFs were declining, since the main factors of production—labour and some natural resources—were rising in cost. Consequently, FSFs had become dominant. This explains why the findings of this research do not support Theoretical Proposition I.

Proposition I: “Country-specific factors are more important than firm-specific factors in influencing internationalisation of Thai MNEs.”

Table 5.1 summarises the evidence. It also illustrates the relative importance between CSFs and FSFs as perceived by Thai MNEs.48

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48 Information received from both interviews and questionnaires are very useful for judging the relative importance between CSFs and FSFs. In most cases (seven out of ten), data from interviews and questionnaires were triangulated. The researcher had to rely on only interview data of three case firms which did not fill in questionnaires but the respondents provide adequate information. The respondents of case firms included in this research were straightforwardly asked “What is the relative importance of firm and country factors?”
Table 5.1 Summary and comparison of FSFs and CSFs for Thai MNEs in the food-processing sector

<table>
<thead>
<tr>
<th>Company name</th>
<th>Country-specific factors (Most important factors)</th>
<th>Firm-specific factors (Most important factors)</th>
<th>Relative importance</th>
</tr>
</thead>
</table>
2. Rising natural resource costs but abundant raw material supply  
3. Government trade policy  
4. Labour quality | 1. Efficiency in production  
2. Marketing capabilities  
3. Ability to produce high quality products that meet customers' requirements and demands  
4. Ability to provide high quality service in an efficient manner | CSFs<FSFs |
| 2. Company B | 1. Availability of clusters of related activities  
2. Labour costs  
3. Natural resource costs  
4. Government trade policy  
5. Government industrial policy  
6. Potential and attractiveness of the home market | 1. Internationalisation strategies  
2. Efficiency in production  
3. Ability to analyse foreign markets  
4. Marketing capabilities  
5. Human resources  
6. Physical resources | CSFs=FSFs |
| 3. Company C | 1. Labour costs  
2. Natural resource availability  
2. Ability to analyse foreign markets  
3. Human resources  
4. Ability to provide high quality service in an efficient manner  
5. Ability to produce high quality products that meet customers' requirements and demands | CSFs<FSFs |
| 4. Company D | 1. Natural resource costs and availability  
2. Government trade policy | 1. Efficiency in production  
2. Networking capabilities  
3. Human resources | CSFs=FSFs |
<table>
<thead>
<tr>
<th>Company name</th>
<th>Country-specific factors (Most important factors)</th>
<th>Firm-specific factors (Most important factors)</th>
<th>Relative importance</th>
</tr>
</thead>
</table>
| 5. Company E | 1. Export promotion policy  
2. Abundance of unique natural resource                                      | 1. Ability to produce high quality products that meet customers' requirements and demands  
2. Ability to provide high quality service in an efficient manner  
3. Networking capabilities  
4. Marketing capabilities  
5. Human resources | CSFs<FSFs |
| 6. Company F | 1. Labour costs, availability and quality  
2. Capital costs  
3. Natural resource costs, availability and diversity  
4. Government trade policy (open and widen access to new foreign country markets by negotiation at government level)  
5. Government industrial policy | 1. Internationalisation strategies  
2. Efficiency in production  
3. Ability to analyse foreign markets  
4. Technological capabilities  
5. Marketing capabilities  
6. Human resources  
7. Financial resources  
8. Physical resources  
9. Technological resources  
10. Informational resources  
11. Ability to produce high quality products | CSFs=FSFs |
| 7. Company G | 1. Natural resource costs  
2. Government trade policy  
3. Government industrial policy  
4. Availability of clusters of related activities  
5. Specialisation/quality of labour in food industry | 1. Efficiency in production  
2. Human resources  
3. Informational resources  
4. Ability to produce high quality products that meet customers' requirements/demands  
5. Technological capabilities  
6. Networking capabilities  
7. Ability to analyse potential markets | CSFs=FSFs |
<table>
<thead>
<tr>
<th>Company name</th>
<th>Country-specific factors (Most important factors)</th>
<th>Firm-specific factors (Most important factors)</th>
<th>Relative importance</th>
</tr>
</thead>
</table>

Source: Interviews with informants and questionnaires, 2007
While half of the case firms asserted that FSFs were equally important to CSFs, the other half believed that FSFs were more significant than CSFs in influencing their international expansion. Firm size, connections with government agencies, and effectiveness of sub-industry policy influenced case firms’ perceptions of the relative importance between CSFs and FSFs.

Firstly, it was noticeable that large case firms, such as Company F, received a lot of attention from the Thai government. This was because their international activities greatly affected Thailand’s balance of payments. As such, many of their executives were important members in trade and industry associations, for example, the Thai Chamber of Commerce and the Federation of Thai Industries. In contrast, small companies, like Company H, did not receive a great amount of government support. Additionally, their roles in trade and industry associations were insignificant. This was highlighted in the following statement:

“I think that international expansion depends on firm factors rather than country factors. The Thai government does not help us much, because we are too small. The government is more interested in big companies that have lots of cash flow.” (President, Company H, May 2007)

Secondly, good relationships with government officials were helpful for case firms’ internationalisation. Some companies developed networks with Thai government agencies, both in Thailand and also abroad. One interviewee stated:

“Relationships between our company and government agencies are quite good. Government officials, like the ambassadors or first secretaries, know our brands pretty well. When importers want some recommendations from these government agencies, the government officials always think of us as the first manufacturer of some product categories. Hypothetically, if they want fruit juices or canned fruits from Thailand, the Thai ambassadors will think of us and ask whether we are interested.” (Chairman of the Board of Directors and CEO, Company D, April 2007)

Connections with the Thai government varied among the case firms. Some companies successfully developed government networks, while some did not. It was not surprising to observe that firms with very limited government connections emphasised CSFs less than FSFs.
Thirdly, the effectiveness of industry policy was a concern for a number of the case firms, for example, Companies B, C and F. Some sectors seemed to receive more benefits from Thai government policies than others, particularly those sectors whose products were of national significance, like soy bean oil. Indeed, some policies had been driven by lobbyists from large companies. These helped firms belonging to the particular industry. On the other hand, Company C was concerned about the appropriateness of Thai government policy on agricultural productivity, specifically pineapple production. The ineffectiveness of this policy had a negative impact on its costs. Consequently, this firm regarded FSFs as more important than CSFs.

In response to changes in the CSFs of Thailand, Thai MNEs adjusted their internationalisation strategies and capabilities. Apart from production efficiency, they aimed to add value to their products and provide service at a high standard. They also developed their brands and enhanced customers’ awareness of their products through marketing activities. In addition, two case firms (Companies B and F) employed multi-faceted global strategies, embracing market participation, international sourcing and international investment. All these efforts helped to minimise the negative effects of rises in input costs.

The Thai government played a role in creating favourable country-specific factors that were perceived as good for Thai firms’ internationalisation. Among these were bilateral free-trade agreements and export promotion policies. These initiatives, to some degree, counterbalanced the rising costs and scarcity of some labour and natural resources. However, the micro-level impact of the newly-established FTAs remains largely unknown. The evidence from this research is as follows.

5.5 Bilateral FTAs and firms’ implementation of internationalisation strategies

All case firms recognised that bilateral FTAs could open and widen foreign market opportunities. They supported such a proactive trade policy. The FTAs facilitated their internationalisation in export, international procurement and, potentially, investment. Thus, Proposition II is supported by the empirical findings in sections 5.5.1, 5.5.2 and 5.5.3.

Proposition II: “Bilateral FTAs facilitate the internationalisation of Thai MNEs.”
5.5.1 Influence on export strategies

The firms in this study demonstrated that bilateral FTAs directly influence commercial export activity. Eight out of ten Thai case firms claimed to have both expected and received benefits from them. For example, one Senior Vice President stated:

“A bilateral FTA between Thailand and Japan benefits our company. Exports should improve. There is now a tendency to trade more with Japanese customers.” (Senior Vice President, Company F, June 2007)

The main benefit, not surprisingly, was tariff savings. These savings could be transferred to customers by reducing product prices. There were also new market opportunities resulting from tariff reductions.

“Bilateral FTAs between Thailand and Australia, New Zealand and Japan benefit the company. We gain tariff advantages over our competitors from other countries, who compete with us in selling products in Australian and New Zealand markets ... When FTAs become effective, we have advantages. This helps us in opening the Australian market and regaining our market position.” (International Market Manager, Company G, December 2007)

In certain cases, the bilateral FTAs helped case firms gain a better market position than before.

“In the past, we were hit with Anti-Dumping measures. We used to export to Australia about 200–300 containers per year. Two years ago, due to Anti-Dumping, our exports decreased extremely. When bilateral FTAs came into effect, it immediately changed, resulting in increased exports of our products.” (Managing Director, Company C, July 2005, BrandAge Magazine, Volume 6, Issue 7, http://www.brandage.com/issue/cs_detail.asp?id=1606)

Table 5.2 below demonstrates Company C’s exports of canned pineapple from 2001 to 2006. It strongly supports the above statement. There was a sharp increase from 124 tons of canned pineapples (equal to US$98,990) in 2003 to 277 tons (US$160,121) in 2005, when the TAFTA became effective, with a continued increase to 502 tons (US$291,820) in 2006. There was no export in the year 2004, when the company suffered Anti-Dumping (AD) measures.
Table 5.2  Company C’s exports of canned pineapple to Australia during 2001–2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Unit</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>Sum of Total Tons</td>
<td>55</td>
</tr>
<tr>
<td></td>
<td>Sum of Amount USD</td>
<td>19,290</td>
</tr>
<tr>
<td>2002</td>
<td>Sum of Total Tons</td>
<td>193</td>
</tr>
<tr>
<td></td>
<td>Sum of Amount USD</td>
<td>127,653</td>
</tr>
<tr>
<td>2003</td>
<td>Sum of Total Tons</td>
<td>124</td>
</tr>
<tr>
<td></td>
<td>Sum of Amount USD</td>
<td>98,990</td>
</tr>
<tr>
<td>2004</td>
<td>Sum of Total Tons</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Sum of Amount USD</td>
<td>-</td>
</tr>
<tr>
<td>2005</td>
<td>Sum of Total Tons</td>
<td>277</td>
</tr>
<tr>
<td></td>
<td>Sum of Amount USD</td>
<td>160,121</td>
</tr>
<tr>
<td>2006</td>
<td>Sum of Total Tons</td>
<td>502</td>
</tr>
<tr>
<td></td>
<td>Sum of Amount USD</td>
<td>291,820</td>
</tr>
</tbody>
</table>

Source: Company data supplied by one of Company C’s interviewees

However, the bilateral FTAs did not affect Company E’s export strategies, since tariffs on their products were already zero before the TAFTA and TNZCEP became effective. Nor did Company E receive tariff reductions on their products from JTEPA.

“We have exported to the Oceania region for quite some time, since before the bilateral FTAs became effective. There is no tariff on our products.” (Managing Director, Company E, July 2007)

Non-tariff barriers (NTBs) prevented all case firms from reaping full benefits from the bilateral FTAs. A number of companies voiced concerns about these NTBs, namely Sanitary and Phyto-Sanitary (SPS) and Anti-Dumping (AD) measures.

“Our firms gain some benefits from tariff reductions. However, non-tariff barriers are big issues. SPS (Sanitary and Phyto-Sanitary) measures are widely used. Even though there are bilateral FTAs, there are some hidden barriers or discriminations … The benefits of bilateral FTAs for the food industry may not be great. However, for some of our products, we consider the impact of the FTAs as a very good thing for us.” (Senior Vice President, Company F, June 2007)

Some firms recommended that the Thai government consult with its trading partners about how to minimise the existing NTBs and develop warning systems for new NTBs. This was due to the
fact that negotiation and implementation of appropriate remedies was very slow and NTBs continued to affect businesses negatively and, in some cases, severely. One executive stated:

“We want to encourage Australia to open up fully. But we know that we still have problems with exporting chicken products due to the SPS measures of Australia. After Thailand signed a bilateral agreement with Australia, we hoped that things would be better. There is an SPS joint committee. However, Australia still claims that they need to implement risk evaluation and analysis, for example, risk assessment of shrimp products. The progress on this is slow, but it is better than it would be without any joint committee that helps stimulate improvement on the SPS issue ... We do not really want to know about NTBs that are already in use. We want to know about future NTBs that Australia will impose on us.” (Manager of Trade Rules and Regulations Office, Company F, May 2007)

Yet, the case firms judged all three bilateral FTAs favourably in the facilitation of trade. This was demonstrated by most firms’ increased exports of product categories that gained from reduction or elimination of tariffs.\(^\text{49}\) However, increased export sales in Japan as a result of JTEPA were not large enough to make firms change their export market priorities. This was also the case with TAFTA and TNZCEP which remain a minor export market. In addition, all case firms still faced unresolved NTBs. Thus, the impact of the FTAs on Thai case firms’ export strategies, though positive, remained modest.

### 5.5.2 Influence on international purchasing strategies

Four case firms agreed that bilateral FTAs facilitate imports from Australia, New Zealand and Japan. The FTAs affected not only exports to trading partner countries, but also imports of cheaper inputs from them. This came from Thailand’s reduction or elimination of tariffs on products imported from those countries:

“As we are one of the exporters, we want tariff reductions from Australia. We want free trade between countries with no tariffs. At the same time, we also import some raw materials for our production, such as fruit juices. For some fruits that Thailand does not have, we have to use raw materials from foreign countries. Hence, we want lower Thai tariffs on imported goods as well ... We have imported some concentrated juices from Australia. If you ask us, we will favour free trade like this.” (Chairman of the Board of Directors, Company C, March 2007)

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\(^\text{49}\) Eight out of ten case firms.
These case firms welcomed lower tariffs on imported products, especially raw materials that were scarce in Thailand. The countries party to the FTAs had better competitiveness in supplying some of these products, such as dairy products from Australia:

“Among other products, we imported powdered milk from Australia for the production of our final products, which were sold in Thailand and exported to foreign countries. This is partly an impact of bilateral FTAs between Thailand and trading partner countries … We also import concentrated juices from Australia.” (Chairman of the Board of Directors and CEO, Company D, April 2007)

In effect, the FTAs helped the case firms reduce the cost of inputs. However, there were many other factors that affected their international purchasing strategies, including prices and exchange rates. For example, Company H indicated that the company received some benefits related to importing raw materials from TAFTA. In particular, a tariff reduction on wheat flour, as shown in Table 5.3. However, one executive of the company stated that there was a drought in Australia during 2006–2007. As a result, it led to low yield and rising prices of wheat flour. In such a situation, TAFTA could not help, because prices increased faster than tariffs fell.

Table 5.3 Bilateral tariff offer schedule of Thailand as agreed on TAFTA

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>Thai Offer Tariff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BASE</td>
</tr>
<tr>
<td>Wheat or meslin flour</td>
<td>32.6</td>
</tr>
</tbody>
</table>

Source: Department of Trade Negotiation, Ministry of Commerce

The majority of case firms did not import at all from countries party to FTAs.⁵⁰ The main reason was that Australia, New Zealand and Japan did not specialise in raw materials needed for the production of these companies’ final products. An executive of Company G stated:

“Australia and New Zealand are not soy bean-producing countries. Soy beans are our main raw material. Hence, the FTAs do not help us in terms of importing soy beans from these countries … We import from Brazil, Argentina and America.” (Executive Vice President, Company G, June 2007)

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⁵⁰ Six out of ten case firms.
Additionally, some case firms employed quality-oriented policies. So even when the costs of imported raw materials were cheaper than domestic ones, they continued purchasing from Thai suppliers, because the quality was higher than that of imports. Raw material product quality in Thailand proved to be superior to some competing countries’, for example, China. Even though there had been a reduction in prices of fruit and vegetable products from China as a result of an interim trade agreement between Thailand and China, this agreement did not drive international procurement by those case firms whose focus was on high quality raw materials:

“Our company has a policy that is quality oriented. If a particular raw material meets our quality requirements, price is a minor issue for us. For example, we use garlic that costs us over THB1 million per month. Garlic imported from China is very cheap, but it is not delicious. It has no sweet smell. We give the Chinese garlic low priority. We use Thai garlic, which is fragrant with the pleasant smell that we want. This makes our products become the favourite.” (Executive President and CEO, Company I, May 2007)

Lastly, the bilateral FTAs had no impact on companies that were not keen on international purchasing. For example, Company A deliberately used domestic raw materials as much as possible. As an executive stated:

“The bilateral FTAs have no impact on us, because we import from Australia almost zero per cent … In the past, we imported from Australia, before the bilateral FTAs came into effect. We used to import wild-caught fish and shrimps when Australia had lots of them in some seasons. At present, we do not import raw materials from Australia … Sometimes we are faced with raw material shortages … but we do not want to import from anywhere. This is a policy of our company. We do not want to buy inputs from foreign countries.” (Sales and Marketing Director, Company A, April 2007)

As argued above, the FTAs expedited a minority of case firms’ international purchasing strategies. In particular, those firms were actively pursuing international purchasing strategies and seeking resources that were absent in Thailand. The FTAs slightly reduced costs of inputs for production, whilst potentially enhancing profit margins of sales. The imported inputs were used for manufacturing products for both the domestic and export markets. However, most case firms exploited the abundant and high quality natural resources of Thailand. They based their

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51 Four out of ten case firms.
businesses on domestic raw materials. Hence, the impact of bilateral FTAs on imports by such firms remained marginal.

