

LOCATIONAL DETERMINANTS OF FOREIGN DIRECT INVESTMENT: A CASE OF THAILAND

by

Valyasevi, Viyada

Master of Business Administration

Bachelor of Business Administration

International Graduate School of Business

Division of Business

University of South Australia

Submitted on this 29th day of October in the year 2007

for the partial requirements of the degree of

Doctor of Business Administration

UNIVERSITY OF SOUTH AUSTRALIA
LIBRARY

DOCTOR OF BUSINESS ADMINISTRATION

DISSERTATION SUBMISSION
SUPERVISOR APPROVAL DECLARATION

Candidate Name: **Valyasevi, Viyada** UniSA Candidate ID: **00100674D**

Dear Sir,

To the best of my knowledge, the dissertation contains all of the candidate's own work completed under my supervision, and is worthy of examination.

I have approved for submission the dissertation that is being submitted for examination.

Porpan Vachajitpan
.....
Signature: Principal Supervisor Date: 29th October 2007
Associate Professor Dr. Porpan Vachajitpan

Supported by:

Marguerite Kolar ..... 5/2/08 .....
Dr. Marguerite Kolar Date:
Chair, IGSM Doctoral Board of Examiners

TABLE OF CONTENTS

		Page
TABLE OF CONTENTS		i
LIST OF FIGURES		iv
LIST OF TABLES		v
ABBREVIATIONS AND SYMBOLS		vi
SUMMARY		vii
DECLARATION		ix
ACKNOWLEDGEMENTS		x
CHAPTER 1 INTRODUCTION AND RATIONALE		1
1.1	Introduction and Rationale	1
1.2	Research Objective	6
1.3	Research Question	6
1.4	Contribution of the Study	7
1.5	Organization of the Report	8
CHAPTER 2 LITERATURE REVIEW		9
2.1	Theories related to Foreign Direct Investment	10
	2.1.1 The Product Life Cycle (PLC) Theory	10
	2.1.2 The Industrial Organization Theory	14
	2.1.3 The Internalization Theory	17
	2.1.4 The Eclectic Paradigm of International Production	19
2.2	Theory related to International Trade	21
	2.2.1 Competitiveness Theory	21
	2.2.2 Strategic Trade Policy	25
2.3	Foreign Direct Investment and Its Motive	29
	2.3.1 The National Resource Seeker	29
	2.3.2 The Market Seeker	29
	2.3.3 The Efficiency Seeker	30
	2.3.4 The Strategic Asset Seeker	31

		Page
2.4	Foreign Direct Investment Trend in the East Asia Region	32
2.5	Foreign Direct Investment in Thailand	35
2.6	Investment Incentives in East Asian Countries	38
2.7	Investment Incentives in Thailand	41
2.8	FDI Locational Determinants – Literature Review	45
CHAPTER 3 RESEARCH DESIGN AND METHODOLOGY		**53**
3.1	Research Model and Hypothesis	53
3.2	Research Design and Methodology	55
3.2.1	Population Identification, Sampling Frame, and Sample Selection	55
3.2.2	Measurement Development	56
3.2.3	Instrumental Development and Organization of Questionnaire	57
3.2.4	Operationalization of the Measure	58
3.2.5	Data Collection and Procedure	61
3.2.6	Data Analysis	62
3.2.7	Evaluation for the Assumption of Statistic Method	77
CHAPTER 4 DATA ANALYSIS AND FINDING		**81**
4.1	Overall Sample	81
4.2	Nationality	84
4.3	Industry Type	87
4.4	Market Orientation	89
4.5	Sourcing Orientation	90
4.6	Inter-group Dependency	92
4.7	Size of Investment	93
4.8	Major Shareholder	95
4.9	Year of Establishment	96

		Page
CHAPTER 5 CONCLUSION AND RECOMMENDATION		**101**
5.1	Conclusion and Recommendation	101
5.2	Theoretical Contribution	110
5.3	Limitation and Future Research	110
REFERENCE		**113**
APPENDIX		**128**
Appendix 1:	Cover Sheet and Questionnaire	129
Appendix 2:	Factor Loading with Varimax Rotation for Independent Variable	141
Appendix 3:	Result of Factor Analysis to Examine Unidimensionality	143
Appendix 4:	Cronbach's Alpha for Reliability Test	144

LIST OF FIGURES

Figure		Page
2.1	Porter's Diamond of National Advantage	22
2.2	Net Foreign Capital Flows into Thailand during 1983 - 2005	36
2.3	Theoretical Model	51
3.1	Research Model	54
3.2	Revised Research Model	77

LIST OF TABLES

Table		Page
2.1	Tax Incentive in Selected East Asian Countries	39
3.1	Locational Determinant of FDI	59
3.2	Response Result	64
3.3	Summary of Characteristic of Respondent	65
3.4	Summary of Characteristic of Moderator	67
3.5	Test for Non-response Bias	70
3.6	Result from Principal Component Analysis (PCA) with Varimax Rotation	73
4.1	Descriptive Statistic Result of the Factor	81
4.2	MANOVA Result of Nationality	85
4.3	MANOVA Result of Industry Type	87
4.4	MANOVA Result of Market Orientation	89
4.5	MANOVA Result of Sourcing Orientation	91
4.6	MANOVA Result of Inter-group Dependency	92
4.7	MANOVA Result of Size of Investment	94
4.8	MANOVA Result of Major Shareholder	95
4.9	MANOVA Result of Years of Establishment	97
4.10	Summary of Hypothesis Testing	98

TABLE OF ABBREVIATIONS AND SYMBOLS

Abbreviations	Equivalence
AFTA	ASEAN Free Trade Area
ANCOVA	Analysis of Covariance
ANOVA	Analysis of Variance
APEC	Asia-Pacific Economic Cooperation, comprising 21 country members; i.e. Australia, Brunei, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, The Russian Federation, Singapore, Chinese Taipei, Thailand, United States of America, Viet Nam
ASEAN	Association of South East Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
ASEAN4	Southeast Asian countries, meaning Indonesia, Malaysia, the Philippines, and Thailand
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Products
GNP	Gross National Products
MANOVA	Multivariate Analysis of Variance
MANCOVA	Multivariate Analysis of Covariance
MNEs	Multi-national Enterprises
NIEs	(Asian) Newly Industrialising Economies, comprising Hong Kong, Korea, Singapore, and Taiwan
PCA	Principal Component Analysis
PLC Theory	Product Life Cycle Theory

SUMMARY

Title of Research:	Locational Determinants of Foreign Direct Investment: A Case of Thailand
Key Word:	Foreign direct investment, FDI, locational, determinants, factors, incentives, Thailand

The role of foreign direct investment (FDI) has been increasingly important as a mean of transferring technology and innovation from developed countries to developing ones. It has made a significant contribution to development and economic growth in host countries by allocating resources from wealthy countries to those experiencing scarcity, allowing host countries to invest in activities beyond their domestic saving capabilities.

Understanding what determines investment location choices can help inform the consequences of implementing passive as opposed to active FDI policies by host country governments as well as provide tools for FDI agency to formulate their strategies. Existing literature has identified the following factors of host countries: economic, political and policy, facility and utility, market, financial and legal, and environment, as important factors in determining the locational choice of FDI.

This research aims to determine what are the factors that most encourage and discourage FDI in Thailand, and to identify the different requirements between each type of FDI by applying moderators, like nationality, industry type, market orientation, sourcing orientation, inter-group dependency, size of investment, major shareholder, and years of establishment, in order to provide more intense information to policy maker so that the incentives provided by Thai government are matched with what actually required, especially when Thailand wants to attract specific types of FDI.

Satisfying unidimensionality conditions of principal component analysis (PCA) with Varimax rotation were thirteen dimensions: (1) economic condition, (2) government policy, (3) barriers and red tape, (4) tax concession, (5) supply of raw material, (6) domestic infrastructure, (7) skilled labour, (8) unskilled labour, (9) research and development, (10) market condition, (11) financial accessibility, (12) transparency and legal practice, and (13) environment condition. Multivariate analysis of variance (MANOVA), then, was applied as statistic tool.

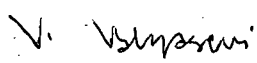
The research found that in overall sample, eleven out of thirteen determinant factors were considered as encouraging incentives (mean score above 4.0) for FDI to invest in Thailand. The remaining two; barriers and red tape, transparency and legal practice, were found to be discouraging factors, in line with literature. Unsurprisingly, the top five encouraging factors were tax concession (mean=5.02), economic condition (mean=4.64), government policy (mean=4.47), business environment condition (mean=4.45), and market condition (mean=4.31), respectively. When considered in details, these five factors were mostly related to profitability and efficiency in business operation of FDI. When applying moderators to the model, the result reported that factors encouraging/discouraging FDI were different in all moderators, except in the market orientation variable.

It is recommended to the policy maker that as different types of FDI viewed each locational determinant factor differently, incentives provided should be restricted to and designed for targeted FDI only, in order to gain desirable benefits and promote the spillover. However, incentives-based competition also creates some problems. Indeed, the first problem of incentives is that they represent an opportunity cost for host governments. Secondly, there can be a significant lack of transparency regarding incentives, which leaves space for corruption and other kinds of rent-seeking behaviour. Finally, incentives also provoke market distortions. The major distortions are that incentives tend to favour large corporate investors, at the detriment of small firms, as well as foreign over domestic companies, partly because of their lower risk profile and higher bargaining power.

DECLARATION

I declare that:

- this thesis presents work carried out by myself and does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university;
- to the best of my knowledge it does not contain any materials previously published or written by another person except where due reference is made in the text; and all substantive contributions by others to the work presented, including jointly authored publications, is clearly acknowledged.



Viyada Valyasevi
29th October 2007

ACKNOWLEDGEMENTS

I would like to express my sincere thanks and appreciation to Dr. Porpan Vachajitpan, my advisor, and Professor Joseph Mula, my ex-advisor, for their time, support and guidance throughout my research studies.

My sincere thanks and appreciation to the examiners for their kind reviews and valuable comments, and recommendations provided for my study.

My appreciation extends to those anonymous executives who responded to my questionnaire, and contributed valuable information for me to complete this study.

Finally, I really appreciate my family and friends for their understanding and being of great support all through my work in the doctoral program.

V. Valyasevi

Viyada Valyasevi

29th October 2007

CHAPTER 1
INTRODUCTION AND RATIONALE

1.1 Introduction and Rationale

Foreign direct investment (FDI), as defined by World Bank, "is net flows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments."

Nowadays, roughly, three quarters of world trade are conducted within multi-national enterprises (MNEs), as intermediate products are produced and assembled across borders, and even services are increasingly tradable in association with international production (UNIDO, 2005). The role of FDI has been increasingly important as a mean of transferring technology and innovation from developed countries to developing ones (Grossman & Helpman, 1991). It has made a significant contribution to development and economic growth in host countries by allocating resources from wealthy countries to those experiencing scarcity, allowing host countries to invest in activities beyond their domestic saving capabilities. (Blomstrom & Wolff, 1994; Chuang & Lin, 1999; Dimelis & Louri, 2002; Driffield, 2001; Lipsey & Sjoholm, 2001; Liu et al., 2000; Nadiri, 1991; Pain, 2001).

FDI is also considered as one of the most important means of integrating the world economy (United Nations, 1999). The positive impact of FDI on economies has been widely acknowledged. It is an important source of financing, which helps improve a country's current account balance as well as reduce its fiscal deficits. It encourages the transfer of technology, know-how, skills, and management expertise, and also helps local enterprises to gain access to foreign markets (Fan & Dickie, 2000; Krkoska, 2001).

FDI provides benefits to both investing firms and to host countries. It enables the investing firms to efficiently utilise their firm-specific assets such as technologies and managerial know-how. At the same time, FDI recipients/host countries receive not only the financial inflows but also new efficient technologies and know-how, and gain access to various networks such as sales and procurement networks. Moreover, FDI activities and transactions play an important role to increase employment opportunities (Asian Development Bank, 1999; Chia, 1995; Krkoska, 2001; United Nations, 1999).