5.5.3 Influence on international investment strategies

Only a few case firms believed the FTAs potentially facilitated their international investment activities. Although the FTAs had not caused Thai MNEs to invest in Australia, New Zealand or Japan so far, executives of two case firms specified that TAFTA, TNZCEP and JTEPA may affect their future investments in these countries. One case firm commented that the FTAs facilitated the movement of people through the relaxation of rules, deregulation, and the formal recognition of qualifications. This, in turn, facilitated the movement of employees and encouraged foreign investment:

“Deregulation of some labour rules and regulations as a result of TAFTA and TNZCEP will guarantee easier movement or transfer of our human resources to Australia and New Zealand if we decide to invest in these countries.” (Vice President, Company J, May 2007)

It would appear that the transfer of human resources was intimately linked to investment and formed a part of some case firms’ international investment decisions.

Even though TAFTA, TNZCEP and JTEPA were comprehensive agreements, embracing liberalisation of investment, most case firms remained reluctant to invest overseas. There were many reasons for this. These included market size, expected revenue, cost for setting up subsidiaries, and local operating costs. As one executive explained:

“The bilateral FTAs do help our exports. But making an investment in Australia is mainly a matter of market potential, population and market size. Our business is labour-intensive, so investing in Australia would incur high costs. The impact of bilateral FTAs on investments is not great.” (Financial Controller, Company B, June 2007)

The majority of case firms judged that Australia and New Zealand were much smaller markets than Japan and, as such, remained unattractive for investment. Trade volumes to the former (Australia and New Zealand) were not high enough for Thai exporters to set up subsidiaries there. In any case, most case firms considered their existing partners’ capabilities in those countries to
be adequate for distributing and selling their products. Even a capable case firm, Company F, which was a major Thai firm owning more than 20 trading offices around the world, stated that it was possible to invest in Australia, but the company first had to take many factors into consideration, including market size. This company did not need to have a subsidiary there. It continued to work with existing partners to market its products in Oceania.

Even though Japan was a large and attractive market for the majority of case firms, JTEPA did not, by itself, cause them to invest there. One reason was that Japan had its own unique trade and distribution tracks, which were deemed very complex. Setting up subsidiaries to compete with existing efficient partners would not be good for maintaining relationships with them. In addition, there were practical obstacles to investing in Japan, not least of which were the very high operating costs.

In any case, a few case firms (especially those small and late internationalised firms-latecomers) possessed inadequate marketing capabilities and logistics management. This weakened their operations in foreign countries since companies had to be able to market their products in those countries in order to be successful. For instance:

“We really want to do retail business in Australia, but we need networks. In addition, it requires a great amount of investment. In the long run, relying on only exports may not work that well for us. Investing in a form of branch office and building distribution networks would help us reduce costs. But we have to invest and control logistics in foreign countries. We are looking for networks.” (International Market Manager, Company G, December 2007)

Even the leading case firm, which was well-resourced and equipped with internationalisation capabilities, did not think FTAs impacted on their international investment strategies:

“In our company’s perspective, most of our activities are located in our subsidiaries and branches abroad without FTAs. We invested in foreign countries for quite some time before the FTAs existed … We employed global strategies for international expansion.” (Manager of Trade Rules and Regulations Office, Company F, May 2007)
Most case firms did not see a need to invest in countries party to the bilateral FTAs.\textsuperscript{52} Two companies that did so confirmed that the existence of FTAs was not the main reason for their investments. One company already had a subsidiary in Japan long before the JTEPA became effective. Another had a subsidiary in Australia. JTEPA and TAFTA did not affect either international investment decision. The company that had invested in Australia did so in order to integrate easily with the well-developed logistic and financial systems in that country. By this means, it sought to exploit its own marketing capabilities.

Thus, it seems that bilateral FTAs facilitated investment, but did not drive it. They benefited firms wishing to establish sales and distribution facilities in the overseas markets through the facilitation of human resource movement, but little else. In principle, the same was true of overseas production facilities. The case firms agreed that Australia, New Zealand and Japan were all high cost locations, ill-suited to investment from the labour-intensive food-processing industry of Thailand.

5.6 Bilateral FTAs and firms’ adjustments to internationalisation strategies

A majority of the firms judged that bilateral FTAs influenced them to change their internationalisation strategies.\textsuperscript{53} This is important to note, even though individual firm responses differed in detail. The common element was that strategic changes were driven by the potential benefits of the FTAs. Of course, these benefits were not the same for all. This research identified five different strategic responses. These were: developing new networks, adjusting prices, adjusting product strategies, communicating with customers, and upgrading sales efforts. These findings support Theoretical Proposition III.\textsuperscript{54}

Proposition III: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation strategies.”

5.6.1 Develop new networks

Four case firms, namely Companies B, C, D and G, responded by developing new business networks, while maintaining their existing networks. The new networks were expected to help

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\textsuperscript{52} Seven out of ten case firms.
\textsuperscript{53} Seven out of ten case firms.
\textsuperscript{54} See Sections 5.6.1, 5.6.2, 5.6.3, 5.6.4 and 5.6.5.
them to grow, achieve export targets, gain reputation and enhance their position in foreign markets:

“Bilateral FTAs are good in terms of opening more markets for us. We still use existing channels of distribution, but will give new importers opportunities, especially for new products.” (Director—Export Business Operations, Company C, December 2007)

“We have to find additional importers to penetrate the Australian market. We have to establish and manage distributors and agents who can help us achieve export targets.” (Executive Vice President, Company G, December 2007)

Two companies developed additional networks in all three Agreement countries examined in this study. Another responded only in Japan, and one company responded only in Oceania (Australia and New Zealand). This reflected more limited expectations and focus.

Some companies were more proactive than others. Despite the small market sizes of Australia and New Zealand in comparison with that of Japan, a few companies expanded their business networks in those markets without any hesitation. A senior executive of Company B stated:

“Even though Australia and New Zealand are not very significant markets, TAFTA and TNZCEP can affect our exports. So, we will develop new networks. We will develop our potential. We do not reject opportunities. Some Australian importers that do not have their own brands can sell our products, we do not reject this. If they help us grow and gain reputation in the Australian market, we will continue working with them. We focus on customers’ demands.” (Financial Controller, Company B, June 2007)

Another company prepared itself well in advance for the implementation of JTEPA by seeking and selecting new business partners in Japan. This company exploited existing networking and marketing capabilities to find new business partners in Japan. In an interview, the company’s Chairman said:

“JTEPA is absolutely good for us. We already have business partners in Japan, because we have prepared in advance for several years. Our existing business partners are okay, but we have already found additional business partners. We have prepared the way forward for quite some time. We are ready and will now export to Japan
more than before.” (Chairman of the Board of Directors and CEO, Company D, April 2007)

In addition to developing new business networks themselves, the case firms also expected to receive unsolicited approaches from new potential partners in their export markets. Those firms that meet international standards and had well-established brands expected that firms from the foreign markets would approach them, and that their foreign sales would increase. As a Managing Director stated:

“We have exported to foreign countries for a long time. We know who our key importers are, for example in Australia, and who our key users for our products are. We know a great number of retailers and food service providers as well as their agents. We will approach the right clients. In addition, our brands are well known. In the past, they cannot purchase from us because our products are too expensive. But now they know that we can compete on price. They start to approach us because our factories achieve high standards. We are the first pineapple plant that was certified ISO 9000. I think that in foreign markets our brand is easily accepted.” (Managing Director, Company C, July 2005, BrandAge Magazine, Volume 6, Issue 7, http://www.brandage.com/issue/cs_detail.asp?id=1606)

Several case firms had received such approaches since the FTAs became effective.55

5.6.2 Adjust prices
The FTAs caused four case firms to adjust their prices. Yet, their responses were different. Three firms (Companies A, D and G) stated that they lowered prices, so as to better compete. Only Company F chose to raise prices and capture higher profits. The other case firms made deliberate decisions not to adjust their prices. Overall, the firms displayed caution with respect to changing prices, but were prepared to do so.

Three case firms were willing, in principle, to lower their prices in response to the FTAs, if that offered them an identifiable competitive advantage in the market.

“In our marketing strategies, we emphasise pricing, because it helps us gain a competitive advantage compared to competitor countries that want to enter the Australian and New Zealand markets. We use a pricing strategy for marketing our products in foreign markets. We may decrease our prices as a result of bilateral FTAs,

55 For example, Companies C, F and I.
if exchange rates are not too high.” (International Market Manager, Company G, December 2007)

Lowering prices helped some case firms to compete with products from other countries such as Vietnam. This was especially true of one company, which was more than usually dependent on foreign markets (foreign sales of 99%), and had recently lost sales in the Oceania region. As a result, the company responded to both TAFTA and TNZCEP by lowering its prices in line with the tariff reductions. However, the company did not adjust its prices in response to JTEPA, since the position of its products in the Japanese market was classified as “premium”. The company recognised that Japanese customers were less price-sensitive than Australian and New Zealand customers.

At the same time, one company decided to increase its prices, either by the same percentage as the tariff reductions, or by a smaller percentage, sharing the extra profit with its overseas business partners. In other words, the FTAs gave the company room to bargain with its business partners. A Senior Vice President of the company put it this way:

“We could sell our products at higher prices and earn an extra five per cent from tariff reductions, with buyers paying the same prices as before. Alternatively, we could share the benefit from the tariff reduction with them. We could pass on one half of the tariff saving. The consumers would have to bear the burden of the other half. We benefit from both of these two options.” (Senior Vice President, Company F, June 2007)

Another executive of the same company postulated that business partners would maintain prices of products even though tariffs had been abolished. Obviously, this way of doing business benefited the company. By implication, the company must have enjoyed a strong market position in terms of price before the FTA came into effect.

The differences in pricing strategies were interesting. They reflected different product/market positions in foreign countries, as well as different levels of bargaining power among the case firms. Those able to produce high quality products with an established reputation in foreign markets had greater price-bargaining strength than the others. Among all the case firms, Company F had particular internationalisation strength. It also possessed good international market position, which explains why the company had confidence and bargaining power in price
negotiations. Its response to post-FTA price adjustments was therefore unique. The company exploited its market leverage and raised product prices. This was quite unlike other case firms, which could not afford to lose customers who demanded lower prices. These firms had less efficiency in production, and were less well-known in their foreign markets. Accordingly, they exploited tariff reductions to offset their weaknesses. The FTAs enabled them to lower their prices, be competitive and thereby keep their foreign customers.

5.6.3 Adjust product strategy

A majority of companies said they adjusted their product strategy in order to take advantage of the FTAs. Essentially, they re-prioritised items in their product range in their export markets. Several companies totally rearranged their product mix so as to maximise their gains from tariff reductions. In the words of a Senior Vice President:

“Tariffs on chilled and frozen shrimps are now zero per cent, while tariffs on further-processed shrimps remain high. We therefore focus on those products on which we do not now pay tariffs. We export more shrimps from Thailand to Japan, while other products that do not benefit from JTEPA, we outsource to our Chinese plants, and export from China to Japan instead. For products such as processed chicken and shrimps, we consider the JTEPA is a very good thing. One of our products faces a 12% tariff rate; this will soon be reduced to 8.5%. Another product faces an eight per cent tariff rate. This tariff will be five per cent when the FTA between Thailand and Japan becomes fully effective.” (Senior Vice President, Company F, June 2007)

Another product adjustment involved manufacturing products to meet the local standards of countries party to the bilateral FTAs. The case firms had to develop their products in compliance with foreign countries’ standards and most of them involved their business partners in the product development process. Only by developing products in this way were they able to reap the full benefit of the FTAs, as their foreign customers were concerned about product quality issues.

All case firms judged that, in general, Japanese standards were higher than those of Australia and New Zealand. This was reflected in their willingness to pay higher prices for “premium quality” exported products than Australian and New Zealand customers, who preferred to purchase cheaper “standard quality” products. However, Australia and New Zealand had stricter sanitary and phyto-sanitary requirements than Japan on many processed food products. Many firms

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56 Seven out of ten case firms.
considered these standards as a business threat that prevented them from expanding their business. Yet, firms which had longer experience, and greater ability to produce high quality products, considered these international food standards and quarantine measures as business opportunities that prevented competitors, who could not meet them, from entering those markets. This was clearly illustrated by the following statement:

“We consider the effects of JTEPA to be positive. We develop products with our Japanese business partners who are our buyers. We talk and discuss with each other. The adjustments occur along the product development process. We help each other work things out ... Definitely, the standards of Japanese people and their lifestyles are more expensive than ours. They have high standards but we meet all their standards. Our facilities meet their standards ... If we can achieve these standards, other competitors, like Indonesia, will be behind us.” (Chairman of the Board of Directors and CEO, Company D, April 2007)

Although there were benefits from the FTAs in terms of tariff reductions on the case firms’ products, very strict NTBs, especially in Australia and New Zealand discouraged a few companies to adjust. In sum, findings of this research illustrated that the more established and internationalised case firms were capable of adjusting their products to obtain higher revenues and profits in countries party to the agreements.

### 5.6.4 Communicate with customers

Three case firms that received benefits from tariff reductions on their products linked the importance of communicating well with customers to the FTAs. These firms sought to communicate with customers in a way that offered them advantages over their competitors. For example, one interviewee stated:

“For the Australian market, we try to persuade two importers to sell more of our products, especially those that gain the benefits of tariff reduction from FTAs.” (Manager—Export, Company J, December 2007)

These foreign customers were very important, as they operated the marketing activities on behalf of the Thai firms in foreign countries (mainly distribution and selling). Important information, such as future product plans and tariff reductions on products, were shared between case firms

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57 For example, Company I.
and their foreign partners. By doing so, increased supply of some products could be better matched with demand for them.

Moreover, effective communication with customers about the benefits of the FTAs helped these case firms to attract new business partners, as illustrated by the following statement:

“We will exploit the JTEPA. We have to talk to Japanese customers about the JTEPA. We believe Japanese customers will respond and there may be some opportunities to get additional big customers. Now we are in partnership with Mitsubishi. This partnership helps us in distributing and selling our products, but JTEPA may help us expand our distribution channels. For us, the Japanese market is like the European market. Distribution in Japan is very complicated. We choose to work with partners.” (Financial Controller, Company B, June 2007)

There were certain linkages between the various adjustments. The case firms could not adjust their product strategy in isolation. They had to communicate with customers in advance, to ensure that they could secure higher demand for products in some categories. In effect, competitive advantages gained from bilateral FTAs helped the case firms to increase their market share of products that gained tariff reductions. However, this would not happen without effective communication between firms and their business partners.