FDI is recognised as a key factor behind the rapid economic growth experienced by countries in Southeast and East Asia (Asian Development Bank, 1999, 2001). World FDI has grown rapidly since the early 1980s. East Asia has been successful in attracting FDI. Its share of total worldwide FDI inflows increased from 8.9% (USD 4.4 billion) in 1980-1984 to 17.4% (USD 82.1 billion) in 1997 (United Nations, 1999). On average, South and East Asia attracted 7% of annual global FDI flows in the 1980s and just under 15% in the 1990s (UNIDO, 2005). The empirical evidence suggested that for emerging economies, a one percentage point increased in FDI (measured as a proportion of GDP) leads, to an extra 0.8 percentage point increase in per-capita income (Bergsman, Broadman & Drebentsov, 2000). Many regarded the late 1980s as the prominent decade for countries in the Asia Pacific region. The rapid growth of these countries in relation to other developing countries had been an important factor in attracting foreign investors to the region. Other influential factors included the size of domestic markets, the availability of natural resources, the growth of trade, the existence of adequate infrastructure, the cost and quality of human capital, and their openness towards trade.

For Thailand, FDI has always played an important role on the economic development. In the early 1980's, the Thai economy was weakened by the two oil shocks of the 1970s, which caused deterioration in its balance of payments and resulted in increased external indebtedness and domestic inflation. The situation, however, turned around sharply in 1987 when Thailand's Sixth National Economic and Social Development Plan covering

the five-year period from 1987 – 1991 began to take effect. One of the key strategies for the economic recovery in Thailand was the promotion of FDI and manufactured exports. For the first time, the Thai government allocated a special budget of 51 million baht in 1987 to pay for additional promotional activities including investment missions, advertisement, and special literature in Japan and Europe. FDI's projects enjoy tax incentives and promotional privileges and can be wholly owned if they are export-oriented projects. These promotions, together with an appropriate macroeconomic policy, particularly the exchange rate policy, led to an improved investment climate in Thailand, and thus, economic recovery. Since then, Thailand had had one of the world's fastest-growing economies, averaging more than 10% from 1987 to 1991. In 1993, Thailand's gross domestic product stood at USD 124 billion with an annual growth rate of 7.8%.

Between 1989 and 1994, the minimum wage rate jumped about 80% to 135 baht a day. Many executives in the manufacturing sector and many government officials were concerned that Thailand was losing its competitive edge because of the rapidly rising wages. Many business experts believed that foreign business involvement in Thailand had reached saturated point as a result of the scarcity of land in and around Bangkok and of trained workforce. Others believed that Thailand was simply caught in a difficult transition between a country that attracts foreign investment in the low technology, labour-intensive industries and a country that attracts foreign investment in the more technology-intensive and higher-value-added industries. Many low technologies, labour-intensive foreign firms were shifting their production from Thailand to other countries with lower wages. With abundant natural resources and lower wages, countries, like China, Indonesia, Vietnam, India, and Bangladesh, were attracting larger amounts of foreign investment to their countries each year. Moreover, Singapore and Korea, with better infrastructure and highly skilled, though more expensive workforce, continued to attract foreign investment in the high-technology industries.

In 1997, value of the baht continually rose (because of the surging US dollar to which the baht was tightly pegged) in the midst of several macroeconomic problems, ranging from threatening current account deposit, mounting short-term external debt, export stagnancy, to weakened foreign investors' confidence in the Thai economy. FDI, in contrast, was not at all affected by the crisis and the economic recession. It grew to a remarkable degree in 1997-98. That must have been attributed to a large number of ongoing projects, which were long-term commitments, and a number of mergers and acquisitions occasioned by financial troubles. The increases in FDI cushioned the private sector's net outflows in other capital categories. The stream of FDI was more stable and largely dominated by Japan, Hong Kong, Singapore, and USA, invested in the industrial sector (particularly electrical applications and chemicals), trade, and real estate.

From the mid 1980s to the mid 1990s, the dramatic increase in FDI inflow into Asia was accompanied by a dramatic shift in the composition of recipient countries. Through the end of 1980s, the Asian Newly Industrialising Economies[1] (NIEs) were major recipients of FDI, while in 1988, the ASEAN4 countries [2] began attracting FDI, and in the 1990s, China became a very attractive destination for FDI (Fan & Dickie, 2000).

These rapid and significant changes in the composition of FDI recipient countries raises questions such as what are the determinant factors for these changes, what host countries could have done differently, and what should be done now in order to attract FDI? Because attracting foreign investors has become a priority among policy makers, it may now be an opportune moment to reassess the policies and regulations of inward investment in order to improve its linkages with the local economy (Bergsman, 1999; Rolfe *et al.*,1993).

Many developing countries have offered various investment incentives in order to attract FDI. Strong competition among countries seeking FDI has led

[1] Asian Newly Industrialising Economies comprise Hong Kong, Korea, Singapore, and Taiwan.
[2] ASEAN4 countries are Indonesia, Malaysia, the Philippines, and Thailand.

host countries to make extra efforts and to provide various types of incentives to attract FDI into their countries (Bende-Nabende et al., 2000). Thus, it is essential for host countries to recognise the locational determinants of FDI, so that the incentives provided are effectively matched with the requirements.

Understanding what determines investment location choices can help inform the consequences of implementing passive as opposed to active FDI policies by host country governments as well as provide tools for FDI agency to formulate their strategies. Because FDI is a rather complex economic category, depending on and relating to many factors, it is likely that as the world changes, FDI factors also change (UNCTAD, 1998).

Studies conducted on the locational determinants of Thailand as a host country are very minimal. The latest research was done by Chandprapalert (2000), but mainly to test the application of the eclectic paradigm (to be discussed in details in Chapter 2) in Thailand. Chandprapalert (2000) found that market size, growth rate, and the composition of the host country market were the critical determinants for FDI, but also found that no significant relationship between host governmental policies and FDI existed. The research, however, did not mention anything about the effect of tax incentives on FDI, which were the major incentives provided by Thai government, even before the 1997 crisis.

This research aimed to determine what are the factors that most encourage and discourage FDI in Thailand, and to identify the different requirements between each type of FDI by applying moderators, like nationality, industry type, market orientation, sourcing orientation, inter-group dependency, size of investment, major shareholder, and years of establishment into the relationship, in order to provide more intense information to policy maker so that the incentives provided by Thai government are matched with what actually required, especially when Thailand targets to attract specific types of FDI.

1.2 Research Objective

The objectives of this research were to (a) identify most encouraging factors and most discouraging factors FDI used as determinants when considering locations for new investment abroad, (b) to identify differences in locational determinant factors applied by each type of FDI; i.e. nationality (Asian vs. Western), industry type (manufacturing vs. service), market orientation (domestic vs. export), sourcing orientation (local sourcing vs. import), inter-group dependency (non-group dependency vs. group dependency), size of investment (SME vs. large corporate), major shareholder (foreign vs. Thai), and years of establishment in Thailand (newly start-up vs. long established), (c) to compare the research results with current incentives provided by Thai government, (d) to provide guidelines for Thai government what incentives should be provided to attract specific FDI.

1.3 Research Question

The following questions served as a basis of this study:

a) To invest in Thailand, what are factors encouraging/discouraging FDI that are different in nationality (i.e. Asian vs. Western)? Are these factors different? How and why?

b) To invest in Thailand, what are factors encouraging/discouraging FDI that are in different types of incorporated industry (i.e. manufacturing vs. service)? Are these factors different? How and why?

c) To invest in Thailand, what are factors encouraging/discouraging FDI that are different in nature of market orientation (i.e. domestic vs. export)? Are these factors different? How and why?

d) To invest in Thailand, what are factors encouraging/discouraging FDI that are different in sourcing orientation (i.e. local sourcing vs. import)? Are these factors different? How and why?

e) To invest in Thailand, what are factors encouraging/discouraging FDI that are different in level of inter-group dependency (i.e. purchase mainly from non-group vs. from group sourcing orientation)? Are these factors different? How and why?

f) To invest in Thailand, what are factors encouraging/discouraging FDI that are different in firm size (i.e. SME vs. large corporate)? Are these factors different? How and why?

g) To invest in Thailand, what are factors encouraging/discouraging FDI that have different major shareholder (i.e. foreign vs. Thai)? Are these factors different? How and why?

h) To invest in Thailand, what are factors encouraging/discouraging FDI that are different in years of establishment in Thailand (i.e. newly start-up vs. long established)? Are these factors different? How and why?

1.4 Contribution of the Study

This study presented strategic information to FDI policy makers, who can use it to plan, shape, and adjust existing incentives provided to attract FDI. Its two most significant contributions were:

a) Broaden the concept and theoretical understanding of FDI determinant factors.

After the economic crisis in 1997, world economic has changed substantially. Many countries have tried to recover the situation by attracting more FDI to their countries. Several research done in other countries found that preferences of FDI has transformed. This study explored and provided information whether preferences of FDI in Thailand has changed and in what way.

b) Provide a better decision making tool to policy makers to use

This research provided the policy makers indications about the effects of nationality, industry type, market orientation, sourcing orientation, inter-group dependency, size of investment, major shareholder, and years of establishment, on locational determinant factors of FDI. Policy makers, then, will be able to adjust or plan their policies to match with the kinds of FDI they would like to attract, in order to gain highest benefits, in comparison to costs exploited by FDI.

1.5 Organization of the Report

The research divided into five chapters. Chapter 1 described background and rationale, research objectives, research questions, and contributions of this study. Chapter 2 reviewed the relevant literature by summarizing theories related to foreign direct investments, and international trade, as well as describing FDI in various aspects, ranging from its motives, and its trend in East Asian region. Then, FDI in Thailand were described. Incentives provided by East Asian countries and Thai government were also discussed, next.

Chapter 3 illustrated the research model and hypotheses, explained research design and methodology, and analyzed data collected. Chapter 4 provided details of hypothesis testing by using statistical tools such as MANOVA (Multivariate Analysis of Variance) and the two tails t-test. The research findings and analysis were also discussed in this chapter. Chapter 5 contained conclusion of the research results, recommendation to Thai government, limitations of this study and suggestion for future research.

Next chapter presented theories related to FDI and international trade. Motives of FDI were discussed, together with trend of FDI in the East Asia region, and in Thailand. Investment incentives provided by Thai government were also detailed.

CHAPTER 2
LITERATURE REVIEW

FDI is commonly known as the establishment and purchase of ownership and management share of assets such as new plants or subsidiaries in one country by a firm in another country. It is viewed as the transfer of a bundle of services that represent in their totality an extension of a business enterprise across national boundaries (Root, 1990).

FDI is to be distinguished from portfolio or non-direct investment, which is the investment in equity and debt securities in the capital market (Carr, 1978). The main difference is control – the effective voice in management of a business enterprise. Portfolio investment does not have control of the foreign operation. FDI, on the other hand, entails control and retains the locus of decision-making over the operations of the host country firms through the provisions of capital, technology, entrepreneurship, and access to markets as a package instead of their being made through the marketplace (Carr, 1978; Hymer, 1979).

According to Hymer (1979), the corporations' desire to control foreign operations is the central motive for direct investment. Hymer (1979) views control by the foreign investor not only as a desire to determine the prudent use of asset but also as a strategic move to eliminate competition between the investing enterprise and enterprises in other countries.

This chapter is divided into six parts. First is the review of theories related to FDI and international trade, including (1) the Product Life Cycle Theory, (2) the Industrial Organizational Theory, (3) the Internalization Theory, and (4) the Eclectic Paradigm, in order to provide general understanding over evolution of these theories.

Next, two major international trade theories; i.e. Competitiveness Theory and Strategic Trade Policy, are summarized. The third, fourth and fifth sections

explain about FDI and its motives, FDI trend in East Asian region, and FDI in Thailand, respectively. Investment incentives provided by East Asian region and Thailand are also prescribed in the last two sections.