5.6.5 Upgrade sales efforts

In response to the FTA between Thailand and Japan, only one company planned to increase its sales effort to achieve higher sales in the Japanese market. This company wanted to take advantage of tariff reductions by identifying new business opportunities. It expected to sell more in Japan, since it could be more price-competitive than before. A company senior executive argued that:

“We will surely take advantage of bilateral FTAs, especially the JTEPA. We do not have closed minds. Whatever they offer is a plus. There is no negative. Whenever there is a tariff reduction, we are better off. When we see new opportunities, we adjust. We have to find additional sales personnel to get more sales in Japan. I think the JTEPA will give us cost advantage as tariffs are reduced. We shall become more competitive in selling our products in Japan.” (Financial Controller, Company B, June 2007)
Obviously, increased sales effort formed a strategic market adjustment for this company. More generally, giving attention to sales management strengthened the market position of the case firms, in parallel with their gain from tariff reduction.

5.7 Bilateral FTAs and firms’ adjustments to internationalisation capabilities

In addition to making strategic adjustments, the case firms strengthened their capabilities, such as enhancing efficiency in production and increasing production capacity. Some case firms developed new capabilities. These new capabilities included improved ability to coordinate and integrate activities, and improved ability to analyse foreign markets. Among all case firms, Company G upgraded its capabilities more than the others. This company decided to improve both efficiency in production, and ability to analyse foreign markets. This was done to take advantage of the FTAs more fully:

“Signed FTAs at a bilateral level with Australia, New Zealand and Japan, or at a multilateral level in South-East Asia (AFTA), are all useful for our company and Thailand. We see and use the benefits of these FTAs at both levels. We are taking advantage of these free trade agreements. We try to find ways to utilise the FTAs to the full. We continuously work on this.” (International Market Manager, Company G, December 2007)

This evidence, and the empirical findings presented in Sections 5.7.1, 5.7.2, 5.7.3 and 5.7.4, suggested that the FTAs caused firms to modify and enhance their capabilities, supporting Theoretical Proposition IV.

Proposition IV: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation capabilities.”

5.7.1 Enhance efficiency in production

Bilateral FTAs helped the case firms to export. However, inadequate efficiency in production could inhibit firms from exploiting these opportunities. Two case firms in the sample needed to enhance efficiency in production in order to sell more in the trading partner countries. One responded to the FTAs by developing production processes to lower their cost of production as much as possible. The other case firm minimised the costs of production by re-engineering its organisation, and procuring cheaper raw materials:
“We must improve and re-engineer our organisation in order to reduce costs ... Raw material costs account for 60 per cent, while another 40 per cent is packaging and labour costs ... We have to find a way to achieve the highest level of efficiency in production ... how to reduce costs at the level suitable to a particular product. We cannot control raw material costs, which are external to us ... only internal costs and expenses that we can control to a certain extent ... One thing that we can do is enhance efficiency in production ... Another part that helps us is seeking raw material sources that are reasonable and not too expensive.” (Director of Sales and Marketing, Company A, April 2007)

Small percentage reductions in tariffs were not seen to be very helpful if case firms lacked efficiency in production. Efficiency in production and cost minimisation were perceived as critical to benefitting from tariff reduction, since most processed food products competed on price. Firms that possessed this capability could then enjoy the full benefits of bilateral FTAs. On the other hand, firms lacking this capability could only partially exploit the benefits available from the FTAs.

5.7.2 Increase production capacity
Two case firms (Companies B and F) indicated that they would increase production capacity in response to JTEPA:

“We do not worry much now ... When tariffs decrease because of the JTEPA, we have to prepare our capacity for any new opportunity. This is how we look at it.” (Financial Controller, Company B, June 2007)

It was noticeable that no case firm allocated any new capacity for a potential increase in orders from either Australian or New Zealand customers. This reaffirmed the importance of market size. Case firms put greater effort into larger export markets. Increased production capacity was not deemed a priority if trading partner markets were small in size.

5.7.3 Develop a new ability to coordinate and integrate activities
Company D started developing an ability to coordinate and integrate its activities more fully. One of its responses to bilateral FTAs was to develop its value chain management. An executive gave an example of tracking down all information from production through the chain until the products reached consumers:
“In the past, once we sent products to ports in Thailand, our work was done. Now, we have to obtain and assess all information along the entire process to the final customer. These include information on logistics costs, insurance and freights; what the distributors do when the products arrive; what the importers do with the company’s products; where and how the products go; how much cost is involved in each activity.” (Chairman of the Board of Directors and CEO, Company D, April 2007)

The Chairman and CEO of this company also postulated that the development of this ability allowed the company to obtain information useful for the negotiation of future international deals. This information related to the prices of export products and terms of payment. It would also enable the company to reduce logistic costs. However, these adjustments were considered secondary issues by the company.

5.7.4 Develop a new ability to analyse foreign markets

Two case firms responded to bilateral FTAs by further developing their ability to analyse foreign markets. The other firms already possessed this ability at higher levels than these two. They had a great deal of experience, and utilised their ability to analyse foreign markets to their advantage. On the other hand, Company J, which only started exporting in the preceding five years (in 2002), was still struggling with other issues, such as finding and choosing partners capable of efficient distribution of its products. The company currently relied heavily on business partners for information and marketing activities. It still had to develop its own ability to analyse foreign markets:

“Importers have to provide us with information, because they are close to the end users. They know market trends. For example, American consumers increasingly like fusion food. We have to develop Thai products that they can eat ... They also check and inform us of regulations on product ingredients and product labels.” (Manager—Export, Company J, December 2007)

Unsurprisingly, the company’s internationalisation was rather opportunistic in nature. This is quite normal for companies new to export. Once the company has successfully enhanced the ability to analyse potential foreign markets, it is postulated that it may be able to internationalise more rapidly and more strategically.
Another firm stated that its staff needed to be able to analyse not only foreign markets, but also Thailand’s trade policy. By doing so, the company aimed to identify new and profitable products, and develop superior marketing plans:

“We try our best to develop our human resources’ abilities to market our products in foreign countries that have FTAs with Thailand. This is done to take the most advantage of low import tariffs of the two countries (Australia and New Zealand) that are parties to the FTAs with Thailand … We send our personnel to participate in seminars on FTAs arranged by Thai government agencies. However, we sometimes cannot attend every activity. It depends on whether the public sector notifies us or not. If they inform us, we will cooperate as always ... We take these matters and information into consideration, especially those relating to trade facilitation with benefits to our company.” (Executive Vice President, Company G, June 2007)

Both of these case firms developed their ability to analyse foreign markets by participating in seminars and exhibitions organised by the Thai government. In addition, they obtained information about foreign markets by themselves, from sources like the Japanese External Trade Organization (JETRO) and the Thai Department of Export Promotion. However, some other firms were much more active than these two.58

The ability to analyse potential foreign markets is obviously important for successful internationalisation. Most case firms had this ability, which enabled them to reap the benefits of tariff reductions. They were in a position to negotiate and communicate with their customers about the benefits of the FTAs. In some cases, the analysis of foreign markets led to firms adjusting their products and prices. The case firms could also adjust their production capacity to meet rising or decreasing demands in particular foreign markets as necessary.

5.8 Bilateral FTAs and firms’ adjustments to internationalisation resources

All companies were aware of bilateral FTAs between Thailand and trading partner countries. They considered FTAs as business opportunities, while regarding trade barriers as business risks. The majority of case firms seemed to have adequate information.59 Only two case firms in the sample set needed to acquire new information resources as a response to the FTAs. Section 5.8.1 presents empirical evidence substantiating the acceptance of Theoretical Proposition V.

58 For example: setting up a separate division to monitor changes in trade rules and regulations; sending human resources to be members of trade and industry associations.
59 Eight out of ten case firms.
Proposition V: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation resources.”

5.8.1 Acquire new informational resources

Two out of ten case firms reacted to the FTAs by seeking new information sources. One company considered that additional information on foreign customers and market conditions would help in negotiation with customers after the bilateral FTAs came into effect.

“Currently, I visit Japanese customers every two to three years. This is a policy of our company ... I personally think that at least once a year we should visit our customers ... This will give us more information, such as real market situations and distribution places. Sometimes, we know only our situation, but do not know our competitors’ situation or real market situation.” (Director of Sales and Marketing, Company A, April 2007)

Another company planned to acquire more information on the bilateral FTA between Thailand and Australia from the relevant Thai government agency, the Department of Export Promotion (DEP). At the time, that company did not yet gain any benefit from the FTA, since there was some confusion over the product categories entitled to enjoy lower tariffs. The company expected to realise full tariff savings in the near future. This was a matter of FTA implementation, and it was thought that it would soon be resolved:

“We check tariffs according to TAFTA. Tariffs should be reduced, but the interpretation of the customs department of each country for each product may not be the same as our country’s interpretation. There are also changes in the Harmonised System (HS) code digits. These may be reasons why we do not get the advantage of tariff reductions. Tariffs still remain at five per cent on our products. We plan to discuss the issue with Export Promotion Department on how to get tariff reductions at the other end.” (Manager—Export, Company J, December 2007)

However, other case firms did not report issues of this kind. They were more concerned about SPS measures and the slow progress of trade facilitation.

It was notable that the two case firms discussed here were quite dissimilar. While Company A relied heavily on export markets (99% of total sales) and started exporting from its inception in 1978, Company J relied heavily on the domestic market (99% of total sales) and just started
exporting in 2002. Nevertheless both aimed to increase their international activities as a result of FTAs. It seems that heavily international market-dependent firms (Company A) want to sustain their positions in the markets. On the other hand, late-internationalising firms (Company J) want to achieve a giant leap in international expansion. Both found that better information on foreign markets and relevant trade policy was critical to their international expansion. Without this knowledge and a better understanding of it, the firms would not be able to internationalise in a way that maximised their benefit from the agreements.

5.9 Summary

The findings documented in this chapter demonstrate that Thai MNEs increasingly relied on their own internal firm-specific factors for internationalisation and growth. While they capitalised on useful country-specific factors, such as government trade policy, low input costs and abundant high quality natural resources, it was firm-specific factors that were most important. It is clear that relatively low costs of inputs, such as labour and natural resources, were the driving force behind the international expansion of the food industry. However, these conventional comparative advantages of Thailand are diminishing over time. Against this background, the Thai government’s proactive freer trade strategy, through bilateral FTAs, acted as a trigger for increased international activities by Thai firms. The bilateral FTAs were an influence upon individual firms’ internationalisation developments.

Thailand’s bilateral FTAs had a positive, albeit modest, impact. This was greatest on firms’ exporting activities. Thai MNEs were well aware of the FTAs and tried to take advantage of them. Some were successful in exploiting the opportunities they offered. Tariff reductions and the improved market access they brought were far and away the most important benefit. Investment facilitation and easier movement of labour were also helpful, but much less so. The FTAs facilitated firms’ exports to a certain degree, and marginally expedited firms’ international purchasing activities. The influence of FTAs on firms’ foreign investment was not discernible. None of the case firms had made additional investments in the three countries party to the trade agreements.

Even though the benefits of the FTAs were not overwhelming, these FTAs did give rise to internal adjustments by firms. Most importantly, the established bilateral FTAs influenced Thai
firms to modify their international market strategies. They developed new networks, adjusted prices and products, communicated more with customers, and re-focused their sales. These adjustments were common among the case firms researched. A few case firms also enhanced their internationalisation capabilities and resources. The development of new internal firm capabilities was identified in the area of production, coordination and integration of value adding activities, foreign market analyses and expansions/increases of informational resources. The following chapter discusses these findings more broadly.
6.1 Introduction

This chapter assesses the research findings presented in Chapter 5. The chapter begins with a classification of Thai MNEs investigated in this study, followed by a description of the relative importance of country-specific factors (CSFs) and firm-specific factors (FSFs), as well as their roles in the international expansion of these firms. The focus then turns to the role of bilateral FTAs in supporting the internationalisation of Thai MNEs and in driving their internal adjustments. Differences in firm responses are also analysed. Finally, implications for government are discussed and a theoretical framework for the analysis of FTA influence on firms is proposed.

6.2 Categories of Thai MNEs

This section identifies three categories of Thai MNEs analysed in this research. These companies are not similar. There is a degree of diversity in terms of their market focus. Consequently, the case firms are grouped into 1) those with an increasing international-focus; 2) those refocusing; and 3) those with a continuing domestic-focus. Definitions of each category as used in this research are given below:

Category one: “increasing international-focus MNEs”, defined as those firms giving increased emphasis to their foreign markets.

Category two: “refocusing MNEs”, defined as those firms primarily focusing on foreign markets in the past, but refocusing towards their domestic market.

Category three: “continuing domestic-focus MNEs”, defined as those firms primarily focusing on the domestic market and continuing to maintain a domestic market priority.
6.2.1 Category one: increasing international-focus MNEs

Seven out of ten case firms fell into this category. It was the dominant category. These firms wanted to increase their emphasis on international markets after the FTAs became effective. Most in this category were long-established firms that internationalised from their inception. Two of them relied very heavily on export markets. Company A’s exports accounted for 99 per cent of total sales in 2006, and Company B’s proportion of foreign sales was about 91 per cent in 2006. Neither company’s international focus was likely to move back to the domestic market. Both would continue internationalising gradually over many years to come. For example:

“Our products are seafood that is globally consumed. The world market is our market ... Our products have international ambitions. Our policy focuses on tuna and shrimps, for which we have lots of business opportunities in the international market. For new opportunities, we have to go international ... We are gradually and increasingly internationalising.” (Financial Controller, Company B, June 2007)

Yet, the rest of the case firms in this category still obtained the larger part of their revenue from domestic sales. For instance, Company F’s domestic sales were 82 per cent of total sales in 2006. However, this company and the others increasingly focused on international markets, as evidenced by increased exports to global markets and rising sales growth rates in foreign countries:

“Even though the domestic market has a greater proportion in terms of sales than foreign markets, we expect to see higher growth rates in foreign markets. The growth rates of foreign markets range between 10 and 15 per cent ... The majority falls to domestic markets, because we are the leader in Thailand’s markets ... Our vision is to be the ‘kitchen of the world’. We try to expand internationally. We want to sell and supply our products in greater amounts to consumers in every country. We will find a way to expand in order to achieve our set vision.” (Vice President, Company F, June 2007)

6.2.2 Category two: refocusing MNEs

There was only one case firm in this category, Company C. This company was a market leader in Thailand in its sub-industry (fruit juice and canned fruit and vegetables). The company also

60 Companies A, B, D, E, F, G and J.
61 Four out of seven case firms.
exported its products to world markets. Even though export sales were important, the company was currently refocusing towards the domestic market, as profit margins were higher there than in foreign markets. The company’s policy was to achieve higher growth of domestic revenue. In 2007, the company expected to see a decrease in its foreign sales growth rate compared to the previous year. An executive of the company clearly stated:

“We have limited production capacity. We therefore have to allocate it to markets that give us higher profit margins. These markets help us grow and achieve a better position and profits. It is a part of our policy that our domestic sales are growing more than our overseas sales ... Foreign sales to domestic sales ratio used to be 75:25 in the past. It decreased to 56:44 in 2006. Total sales of our company are growing, but the proportion of export seems to decline.” (Director—Export Business Operations, Company C, December 2007)

As Table 6.1 illustrates, the ratio fell from 75:25 in 2003 to 52:48 in 2007. This was the result of differences in growth rates of foreign sales and domestic sales during 2003–2007. Domestic sales reached 30 per cent growth rate in 2007, while foreign sales grew marginally at 8 per cent, that is, domestic sales were rising at approximately three times that of exports.

<table>
<thead>
<tr>
<th>Company C</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>Foreign Sales Growth Rates (%)</td>
<td>-</td>
</tr>
<tr>
<td>Domestic Sales Growth Rates (%)</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Company C’s form 56-1 submitted to the Stock Exchange of Thailand, and Company C’s annual report, various years

6.2.3 Category three: continuing domestic-focus MNEs

The FTAs caused no perceivable change for two case firms, Companies H and I. These companies obtained most of their revenue from domestic sales and operations in Thailand. Although they had invested in production facilities overseas in the past, their future business
expansion will focus on Thailand. Both have continued to emphasise the domestic market, and foreign sales have remained at a low level. Of the two, Company H had a higher proportion of sales in foreign countries. Yet, this company achieved sustainable growth in the domestic market, which for them seemed less risky. This was due to the fact that there were many factors beyond its control when doing business in foreign countries, for example, trade rules and regulations in those countries and demand fluctuations. These uncertainties made the domestic market a sensible priority for this company:

“We try not to export more than 20 per cent. Exports can reach 30 per cent at the maximum. We try to control our exports at a proportion less than 20 per cent ... If exports exceed 20 per cent, we will adjust ourselves by investing in foreign countries instead ... These foreign markets are uncontrollable. When they are faced with problems, parent companies go bankrupt ... Therefore, we export to foreign countries not more than 20 per cent of total sales.” (President, Company H, May 2007)

Company I was a niche product leader in Thai traditional food products and put a great deal of effort into maintaining its 80 per cent domestic market share. In 2006 and 2007, the company’s foreign to domestic sales ratio remained unchanged:

“My policy is that we will be the leader in small industry, and we will not be a follower in big industry. We focus on niche markets. We are a niche product leader ... If we talk about Thai traditional food products, we are number one in Thailand today ... At present, we have 80 per cent of market share. We have to compete with ourselves ... The domestic market (Thailand) is our main market. It is our base. Domestic sales account for 90 per cent of total sales, while export sales are about 10 per cent.” (Executive President and CEO, Company I, May 2007)

Its domestic market focus was confirmed by the company’s mission statement:

“One household, one product of Company I’ is our mission. We intend to encourage every household in Thai society to consume our products at a rate of at least one product for each household by the year 2009.” (Company I’s form 56-1 submitted to the Stock Exchange of Thailand, 2006)

To achieve its mission, the company customised its products to suit Thai customers’ tastes and demands.
Findings of each aforementioned category of case firms, namely, increasing international-focus MNEs, refocusing MNEs and continuing domestic-focus MNEs will be discussed and analysed.

6.3 Theoretical Proposition I revisited

Proposition I: “Country-specific factors are more important than firm-specific factors in influencing internationalisation of Thai MNEs.”

6.3.1 Relative importance and roles of internationalisation factors

There is a growing volume of research about developing-country MNEs, but few researchers describe the integration and interaction of both country- and firm-specific factors. Those which do (Dunning, van Hoesel & Narula 1998; Yang, Jiang, Kang & Ke 2009; Li & Peng 2008) indicate that governments can, and do, play a critical role in influencing the internationalisation of firms from developing countries; especially those of transitional economies such as China. However, these studies do not directly compare the relative influence of CSFs and FSFs on firms’ international expansion, and thus do not adequately address Proposition I. This research addresses this gap.

The study found that FSFs positively affected case firms’ internationalisation. Collectively, these FSFs indicated that Thai firms from different categories were not solely relying on low cost-based strategies. The Thai case firms, at the same time, improved the quality of their products and services in order to gain a better competitive positioning in world markets. They put effort into their marketing capabilities. All the firms assessed in this research had their own brands, although their success in internationalising their brands varied. Some case firms had set up their own importing and distributing offices in foreign countries. These findings illustrate the dynamism of Thai MNEs. For example, Company E’s sales in Australia almost doubled in 2007 as a result of major new contracts between its established subsidiary and retail chains. In addition to substantially increased revenues, the subsidiary helped to differentiate the company from its competitors by providing services to customers effectively and efficiently. The

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64 Case firms in all categories: increasing international-focus MNEs, refocusing MNEs, and continuing domestic-focus MNEs.

65 Company E belongs to category one (increasing international-focus MNEs).
exploitation of Company E’s marketing capabilities in Australia was clearly shown in this comment:

“An office in Australia was set for marketing, distributing and importing our products. It also connects with other distributors. The office is based in Sydney, New South Wales. We distribute our products in Sydney by ourselves, for example, to restaurants and supermarkets. We have warehouses and we organise our transport.”

(Managing Director, Company E, July 2007)

At the same time, Thai case firms in different categories benefited from Thailand’s CSFs. These research results are partially consistent with the extant literature on internationalisation, which claims that Asian firms rely heavily on government-created comparative advantage as well as conventional comparative advantage (Vernon-Wortzel & Wortzel 1988; Aggarwal & Agmon 1990; Sim & Pandian 2003). However, competing on price alone, derived from conventional CSFs, is no longer a viable option for Thai food processors because the costs of production factors (such as natural resources and labour) are rising. Further, international competitors can always invest in countries where they can exploit lower costs. In order to compete internationally, Thai firms have been obliged to strengthen and develop their internal FSFs. Those firms that do not enhance their internal capabilities and competitive strategies may not be able to survive.

The government’s role in creating comparative advantage and strengthening Thai firms’ competitive advantage was widely discussed among Thai firms. This research suggested that Thai MNEs, especially those in categories two and three, considered Thai government policy to be supportive, but only secondary in their internationalisation. This challenges some earlier views of the direct importance of government policy on developing-country firms (Yeung 1998). The firms in this study found that government policy played a supporting role only. Even the Thai government itself stated that some of its policy only facilitates the internationalisation of Thai firms, and nothing more. This is true, for example, of export promotion policy through the Export Promotion Department. This department has offices in Thailand and abroad, the role of which is illustrated in the following statement:

“The Thai Trade Office held events/exhibitions and activities for foreign importers to meet and discuss with Thai producers, both in their home countries and in Thailand;
for example, Trade Fair—Fine Food and ThaiFEX. The Thai trade office also facilitates one-on-one meetings between Australian importers and Thai exporters. In my view, the public sector plays an important role as a facilitator for the business sector, for example, providing information.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

Findings from this study suggest that CSFs are, at best, equal in importance to FSFs in the internationalisation of Thai MNEs. It follows that these findings do not support Theoretical Proposition I. The case firms relied more on their internal capabilities, resources and strategies than on government support and other country-specific factors. Firm-specific factors are increasingly playing the leading role. One reason could be that FSFs are under direct managerial control, while CSFs are not. FSFs can create sustainable competitive advantages, which are hard to replicate in the internationalisation activities of competitors. Additionally, firm size seems to dominate the results with regard to the relative importance of CSFs and FSFs. Thus, it is noticeable that smaller firms tend to consider FSFs more highly than CSFs as they neither receive much support from the government nor have great roles to play in policy development processes. Therefore, the empirical evidence of this study supports that of Aggarwal and Agmon (1990). It is clear that for Thai MNEs the focus is on factors internal to the firm while CSFs become less important as they move towards a more advanced stage of the internationalisation process. Figure 6.1 exhibits the relative importance of both groups of internationalisation factors to these firms.

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66 THAIFEX-World of Food Asia is one of Thailand’s most successful trade fairs, organised by the Thai Department of Export Promotion, Thai Ministry of Commerce (www.depthai.go.th).
67 See section 5.4.
68 See Table 4.1 for a summary of internationalisation characteristics of Thai case firms and also Table 5.1 for a summary and comparison of FSFs and CSFs.
6.4 Theoretical Proposition II revisited

Proposition II: “Bilateral FTAs facilitate internationalisation of Thai MNEs.”

6.4.1 The role of bilateral FTAs: a facilitator to firms’ internationalisation
Studies by Porter (1986) and Yip (1989, 1995 & 2003) describe a facilitator role of bilateral FTAs in influencing firms’ international expansion activities. These agreements gradually minimise trade and investment restrictions between partner countries. However, their findings are based on developed-country firms’ perspectives. This research adds to the existing literature by providing new evidence and insight pertaining to developing-country firms; specifically Thai MNEs.
Although non-tariff barriers (NTBs) such as Anti-Dumping (AD) and Sanitary and Phyto-Sanitary (SPS) and the slow progress in tackling them affected some case firms adversely, most firms in this study judged that the FTAs facilitated their export growth.\textsuperscript{69} This was straightforward, because their products benefited from a reduction in, or elimination of, tariff barriers. The FTAs offered a clear boost. They helped increase the case firms’ exports. Obviously, the impact on each firm differed in detail.\textsuperscript{70}

“Firstly, bilateral FTAs give impetus to opening and widening markets between countries party to the agreements. Secondly, these agreements are facilitators, since deregulation allows us to trade more. Specifically, tariff rules and regulations facilitate this.” (Manager of Trade Rules and Regulations Office, Company F, May 2007)

The magnitude of this impact was positive, but not great. This was because most tariffs on processed food products in Australia, New Zealand and Japan were already low, while high tariffs on some products were only slowly reducing over 5–15 years.\textsuperscript{71} In some cases, tariffs were reduced for product categories that were not major exports of Thailand, like bread, sweet biscuits and pasta. At the same time, a few major Thai products, such as processed rice, did not receive any benefits from TAFTA, TNZCEP and JTEPA. So many companies expected only a marginal increase in their exports. The perceived benefit was even less for refocusing MNEs and continuing domestic-focus MNEs (categories two and three) since they were more interested in increasing domestic sales.\textsuperscript{72} For example:

“We will gain some benefits for our fruit juices exported to Japan. Customers approached us and we reached some good deals, since the JTEPA was still in the negotiation process. However, we will not get a great deal of benefit from the JTEPA, because some product categories still face tariffs.” (Director—Export Business Operations, Company C, December 2007)

As presented in Section 5.5.3 of Chapter 5, the FTAs had not had much impact on the case firms’ international investment activities. The case firms stated that, while the FTAs may help them if

\textsuperscript{69} Case firms in all categories except for Company E (increasing international-focus MNEs: category one) which received no tariff reduction for its products.
\textsuperscript{70} See Chapter 5.
\textsuperscript{71} See Appendix 1.
\textsuperscript{72} See 6.7.2 for further discussion.
they wanted to invest in Australia, New Zealand or Japan, they did not want to do so. There were many reasons why firms decided against making international investments in these countries. Even though the FTAs brought about greater investment opportunities through relaxation of rules, regulations and procedures, other factors such as foreign market potential and operating costs were far more important. Nevertheless, a few firms in category one (increasing international-focus MNEs) had at least given some consideration to investing in Australia and New Zealand since TAFTA and TNZCEP came into force. From this perspective, FTAs are just one factor among many influencing the internationalisation of Thai MNEs. So far, no case firm has yet exploited FTAs for foreign investment purposes.

A number of Thai MNEs still needed to enhance their capabilities and resources prior to advanced internationalisation in developed countries through foreign investment. This finding is similar to that of others, including Vernon (1966, 1979); Dunning (1988); Lecraw (1992); Wells (1983); Sim and Pandian (2003). Even with incentive from FTAs, case firms were not able to invest in partner countries. This is supported by Rugman and Michael (1993), who showed that NAFTA motivated Canadian and US MNEs to invest in Mexico, but not vice versa. Most Mexican firms needed to build up their competitive strength before investing internationally. This study is consistent with that research insofar as Thailand, like Mexico, is a less advanced economy, and its firms are less well-established than those in more advanced economies. This partly explains why Thai case firms made most investments in neighbouring, developing countries, rather than in developed countries. They did this to access cheap inputs for their production. However the impact of the FTAs on the case firms’ exports was quite modest. It could be that when increased exports caused by the FTAs are significant, some firms may respond by making additional investments in these countries. This implies possible benefit in the longer run when the FTAs are fully implemented and when Thai firms are more developed and experienced. It could be that increasing numbers of Thai firms may then invest in those countries party to the agreements as well.

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73 Firms in all categories: increasing international-focus MNEs, refocusing MNEs, and continuing domestic-focus MNEs.
74 For example, Companies A and I.
75 See Section 5.5.1.
As presented in Chapter 5, a majority of firms in this study expected and received advantage from the FTAs. These findings are consistent with Porter (1986) and Yip (1989, 1995 & 2003), both of whom have argued that bilateral and regional FTAs expedite company internationalisation, especially outward internationalisation, such as export and international investment. This research provides additional evidence that bilateral FTAs have been directly helpful to both outward internationalisation and inward internationalisation. For example, one executive stated:

“We import some raw materials from Australia and New Zealand, such as concentrated carrot juice. We receive benefits from bilateral FTAs, but tariff reduction takes time. Tariffs are gradually decreasing. We also gain some advantage in exports, but not much.” (Director—Export Business Operations, Company C, December 2007)

However, the impact of FTAs on imports may not have been great. As local content usage for exported products was very high (with only low levels of imports, ranging between zero and five per cent), this implies that there was no issue regarding rules of origin. This is very different from some other industries, such as textiles.

The evidence supports Theoretical Proposition II. It leaves no doubt that bilateral FTAs do indeed facilitate firms’ implementation of their internationalisation strategies. FTA influence was reflected in actual increases in the case firms’ exports and imports. FTAs affected the case companies’ exports more than their international procurement, though the latter was influenced also. The firms in this study accepted their own need to adjust to take advantage of the new opportunities offered. Section 6.5 discusses the internal adjustments of Thai MNEs.

6.5 Theoretical Propositions III, IV and V revisited

Proposition III: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation strategies.”

Proposition IV: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation capabilities.”

76 See Chapter 5.
Proposition V: “Bilateral FTAs influence Thai MNEs to adjust their internationalisation resources.”

6.5.1 The role of bilateral FTAs: an impetus to changes in firms’ internationalisation strategies, capabilities and resources

Previous work predominantly focused on the influence of FTAs as an impetus to MNEs’ business strategy adjustment (e.g. Rugman & Verbeke 1990, 1991; Buckley et al. 2001). Rugman and Verbeke (1990) discussed other internal adjustments; specifically, some MNEs’ emphasis on enhancing cost competitiveness as a response to the Canada–US FTA, but only briefly. Buckley et al. (2001) did this also in the context of NAFTA. This research adds empirical evidence on changes internal to the firm, in terms of internationalisation strategies, capabilities and resource development.

Adjustments by Thai MNEs in categories one and two are made mainly in international market strategy, while developed-country firms adjust mainly in other ways. For example, Canadian and American MNEs adjusted their export and investment strategies in response to the Canada–US free trade agreement (Rugman & Verbeke 1991). These developed-country MNEs tended to expand both their exporting and their foreign investment in the other country. Results of this study differ. The case firms responded positively to Thailand’s bilateral FTAs by developing new business networks, adjusting prices, adjusting products, improving communication with customers and enhancing sales effort. There were linkages between each of these adjustments. For example, one Thai firm did not rely only on its foreign partners to promote sales in Japan, but actively increased its own sales personnel to deal with rising marketing activities in the Japanese markets and export orders placed by the Japanese customers. Such strategic adjustments resulted in higher levels of internationalisation in existing foreign markets. Most case firms in this study had established overseas markets for their products—and supply chains for their raw materials—long before the FTAs became effective.

This difference in strategic responses can be partially explained by the fact, presented in Section 5.5.1, that the impact of Thailand’s FTAs was not perceived to be large enough to make any perceptible difference to the companies’ foreign market priorities.77 Europe, the USA and Japan

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77 See Section 5.5.1 for detailed research evidence of the impact of FTAs on export strategies.
remained major export markets, while Australia and New Zealand were minor export markets for most case firms. Furthermore, Thai MNEs were from an “emerging” rather than “mature” economy, as described in the investment development path of Dunning (1986). Consequently, their capabilities and resources may not have allowed some of them to make international investments in advanced economies. At the same time, developing countries were popular foreign investment destinations for all case firms, since these countries possessed CSFs (e.g. cheap natural resources and labour) that Thai MNEs could utilise to their advantage with current capabilities and resources. Yet, the strategic adjustments they did make seemed adequate for exploiting the new opportunities offered by the FTAs.

Findings of this research confirmed that FTAs influenced firms in category one to adjust their capabilities and resources. Firms evaluated their existing capabilities and resources, and made adjustments in response to specific bilateral FTAs. The newly developed abilities and acquired information resources became a source of competitive advantage that could be long-lasting, while non-firm specific advantages created through FTA implementation could be helpful only in the short to medium term. In summary, the changes in business environment caused by the FTAs accelerated the ongoing process of internal firm improvement. This, it is argued here, tends to increase export sales and profits in the long run.