2.1 Theories related to Foreign Direct Investment

Since the 1960s, many theories of FDI have been developed by a variety of academic researchers and business writers. These theories provide explanations to the following four questions regarding the occurrence of FDI: (a) "why" firms enter into internationalization, (b) "how" to enter: licensing, export, or FDI, (c) "where" to enter, and (d) "when" to enter. Main theories that have been developed are: (1) the Product Life Cycle Theory, (2) the Industrial Organizational Theory, (3) the Internalization Theory, and (4) the Eclectic Paradigm of International Trade, which are the conceptual basis of the proposed model presented in the next chapter.

2.1.1 The Product Life Cycle (PLC) Theory

The product life cycle theory (hereafter "PLC theory"), developed by Vernon (1966), is the first dynamic theory explaining "why" and "where" multi-national enterprises (MNEs) engage in FDI, and "when" the MNEs initiate their exports and establish subsidiaries in less developed countries and developing countries. This theory explains why innovative and oligopolistic firms undertake FDI, by basically related international trade and direct investment in sequential stages following life cycle of product.

The theory postulates that technological development usually originates in developed countries where there are large domestic markets and high-income elasticity. When a firm or a country starts developing its own technology, it will use such technology in the production process and later export those particular products to other countries. As the technology becomes standardized, the originator of technology will become less and less profitable. Thus, it forces the country that develops the technology to shift its resources into the development of new technologies.

Vernon (1966) explained international trade and FDI by putting less emphasis upon comparative cost doctrine and more upon the timing of innovation, the effects of scale economies, and the roles of ignorance and market uncertainty. According to this theory, the international activities of firms have changed in accordance with the life cycle of products developed by those firms by passing three stages, from the new product stage to the maturing product stage, and finally to the standardized product stage.

a) The New Product Stage

In the initial phase, products are innovated by the most developed country where innovating firms have processed scientific and technical skills. The innovation and development of new product take place in such market, which has a great potential demand for new product, due to high level of income. The firm that introduces the product will have a comparative advantage over other firms because of its technology superiority.

In the early stages of introduction of a new product, it will be difficult to calculate costs precisely because the product itself may be quite unstandardized for a time; its inputs, its processing, and its final specifications may cover a wide range. However, the price elasticity of demand for the output of individual firms is comparatively low because of the high degree of production differentiation, or the existence of monopoly in this stage. After introducing the new product, production and consumption of the product take place mainly in the home market, but in the middle stages of the new product, parts of this new product are introduced into foreign markets having the next higher level of income, through exports, in response to gradually increasing overseas demand. This kind of trade can be called technology gap trade.

b) The Maturing Product Stage

In the second phase, there is a rapid growth of the output and a certain degree of standardization usually takes place. A commitment to some set of product standards opens up technical possibilities for achieving economies of scale through mass output, and encourages long-term commitments to some

given process and some fixed set of facilities, while the concern about production cost saving becomes more important.

At home, the industry has begun to settle down some degree of large-scale production; i.e. into the maturing product stage. Some demand for the product begins to appear and increase rapidly in other advanced countries, and the developing countries. Innovator has to consider either to export or to invest aboard (FDI creating).

Up to this point, there is a lower degree of product differentiation, meaning that many firms in other countries can copy and produce the same kind of product. As competition increases, the rate of profits of the originator declines. If not investing before, at this stage, the firm would begin to think of shifting its production abroad in order to avoid loss of market shares and product imitation. Theoretically, overseas production will take place when the marginal production cost plus transport cost of the goods exported from home is higher than the average cost of prospective production in the host market.

The difference in production costs can be determined mainly by the difference in production scale and labour costs among regions. Moreover, if economies of scale are being fully exploited, the principal differences between any two locations are likely to be labour cost. Accordingly, if the demand for the maturing product is large enough to realize economies of scale, foreign investment begins in other advanced countries where labour cost is cheaper comparatively.

c) The Standardized Product Stage

In the third stage, the production technology becomes mature and fully standardized. This is a time when any firms can produce the product. The technology becomes so well known that economic rent or the quasi-monopoly power of the originator is completely eroded. The scientific and technical problems as well as management problems have been solved. Market

knowledge and information flow are now less important. Products become standardized, and price competition becomes severe.

In this last stage, price competition forces innovated firms to invest in developing countries having a comparative advantage, since only a routine line of management is required. Then these countries where labour cost is cheaper, become more attractive locations for production than the home or other advanced countries, especially in the case of products whose production function requires significant inputs of labour. Consequently, the product will be exported back to the developed countries or the countries that first produced the product, hence enforcing the originator to develop newer technologies.

In 1971, Vernon prescribed that his theory had limitations and specific characteristics. The theory was mainly applicable to highly industrialized countries and was also restricted to the innovating activities of small firms, which have not yet established a worldwide network of subsidiaries.

Subsequent work by Vernon (1974) has substantially modified and improved PLC theory. The emphasis has been shifted to oligopolistic behaviour, and the desire of firms to maintain an oligopolistic market structure by erecting barriers to entry. The three phases of the cycle are thus viewed respectively as those of innovation-based oligopoly, mature oligopoly, and senescent oligopoly.

In the first stage of the cycle, the innovation-based oligopoly, there are still strong economic incentives to locate production in the country where the innovation was developed in order to coordinate the production process with the research and development and marketing functions. In the second stage of the cycle; the mature oligopoly, it is assumed that product and locational strategies are based upon the actions and other reactions of other multinational enterprises. Economies of scale in production, marketing, and research constitute and effective entry barrier, behind which rival firms, each sensitive to the other's actions, play out a business game. Each player

nullifies aggressive strategies initiated by the others, by matching them move for move. A leader entering new market is immediately followed by his rivals. The ultimate aim is to stabilize market shares of the rival firms throughout the world. Stability would be achieved when each of the rival firms produces in the various major world markets.

The final stage is senescent oligopoly, in which competitive pressures are assumed to re-emerge, as barriers to entry weaken. Product locations are then more closely determined by cost differentials than by adjacency to markets or oligopolistic reactions.

2.1.2 The Industrial Organization Theory

The Industrial Organization theory or the Oligopolistic theory was pioneered by Hymer (1960) and later on developed by Kindleberger (1969). They suggested that MNEs exists because of market imperfections. In the theoretical world of perfect competition, firms produce homogeneous products and have equal access to all productive factors, no advantage can accrue to foreign firms, and there would be no FDI. For existence of FDI, there must be some imperfection in markets for the goods and factor markets, internal and external economies of scale and government interference with production and trade (Kindleberger 1970). Thus, national and international market imperfections allow the MNEs to acquire its monopolistic advantage in its domestic environment and to exploit this through foreign production. These deviations from perfect competition may occur in product markets, which include product differentiation, brand names, special marketing skills, or collusion in pricing. There may also be departures from competition in factor markets, like special managerial skills, differences in access to capital markets and technology protected by patents. In addition, imperfect competition may be reflected in the existence of internal or external economies of scale (Krugman, 1985). Finally, government policies in respect of taxes, tariffs, interest rates, exchange rates may also create imperfect markets (Hood and Young, 1979; Kindleberger, 1970).

To extend the theoretical thought of FDI through market imperfection, Hymer and Kindleberger explained the Industrial Organization theory into two aspects:

a) The Monopolistic Advantage Theory

The monopolistic advantage theory argued by Hymer (1970) and Kindleberger (1969) is the most traditional FDI theory. The theory assumes that the enterprise has a global horizon, the decision of the firm to invest is explained as a move to take advantage of certain capabilities not shared by local competitors (Hymer, 1976).

To operate successfully in foreign country and to compete with local firms which do not have to face such disadvantage, foreign entrants must have monopolistically held advantages in order to compensate for this cost of foreignness. These advantages, referred to as firm-specific or ownership-specific factors, must be transferable within the enterprise and across distances.

The argument that monopolistic advantage is a necessary condition for FDI derives from the fact that the expansion of business beyond nation boundaries is more difficult than inside one country. Both Hymer and Kindleberger assumed that FDI is costly and risky because firms have to enter a new environment not familiar to them. The foreign firms have to face a number of additional costs of operating at a distance (e.g. communication and acquisition of the information) or disadvantages as compared to local firm and learn how to face new problems. As the local firms would have an intimate knowledge of the economic, social, legal and governmental environment, the foreign firms can only acquire this knowledge at a cost.

In the more realistic world of imperfect competition, foreign firms have to gain advantage of certain capabilities not shared by local competitors. As explained by industrial organization theory, firms acquire competitive advantages through product differentiation, brand names, special marketing skills, and restrictions to entry, including patented technology, internal or

external economies of scale, and capital markets accessibility (Kindleberger, 1969).

Moreover, the market imperfections model helps to identify the industries in which firms are likely to expand their direct investment either domestically or internationally. Though the model leaves many important questions unanswered, the theory can explain almost perfectly "why" through the firm specific advantage, which can cover disadvantages when comparing to local companies, and explain partially the fourth proposition "how" through the appropriation process of monopolistic advantage.

b) The Oligopolistic Reaction Theory

An oligopolistic market is characterized by restricted entry and a small number of firms. Restricted entry may result from such factors as patented technology, unpatented secret know-how, large capital requirements, and economies of large-scale reduction. The oligopoly structure has been identified as a source of competitive advantage and a motivation for a follow-the-leader behaviour (Knickerbocker, 1973).

According to Knickerbocker (1973), FDI is the reaction to the oligopolistic competition activity by the leader firm under the oligopolistic competition. The time of FDI is mainly determined by reaction to investment of competitors, and the optimal strategy of the oligopolistic industry is to move by following the movement of the competitors. In other words, once a firm has invested in a specific region, the proper strategy for other firms is to follow their competitors into foreign markets as a defensive strategy to prevent a leader firm from monopolizing market share. This phenomenon is called the bandwagon effect. By being in all markets occupied by its competitors, each firm has the potential of responding to price cuts or of competitive actions.

The oligopolistic reaction theory can partially answer "how" and "where", and additionally explain the cross-hauling investment, which the monopolistic advantage theory cannot explain.

2.1.3 The **Internalization Theory**

The concept of internalization was first proposed by Coase (1937) in domestic context and by Hymer (1968) in international dimension. It is then extended and synthesized in the works of Buckley and Casson (1976), and Rugman (1980). The internalization theory extends the market imperfections, used in the monopolistic advantage theory, by focusing on imperfections in intermediate-product markets rather than on final-product markets (Buckley & Casson, 1976). The essence of internalization theory is the explicit recognition of these worldwide market imperfections, which, in practice, prevent the efficient operation of international trade and investment.

According to Buckley and Casson (1976, 1991), the internalization theory is based on three assumptions: (a) firms maximize profit in a world of imperfect markets by using their competitive advantages; (b) when markets in intermediate products are imperfect, there is an incentive to bypass them by creating internal markets. This involves bringing under common ownership and controlling the activities which are linked by the market; (c) internalization of markets across national boundaries leads to FDI and generates multinational enterprises.

The process of internalization permits management of an MNE to overcome such market imperfection which is artificial market imperfection (e.g. exogenous government induced taxes, regulations and controls) and natural market imperfection (e.g. market failure) in the product market. Internalization can occur in response to any type of externality in the goods or factor markets (Rugman, 1981).

Buckley and Casson (1976) explained that market imperfection encourages firms to replace these external markets by their own internal market structure, leading to FDI. The choice between internal solution and market solution is determined by comparative costs and benefits born in each case. There are at least five types of advantage stemming from internalization: (a) increased ability to control and plan production, (b) exploitation of market power by

discriminatory pricing, (c) avoidance of bilateral market power, (d) avoidance of uncertainty in the transfer of knowledge between parties which may exist in the solution, and (e) avoidance of government-induced market failures.

The strongest incentive for internalization is concerned with the failure of markets for various types of knowledge, ranging from managerial and marketing skill, to production innovation. Knowledge provides a monopoly advantage, which can be exploited best through discriminatory pricing by the firm itself, rather than, for example, by licensing. The MNEs are driven to create an internal market of its own in order to overcome the failure of an external market to emerge for the sale of information.