Thai firms responded to bilateral FTAs differently. Some made many more adjustments than others. A minority possessed weak abilities to expand internationally. For example, Companies G and J were catching up with the other firms in their ability to analyse foreign markets. They realised the need to develop themselves in this respect if they were to grow internationally and take advantage of the FTAs. They were in the process of “learning by doing”, as well as “trial and error”, in order to find out whether their foreign market objectives were achievable. The majority of case firms did not need to do this. In terms of resource acquisition, nevertheless, two increasing international-focus MNEs (category one) reported that the FTAs caused them to acquire new information about foreign markets and government trade policy. These findings are consistent with those collected from an interview with the Director of the Thai Trade Office in

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78 See detailed discussions in Sections 6.6 and 6.7.
Sydney (Australia), who stated that, since 2005, there had been an increased number of inquiries from businesses seeking information and opportunities to capitalise on the established FTAs.\(^{79}\)

Overall, functional adjustments involving marketing and development of new capabilities were seen as critical to successful international expansion. The FTAs were a catalyst that encouraged this development process. Understandably, these adjustments were often small. This may have been due to the fact that Thai MNEs were themselves continuously upgrading anyway, with or without the FTAs. Those firms with major internal constraints in terms of capabilities and resources needed to strengthen their FSFs before they were able to take full advantage of the FTAs. Although Theoretical Propositions III, IV and V are confirmed by the findings of this study,\(^{80}\) each firm adjusted its internationalisation strategies, capabilities and resources in response to the FTAs distinctively. The next section describes the differences among three defined categories of case firms in details.

### 6.6 Responsiveness of different categories of Thai MNEs to bilateral FTAs

Those firms with an increasing international focus were the most responsive.\(^{81}\) They adapted both internationalisation strategies and capabilities, with the exception of Company E, whose products were not entitled to FTA benefits. Additionally, two case firms of this group acquired additional information. As shown below, the least responsive category was status quo firms; those with a continuing domestic market emphasis (category three). Companies H and I were in this category. They did not make any adjustments at all, even though their products were entitled to FTA benefits. Table 6.2 summarises the responsiveness of all the case firms included in this study.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Market focus after 2005</th>
<th>Changes (strategies)</th>
<th>Changes (capabilities)</th>
<th>Changes (resources)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>Increasing international focus</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Company B</td>
<td>Increasing international focus</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
</tr>
</tbody>
</table>

79 The Thai Trade Office is a representative of the Ministry of Commerce in the Oceania region.

80 See also Chapter 5.

81 Definitions of different categories of Thai MNEs are in Section 6.2.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Market focus after 2005</th>
<th>Changes (strategies)</th>
<th>Changes (capabilities)</th>
<th>Changes (resources)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company C</td>
<td>Refocusing—domestic focus</td>
<td>✓</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Company D</td>
<td>Increasing international focus</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Company E</td>
<td>Increasing international focus</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Company F</td>
<td>Increasing international focus</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Company G</td>
<td>Increasing international focus</td>
<td>✓</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Company H</td>
<td>Status quo—domestic focus</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Company I</td>
<td>Status quo—domestic focus</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Company J</td>
<td>Increasing international focus</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

### 6.6.1 Responsiveness of increasing international-focus MNEs (category one)

As stated in Section 6.2.1, most companies in this group still had the majority of their sales in domestic markets, but they all aimed to increase foreign sales and activities, including cross-border investments. FTAs were perceived by these firms as helping to export their products. These companies responded by adjusting both their internationalisation strategies and by developing new capabilities. For example:

“We have to emphasise the development of products appropriate to each market in which we are thinking of expanding our business. There will be a need for product improvements. Secondly, we try our best in the development of our human resources’ abilities to market our products in foreign countries that have FTAs with Thailand. This is to take the most advantage of low import tariffs in the two countries (Australia and New Zealand) that are parties to the FTAs with Thailand. Another response to the FTAs is the development of production processes that aim to achieve advantages in competition. It could simply be said that we try to keep the costs of production as low as possible.” (Executive Vice President, Company G, June 2007)

Within this category, the two most responsive companies were very different. One was overwhelmingly dependent on international markets, while the other was largely dependent on the domestic market. However, they shared a common market emphasis. Both were driven to increase internationalisation. The first (Company A) attempted to maintain its positions in foreign
markets, while the second (Company J), as a newcomer, attempted to seek additional revenues in foreign markets. They adjusted their internationalisation strategies, capabilities, and resources in many ways.\footnote{See Chapter 5 and Table 6.2.}

6.6.2 **Responsiveness of refocusing MNEs (category two)**

Besides developing new business networks in Australia, New Zealand and Japan, Company C responded specifically to the JTEPA by producing and exporting more of the products that obtained tariff reductions from JTEPA, instead of putting effort into those still subject to trade barriers:

> “Our customers ask us to produce OEM products for them. They requested that the amount of sugar ingredients should not exceed a certain limit, otherwise the customers have to pay higher tariffs ... In the case of canned pineapples, there are still quota restrictions ... Therefore, we may have to focus more on exporting products that gain the benefits of JTEPA.” (Director—Export Business Operations, Company C, December 2007)

However, the company did not adjust its capabilities and resources. The company was, at the time, refocusing itself more towards domestic markets. This inevitably led to new products and marketing programs for customers in Thailand (Company C’s form 56-1 submitted to the Stock Exchange of Thailand; and Company C’s annual reports 2003–2007). These included the introduction of new products for the premium segment (high quality) and the regular market (medium quality), new products for children and teenagers, as well as healthy products for niche market segments. Additionally, there were new marketing programs involving re-branding and business expansion into new retail business through the establishment of juice bars, which acted as another distribution channel for the company’s products. All in all, these helped to increase domestic sales, as well as reinforce brand awareness and company reputation in Thailand.

6.6.3 **Responsiveness of continuing domestic-focus MNEs (category three)**

Two case firms in this category considered the positive impact brought about by the FTAs to be insignificant. As a result, they chose to make no response. Their perceptions differed from some other case firms’. For example:
“Tariffs on our products in these countries are not high, just about four to five per cent. The positive impact is very little according to our forecast ... The impact of JTEPA is similar to bilateral FTAs between Thailand–Australia and Thailand–New Zealand. Our business is not in the automobile industry lobbying hard for tariff reductions.” (President, Company H, May 2007)

One company faced quite severe NTBs in Oceania and chose not to upgrade its products to cross the barriers. Neither did it respond to JTEPA, although the company’s products were entitled to obtain some benefit from that agreement. One executive explained:

“JTEPA will not impact on us. We only have a small amount of trade with Japan, because the Japanese do not eat our products. They prefer their own products. For example, they do not eat our meat balls. They prefer ‘Odeng’. We cannot compete with that.” (Executive President and CEO, Company I, May 2007)

These MNEs continued to focus primarily on domestic markets and maintained their existing positions as national leaders in instant noodles and Thai traditional food. Nevertheless, they did export excess supply to foreign markets whenever opportunities arose. With regard to foreign investment, they tended to invest more in Thailand rather than in foreign countries. Yet, they maintained some investment in foreign subsidiaries and foreign joint ventures.

6.7 Rationale for differences in responses to bilateral FTAs
This section aims to explain why firm responses differ across all categories of Thai MNEs. Differences in market focus, expected benefits and strength of firm-specific factors were found to be the main reasons behind those differences. Sections 6.7.1, 6.7.2 and 6.7.3 discuss these variables in detail.

6.7.1 Market focus
As discussed in Section 6.6, Thai firms’ market responses varied according to individual firms’ market focus. This study found that those firms with increasing international focus (category one MNEs) were highly responsive to bilateral FTAs, while predominantly domestic-focus MNEs (category three MNEs) were not. The international focus firms (Companies A, B, D, F, G and J) adapted their strategies and capabilities, but domestic market emphasis firms, like Companies H and I, made no effort to exploit the opportunities offered. The latter continued to focus primarily on domestic markets. Company C responded to the FTAs, on the one hand, by adjusting its
internationalisation strategies to maintain its market share in foreign countries and, on the other hand, by refocusing its efforts towards increasing its market share in Thailand.

This evidence strongly suggests a relationship between a company’s principal market focus and its responses to bilateral FTAs. This research suggests that market focus largely drives the magnitude of internal adjustment that firms make as a consequence of FTAs. The more internationally focused firms modified their internal strategies, capabilities and resources to a greater extent. This is, of course, quite logical. Figure 6.2 illustrates this.
Figure 6.2  Market focus and firms’ internal adjustments
At the same time, the responsiveness to bilateral FTAs was dissimilar among firms in the same category. Specifically, those with increasing international focus ranged from no changes at all to three dimensions of change: strategies, capabilities and resources. The next sections explore these differences.

6.7.2 Expected benefits

The impact of bilateral FTAs generally depends on anticipated benefits. The usual expectation is that tariff cuts lead to increased sales, higher revenue and higher profits, giving faster growth. All case firms except one claimed some benefits from the three FTAs examined in this study. Under TAFTA, TNZCEP and JTEPA, tariffs gradually fell over time, and this was reflected in a number of comments from senior executives of the case firms. In addition, a senior government officer provided information on benefits of TAFTA and TNZCEP for Thai firms in the food industry:

“Benefits from tariff reduction may not be that great, because before the agreements came into effect, many goods were already exempted from tariffs. Some food products imposed five per cent tariff rates. Export firms dealing in these goods may receive some benefits from the bilateral FTAs, but not as great as the automobile and parts industry. Thai firms in this sector are doing well in Australian and New Zealand markets, as shown by food export product growths ranging from 10 to 15 per cent.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

This implies that even when there were only small tariff reductions, averaging five per cent on Thai food products, Thai firms (both SMEs and MNEs) successfully exploited them in the Australian and New Zealand markets. The benefit of FTAs was therefore not neglected at all.

Although many firms in this study shared a common focus on international markets, the ways in which they responded were diverse. This can be explained by differences in what they expected to gain. One company (Company E) did not respond to FTAs at all, since there was no tariff reduction relevant to it. Other companies that belonged to the seafood-processing sector were quite responsive, since they expected immediate gains from the bilateral FTAs. For example:

“For seafood, we gain some advantages from the JTEPA. Tariff will be reduced to zero per cent within a few years. Over the past years, tariffs on our seafood products that have not been flavoured were less than five per cent, while tariffs on

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83 See Figure 6.2
flavoured seafood products were a little bit higher than five per cent. With JTEPA, tariffs are zero per cent. Our customers do not have to pay tariffs when they import from us. We gain advantage in terms of prices … In terms of exporters, we receive benefits, that is, customers can import from us at cheaper prices … All in all, we gain more advantage than before.” (Director of Sales and Marketing, Company A, April 2007)

Product categories had an influential role in determining anticipated benefits from tariff reductions. This was obvious in the case of Company G, which was the only one gaining more benefits from TAFTA than JTEPA. It exported directly to Australia, but gained only indirect benefits from JTEPA, by supplying products to firms producing processed food for export to Japan:

“We do not see much impact from the JTEPA. Vegetable oils are not the main products for which Japan is opening up its market. If we were to gain benefits, it would be indirect impacts from increases in exports of ready-to-eat food to Japan, such as products made from chicken, tuna and other products.” (Executive Vice President, Company G, June 2007)

At the same time, the expected benefits of each FTA differed. There were differences in market size, population, aggregate purchasing power, and demand for particular categories of food product of Thai origin. These differences explain why most case firms expected to gain more benefit from JTEPA than TAFTA or TNZCEP. This was because the Japanese market, a major export market already, was significantly larger than that of either Australia or New Zealand. Besides, many firms judged that the Japanese market had more profit potential on account of its high per capita purchasing power compared with Australia or New Zealand. It was, therefore, not surprising to observe that some firms were more responsive to JTEPA than TAFTA and TNZCEP.

The benefit was greatest for those firms intending to increase their overseas sales. This was obvious when comparing two firms within the same sub-sector (fruit juices, canned fruits and vegetables manufacturing): Company C (category two—refocusing MNE) and Company D (category one—increasing international-focus MNE). These firms reacted to the FTAs differently even though the actual tariff reduction for all firms in the sector was the same. This led to differences in their responses. Both adjusted their internationalisation strategies by developing new networks and prioritising export product categories. However, Company D also developed new products and a new ability to coordinate and integrate its activities in

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84 Eight out of ten case firms.
85 For example, Companies A and B.
order to achieve increased penetration of foreign markets. Company C did not respond to the FTAs in the same way because it put greater effort and resources into the domestic market. This involved developing new products suitable for Thai customers.

In short, Thai MNEs considered a combination of factors when assessing the expected benefits of individual bilateral trade agreements. Aside from the tariff reductions these included product categories, characteristics of foreign markets, and their own market focus.

6.7.3 **Strength of existing FSFs**

Internal company strengths (FSFs) are crucial for internationalisation success. This study postulates that firms with weak FSFs tend to adjust internally more than firms with strong FSFs. This is not surprising, since very well-resourced and experienced firms require only minimal adaptation to enable them to internationalise effectively. Such firms are obviously well-placed to capitalise on FTAs through their superior internal strengths. Responses identified in this research included strengthening, enhancing and improving internationalisation strategies, capabilities and resources. Differences between case firms affected their responses on matters of detail.

Companies A and B belonged to category one (increasing international focus MNEs) in the seafood-processing sector. However, Company A was smaller than Company B, and had deficiencies in several FSFs. Most of Company A’s growth came about because customers approached the company and placed orders. It realised the need to be more proactive to reap full benefits from the FTAs, and prepared to do so. The evidence of this research identified Company A as one of the two most responsive to the FTAs. The other was Company J. Both adjusted their internationalisation strategies, capabilities and resources. For instance, they both developed new information sources; other case firms did not.

The case firms evaluated their existing capabilities and identified their weaknesses. The adjustments involved developing new abilities, as well as enhancing existing ones. Company D did so as a direct response to the FTAs. Adjustments in a few case firms involved enhancement of efficiency in production and increases in production capacity. The evidence of this research was that bilateral FTAs motivated firms to improve those FSFs necessary for greater exploitation of foreign markets.
Figure 6.3 Roles of market focus, expected benefits and strengths of firm-specific factors in influencing responsiveness to FTAs

Figure 6.3 illustrates how market focus, expected benefits and strengths of internal FSFs influenced firms’ responsiveness to the FTAs. It shows the decision processes that senior executives employed in addressing the following questions:

First, whether a company would respond to bilateral FTAs or not. Answers to this question depended greatly on individual firms’ market focus. As discussed earlier, category one MNEs (those with increasing international focus) and category two MNEs (those refocusing) definitely responded. Category three MNEs (those with continuing primarily domestic focus), like companies H and I, did not necessarily respond, although there were tariff reductions on some products of these firms, from which they could potentially have benefited. It seems that market focus dominated the case firms’ initial reaction to the FTAs. Further, expected benefit explains why Company E (Category one) was not responsive to the FTAs, even though it
increasingly focused on international markets. The explanation is that tariffs on its main products were already zero prior to 2005 when the FTAs came into force.

A second question is how the company responded to bilateral FTAs. Degrees and dimensions of responses were determined by strengths of internal company capabilities. Firms evaluated their present internationalisation strategies, capabilities and resources, and adjusted as appropriate in order to reap the benefits of the FTAs. This study reveals that inexperienced MNEs, and those with increasing international focus, adjusted in many ways. They had to develop new strengths if they were to grow further internationally. These firms made many adjustments to compensate for their weaknesses. Strong and long-time internationalised firms, like Companies B and F, made only small adjustments to their strategies and capabilities. In contrast, domestic focus MNEs (Companies H and I) did not respond to the FTAs at all. These did not possess stronger FSFs than the others, although firms with strong internal strengths generally tended to adjust less than those with weaknesses. Instead, they adjusted in ways designed to maintain or increase their market shares in Thailand.

A third question is why the companies responded as they did. Evidence from this study demonstrated that the main benefits of FTAs, specifically trade facilitation through tariff reductions, did drive firms to respond. Other benefits were regarded as being of secondary importance. A majority of case firms made adjustments in order to exploit tariff advantages through their implementation of export and international purchasing strategies. These lead to higher foreign sales and lower input costs, which, in turn, contributed to the ultimate goals of profit, revenue and growth in foreign markets (foreign market performance). Yet, Thai MNEs in Category three chose to put their effort into domestic markets rather than foreign markets, while simply employing existing strategies, capabilities and resources to maintain their existing presence in foreign markets. Obviously, these firms’ goals differed from the others in that they wanted to achieve a sustainable domestic market performance.

6.8 Implications for governments

Bilateral FTAs reflect an important trade strategy of the Thai government. However, the established FTAs are not flawless. The analysis of findings from this research has policy implications for governments.
implications. These are related to content, priority countries, NTBs and other trade-related policies.

6.8.1 Content of bilateral FTAs

Some products are not covered under current agreements. For instance, rice is excluded from the bilateral FTA between Thailand and Japan (JTEPA), and quotas remain on some seafood and pineapple products exported to Australia and New Zealand. The existence of these restrictions reflects the imperfection and complexity involved in the negotiation and implementation of bilateral trade agreements. In practice, each country protects its own sensitive sectors—such as the agricultural sector in Japan—in order to minimise the impact on often powerful interest groups. In addition, negotiation tactics protect domestic industries from the possible negative impact of FTAs. For example:

“Australia has special safeguards for canned tuna and canned pineapple in the form of quotas ... It is a tactic of negotiation. We do the same thing on Australian products, such as dairy and beef.” (Senior executive, Thai Chamber of Commerce, May 2007)

This study suggests that the precise content of bilateral trade deals is commercially very significant. There are several complaints from the private sector in this regard:

“Negotiation at government level is crucial and if Thailand cannot get a good deal, there is no need to hastily sign an unsatisfactory free trade agreement. The Thai government has to consider carefully, with detailed information at hand, before signing an agreement, because the impact lasts in the long term.” (Senior Vice President, Company F, June 2007)

After FTAs become effective, there are supplementary meetings at which the Thai government can raise issues for further negotiation. For example, even though JTEPA does not include rice and sugar products, there are many other food products that Thailand is able to export and can negotiate further with Japan.

One proposal is that the Thai government should build up a detailed database prior to any future trade negotiation, since some content issues seem to be caused by inadequate information. This information may relate to product features, scientific information, or other bilateral FTAs between partner countries and competing countries. Such attention to detail

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88 These examples were reported by executives of firms in categories one and two: increasing international-focus MNEs and refocusing MNEs.
could help improve the content of the FTAs. An interview with a senior executive of the Thai Chamber of Commerce revealed the following:

“The Thai government should have detailed information on both our side and partner countries. It is necessary to know which countries our partners have, or will have, FTAs with. These will help us to know our competitors in foreign markets and their trade deals. But we do not have this information. We just know that, for example, Australia has a bilateral FTA with Singapore. We need in-depth knowledge so that we can compare.” (Senior executive, Thai Chamber of Commerce, May 2007)

6.8.2 Priority partner countries

Priority among potential partner countries was another concern of Thai firms. While only a few from category one (increasing international-focus MNEs) and category three (continuing domestic-focus MNEs) complained about the issue, many from all categories indicated their preference among potential partner countries. Two voiced the opinion that the existing selection lacked priority, and included some non-strategic or minor trading partners, such as Bahrain. The executives stated that it was Dubai, not Bahrain, which would be a significant door opening to the Middle East. In addition, they did not think that Thailand would get much benefit from a bilateral trade agreement with Peru. They did not understand why Thailand chose Peru as a priority in the first place. An interview with a senior executive of the Thai Department of Trade Negotiation revealed the opportunistic nature of partner country selection:

“Firstly, Australia and New Zealand were interested in us and expressed their interests to have bilateral trade agreements with us. They approached us first … Australia was the first country. We also thought that these countries were not too big for us to start with. In addition, these countries have potential for trade expansion and deeper partnership relations.” (Senior Executive, Thai Department of Trade Negotiation, May 2007)

This study also identified strategic foreign countries for future bilateral trade negotiations. Analysis of the impact of existing FTAs on the internationalisation of Thai MNEs revealed that the benefits to firms in the food industry so far were modest. This was shown by the firms’ preferred prospective partners for bilateral FTAs with Thailand. These were countries with large markets, like the EU, China, India, USA and Russia. Three case firms identified the EU as their first preference, while two case firms opted for China and India. Two other case firms indicated that Thailand should establish bilateral FTAs with every country, but with a condition that the agreed FTAs should be based on genuine reciprocity.
All in all, size of market seemed to matter the most. The case firms in different categories either chose big countries, or regions comprising many countries, recognising that some of these imposed high import tariffs on their products. For example, the EU was identified as their preferred choice for bilateral negotiation, because some case firms could not penetrate this market at current tariff levels. These trading-partner preferences provide the Thai government with some challenges for future trade talks. It is suggested here that The Thai government should consult more with the private sector on this matter.

6.8.3 Slow progress in trade facilitation mechanism with regard to NTBs

From the perspective of the case firms in all categories, current NTB facilitation mechanisms did not seem very effective. NTBs were a major concern of Thai MNEs in the food sector. A few Thai case firms, especially those with a domestic-focus MNEs (category three) were not aware of the facilitator role of bilateral FTAs with regard to NTBs at all. While most firms were aware, they did not expect any positive gains in the short run. The usual joint committees dealing with such issues seemed to make only slow progress:

“We hope that the joint SPS committee will help solve the issue. Even with the TAFTA, we cannot export some of our chicken and shrimp products ... Just recently, after signing TAFTA, Australia announced the interim measure on risk assessment of shrimp products. These are new rules and regulations ... We ask why Australia did this after having an FTA with us ... It has the right to do so, because SPS is under WTO. The Australian SPS measures are applied to every country, but we are greatly affected because we export a lot of these products.” (Manager of Trade Rules and Regulations Office, Company F, May 2007)

Positive benefits from tariff reductions as a result of bilateral FTAs could be easily offset by rising NTBs, like environmental and quarantine rules and regulations. The negative impact seemed severe to firms lacking experience in international markets. Negotiation could only take place at the government-to-government level. It was recommended by some case firms that full information should be acquired from relevant organisations in the private sector prior to negotiation. Without appropriate data at hand, it is hard to get practical results. These data should include scientific data, as well as detailed features of each product and the production processes involved. It follows that the Thai government should take time to acquire the most up-to-date scientific and other relevant information. This might accelerate the process, as well as yield better results.
At the same time, the private sector should fully cooperate with the public sector by supplying detailed information for future negotiations on NTBs. Most of the case firms in this study were willing to provide it and be involved in the process through both the Thai Chamber of Commerce and the Federation of Thai Industries. However, the latter judged that feedback received from the food sector as a whole was neither adequate nor satisfactory:

“The Federation of Thai Industries asked for feedback from its members every three months. Members in the food industry want the public sector to solve NTB issues urgently ... But information that we received from the members was very little ... We want to evaluate the effect of FTAs, but they answer broadly.” (Senior Executive, the Federation of Thai Industries, May 2007)

Partner countries’ cooperation in reducing NTBs is crucial. This is best illustrated by the case of Australian quarantine rules. Findings from this research confirmed that some food products could be exported to the USA, Europe, Japan and elsewhere, but they could not enter the Australian market. For example:

“We are fighting with Australia. We have problems regarding sanitary issues. We have to cook our products at extremely high temperatures. The products will lose their texture and taste. It is not doable. We are also facing the same problems with New Zealand in the case of our fish branded products, for example, sweet-and-sour fish. Their requirements are not practical. We can send the same products to the USA, Europe and Japan without any problem.” (Senior Vice President, Company F, June 2007)

While some existing SPS rules and regulations may not be eliminated due to food safety reasons, it would be good if the Thai government could coordinate with member countries and inform the private sector of any new barriers. An effective early warning system on NTBs was recommended by some case firms from categories one (increasing international-focus MNEs) and two (refocusing MNEs).

Meanwhile, Thai firms in all categories have to focus on improving product standards. This includes purchasing high quality raw materials, and employing good traceability systems. Knowledge-sharing and cooperation along the value chain of the food industry is highly encouraged. There may also be some role for government in supporting the private sector’s quality development effort through provision of agricultural education and development grants to firms that are developing new technology or innovative products. Additionally, stricter standards and testing can be encouraged.
6.8.4 Trade-related policies

Information-sharing and export promotion policy were judged helpful by Thai MNEs from all categories. These efforts should continue and could be expanded. For instance, in support of its FTA development, the Thai government—through the Ministry of Commerce—already sponsors publicity programs and seminars across the country, but these could be increased in both intensity and focus:

“It is important to educate Thai firms about the benefits/significance of the FTAs and how to take advantage of the agreements. This helps increase awareness among Thai exporters and shipping companies.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

As argued in Chapter 5, many of the Thai case firms were currently satisfied with government liaison with regard to FTAs. A majority indicated that the frequency of seminars and dissemination of information on FTAs, as well as other export promotion activities, through trade fairs and exhibitions were appropriate and helpful. These firms paid close attention to FTAs. There were a rising number of enquirers directed to Thai government agencies in Thailand and overseas. Interest in international expansion was high in many firms, both Thai (SMEs and MNEs) and others from trading partner countries:

“There are differences in doing business here after TAFTA. These differences are illustrated by the increasing numbers of inquirers that are Australian importers and Thai exporters. In 2005, the numbers of inquiries increased approximately 70 per cent. Businesses are increasingly interested in Australian and New Zealand markets. Bilateral FTAs encourage businesses to consider the usage of the agreements in a productive way. In other words, firms have started to take them into consideration as likely useful tools for doing business in this region. They have started to think that they should take advantage of the agreements.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

Interviewees highlighted the increased internationalisation activities of Thai firms in the food industry after TAFTA came into force. This indicated the effectiveness of existing export promotion policy in Thailand:

“Since 2005, there have been quite a large number of inquiries from firms/businessmen in the food industry. The industry is considered to be a high potential industry for Thailand. In addition, there were 34 Thai food exporters participating in food exhibitions in Australia over the year (2006).” (Director, Thai Trade Centre, Sydney, Australia, November 2006)
Export promotion and information dissemination are directly related to Thai firms’ international expansion and capability development. They provide Thai firms with the leverage to succeed in their internationalisation endeavours. Government should take this into consideration and expand these activities. Particularly valuable could be (increased) provision of training, or subsidies for short-course programmes in logistics management, foreign languages used by the people of partner countries, and trade database applications. These would all enhance the human resources of firms in the food industry.

6.9 Proposed theoretical framework
This section proposes a theoretical framework for the analysis of the bilateral FTAs’ influence on firms’ internationalisation. The framework is developed from the existing literature, which is used as its foundation. The framework proposed here also reflects the empirical findings of this research. It is encapsulated in Figure 6.4, which illustrates the relationship between the country-specific factors (with FTAs as a focus) and firm-specific factors for firms’ foreign market performance. While FSFs are directly related to performance, CSFs are not. Instead, CSFs indirectly impact on the internationalisation outcomes through prompting adjustments to FSFs. Parallel relationships may also exist for other CSFs, such as export promotion policy and provision of incentives for international investment.

This conceptual framework is useful in a number of ways. Firstly, it helps in analysing how the FTAs affect developing-country MNEs’ international expansion. It extends previous work in this field to include the impact of FTAs on the dynamics of the firms’ internationalisation strategies, capabilities and resources. As Thailand has become more open in terms of trade and investment, Thai firms have responded to this evolving free trade environment by paying closer attention to, and enhancing, their internal capabilities and resources.

Secondly, the framework helps to explain why firms respond to bilateral FTAs. Firms wanted to materialise the potential benefits. This could be achieved through changes in the firm-specific factors discussed earlier. These internal adjustments, such as developing new networks and increasing efficiency in production, if successfully achieved, could lead to higher foreign sales revenue, profit and growth (foreign market performance). Findings from this study revealed that most case firms believed their responses would increase financial returns in the mid-term.

89 See Chapter 3.
Thirdly, the developed framework contributes to our theoretical understanding. The findings suggest a concept of firm internationalisation strategy that covers international purchasing and investment, as well as the conventional market dimensions of product export and marketing. As shown in Figure 6.4, bilateral FTAs impacted on the firms’ general internationalisation strategies, and thereby led to modification of their more specific international market activities. Firms’ market focus is an explicit part of this framework. The developed framework integrates several specific factors internal to the firm. Individual examination of these factors enhances our understanding of the firms’ responses to the opportunities created by the FTAs. Their implication for theory is discussed in Sections 6.9.1 and 6.9.2 below.
Figure 6.4 Proposed theoretical framework for analysing the influence of bilateral FTAs on firms’ internationalisation
6.9.1 Theoretical implications: similarities to mainstream research

This research found that the Thai case firms in all three categories welcomed FTAs between Thailand and its partner countries: namely, Australia, New Zealand and Japan. Most wanted to take advantage of the tariff reductions, as well as benefit from better access to markets in these countries. Each case firm had its own preferences among partner countries, reflecting the companies’ products and market shares in particular foreign markets. These findings in the context of Thai firms are consistent with those of developed-country firms. Rugman and Verbeke (1991: 70) found that most Canadian and US MNEs expressed support for the Canada–US FTA. This is not surprising, since the senior executives of Canadian and US firms expected favourable outcomes in the other market, as well as greater efficiency in trade, production and investment (Tu & Wright 1992: 93).

This study partially supports the findings of Rugman and Verbeke (1990: 54–57) and of Buckley et al. (2001: 269). The Thai firms, especially those with increasing international-focus, behaved in the same way as developed-country firms by trying to achieve cost competitiveness through economies of scale and rationalisation. Some case firms adjusted their production capabilities; others increased their production capacity.\(^{90}\) This was done to accommodate new value-adding activities abroad, such as the development of new networks and generation of new foreign sales. The FTAs provided a catalyst for these changes. Thai MNEs adapted their capabilities to exploit the new business opportunities. The literature based on developed-country firms is applicable to developing-country firms to this extent. Firms from both developed and developing countries share similarities in focusing on enhancement of production efficiency and achieving economies of scale.

As discussed in Section 6.7, both the expected benefits of FTAs and internal organisational factors determined how Thai firms adjusted. Firstly, this research found that the greater the expected benefits of an FTA, the more likely that firms would pay close attention to them and adjust accordingly. Other research has identified 16 possible expectations, including: volume increase caused by a larger combined market; new markets created by lower product prices; greater competition; and lower production costs (Tu & Wright 1992: 91). These perceived effects of FTAs probably brought about strategic adjustments within firms. Another factor that affected firm responses to the FTAs was their internal strengths and weaknesses.

\(^{90}\) Some specific observations about this are made in Sections 5.7.1 and 5.7.2.
Empirical evidence of this study confirmed that those firms with weak competitive strength recognised that they had to improve themselves in order to capitalise better from the benefits of FTAs. Different combinations of these competitive factors (each with varied strength, or comprising many individual FSFs with varied strength) yielded different firm-specific advantages (Barney 1991; Peteraf 1993; Prahalad & Hamel 1990; Kay 1993; Sanchez & Heene 1997). These, in turn, affected firms’ responses to FTAs. The case of Thai firms provides additional empirical evidence in the developing-country context.

6.9.2 Theoretical implications: dissimilarities to mainstream research
This study demonstrated that FTAs also exerted a positive influence on inward internationalisation activities. These findings are additional to past research, which has largely focused on outward internationalisation activities (Porter 1986; Yip 1989, 1995 & 2003; Buckley & Ghauri 2004). While export and international investment strategies helped firms to achieve targeted foreign sales and revenues, it was international purchasing strategies that helped to minimise the cost of some inputs. This was not always obvious because Thai food processors in all categories mostly utilised local inputs for their production. By doing so, they complied with the FTA rules of origin. At the same time, the expanded market opportunities created by FTAs caused some case firms to augment their supply of raw materials through increased imports. In a nutshell, the FTAs brought about an expansion of firms’ international procurement. The inclusion of FTA impact on international purchasing activities provides a more complete picture of FTA influence.