The benefits of internalization stem from the avoidance of imperfections in the external market, but there are also certain costs of internalization, which may offset the potential benefits. The optimal scale of the firm is set at the margin where the costs and benefits of further internalization are equalized (Buckley & Casson, 1991).

The application of the internalization theory to MNEs is that due to high transaction costs and market failure, firms will exploit firm-specific monopolistic advantage through subsidiary production, in order to retain their control over such firm advantage. To that extent, internalization of market also imposes severe barriers to new entry.

However, this theory is not sufficient to explain all forms of FDI as a general theory should be. It provides the firm with only one solution to the problem of imperfect international market, that is, the establishment of a wholly owned subsidiary, or answers the question of "how".

This theory, on the other hand, has limitations in explaining motive of FDI, as, in fact, FDI does not always take place. Even though market imperfection exists both in domestic market and foreign market, a firm is reluctant to enter into foreign market if internalization within domestic market is more attractive. In addition, this theory does not consider that a firm can create market

imperfection of its own to make its own firm-specific advantage permanent, thus, cannot answer the "where" question.

2.1.4 The Eclectic Paradigm of International Production

Dunning (1973, 1979, 1980) presented a more integrative explaining the ability and willingness of firms to become multinational. The theory is regarded as the most comprehensive theory explaining FDI phenomenon, mostly know as "Eclectic Paradigm of International Production". This theory addresses the issue of where foreign production takes place by integrating location theory into theories of transnational enterprise. It focuses on a country's endowments and intangible assets, which serve to explain the international involvement of firms within that country.

Dunning (1980, 1988, 1995, 2000) stated that the propensity for a country's firms to engage in FDI is determined by three conditions: (a) ownership or firm specific advantages ("O"), (b) locational or country specific advantages ("L"), and (c) internalisation advantages ("I").

a) Ownership/firm specific advantages – the "O" factor

The "O" factor refers to the extent to which a firm possesses or can acquire assets, which its competitors do not possess in the same degree or on the same terms. A foreign firm operating in a foreign country is faced with additional costs compared to a local competitor. The additional costs include (i) cultural, legal, institutional and language differences; (ii) lack of knowledge about local market conditions, and/or (iii) the increased expense of communicating and operating at a distance. So, for the MNEs to be profitable abroad it must have some advantages not shared by its competitors. These advantages which are internal to a specific firm could be location or non-location bounded, normally fall within the following three categories: (1) knowledge/technology – innovative activities, (2) economies of scale and scope, and (3) monopolistic power through intellectual property rights. These ownership-specific advantages must be large enough to sufficiently outweigh the costs of servicing an unfamiliar or distant environment.

b) Locational/country specific advantages – the "L" factor

The "L" factor refers to how profitable it is for the firm to exploit its ownership-specific advantages in conjunction with the indigenous resources of foreign countries rather than those of the home country. The host countries must offer location-specific advantages as a production base, in the form of economic, social, and/or political advantages, in order to attract FDI. This means that it must be more efficient or more profitable for the MNE to service a foreign market by local production rather than by exporting from the home country.

c) Internalisation advantages – the "I" factor

The "I" factor refers to the extent to which the firm intends to use its ownership specific advantages internally by itself, i.e. ownership specific advantages must be more beneficial to the firm to transfer the "O" across national boundaries within its own organisation rather than selling or licensing the rights to use these assets to indigenous firms in the country of production.

A firm will prefer FDI to other modes of international participation (e.g. licensing, export, etc.), only when all of the three advantages are satisfied (Dunning 1979). The ownership advantages ("O") explain why the firm goes abroad, the locational advantages ("L") of countries explain where the firm sets up foreign plants, while the internalisation advantages ("I") explain how it goes abroad. The more the firm possesses "O", the greater the chance that it will internalise them. In addition, the greater the attraction foreign countries are to the firm the greater the likelihood that the firm will engage in FDI (Dunning 1980).

This approach in explaining international production has been called eclectic for the following reasons. It embraces the three main forms of foreign involvement by a firm: direct investment, exports, and contractual resource transfers (for example, licensing, management contracts, technical service agreement), and offers an explanation of which route of exploitation is preferred. In all three vehicles, the possession of ownership advantages is a necessary prerequisite for foreign involvement. However, the possession of

internalization advantages suggests that firms will exploit ownership advantages by way of exports or FDI rather than by a contractual resource exchange; whereas the FDI preferred to exports will be chosen where locational advantages favour a foreign rather than a domestic production base (Dunning, 1980).

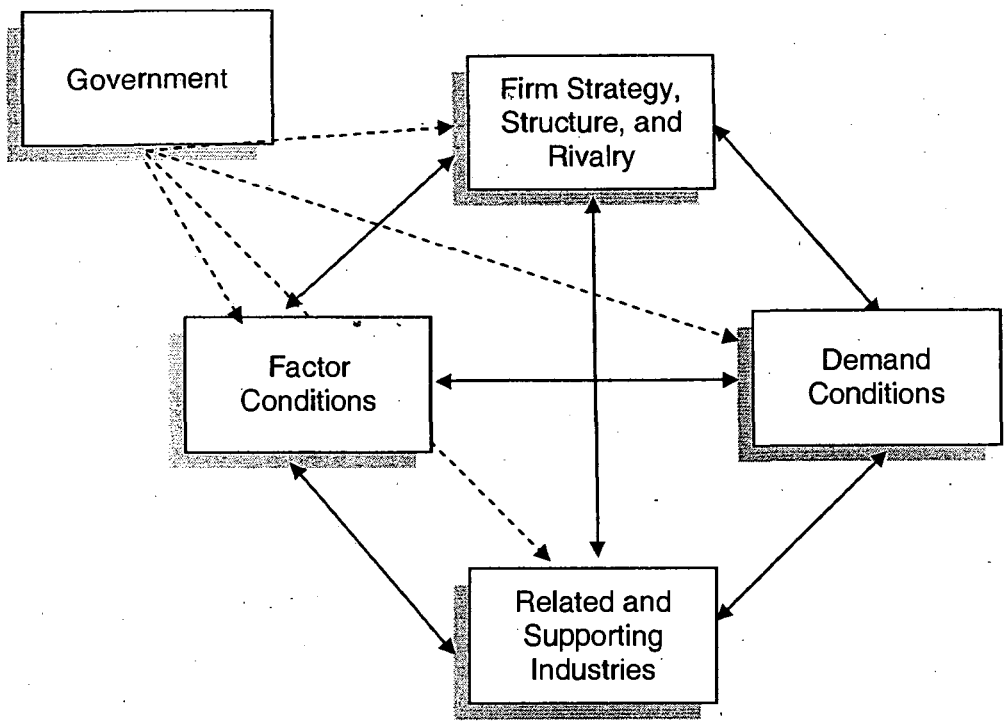
There are some organizational attributes and operational features of FDI that are unchanging such as i) the competitive aim of maximizing profits, ii) the desire to co-ordinate and control operations, and iii) the need to reduce transaction costs by internalizing markets. Here, there is little that policy makers can do to effect change. But other FDI characteristics tend to be more transient, and therefore, provide some degree of traction for policy making influence.

2.2 Theory related to International Trade

To enhance the understanding of international trade, to answer the question of why countries trade, of what are the benefits of international trade and why host government needs to subsidize its local producer; two of the major international/strategic trade theory is discussed. The first one is Competitiveness Theory, and the other one is Strategic Trade Theory.

2.2.1 Competitiveness Theory

The focus of early trade was on the country or nation and its inherent, natural, or endowment characteristics that may give rise to increasing competitiveness. As trade theory evolved, it shifted its focus to the industry and product level, leaving the nation-level competitiveness question somewhat behind. Recently many have turned their attention to the question of how countries, governments, and even private industry can alter the conditions within a country to aid the competitiveness of its firms. Porter (1980) focused on how countries, governments, and even private industry can alter the conditions within a country to aid the competitiveness of its firm, with the main statement that national prosperity is created, not inherited.



Source: Michael Porter, "The Competitive Advantage of Nations", 1990

Figure 2.1: Porter's Diamond of National Advantage

Porter's four postulates on competitiveness are: (1) the nature of competition and the sources of competitive advantage differ from one industry to another, (2) competitive advantage can be drawn from aboard and not only limited to the home base, (3) sustainable competitive advantage is gained through innovation and upgrade, as pressured and challenged to do so, and (4) competitive advantage is acquired by firms that move early and aggressively to exploit a new market or technology. The full model of the diamond of national advantage, as illustrated in Figure 2.1, shows that each of the four attributes affects one another, and the external variable, like government, has influence on all of the attributes.

Porter (1980) indicated that a firm must avail itself of all dimensions of competition, which is explained by "the diamond of national advantage". The diamond framework is based on four attributes and one external variable. The four attributes govern the country environment in a way that promoted or

impeded the creation of competitive advantage. The four attributes are: (a) factor conditions, (b) demand conditions, (c) firm strategy, structure, and rivalry, and (d) related and supporting industries. The external variable; i.e. (e) role of government, also contributes to the success or failure of an industry.

a) Factor Conditions

Two production factors are considered; labour and capital. These factors are dynamic. Technology determines the way they combine to form a good structure. Different goods require different proportions of the two factors of production (Ohlin, 1933).

Factor conditions are classified into basic and advanced factors, and generalized and specialized factors. Basic factors require little or no effort to develop. They include natural resources, climate, location, unskilled, and semi-skilled labour. Advanced factors require high and sustained level of effort to develop. These factors are skilled labour, specialized personnel, and infrastructures. Generalized factors are shared by different industries. Examples are transportation system, communication system, and pools of skilled labour. Specialized factors are used in specific industry. They include field-specific knowledge, specialized personnel, specific research and technology.

b) Demand Conditions

Domestic demand conditions can influence the level of international success. Characteristics of domestic demand affect how product and process are developed. The conditions include the level of home demand sophistication, size and growth rate of home demand, domestic taste and requirements as compare to international demand. The more sophisticated demand at home stimulates strong competitive position internationally. The large domestic market means more incentive to new research and development. Similar in taste for domestic and international demand allows immediate transfer of product aboard.

c) Firm Strategy, Structure, and Rivalry

The firm management strategy, the organization structure, and the level of domestic competition influence how the firm competes internationally. The most successful industries usually associate with high intensity of domestic competition, as to survive intensify home competition, firm is forced to continue its product development and innovation, and expand its market aboard. Firm's internal factors influencing the international success are managerial attitudes, goals, ownership structure, and motivation.

d) Related and Supporting Industries

International competitive suppliers can provide downstream industries with easy, rapid, and preferential access to cost effective input. Domestic suppliers provide advantage of coordination. Competent suppliers can develop product according to developing needs of downstream firms and manage production plan accordingly. Downstream firms can also change their strategic plan to take advantage of supplier innovations. Internationally competitive related industries can coordinate and share activities in the value chain for the benefit of both industries. A breakthrough in one industry can increase demand for the complementary products.

e) Role of Government

Government cannot be the main engine to create competitive advantage. Government policies are effective only in industries that already have potential for competitive advantage. Government can influence the competitive advantage through different policies, exchange controls, FDI controls, financial controls, standard setting, and trade regulation. Government intervention can have negative effect on the long run well being of the industry. By protecting the domestic industry, firms are not under pressure to enhance or upgrade their products or production process.

2.2.2 Strategic Trade Policy

The theory of international trade has changed drastically over the last decade by admitting the implications of monopolistic elements in international markets. Traditional trade models were built on the assumption of perfect competition, declining or constant returns to scale, and no information or transactions costs connected with technology flows, thus ruling out product differentiation, scale economies, and barriers to entry. Furthermore, the mainstream models of international trade were entirely static, explaining trade flows on the basis of fixed factor endowments, given tastes, products, and given technology. These models, thus, made no allowance for the possibility that a country's comparative advantage could change as a function of private economic activity or might even be shaped by government policy; leaving little room for trade policy maker to improve a nation's welfare.