Interestingly, the Thai case firms from different categories in this research did not change their foreign market priorities as such, or undertake new foreign market investment. The major and minor export markets of these firms remained the same. Instead, they made adjustments to their international market strategies. The driving role of the FTAs was shown by the fact that Thai MNEs began lowering prices, stepping up sales efforts, developing new products, and building new business networks, as well as communicating more with foreign customers from countries party to the agreements. This contrasts with earlier research on developed-country firms, which revealed that these firms changed their international investment strategies by adjusting the priority of destination countries for their international expansion. They gave new priority to foreign countries party to FTAs, and increased levels of

91 Except for Company E from category one (increasing international-focus MNEs) and all firms in category three (continuing domestic-focus MNEs). See Sections 6.6 and 6.7 for detailed discussions.
92 Some specific observations about this are made in Sections 5.6.1, 5.6.2, 5.6.3, 5.6.4 and 5.6.5.
international investment in those countries (Rugman & Verbeke 1991: 69). Buckley et al. (2001: 261) postulated that developed-country firms adjusted their intra-NAFTA foreign investment as a direct consequence of that bloc coming into existence. This study qualifies previous research, in the context of developing-country MNEs, by shifting emphasis from foreign investment to in-house capabilities.

Another difference between Thai firms and developed-country firms that emerged in this research lays in the adjustments Thai firms from category one (increasing international-focus MNEs) made to their capabilities and resources. They adjusted a greater number of their internal capabilities and resources than developed-country firms. This study found that Thai firms responded distinctively by acquiring new information, enhancing efficiency in production, increasing production capacity, developing the ability to analyse foreign markets, and the ability to coordinate and integrate activities.93 Developed-country firms, in contrast, focused mainly on achieving economies of scale (Rugman & Verbeke 1990: 54–57) and improving cost competitiveness (Buckley et al. 2001: 261–269). Differences in the total number of factors subject to internal adjustment raises the importance of scrutinising firm-specific factors when comparing firms from different countries of origin (either developed or developing countries). As discussed in Section 6.5.1, it could be that firms from developed countries generally have better capabilities and resources, enabling them to capitalise on FTAs with partner countries with less internal adjustment. Another explanation could be that the size of developed-country firms is, on average, larger than developing-country firms. Since firm size can be closely related to internal company strengths, large developed-country firms possessing strong capabilities may not need to make major internal adjustments. This possibility is supported by Rugman and Verbeke (1991: 70–71), who found that large US and Canadian MNEs had better abilities to achieve economies of scale and other competitive advantages than smaller firms. This research indicates that developing-country firms still have to concentrate, primarily, on capability building and resource acquisition.

The research also identified another factor affecting the responsiveness of Thai MNEs to bilateral FTAs—market orientation. Not surprisingly, MNEs that were increasing their international activities (category one) were most responsive to FTAs. In contrast, MNEs with a primary focus on their domestic market (category three) were not FTA-responsive, despite the fact that their products were entitled to tariff reductions. This sheds light on the

93 Some specific observations about this are made in Sections 5.7.3, 5.7.4 and 5.8.1.
significance of market focus to their responses. Clearly, individual categories of MNEs respond to FTAs distinctively. However, the research showed that market orientation alone was not adequate to predict firms’ responses, which were also conditioned by expected benefits of FTAs and strength of FSFs. Both intensively-internationalised and inexperienced MNEs (with an increasing international market focus-category one) had to overcome their internal weaknesses prior to full exploitation of FTA benefits. Thus, to explore the differences in responses, potential benefits of FTAs, internal company strengths and market focus should be taken into account. Together, they help to address questions on whether, how and why developing-country firms react to FTAs.

6.10 Summary

Internationalisation and strategic management theories based on developed-country MNEs do not fully explain the internationalisation of MNEs from developing countries. Further, much early research on internationalisation of developing-country MNEs emphasises the influence of country-specific factors. Recent research is shedding more light on firm-specific factors. This research adds to the existing literature by comparing the two factors. It is argued here that it is firm-specific advantages, not country-specific ones, which play the more important role. However, the role of country-specific advantages retains an underlying force; albeit of secondary importance.

Government trade policy does have implications for the future growth of developing-economy firms. So far, Thailand has established bilateral FTAs with Australia, New Zealand and Japan. The empirical findings of this research highlight the fact that these FTAs act as both a facilitator and a driver of firms’ international expansion. They facilitate the implementation of firms’ internationalisation strategies, aiding export, international purchasing and, in theory, investment. Less obviously, they also help to encourage firms to achieve higher levels of competitive advantage. The firms in this study responded to FTAs by developing specific capabilities that would last in the long run. They enhanced their organisational and competitive capabilities. It was these internal responses that proved of more lasting benefit; not least because they could be continuously enhanced. The benefits of country-specific factors like bilateral FTAs are real but do not improve through time.

Thai MNEs have adapted their international market strategies, enhanced their internal capabilities, and supplemented their resources. The greatest response came from firms that
were already increasing their international focus. One of those from the seafood industry obtained instant benefit from tariff reductions on its products. This quickly changed that firm’s internationalisation strategies, impacting on its capability and resource development simultaneously. Less–experienced, but internationally–oriented, firms also strengthened their competitive capabilities.

The theoretical framework developed as a result of this study integrates the findings from this research with earlier research on developing-country MNEs’ internationalisation. It also includes the impact of government trade policy on firms’ internal adjustments. This enhanced framework provides us with a more detailed understanding of this area of study. It offers a holistic approach based on a schematic template of how and why firms internationalise under the stimulus of bilateral free-trade agreements. Conclusions and limitations of this research are addressed in the following chapter (Chapter 7).
CHAPTER 7
CONCLUSIONS

7.1 Introduction
This chapter presents the conclusions of this research. It recalls the research questions and theoretical propositions. The contributions of the study are summarised. Specifically, these are implications for firms, government as well as a contribution to existing theory. As ever, there are also limitations. Finally, recommendations are provided, which may prove useful for further research in this area.

7.2 Conclusions regarding research questions and theoretical propositions
Thai firms’ internationalisation success is contingent on CSFs and FSFs. Both affect their costs and operations, but the former are of gradually diminishing importance. As a matter of fact, Thailand is steadily losing its comparative advantage in cheap natural resources (ranked first in its importance as an internationalisation CSF) and labour (ranked second). Today’s Thailand is, therefore, utilising government trade policy (ranked third) through its export promotion programme and bilateral FTAs to reduce the negative effect of increasing costs of production. However, the benefits of these initiatives may only be high in the short term, and may well diminish with time as other countries pursue such trade policy themselves. A dynamic competitive advantage in the internationalisation of firms then comes into play and increasingly becomes more and more significant than CSFs. This dynamic is internal to the firm. Thai case firms in this study developed enhanced competitive strengths such as production efficiency (ranked first) and human resources (ranked second), since they recognised that firm-specific factors are more sustainable in the longer run than country-specific factors.

The main objective of this research was to analyse the impact of three bilateral FTAs on Thai firms, namely free trade agreements between Thailand and Australia, New Zealand and Japan. These agreements reflected a major Thai government attempt to support the internationalisation of Thai firms, including those in the food industry. The implementation of this trade facilitation strategy between Thailand and partner countries positively impacted on Thai firms. The FTAs were welcomed by case firms as a good source of new trade opportunities. All participating case firms judged that FTAs help to expedite trade in goods through a reduction of tariffs on tradeable products. They helped to widen markets for Thai processed food products and helped Thai MNEs to expand internationally in countries party
to the agreements. Most case firms included in this research became more internationalised under this freer trade environment. The FTAs encouraged both outward and inward internationalisation. While outward internationalisation was most important to the case firms, inward internationalisation, related to purchasing strategies, was also relevant to some.

The empirical findings confirm that FTAs directly influenced Thai firms internally. Firms made modifications and adjustments to their strategies, capabilities and resources in response to them. The FTAs provided those firms with competitive advantage over competitors whose governments had not yet liberalised their trade regime. Even so, the case firms judged that they needed to adjust their international market strategies, enhance their efficiency in production, and increase their production capacity. Some case firms developed completely new capabilities to support their internationalisation. These new capabilities included improved ability to analyse foreign markets and increased ability to coordinate and integrate their activities across borders. A few case firms also tried to obtain new information on foreign markets and trade policy. Without these adjustments, Thai firms would have remained unable to reap benefits to the full extent. In other words, the realisation of opportunities offered by the FTAs was closely linked to firm foreign market performance and growth, through higher levels of international activity. Table 7.1 summarises the status of the research questions and theoretical propositions.

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94 See Chapter 5.
<table>
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<tr>
<th>Research Question</th>
<th>Proposition</th>
<th>Status</th>
<th>Description of Results</th>
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| **Question 1:** Are country-specific factors (CSFs) more important than firm-specific factors (FSFs) in internationalisation? Do firms rank government trade policy high among CSFs? | **Proposition I** | Rejected | FSFs are more important than CSFs in influencing Thai MNEs’ internationalisation.  
- Top three FSFs are production efficiency (1st), human resources (2nd), ability to produce high quality products (3rd), ability to analyse foreign markets (3rd), and networking capabilities (3rd).  
- Top three CSFs are natural resources (1st), labour (2nd) and government trade policy (3rd). |
| **Question 2:** How, if at all, do bilateral FTAs influence Thai MNEs’ internationalisation? | **Proposition II** | Accepted | Bilateral FTAs facilitate the implementation of internationalisation strategies of Thai MNEs.  
- Outward internationalisation strategies are export and international investment strategies resulting in higher exports and potential increased foreign investment.  
- Inward internationalisation strategies are international purchasing strategies resulting in higher imports. |
| **Question 3:** How, if at all, do Thai MNEs respond to bilateral FTAs? Why?       | **Proposition III** | Accepted | Bilateral FTAs contribute to Thai MNEs’ internal adjustments in internationalisation strategies.  
- International market strategies involve adjusting products and prices, developing new networks, communicating more with customers, and stepping up sales efforts.  
- They respond to FTAs in order to achieve higher foreign market performance. |
<table>
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<tr>
<th>Research Question</th>
<th>Proposition</th>
<th>Status</th>
<th>Description of Results</th>
</tr>
</thead>
</table>
| **Question 3:** How, if at all, do Thai MNEs respond to bilateral FTAs? Why?     | Proposition IV | Accepted | Bilateral FTAs contribute to Thai MNEs’ internal adjustments in internationalisation capabilities.  
- These involve enhancing production efficiency, increasing production capacity, developing ability to analyse foreign markets, and developing ability to coordinate and integrate activities.  
- They respond to FTAs in order to achieve higher foreign market performance. |
| **Question 3:** How, if at all, do Thai MNEs respond to bilateral FTAs? Why?     | Proposition V  | Accepted | Bilateral FTAs contribute to Thai MNEs’ internal adjustments in internationalisation resources.  
- These involve acquiring additional informational resources.  
- They respond to FTAs in order to achieve higher foreign market performance. |
7.3 Contributions of the study

First, the study cast new light on the comparative impact of CSFs and FSFs in internationalisation. The findings of this study added empirical evidence to the theories of internationalisation of Asian MNEs. Notably, none of the case firms judged CSFs as more important than FSFs. In addition, Thai MNEs improved their internal strengths and put greater emphasis on building new capabilities and resources. This challenged the idea that Asian MNEs relied heavily on CSFs and did not possess many FSFs. Besides providing a direct comparison of aggregate CSFs versus FSFs, individual internationalisation factors (both internal firm-specific and external country-specific factors) were also identified, ranked and prioritised according to their value and importance to Thai MNEs. These findings contribute to existing knowledge. Firms may use the findings of this research as a guideline for further development of their internal capabilities, whereas governments may be able to identify key areas for the provision of support to firms.

Second, not all the findings on the impact of bilateral FTAs on developing-country MNEs coincided with the extant literature, which is predominantly based on developed-country MNEs. The findings from this study yielded evidence which may be said to have modified existing theory. The main change was the addition of international purchasing strategies as an activity directly influenced by the FTAs. Other responses—including individual elements of internationalisation strategies, capabilities and resources—were identified, which differ from those emphasised in the existing literature. Most Thai firms in this study are similar to Mexican firms and other Asian developing-country firms in that not all possess the strengths necessary to be internationally competitive. Case firms find it better to adjust their FSFs to capitalise on the favourable results of trade policy. In contrast developed-country firms, strategically and immediately, raise both export and investment in member countries party to FTAs with minimal internal adjustment. The difference illustrates uneven development between firms from developed and developing countries.

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95 These were discussed throughout Chapter 6.
96 See Figure 6.4 of Chapter 6.
97 Such as developing new networks and products as well as adjusting prices.
98 Such as developing abilities to coordinate and integrate activities and developing abilities to analyse foreign markets.
99 Such as acquiring new information on foreign markets and trade policy.
Third, this study identified competitive strength as a main factor affecting the magnitude of internal adjustment by firms. The empirical evidence from this study reveals that the most responsive firms were those which want to grow internationally but recognize that they have competitive weaknesses. These internal weaknesses obstruct the full realisation of potential benefits from tariff reductions. Since these firms are not yet capable of deploying strong competitive advantages, they tend to make more serious adjustment than others. These responses naturally reflect the value of the expected benefit to the firms. The firms adjusted in a variety of ways to raise their foreign market performance after FTAs became effective. This provides some useful insight into firms’ behaviour in an increasingly free trade environment. In particular, several of these Thai MNEs quickly responded by realigning their product mix more closely with the categories of product gaining enhanced tariff preference.

Fourth, this study highlighted linkages between government trade policy and business operations. The proposed framework includes the effects of FTAs on the internal dynamics of the firms. As illustrated in this framework, governments have a role to play in creating favourable CSFs (as represented by bilateral FTAs), which, in turn, impact upon internal FSFs. It is argued in this research that government trade policy has a direct effect on firms’ behaviour and an indirect effect on firms’ performance. Thus, the Thai government might consider the empirical evidence of this research in a number of ways:

1) Paying closer attention to both speed and content of bilateral FTAs when negotiating with foreign countries. Good balance between the two is encouraged. In the case of Thai experience, content becomes an important issue when major export products are excluded from negotiations or suffer non-tariff restrictions by partner countries. This can be partially resolved through seeking more information on, for example, specific product details and scientific data on production as well as traceability processes from relevant institutions;

2) Setting priorities among potential partner countries. Thai MNEs hold definite views about the most desirable partner countries, especially large and populous countries or regions;

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100 See Section 6.7 for detailed analysis.
101 See Figure 6.4 of Chapter 6.
102 Detailed discussions are in Section 6.8 of Chapter 6.
103 Such as EU, China, India, USA and Russia.
3) Improving and speeding up the trade facilitation process with regard to NTBs by acquiring and making effective use of relevant data through higher involvement with the private sector; and,

4) Continuing, reinforcing and augmenting effective export promotion programs and dissemination of information related to exports and FTAs.  

This research suggests that if the Thai government followed some of these recommendations, it would contribute positively to further development of its bilateral trade policy.

Fifth, this study may be useful in helping firms from other Asian developing countries better adjust to bilateral FTAs by learning from the Thai experience. Even though a number of free trade agreements are already in place, their impact will remain minimal if firms fail to take advantage of them. Porter (1986) posited that international businesses faced with increasing challenges—such as globalisation, intense international competition, and higher integration among countries—need to adjust their internationalisation strategies in response to these changes in the business environment. In addition, the literature reviewed in Chapter 3 suggests that successful developed-country MNEs take FTAs into serious consideration and make strategic adjustments accordingly. Thus, it is also sensible for Asian MNEs to regard such agreements as important globalisation drivers. In most cases, MNEs have had to make adjustments to match changes in trade regimes. As demonstrated by the empirical evidence and analysis of this research, these adjustments involve strengthening current capabilities and building new ones.

7.4 Limitations of the study

First, this study is limited to locally based MNEs in Thailand’s food industry. This study focuses on only one globalisation driver in order to provide a deeper analysis of the role of government trade rules and regulations in the internationalisation of developing-country MNEs. The developed framework of this study arose directly from the findings of this research. This framework may be replicated and tested against other firms in different industries or countries. It has not yet been tested for its applicability to a wider universe. Consequently, the findings and framework from this research may not, at this stage, be generalised to other firms, industries or countries. Implications for other firms, industries and countries may or may not be consistent

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104 For example, the provision of subsidies to trade-related short courses, as well as the dissemination of detailed information on FTAs to firms.
with the findings of this study. Additionally, different countries have different country-specific factors. One of these is government policies.

Second, this study only explores the short-term influence of TAFTA, TNZCEP and JTEPA on Thai MNEs’ international expansion. This precludes forecast of mid- and long-term results. Given the fact that these FTAs are still at early stages of development and implementation, their full impact on firms may not yet be recognised or realised. Firms may make additional adjustments in response to these FTAs in the future. For example, it was not possible to judge the full influence of JTEPA, which only came into force in November 2007 (the same year as data collection for this research was carried out). This limitation is reinforced by the following statement:

“The two bilateral FTAs (TAFTA and TNZCEP) are useful for Thailand’s exports. It could be said that the FTAs help accelerate Thai exports, as clearly shown by export growth rates, which have been growing beyond normal/average rates. Increases in exports at these rates are not normal. However, it is interesting and appropriate to look at long-term figures (three to five years) and see how they will be. All in all, I believe that the expected impacts of the bilateral FTAs have somehow been realised.” (Director, Thai Trade Centre, Sydney, Australia, November 2006)

Arguably, mid- to long-term performance outcomes at both firm and country levels would be very informative. Specifically, the addition of quantitative estimates would add precision to the influence of FTAs on firms’ performance. They would help to quantify the developed constructs. Studies on mid- to long-term adjustments of firms would also test the applicability and validity of the developed framework across different time periods.

Third, many questions included in this study’s interviews and questionnaires were related to firms’ strategic decisions and responses. Senior executives may not have revealed all aspects of their respective strategic changes in response to FTAs. One reason may be fear of possible imitation of internal adjustments by their local competitors. Indeed, some respondents specifically asked about confidentiality and about which other firms were included in the study. In addition, respondents in this research were asked to provide comments on the Thai government’s trade policy. Again, some informants may not have been willing to provide true and honest critical opinions. Understandably, they may want to maintain good relationships with government authorities. This may be related to Thai culture, which allows only restrained
criticism of government and national policy. However, most respondents provided useful suggestions as well as specifying government policies that they supported.

### 7.5 Recommendations for future research

There are a number of recommendations for future research. Many questions remain unanswered. These involve exploration of the following issues:

1. FTAs and firm performance: Do FTA-responsive firms outperform non-responsive firms? Do firms with increasing international focus achieve higher foreign market performance than others? Do refocusing firms, and those with primarily domestic market focus, achieve lower foreign market performance than the others? Which strategic responses to FTAs yield the highest performance? Which combinations of internal adjustments in response to FTAs yield the highest performance? What are the best ways to measure the impact of FTAs on firms’ financial performance and, at the same time, separate them from the impact of other factors?

2. Follow-up research on future adjustments: How do Thai MNEs perform in the mid- to long term after the establishment of FTAs? Will there be additional adjustments in response to FTAs? What capability building do Thai firms need for the full exploitation of investment and service facilitation of FTAs?

3. Government trade policy: How to improve the effectiveness of trade negotiations? How to improve coordination between the government sector and the private sector? What is the role of business firms, especially small and medium enterprises (SMEs), in trade information-sharing processes? What other government policies complement FTAs?

4. Modification of developed theoretical framework: Is the developed framework of this study applicable to other firms (e.g. SMEs), industries and countries? If so, to what extent? What other constructs might be included in the framework to use it more widely? What constructs should be omitted from the framework in order to use the framework more widely? Is the framework equally applicable to FTAs between Thailand and other trading partners?

These issues are beyond the scope of the present research. These gaps call for a greater effort to explore the internal dynamics of firms’ internationalisation behaviour under changing
globalisation drivers. In addition, the role of each government policy in the internationalisation of developing-country MNEs is worth exploring further.

7.6 Summary
This research explored the impact of recent bilateral free-trade agreements (FTAs), which are one of Thailand’s key trade and investment policies. It provides additional evidence in an area of study that still lacks much firm-level analysis. The implications for firms, government and theory were identified and discussed. This research adds richness to existing work. The findings and proposed framework may be of use to public and private sectors. Further work would test the applicability and validity of the conceptual framework as well as expand knowledge in this area.
## Appendix A

Table A.1 Tariff reductions from TAFTA, TNZCEP and JTEPA

<table>
<thead>
<tr>
<th>HS</th>
<th>DESCRIPTION</th>
<th>Tariff before TAFTA (%)</th>
<th>Tariff after TAFTA (%)</th>
<th>Tariff before TNZCEP (%)</th>
<th>Tariff after TNZCEP (%)</th>
<th>Tariff before JTEPA (%)</th>
<th>Tariff after JTEPA (%)</th>
</tr>
</thead>
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<td>020712</td>
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<td>11.9</td>
<td>11.3 (2007) → 8.5 (2012)</td>
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<td>11.9</td>
<td>11.3 (2007) → 8.5 (2012)</td>
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<td>6.5</td>
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<td>0</td>
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<td>Tariff after TNZCEP (%)</td>
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<td>030339</td>
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Table A.1  Tariff reductions from TAFTA, TNZCEP and JTEPA

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<tr>
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<th>Tariff after TAFTA (%)</th>
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<th>Tariff before JTEPA (%)</th>
<th>Tariff after JTEPA (%)</th>
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<td>030624</td>
<td>CRABS, FRESH OR CHILLED, DRIED, SALTED OR IN BRINE ; CRABS, IN SHELL, COOKED BY STEAMING OR BY BOILING IN WATER</td>
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<td>0</td>
<td>4</td>
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<td>HS</td>
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<td>Tariff before TAFTA (%)</td>
<td>Tariff after TAFTA (%)</td>
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<td>12.98 yen/kg (2007)→11.88 yen/kg (2012) (specific rate)</td>
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<td>subject to negotiation (specific rate)</td>
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<td>4</td>
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<td>160210</td>
<td>HOMOGENISED PREPARATIONS OR PRESERVED MEAT, MEAT OFFAL OR BLOOD</td>
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<td>21.30 yen/kg</td>
<td>20.6 (2007)→17 (2012)</td>
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<td>6.5</td>
<td>0</td>
<td>21.30 yen/kg</td>
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Table A.1  Tariff reductions from TAFTA, TNZCEP and JTEPA
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<thead>
<tr>
<th>HS</th>
<th>DESCRIPTION</th>
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<th>Tariff after TNZCEP (%)</th>
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<td>0</td>
<td>6.5</td>
<td>0</td>
<td>6</td>
<td>5 (2007)→0 (1012)</td>
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<td>160249</td>
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<td>6.5</td>
<td>0</td>
<td>10</td>
<td>5.6 (2007)→0 (2014)</td>
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<td>160300</td>
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<td>0</td>
<td>12</td>
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Table A.1  Tariff reductions from TAFTA, TNZCEP and JTEPA

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<td>Tariff before T% ZCEP (%)</td>
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Table A.1  Tariff reductions from TAFTA, TNZCEP and JTEPA

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Table A.1  Tariff reductions from TAFTA, TNZCEP and JTEPA

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Table A.1  Tariff reductions from TAFTA, TNZCEP and JTEPA

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### Table A.1 Tariff reductions from TAFTA, TNZCEP and JTEPA

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36 yen/kg

subject to negotiation

subject to negotiation

Notes: There are a number of goods sharing the same first six-digit HS codes. For simplicity and ease of comparison only selected tariff reductions of goods are shown here. Each country can "introduce national distinctions for tariffs and many other purposes" for further subdivision beyond the six-digit level (World Trade Organization, www.wto.org and The World Customs Organization, www.wcoomd.org). By comparison, tariff schedule of Japan comprises more product categories than those of Australia and New Zealand.

Source: Compilation from the Thai Department of Trade Negotiation, Thai Ministry of Commerce (www.thaifta.com), Thai Ministry of Foreign Affairs (www.mfa.go.th/jtepa) and Japanese Department of Customs (www.customs.go.jp)
Appendix B

Case study guided interview questions

B.1 International Expansion
- What is the firm’s policy on international expansion?
- How has your company internationalised? And Why?
- Are there any challenges/obstacles in international expansion (both exports and foreign investment) in general and in particular into Australia, New Zealand and Japan?
- What are major factors involved in internationalisation of your company? (Any country specific factors? e.g. input costs and government policy and Any firm specific factors? e.g. strategies, capabilities and resources)
- What is the relative importance of firm and country factors?

B.1.1 Export
- What are your company’s foreign markets (major and minor)?
- Why does the company choose to expand/penetrate these markets?
- Have there been any changes in the company’s foreign market priorities over time? How have they changed? And Why?
- Have there been any changes in foreign sales over time? How and Why have they changed?

B.1.2 Investment
- Which countries does the company choose to locate its international activities in? (e.g. production, sales, distribution, research and development)
- Why does the company choose to locate your international activities in those countries?
- Have there been any changes in the company’s foreign investment in each of those countries over time? How and why have they changed?
- Have there been any changes in foreign investment (aggregate level) over time? Why?

B.2 Impacts of Bilateral FTAs on firms
- What do you think about the Thai government’s trade policy (the bilateral FTAs)?
- Do the bilateral FTAs have any implications to your company? What are these implications (if any)?
- How have the bilateral FTAs (Thailand-Australia FTA and Thailand-New Zealand CEP) affected your company’s internationalisation (export, import, foreign investment)?
- How have the bilateral FTA (Japan-Thailand EPA) affected your company’s internationalisation (export, import, foreign investment)?

B.3 Responses to bilateral FTAs
- Does your company respond to changes in trade policy like the bilateral FTAs?
- How does your company respond to the bilateral FTAs-TAFTA, TNZCEP and JTEPA? (Any changes in the company’s strategies, capabilities and resources?)
- Why does your company respond to the bilateral FTAs-TAFTA, TNZCEP and JTEPA?
5.1 Objectives of the study:

1) To provide empirical evidence of and develop a theoretical framework for the impact of government trade policy on international expansion strategies of Thai MNEs.
2) To explore and analyze how Thai firms have internationalized since the bilateral free trade agreements (TAFTA and TNZCEP)* became effective in 2005.
3) To identify and explain the main changes that firms in Thailand’s food sector respond to the bilateral FTAs (TAFTA and TNZCEP) including the newly signed JTEPA**.

Thank you very much for participation in this research. All information that you kindly provide will be treated as private and will be used for academic purposes only. You will not be identified personally, nor will your company.

* TAFTA stands for Thailand-Australia Free Trade Agreements
* TNZCEP stands for Thailand-New Zealand Closer Economic Partnership
** JTEPA stands for Japan-Thailand Economic Partnership Agreement

Please return the completed questionnaire in the envelop provided or fax to 02 677 5889

Nipawan Thirawat
PhD candidate
University of Adelaide

Informant detail:

Name: ________________________________________________________________

Position: ____________________________________________________________

Company: __________________________________________________________

Email: _____________________________________________________________
1. Which of the following firm factors are influencing the international expansion of your company? Please place an ‘X’ in appropriate columns to indicate the importance of the selected factors.

<table>
<thead>
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<th>Factor</th>
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2. Which of the following country factors of Thailand are influencing the international expansion of your company? Please place an ‘X’ in appropriate columns to indicate the importance of the selected factors.

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</table>
3. What is the relative importance of firm and country factors? Please tick one box only.

☐ Firm factors are more important than country factors in influencing international expansion of the company
☐ Country factors are more important than firm factors in influencing international expansion of the company
☐ Firm and country factors are equally important in influencing international expansion of the company
☐ Firm and country factors are NOT important in influencing international expansion of the company

4. Are you and your company aware of bilateral FTAs between Thailand and Australia?
☐ Yes  ☐ No

4a. If Yes, How much do you take the Thailand-Australia bilateral FTA into consideration when making export decisions?

Very  Very
Little  Much

1  2  3  4  5

4b. How does the bilateral FTA affect your foreign sales in Australia? Please tick one box only.

☐ No effect
☐ May affect future sales in Australia
☐ Increase sales in Australia
☐ Decrease sales in Australia

4c. How much do you take the Thailand-Australia bilateral FTA into consideration when making foreign investment decisions?

Very  Very
Little  Much

1  2  3  4  5

4d. How does the bilateral FTA affect your foreign investments in Australia? Please tick one box only.

☐ No effect
☐ May affect future foreign investments in Australia
☐ Increase in foreign investments in Australia
☐ Decrease in foreign investments in Australia

5. Are you aware of the bilateral FTA between Thailand and New Zealand?
☐ Yes  ☐ No

5a. If Yes, How much do you take the Thailand-New Zealand bilateral FTA into consideration when making export decisions?

Very  Very
Little  Much

1  2  3  4  5

5b. How does the bilateral FTA affect your foreign sales in New Zealand? Please tick one box only.

☐ No effect
☐ May affect future sales in New Zealand
☐ Increase sales in New Zealand
☐ Decrease sales in New Zealand
5c. How much do you take the Thailand-New Zealand bilateral FTA into consideration when making foreign investment decisions?

<table>
<thead>
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<th>Very</th>
<th>Very</th>
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<tbody>
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<td>5</td>
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</tbody>
</table>

5d. How does the bilateral FTA affect your foreign investments in New Zealand?

Please tick one box only.

- [ ] No effect
- [ ] May affect future foreign investments in New Zealand
- [ ] Increase in foreign investments in New Zealand
- [ ] Decrease in foreign investments in New Zealand

6. Which of the following answers best describes your international market strategy?

Please tick one box only.

- [ ] We focus primarily on the domestic Thai market and export to some countries where we see potential revenue.
- [ ] We focus equally on the domestic Thai and foreign markets.
- [ ] We focus primarily on foreign markets and export to some countries where we see potential revenue.
- [ ] We focus primarily on foreign markets and aim to export to all countries with significant share in major and strategic markets.

7. Which of the following answers best describes your foreign investment strategy?

Please tick one box only.

- [ ] We have no foreign investment strategy as we invest in and locate all business activities (e.g. production, sales and distribution, research and development) in Thailand.
- [ ] We invest in and locate all business activities (e.g. production, sales and distribution, research and development) in Thailand and in each foreign country in which we choose to operate.
- [ ] We invest in and locate some business activities in different foreign countries (e.g. research and development in England and production in Vietnam).
- [ ] We invest in and locate some business activities in different foreign countries (e.g. research and development in England and production in Vietnam) and we also have significant trade within our organizations.

8. Do the bilateral FTAs (TAFTA and TNZCEP) affect your company? Please tick one box only.

- [ ] Yes
- [ ] No

8a. If Yes, How great is the impact on your company?

<table>
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<tbody>
<tr>
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</table>

9. Are the bilateral FTAs useful to your company?

- [ ] Yes
- [ ] No
9a. If Yes, how useful?

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<thead>
<tr>
<th></th>
<th>Least</th>
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10. In response to the bilateral FTAs, your company has to …

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<td>Adjust product strategy</td>
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<tr>
<td>Enhance efficiency in production</td>
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<td>Exploit existing ability to analyze foreign</td>
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<tr>
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<td>Develop new ability to analyze foreign</td>
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<td>Exploit existing ability to coordinate and</td>
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<td>integrate activities</td>
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</table>

11. In response to the newly signed bilateral trade agreement between Thailand and Japan (Japan-Thailand Economic Partnership Agreement: JTEPA), your company has to …

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

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12. Would you like Thailand to sign bilateral FTAs with other countries?
☐ Yes  ☐ No

12a. If Yes, Which countries? Please specify:
__________________________________________________________
__________________________________________________________
__________________________________________________________
## All Nodes

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BIBLIOGRAPHY


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Press.


United Nations Publications.