Strategic trade theories relax these assumptions and introduce that domestic firms can benefit asymmetrically from international trade if the government intervenes the trade. By doing so, the government can shift not only profits, but also jobs, from one country to another. This is based on the assumption that it is the objective of a government to enhance the welfare of its own jurisdiction, at the expense of other countries, which is not in a range of circumstances previously considered by traditional trade theory.

Two specific models of strategic trade policy are examined here. One is by Brander and Spencer, who have made several pioneering contributions to the literature on this subject (Brander & Spencer, 1981, 1983, 1984a, 1984b, 1985). The other model is by Krugman (1984), who has shown how a country might gain by protecting its home market if this enables a domestic industry to move down the learning curve more rapidly relative to foreign rivals.

The models pioneered by Brander and Spencer focus on strategies that might shift monopoly profits from a foreign to a domestic producer, based on duopolistic assumption; i.e. only two producers in the market, one in local and one in foreign country Monopoly profits are assumed to occur for an

international industry because entry to the industry is restricted (Brander & Spencer, 1985; Stackelberg, 1951, 1952).

In the absence of government intervention, the two firms are assumed to be on an equal footing. Each knows that an expansion of output by either duopolist cannot be profitable if the other is determined not to retreat. An export subsidy for one firm changes the situation. Expansion of the subsidized firm's output is now regarded as a credible choice by its rival because an expansion would be privately profitable even if the rival would not reduce its output (Brander, 1986; Brander & Spencer, 1985).

The subsidy, by lowering the firm's marginal cost, has the effect of shifting outward the subsidized firm's reaction curve. With both duopolists moving along their reaction curves, a new equilibrium is attained at an increased level of output for the subsidized firm and at a reduced level for its foreign rival. The type of intervention is not crucial as long as the government is credibly committed. Grossman and Richardson (1985) have pointed out that the intervention must be visible and transparent to be credible to foreign rival. Hidden subsidies would not serve the purpose of strategic trade policy as modeled by Brander and Spencer. Yet hidden subsidies might serve the same purpose if they induced domestic producers to make an appropriate irreversible commitment that is visible and credible to foreign rivals.

However, there are some arguments on this model. The Brander-Spencer prescription for an export subsidy holds only if the number of domestic firms is not too large (Eaton & Grossman, 1986). Export subsidies or other measures promoting home production are likely to cause the number of firms to increase. Such policy-induced entry can raise the industry's average cost and can cause all benefits of profit shifting (plus subsidies) to be dissipated (Horstman & Markusen, 1986).

The Brander-Spencer prescription for profit shifting was derived under the simplifying assumption that the good in question is not consumed in the acting country. When domestic consumption is introduced into these models, two

additional motives for intervention appear which may again lead to different policy prescriptions (Eaton & Grossman, 1986). The prevalence of several conflicting motives for intervention in itself represents an obstacle to implementing strategic trade policies, because the government has to balance the different motives and would have to use more than one policy tool to achieve an optimal outcome. Finally, critics have pointed out that a policy designed to shift profits from foreign to domestic producers can increase national welfare only to the extent that the affected domestic producers are domestically owned (Krugman, 1987; Yarbrough & Yarbrough, 1988). This condition is becoming more questionable every day due to the spread of multinational firms, international joint ventures, and partnerships, particularly in industries that are typically considered targets for strategic intervention.

In conjunction to these arguments, Krugman (1984, 1998) designs a model that adds a strategic dimension to the infant-industry argument for government intervention. The infant-industry problem has always been perceived as a problem of international rivalry, particularly policy rivalry between old industrial countries and aspiring ones. Krugman (1984) implies that there is an opportunity for a country to achieve a different kind of welfare gain through the strategic deployment of import restrictions, depending on two basic ingredients: international oligopoly and economies of scale. The oligopoly assumes two firms, one domestic and one foreign. Each firm produces a single product that it sells in several segmented markets, in both domestic and foreign markets. The products of the two firms are close substitutes, but they need not to be perfectly substituted.

Regarding the second basic ingredient, the assumption is by giving its domestic producer a privileged position in the home market, a country gives it an advantage in scale of production over a foreign rival. This scale advantage translates into lower marginal costs and higher market share even in unprotected markets (Krugman, 1984).

When one government excludes the foreign producer from a market previously open to it, the intervention causes opposite effects on the marginal

cost of the two rivals. The domestic producer will sell more in its market from which the foreign rival has been excluded, and thus, the domestic firm's marginal cost will fall; the foreign firm's marginal cost will rise as it produces less when excluded from the protected market. But the effects do not end here, because both firms are induced by opposite changes in their marginal cost to adjust sales also in unprotected markets. The domestic firm will expand its output further, while the foreign firm will retreat some more. These adjustments again have opposite effects on each firm's marginal cost, and the process continues until a new multi-market equilibrium is reached. The essential feature of the model thus is the circular causation from output to marginal cost to output. And it is this circularity that makes import protection an export promotion device (Krugman, 1984).

In the model, it is clearly implied that additional exports are profitable for the domestic producer; thus, export prices must exceed marginal cost, and the expansion of exports must result in a higher absolute profit from foreign sales. It is, therefore, conceivable that the country's welfare gain due to additional profits on exports and lower costs of output sold domestically exceeds the loss of consumers' surplus caused by protection of the home market.

Krugman distinguishes three types of knowledge: knowledge that can be internalized by firms, knowledge that spreads beyond firms but not beyond national boundaries, and knowledge that once generated becomes available internationally (Krugman, 1987). In the first case, there is no external benefit and no reason for intervention. In the third case, externalities occur, but there is no reason for any county to be concerned about maintaining domestic activities to generate this type of knowledge if it is available internationally. Only the middle ground of geographically limited diffusion of knowledge might motivate intervention to secure this type of externality for the domestic economy in competition with other countries (Helpman & Krugman, 1985).

2.3 Foreign Direct Investment and Its Motives

In order to provide better understanding of FDI behaviours and incentives, this sector describes types of FDI, based on Dunning (1993), who classified FDI into four groups: natural resource seekers, market seekers, efficiency seekers, and strategic asset or capability seekers.

2.3.1 The National Resource Seeker

These enterprises make investment abroad in order to get particular and specific resources at a lower real cost than they do in their home country. There are three main types of resource seekers. First are primary producers seeking for physical resources in order to minimize cost and secure supply sources. The second group comprises those seeking plentiful supplies of cheap and well-motivated unskilled or semi-unskilled labour. This kind of FDI is usually undertaken by manufacturing and service firms from countries with high real labour costs. They set up or acquire subsidiaries in countries with lower real labour costs, to produce labour intensive intermediate or final products for export. In order to attract such production, host countries have to set up free trade or export processing zones. The third type is prompted by the need of firms to acquire technological capability, management or marketing expertise and organization skills.

2.3.2 The Market Seeker

These are firms that invest in a particular country or region to supply goods or services to markets in this or nearby countries. In most cases, part or all of these markets have been serviced previously by exports from the investing company but tariff or other cost-raising barriers imposed by host countries are no longer best supplied by this route or because the size of the market now justifies local production. In addition, sometimes an enterprise may seek to replace its exports to a foreign market by investment in a third country and exporting to that market from there, enjoying free trade agreement between the countries.

Market seeking investment may be undertaken to sustain or protect existing markets or to exploit or prompt new markets. There are four types of market seeking investment. First occurs when their main suppliers or customers set up foreign producing facilities and in order to retain their business they need to follow them overseas. The second reason is to alleviate their disadvantages to local firms due to unfamiliarity with local language, business customs, legal requirements, marketing producers, and foreign producers.

The third reason is related to production and transportation costs of supplying from a distance. The production of goods that are relatively costly to transport and can be produced economically in small quantities is more likely to be located near the main centres of consumption than are those that cost relatively little to transport and yield substantial economies of scale in their production. In some cases, government regulations, import controls or strategic trade policy may prompt firms to relocate their production facilities. The fourth motive is that a firm may consider necessary, as part of its global production and marketing strategy, to have a physical presence in the leading markets served by its competitors, especially in oligopolistic industry.

2.3.3 The Efficiency Seeker

The motivation of efficiency seeking FDI is to rationalize the structure of established resources based or market-seeking investment in such a way that the investing company can gain from the common governance of geographically dispersed activities. The intention of the efficiency seeking FDI is to take advantage of different factor endowments (i.e. labour, capital), cultures, institutional arrangements, economic systems and policies, and market structure. Usually, the efficiency seekers will be experienced, large and diversified enterprises producing fairly standardized products and engaging in international accepted production processes. In order for efficiency seeking foreign production to take place, cross border markets must be both well developed and open. In practice, the efficiency seeker is likely to be a global corporation competing on the basis of products and ability to

diversify assets and capabilities, by exporting the benefit of producing in several countries.

There are two main kinds of efficiency seeking. First is that designed to take advantage of differences in the availability and cost of traditional factor endowments in other countries. This explains much of the division of labour within multi-national firms producing in both developed and developing countries, with capital, technology and information intensive, value-added activities being concentrated in the former, and labour and natural resource intensive activities in the latter. The second kind of efficiency seeking investment is that which takes place in countries with broadly similar economic structures and income levels and is designed to take advantage of the economies of scale and scope, and of differences in consumer taste and supply capabilities. For this type, traditional factor endowments play a less important role in influencing FDI, while the ability and quality of supporting industries, the characteristics of the local competition, the nature of consumer demand and the macro policies of government play a more important role.

2.3.4 The Strategic Asset Seeker

The strategic asset seeking firms comprise those engaged in FDI by acquiring the assets of foreign corporations, to promote their long-term strategic objective – especially that of sustaining or advancing their international competitiveness. The investing firms' involvement includes both well-established firms pursuing an integrated global or regional strategy, and first time foreign direct investors seeking to buy competitive strength in an unfamiliar market.

The motive for strategic asset seeking investment is to enhance value-added of existing portfolio of assets, which they perceive will either sustain or strengthen their own overall competitor position or weaken that of their competitors. This might do by opening new markets, creating R&D synergy or production economies, buying market power, lowering transportation cost, spreading administrative overheads, advancing strategic flexibility, and

enabling risks to be better spread. However, on certain occasions and for certain purposes, strategic considerations may be the dominant motive for FDI. One company may acquire or engage in a collaborative alliance with another to prevent a competitor from so doing. Another might merge with one of its foreign rivals to strengthen their joint capabilities against a more powerful corner of the market for a particular raw material. Others might seek to gain access over distribution outlets to better promote its own brand of products. Some might buy out a firm producing a complementary range of goods or services so it can offer its customers a more diversified range of products. Some might join force with local firms in the belief that it is in a better position to secure contracts from the host government, which denies its exporting competitors.

Besides these four categories of FDI, there are other reasons do not easily fit into. These are (1) escape investment: some FDI is made to escape restrictive legislation or macro-organizational policies by home governments, (2) support investment: FDI supports the activities of the rest of the enterprise of which they are part, (3) passive investment: the kind of investment that is treated as direct if the investing entity has a financial equity interest in a foreign company sufficient to give it some control or influence over the latter's decision taking (Dunning, 1993).

2.4 Foreign Direct Investment Trend in the East Asia Region

Factors contributing to the attractiveness of East Asia[3] to foreign investors were rapid economic growth, size of domestic markets, availability of natural resources, growth of trade, existence of adequate infrastructure, and quality of human capital and low wages (World Bank, 2000). FDI to the East Asian countries between 1985 and 1990 was accounted for 2.3% of world flows. The share, then, surged to reach 21 percent in 1994, mainly from the enormous increase to China, while the share of other East Asian countries increased far more modestly (World Bank, 2000).

[3] East-Asia covers China, Hong Kong (China), Indonesia, the Republic of Korea, Malaysia, the Philippines, Singapore, Taiwan (China), and Thailand.

FDI flows to the region in 1998-1999 were broadly stable at about US$ 70 billion, and flows to the five crisis countries – Indonesia, Korea, Malaysia, the Philippines, and Thailand – stayed around US$ 17-18 billion. The stability of FDI during the crisis helped moderate the depressing effect of large outflows of bank lending and portfolio capital flows. Since 1994, however, East Asia's share of global FDI flows has fallen. FDI flows to China fell about 10 percent in 1999, to US$ 40 billion while those to Indonesia, Korea, Malaysia, the Philippines, Singapore, and Thailand rose about 10 percent, to US$ 27 billion. In both cases, however, the flows represented further declines in shares of world FDI flows (World Bank, 2000).

Before the crisis in 1997, FDI flows in East Asia had been influenced by a mix of macroeconomic, policy, and other factors. Sharp increases in effective exchange rates and relative wages in Japan and the first-tier NIEs – Hong Kong (China), Korea, Singapore, Taiwan – contributed to a wave of efficiency-seeking intra-regional FDI flows from these countries to China and the second-tier NIEs – Indonesia, Malaysia, the Philippines, Thailand – from the mid- to late 1980s onward. These flows relocated labour-intensive production processes to low-cost production areas and were a powerful engine in the emergence of a regional production economy linked through trade in inputs.

About three-quarters of the enormous flows of FDI to China in the early 1990s came from Japan and the first-tier NIEs. By the mid-1990s, about half of the FDI in East Asia was intra-regional (Diwan and Hoekman, 1998; World Bank, 2000). FDI policies varied considerably across the region. Korea maintained tight restrictions on most FDI inflows, relying on direct purchases of technology by its own firms for acquisition of technology. FDI policies in the second-tier NIEs, on the other hand, had been more open, competed vigorously for export-oriented (especially high-tech) FDI by offering significant fiscal incentives (such as tax breaks) that exceed world norms (World Bank, 2000).

After the crisis, FDI inflows to the five crisis countries, like Indonesia, Korea, Malaysia, the Philippines, and Thailand, remained relatively stable in 1997-98.

But the experiences of individual countries varied widely. In 1998, inflows to Korea and Thailand surged about 80 percent, while FDI flows to the Philippines was about 40 percent. Korea maintained the strongest performance in the region in 1999, when flows rose another 55 percent. Flows to Malaysia, on the other hand, fell about 30 percent in 1998 and were flat in 1999. Flows to Indonesia since the financial crisis have been negligible (World Bank, 2000).

All the crisis countries have relaxed restrictions on FDI, especially on foreign ownership, and on opening of banking and financial sectors. Liberalization has been most marked in Korea, which had the least open stance before the crisis. Almost all sectors, including banking, have been opened to 100 percent foreign ownership, though some restrictions persist. Malaysia has undertaken the fewest additional measures (Bergsman and Bora, 1999). Indonesia increased the number of sectors open to total foreign ownership in 1994 (World Bank, 2000).

FDI flows in the wake of the crisis have been buoyed by cheaper asset prices and by the need for heavily indebted local firms to restructure their balance sheets. These factors, along with the significant excess capacity in many industries, have stimulated cross-border mergers and acquisitions relative to new greenfield investment. By 1998, investment through mergers and acquisitions, relatively unimportant before the crisis, increased to more than half of FDI in the five crisis countries (World Bank, 2000). Increased cross-border mergers and acquisitions can provide significant new equity for corporate and financial restructuring in the region. An increased foreign presence can help revitalize the financial sector in the wake of a financial crisis. Finally, most countries in the region have maintained and in some cases increased the use of complex incentives for FDI. Indonesia and China reinstated incentives they had earlier removed, and added even more (World Bank, 2000).

2.5 Foreign Direct Investment in Thailand

It is important to recognize that FDI are becoming increasingly flexible and fluid, and much less static in nature and composition. Further, there is a trend away from hierarchical and vertically integrated MNEs that are wholly controlled from the centre, and towards more looser organizational structures, or extended organizational forms that tend to resemble markets, linked by various forms of contract, and not just by equity ownership. The recent shift towards greater international outsourcing is one example of this trend. The implication for policy makers is that there are potentially more opportunities to benefit from this change in FDI behaviour and structure, and as the various parts of production are sliced and diced into finer and finer elements, the opportunity to become a specialised participant should increase. But, at the same time, there are greater competitions between countries to attract these smaller parcels of investment.

FDI has played an important role in the economic development of Thailand. In the early 1980s, Thai economy was still impaired from the fallout of two oil crises that occurred in the 1970s, causing a deficit in the country's balance of payments, as well as increased indebtedness, and inflation. However, the situation turned around sharply during the period 1987-1991 when the government began to promote FDI. During that period, Thai economy grew at an average rate of more than 10 percent, annually, making Thailand one of the world's fastest growing economies. Figures from the Bank of Thailand (2002) indicated that FDI into Thailand increased sharply from USD 0.2 billion in 1980 to USD 3.6 billion in 1997, an eighteen fold increased.

Patterns of investment in Thailand have changed over time. During the 1980s to early 1990s (before the financial crisis in mid-1997), Thailand attracted labour intensive production, especially those in the electronic industry, due to its low-wage rates. Vast amounts of FDI boosted up the economic, and it appeared that the growth was limitless. However, Thailand gradually lost its competitive position in labour-intensive export products because of a strong Thai baht and rapid wage increases, as well as intense international

competition, particularly from other Asian nations that offered lower labour cost and more abundant resources such as China, India, Indonesia, the Philippines, and Vietnam, (Brooker Group, 2002). Before the crisis, Japan, on average, played a major role in Thailand's FDI, followed by the United States, Hong Kong, Singapore, and European countries – mainly United Kingdom, France, Germany and Netherlands. After the crisis, from 1998 onwards, the proportion changed slightly, with Japan still on top, but ASEAN and NIEs become more important investors. Currently, Thailand is enjoying renewed interest by investors, with the Triad economies (USA, Europe, and Japan) as leading sources of FDI; and Singapore, Malaysia and Taiwan as the predominant regional sources of FDI inflows.

FDI contains less risk of fund shifting than other kinds of private capital inflows (Jantarangs, 2005). As shown in Figure 2.2, after the financial crisis in 1997, other forms of private capital inflows; i.e. portfolio investment and loans, dropped sharply (Dadush, Dasgupta & Ratha, 2000; Lipsey, 2001). On the other hand, in 1998, FDI continued to grow (USD 5.1 billion) before dropping to and maintaining a level around USD 3 – 4 billion, in 1999-2001, and dropping sharply after that (Bank of Thailand, 2005). The investment, then, increased in 2005, due to economic recovery and a lot of production expansion. The other two kinds of investments also fluctuated extremely, while FDI did not swing much.

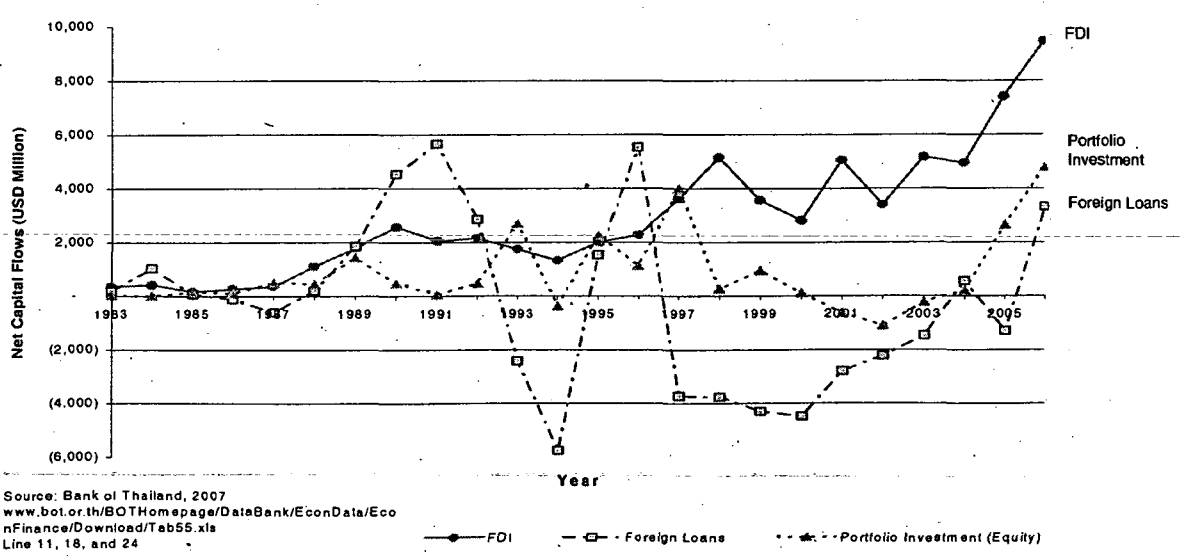


Figure 2.2: Net Foreign Capital Flows into Thailand during 1983 - 2006

The dramatic increase in FDI into Thailand immediately after the crisis can be attributed to the large depreciation of the Thai baht, which resulted in lower domestic production costs and asset values, and thus, increased profitability for foreign investors. In addition, a revision in laws, regarding the proportion of foreign ownership, allowed foreigners to hold a majority of shares (from a previous 25 percent limit) in both the financial institutions sector and the manufacturing sector, and uncovered opportunities for cross-border merger and acquisitions (Asian Development Bank, 2001). FDI in financial institutions went up significantly in 1998 to over 16 percent. The decline of FDI in 1999 and 2000 of about seven and five percent, respectively, may be due to the extinction of attractive assets and/or because investors were dissatisfied with the inefficient process of asset disposals as well as with the slow down in economic reform caused by bureaucracy (Asian Development Bank, 2001). Another drop of FDI in 2002 was mainly due to withdrawal of capital and profit earned from distressed assets purchased during the crisis, while there was no need for capital increment to expand production capacity of manufacturing business.

Within the manufacturing sector, the electronics industry relatively consistently attracts large volumes of FDI, amounting to 17.6 percent in 2001. For the period 1998-2000, however, electronics was overtaken by machinery and transport equipment, deriving mainly from the automotive industry, as many Japanese automotive parent companies injected capital to assist their subsidiaries and suppliers in Thailand following the crisis. The chemical industry surged in 2000 as a number of local producers was restructured, accounting for 13.6 percent of FDI, before completely dropping off in 2001.

Thailand has always taken a supportive approach toward private sector activities and encouraged foreign investment as a means of promoting economic development, employment, and technology transfer (Lim & Fong, 1991). Thailand treats FDI very much like local investment, except by specifying under the Alien Business Law and the Alien Occupation Law[4].

[4] Under these laws, foreign investors are not allowed to do business in the following industries: agriculture, animal husbandry, fishery, mineral exploration and mining, and service.

Board of Investment (BOI) is the government agency, which screens foreign investment proposals that seek promotional privileges. Special consideration is given to projects that contribute to the balance of payments, resource and regional development, energy conservation, linkage creation, employment, and technology transfer.

2.6 Investment Incentives in East Asian Countries

Investment incentives in East Asian countries share similar characteristics with each other. As shown in Table 2.1, almost all countries offer investors tax holidays of up to eight years, reduced corporate income tax (CIT) rates, investment allowances or accelerated depreciation, and special exemptions from import duties and other indirect taxes. These countries also focus on providing these incentives especially to foreign investors, exporters, and investment in poor regions. The one major exception in the region is Hong Kong, which offers few special incentives, but instead, charging low taxes corporate income at a low unified rate of 16 percent, almost half the typical standard rate in the region.

Export-oriented firms, particularly those locating in export processing zones (EPZs), are given numerous incentives, including automatic approvals, land ownership, full control of the affiliate, tax holidays and duty free imports of components. All countries have a priority list of activities for which both domestic and foreign investors receive special promotional privileges. Sometimes this list includes specific sectors which the government would like to promote, but in many cases the priorities relate to particular attributes of the investment rather than the sector itself. Thus, investors wishing to export most of their output or likely to transfer technology will generally be favoured. Incentives by the BOI in Thailand have evolved towards a regional development strategy in which projects are encouraged to locate in the most disadvantaged regions — a policy found in many East Asian countries as well. Other governments also include some regional incentives as well as part of the overall package of measures.

Table 2.1: Tax Incentive in Selected East Asian Countries

Standard	Cambodia	Laos	Vietnam	Malaysia	Indonesia	Philippines	Hong Kong	Thailand
Standard corporate income tax (CIT)	20%	Maximum of 35% or 1% of turnover	32%	28%	Progressive rates: 10%, 15%, 30%	32%	16%	30%
Dividend withholding tax	Taxed at relevant CIT rate, creditable against CIT	10%, creditable against CIT	3, 5, or 7% on dividends remitted abroad.		15% for residents, 10-20% for non-residents (50% reduction in favoured sectors/zones)	10-25% on dividends remitted abroad	None	10% on dividends remitted abroad, domestic inter-company dividends are partly or wholly exempted.
Incentives								
Sectors qualifying for incentives	Hi-tech, export, tourism, infrastructure, energy, rural development, environmental protection		Exporters, agricultural processors, certain locations	Corporations in manufacturing, agriculture, tourism, and various other activities may receive pioneer status	Export, hard crop plantations, mining, businesses in remote areas	Exporters		Exporters, various other industries
Tax holidays	Up to 8 years	Negotiable but rare	Up to 8 years	5 year tax holiday on 70-100% of statutory income (10 years for companies of national/strategic importance)	3-8 years income tax holidays for new enterprises in 22 specific sectors	3-8 year income tax holidays		3-8 year income tax holidays
Reduced corporate income tax rate	9% after end of holiday for favoured projects	20 % for foreign investors, 15% for companies in lowlands, 10% for companies in remote areas	25% for foreign investors, 10, 15, 20% for 10+ years under certain criteria	3% for offshore companies in Labuan, 10% for foreign fund management companies				Enterprises in investment promotion zones get 50% reduction of CIT for 5 years

Table 2.1: Tax Incentive in Selected East Asian Countries (continued)

	Cambodia	Laos	Vietnam	Malaysia	Indonesia	Philippines	Hong Kong	Thailand
Investment allowances and credits			If profits reinvested for 3 consecutive years, a portion or all of CIT may be refunded.	Investment allowances of 60-100%of qualifying capital expenditure	Reduction of taxable income by up to 30% of investment in priority sectors	Tax credits for purchases of domestic breeding stocks and genetic material, as well as for incremental export revenue		Allowance of 25% for investment in infrastructure
Accelerated depreciation	Immediate expensing of plant and equipment investment financed from reinvested profit			Accelerated depreciation of computer, technology and environmental protection investments	Doubling of depreciation rates in favoured zones/sectors	Immediate expensing of major infrastructure investments by export enterprises in less developed areas		
Import duty and VAT exemption	Import duty exemptions for promoted investments		Exemptions from import duties and VAT in certain sectors	Exemptions and reduced import duty and VAT rates on inputs in certain sectors, esp. exporters	Exemptions and reduced import duty and VAT rates on inputs in certain sectors, esp. exporters	Exemptions and reduced import and VAT rates on inputs in certain sectors, exp. Exporters		Exemptions and reduced import duty and VAT rates on inputs in certain sectors, esp. exporters
Export processing zone			Various additional incentives apply in these zones			After tax holidays lapse, enterprises in these zones pay only 5% tax on gross income		
Others				Double deduction of certain expenses, e.g. R&D, training	Loss carried forward extended to 10 years for companies in favoured zones/sectors	Additional 50-100% deductions for labour expenses for export projects above a certain capital/labour ratio		Dividend distributions during holidays are tax exempted.

Source: Chalk (2001), and Price WaterhouseCoopers (2001)

Incentives can take two forms. The first are tax incentives for a defined period. Malaysia, Thailand and the Philippines, all offer such fiscal incentives. Indonesia has been more reticent in this area, although certain industrial sectors might benefit from incentives. The second type of incentive represents exemptions from various restrictions on inward investment described above, as well as from import duties on capital goods and raw materials and other trade barriers.

2.7 Investment Incentives in Thailand

The Board of Investment (BOI), established by the Investment Promotion Act of 1977, is Thailand's central investment promotion authority. BOI is working to be a one-stop shop for service, helping investors in three key ways: (a) to reduce the risks associated with investment, (b) to reduce initial investment costs and to improve the overall rate of return on investment, and (c) to provide support services at all times. It encourages investment in sectors and locations that will help the country achieve its economic development goals by awarding a wide range of incentives to local and foreign investors (Board of Investment, n.d.). The provision and quality of after care service for investors; i.e. assistance provided by BOI to FDI after the initial investment has been made, can also be an important determinant, notably in terms of reinvestment by existing investors.

BOI has divided the 76 provinces of Thailand into three investment zones, based on economic factors, i.e., the level of income and the availability of infrastructure in each province. Zone1 are central provinces with high income and good infrastructure, including Bangkok and the five provinces around it, called Greater Bangkok. Zone2 covers the ring of 12 provinces around Greater Bangkok, where income level and infrastructure are in medium level. Zone3 are provinces with low income and less developed infrastructure; i.e. all other provinces outside the central region of Thailand.

The BOI offers two kinds of benefits: non-tax privileges, such as guarantees, protections, permissions, and services, and tax-based incentives, such as

corporate tax holidays or tariff exemptions. The non-tax privileges are available to all BOI-promoted projects, regardless of location, industry, or condition. Tax-based incentives, on the other hand, depend on several factors, like location of the factory, business activities, etc. Priority activities include projects in the following five areas: agriculture and agricultural products, technological and human resource development, public utilities and infrastructure, environmental protection and conservation, and other targeted industries subject to the board's approval.

After the financial crisis in the middle of 1997, the global economic climate and investment environment have undergone change. BOI, then, adjusted Thai Investment Promotion Policies and Criteria for granting tax privileges in order to respond to the current and future economic and investment situation, effective since 1 August 2000.

a) Policies for Investment Promotion

To promote development of quality and production standards and to enhance the competitiveness of Thai industry in the world market, every promoted project that has investment capital of 10 million baht or more (excluding land and working capital) must obtain ISO 9000 certification or similar international certification. Under the new policies, efficiency and effectiveness of tax privileges given must be enhanced. Privileges shall be granted to projects that actually benefit the economy and having good governance. Previous conditions on exports and use of local material are also repealed so that the criteria for promotion will be in line with international trade and investment agreements. Main focus is to provide special promotion to (i) regions or areas with low income and inadequate investment facilities. Maximum tax and duty privileges shall be given to these regions or areas, (ii) small and medium industries by applying a minimum level of investment capital of 1 million baht (excluding cost of land and working capital) for projects eligible for promotion, and (iii) activities in agriculture and agricultural products, projects related to technological and human_ resource development, public utilities and

infrastructure, environmental protection and conservation and targeted industries.

b) Criteria for Shareholding by Foreign Investors

A project in agriculture, animal husbandry, fishery, mineral exploration and mining and service business must be owned by Thai nationals in total of not less than 51 per cent of the registered capital.

For all other activities, foreign investors may hold a majority or all shares in promoted projects[5].

c) Criteria for Granting Tax and Duty Privileges

The current criteria for granting tax and duty privileges are different for each promotional zone, but mainly the incentives given are (i) 50 percent reduction of import duty on machinery that is subject to import duty of not less than 0–10 percent, (ii) corporate income tax exemption for 3–8 years, capped at 100% of total invested capital, for projects located within industrial estates or promoted industrial zones, provided that such a project has capital investment of 10 million baht or more (excluding cost of land and working capital), obtains ISO 9000 or similar international standard certification within two years from its start-up date, otherwise the corporate income tax exemption will be reduced by 1 year, (iii) exemption of import duty on raw or essential materials used in the manufacturing of export products for 1–5 years.

While BOI may grant a broad range of privileges, it is not required to grant all the privileges requested by eligible firms. The BOI has broad discretionary powers and designates incentives based on the benefits Thailand is expected to derive from a particular enterprise. The extent of the incentives offered is typically the minimum considered necessary to ensure that the investment locates in Thailand.

[5] The Board of Investment (BOI) used to restrict majority foreign ownership in promoted projects that supply/sell mainly for/to the domestic market. It had gradually relaxed this condition over the past decade. In 1993, it allowed 100 percent foreign ownership only for manufacturing projects located in Zone 3 (the least developed provinces) or exported at least 80 percent of total sales.

The investment promotion strategy of Thailand is seen to focus on the leading variables of FDI benchmarking studies, through both short- and long-term plans. Coupled with this re-orientation is greater attention to attract higher-value added and technologically-intense FDI, in recognition of the need to shift rapidly away from low- and medium-technology, and towards high-technology cluster development. A recognition of the role of the knowledge-based economy is factored into upgrading skills and investing in innovation as an essential component of investment promotion.

Foreign investment in Thailand, however, does not require BOI approval. Many foreign companies operating in the country receive no BOI privileges or are not eligible for BOI incentives. U.S. firms, for instance, can benefit more under the Amity Treaty than some BOI incentives. Some foreign firms feel that BOI requirements for Thai co-ownership and export performance outweigh the benefits of BOI incentives. In general, companies that intend to invest in export-oriented production apply for BOI promoted status more often than do firms that plan to serve mainly the domestic market (EAER, 1992a, b).

It is imperative that government and private industry better understand the potential spillover benefits from FDI, particularly in how it helps increase the country's and firms' competitiveness. The government will need to put forth a platform of policies designed to specifically enhance competitiveness, restructure the industrial base, strengthen the legal and regulatory frameworks that support business, and support closer interface among the government, foreign investors, and the domestic business community. Moreover, the government will need to explore selective interventions to encourage innovative programs with foreign investors, such as linkages with local firms, academic institutions, and communities. For its part, the local private sector will need to develop strategies to harness the technical and managerial capabilities of foreign firms, establish greater forward linkages with foreign firms, and discern ways of increasing their competitive position in global markets (Board of Investment, n.d.).

2.8 FDI Locational Determinants – Literature Review

Existing literature has identified the following factors of host countries: economic, political and policy, taxes, facility and utility, research and development, market, financial and legal, and environment, as important factors in determining the locational choice of FDI.

Economic conditions of host countries proxy by gross domestic product (GDP), economic growth, disposable income, inflation, comparative stability of baht currency, and extent of government intervention in the economy, are one of the most important determinants for FDI aimed to serve regional/local markets. Market-seeking FDI uses market size as a benchmark of potential demand for their output. Economic stability stimulates the inflow of FDI to the country, and vice versa, economic instability reduces inflow of FDI to the country.

Previous studies found a significant positive correlation between the economic factors and FDI. Varieties of economic factors have been used in research. Some researcher used GNP, GDP, lagged GDP, per capita GNP, and/or their growth rates (Cheng & Zhao. 1995; Culem, 1988; Fung et al., 1999; Lunn, 1980; Scaperlanda & Baslough, 1983; Wheeler & Mody, 1992). Some applied real GDP growth rates, growth rates of real per capita income (Chantasasawat et al., 2005), personal income (Friedman, Gerlowski & Silberman, 1992), regional income (Cheng & Kwan, 2000), and size and growth of population (Crenshaw 1991, Dunning 1994). On the other hand, an unstable exchange rate was found to have adverse effect on FDI inflow (Baniak, Cukrowski & Herczyński, 2002). According to Graham and Krugman (1995), increase in FDI may be attributable partly to the movements in the dollar.

Economic growth is necessary for attracting FDI (Shatz & Venables, 2000). Empirical evidence showed that the fastest growing countries are the biggest FDI host countries (JETRO, 2001). Other studies indicated that FDI has been

the largest source of external finance for developing countries since 1990s (Aitken & Harrison, 1999).

Another economic factor that affects FDI investment decision is business cycle (Graham & Krugman, 1995; Krugman 1996). FDI normally rise faster than output during periods of economic recovery and fall faster during recessions (Julius, 1990), as evidenced by the fall in FDI to the United States after 1989 recession.

Political and policy factors include political stability; continuity of government policy; government bureaucracy or read tape; flexibility of foreign investment regulations; enforcement of intellectual property law; environmental control policies; restrictions on land and property ownership by foreigners; restrictions on equity ownership by foreigners; regulation and control on foreign exchange transactions; extent of corruption; risk of war and conflict with neighbouring countries; exemptions or reductions of import duties on imported machinery and components, and raw materials; and regulations regarding tax on repatriation of income and dividend.

The political stability of host countries influences FDI. Political instability provides a hostile environment for foreign corporations, discouraging their investment (Bennett & Green 1972). Thus, FDI views that political instability is one of the most important variable influencing their foreign investment decisions (Basi 1963, Ahargoni 1966, Schneider and Frey, 1985; Lucas, 1993; Wang and Swain, 1995; Jun & Singh, 1996; Ramcharran, 1999; Chantasasawat et al., 2003). Uncertain political environments and their related risks can impede FDI inflows in spite of favourable economic conditions.

Corruption is another key determinant of FDI (Gastanaga, Nugent, & Pashamova, 1998; Markusen, 1998; Wei, 1997). Corruption discourages FDI by inducing a higher cost of doing business. Hines (1995) found that FDI grew more rapidly in less corrupted countries than in more corrupted countries, which was supported by Wei (1997) who presented that the corruption has large and significant effect on FDI. FDI needs consistency and transparency

in policy making by host countries, and averse to gratuitous bureaucracy and red tape (which are often associated with corruption) (UNIDO, 2005).

Foreign exchange restrictions and profit repatriation restrictions are considered as one of the most concerns of FDI, especially for those with export-oriented objectives (Rolfe et al., 1993; Woodward & Rolfe, 1993) as normally intra-firm transactions between the FDI and its parent would occur routinely, including dividend payout to its parent abroad.

Developing countries usually use fiscal incentives, such as reductions in the base rate of corporate income tax, tax holidays, and import-duty exemptions and drawbacks, to attract FDI (Oman, 2000). Tax concession factor are anticipated to have positive relationship with FDI, as taxes have a direct effect on profit, and are therefore assumed to significantly affect FDI decisions. However, this effect is not straightforward. It depends upon the tax instrument used, the characteristics of FDI, and the relationships between the tax systems in the home and host countries (Morisset & Pirnia, 2000).

The studies of tax charge on FDI decisions earned various results. Some found that state and local tax is a strong deterrent to FDI (Friedman, Gerlowski & Silberman, 1992; Hines, 1996; Swensen, 1994), while the others found weak relationship between tax and FDI (Coughlin, Terza & Arromdee, 1991; Smith & Florida, 1994). One study on Japanese FDI in the U.S. reported various results: state unitary taxes are a significant deterrent, while corporate tax has no impact (Woodward, 1992). The evidence of significant negative influences of corporate tax rates were also reported in previous studies (Chantasasawat et al., 2003; Fung et al., 2005; Fung, Iizaka & Parker, 2002; Fung, Iizaka & Siu, 2003; Gastanaga, Nugent, & Pashamova, 1998; Hsiao, 2001; Wei, 1997).

For import duties, effect of tariff differs in different types of FDI expansion; i.e. horizontal or vertical. A typical vertical FDI can be characterized by individual affiliates specializing in different stages of production of the output. Horizontal expansion, on the other hand, involves each affiliate's engagement in similar

types of production as the parent's. The vertical FDI may be encouraged to invest in a country with relatively low tariff barriers due to lower cost of their imported intermediate products. Therefore, the expected sign of import duty variable is negative in this case. In contrast, high tariff barriers induce firms to engage in horizontal FDI, and thus, replace exports with production abroad by foreign affiliates (Brainard, 1997; Horst, 1971; Carr, Markusen & Maskus, 2001).

Facility and utility factors are cost of land and construction; availability, cost and quality of raw material; cost and quality of energy and utility supplies; cost and quality of transportation system; cost and quality of communication system; traffic condition in and around the city; wages and availability of skilled and technical labour; extent of difficulty in training skilled labour; wages, availability of unskilled labour; extent of difficulty in training unskilled labour; ability and salaries required of managerial staff; quality of work force in general; existence of labour union and their influence; business practice and cultural difference; development of supportive industry from home country and from host country; and development of science and technology.

Supply of raw material is anticipated to have positive relationship with FDI, especially the resource-seeking FDI (Dunning, 1993; UNCTAD, 1998). Human capital is another important determinant of the marginal value of investment, as the higher quality of labour implies higher profitability or higher quality of products, and thus, enhances competitive advantage for FDI (Lucas, 1988). It is predicted that foreign firms preferred lower wage locations in order to minimise their cost of production. The research, however, yielded mixed results: negative relationship between labour cost and FDI (Cheng & Kwan, 1999; Culem, 1988; Coughlin, Terza & Arromdee, 1991; Friedman, Gerlowski & Silberman, 1992); positive relationship (Froot & Stein, 1991; Fung et al., 1999; Hsiao and Shen, 2002; Maki & Meredith, 1986; Narula & Wakelin, 1997; Noorbakhsh, Paloni & Youssef, 2001; Smith & Florida, 1993; Woodward, 1992; Yamawaki, 1991); and insignificant relationship (Cheng & Kwan, 1999; Cheng & Zhao, 1995; Head & Ries, 1995; Kravis & Lipsey, 1982; Owen,

1982). Labour skill is more significant for a host country where more capital- and technology- intensive investment projects are concentrated.

These mixed results may be because in some countries, wages already reflect level of labour productivity or quality. High wages, in this case, mean high labour quality and thus, would attract more FDI (Smith & Florida, 1993; Woodward, 1992). In other cases, the significance of labour cost may be outweighed by other production and transaction costs, such as political stability (Fung et al., 1999). FDI size, itself, also creates the difference. Low labour cost is considered a more important determinant for small firms than for medium to large firms, as small firms are more cost sensitive (Kinoshita, 1998).

Quality of infrastructure is another variable that has been frequently examined. Various measures have been identified to have positive relationships with FDI, including a container port (Friedman, Gerlowski & Silberman, 1992; Smith & Florida, 1993); interstate highway system (Woodward 1992), and highway (Coughlin, Terza & Arromdee, 1991). This research result is supported by Chantasasawat et al. (2005), Cheng & Kwan (1999), Fung, Iizaka and Parker (2002), Fung, Iizaka and Siu (2003), Fung, Garcia-Herrero, Iizaka and Siu (2005), Fung et al. (1999), Head & Ries (1996), Hsiao and Shen (2002), and Kinoshita (1998).

Research and development factor comprises development of supportive industry from home country, development of supportive industry from Thai government, and development of science and technology. The efficiency-seeking FDI is motivated by creating new sources of competitiveness for the firm; thus, focus more on research and development (UNCTAD, 1998).

Market factors consist of trend and size of local market; competition in local market; trend and size of markets in neighbouring countries; existence of distribution channel; change in consumer behaviour; and availability and reliability of market information. Foreign firms targeting a local market are attracted to the country with high growth rate of market as it indicates a larger

potential demand for their products. The market-seeking FDI aims at penetrating the local markets of host countries and is usually connected with market size and per capita income, market growth, access to regional and global markets, consumer preferences and structure of domestic market (UNCTAD, 1998). Many researchers found positive significant relationship between market condition and FDI (Bajo-Rubio & Sosvilla-Rivero, 1994; Brainard, 1997; Coughlin, Terza & Arromdee, 1991; Fung, Iizaka and Parker, 2002; Fung Iizaka and Siu, 2003; Fung, Garcia-Herrero, Iizaka and Siu, 2005; Kinoshita, 1998; Krugman, 1991; Markusen & Maskus, 1999; Kravis & Lipsey, 1982; Lim, 2001; Lipsey, 2000; Love & Lage-Hidalgo, 2000; Moore, 1993; Moosa, 2002; Schneider and Frey, 1985; Wang & Swain, 1995; Wei, 1997; Wheeler & Mody, 1992; Woodward 1992).

Market liberalization is one driver of FDI flows, as is financial liberalisation, permitting capital to flow more easily across the globe (UNIDO, 2005). For firms involved in production or services at the higher end of the value chain, the general quality of life in a country can be essential in attracting the necessary talent, and therefore is an important determining factor in locating an investment (UNIDO, 2005). It is also well recognized that encouraging firms to invest, improve productivity, and create jobs requires the right legal and regulatory environment, including protection of property rights, access to credit, and efficient judicial, taxation and customs systems (Sujarittanonta, 2005).

Financial and legal factors include access to local sources of fund; cost of capital; availability of financial systems; accounting and auditing standard; steadiness and time procedure of laws; and transparency of local partners or corporate governance. Empirical studies found significant negative relationship between cost of capital and FDI (Auerbach, 1990; Ahmed, 1997; Lucas, 1993; Bajo-Rubio & Sosvilla-Rivero, 1994; Khan, 1997; Root & Ahmed, 1979; Love & Hidalgo, 2000; Wang & Swain, 1997). Legal system is also a crucial factor in stimulating FDI flows to the host country (Baniak, Cukrowski & Herczyński, 2002). In addition, OCED (1994) stated that frequency of changes in a country's legal policies and

bureaucratic/administrative barriers decisively shape investment choices (OECD 1994).

Environmental factors consider attitudes towards foreign investment, international trade associations, geographic and climate conditions, literacy level of local people, living conditions for expatriates, and social program to improve standard of living. Positive sign is expected for the relationship between environment condition and FDI. Several research found that openness in term of international trade associations, like Free Trade Agreement (FTA), play a vital role in promoting FDI to the open countries (Chantasasawat et al., 2003; Coughlin, Terza & Arromdee, 1991; Kravis & Lipsey, 1982; UNCTAD, 1998; Wheeler & Mody, 1992). Krugman (1991) suggested that distance should be put back when considering location of production. Also, aggregation phenomena contributes to the clustering of economic activity and the creation of agglomeratons (Krugman, 1996). In addition, Chantasasawat et al. (2003) reported positive relationship between literacy level of local people and FDI.

As a result, the theoretical model could be drawn as presented in Figure 2.3, based on the above literature review of FDI determinants,

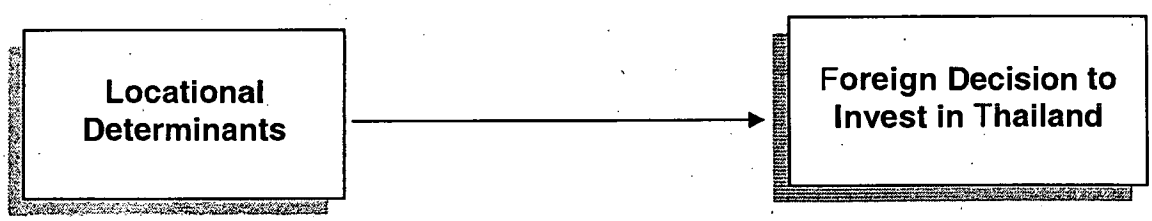


Figure 2.3: Theoretical Model

According to Dunning (1979, 1980), FDI is founded when three conditions are met; i.e. "O" – ownership/firm specific advantages, "I" – internalization specific advantages, and "L" – locational/country specific advantages. The "O" and "I" factors are purely depended on the firms, and cannot be managed by others. On the other hand, the "L" factor is manageable by a host country. A country

is able to choose which kinds of FDI they would like to attract, by providing factors that suit needs of such foreign investors. At the same time, the country should be well aware of its costs and benefits received from the attracted FDI, for overall highest benefits. Among countries in the same region, Thailand is known as one of the most attractive locations for foreign investment. However, with severe competition in the region, it is imperative for the government to provide what are really needed by the investors. This research focused on identifying locational determinant factors for FDI to invest in Thailand.

Next chapter provided details of the research; i.e. research questions, research model, research design and methodology.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

This chapter provided details of research design and methodology applied in this research, divided into two parts. First presented research model and hypotheses. Then, research design and methodology were explained, including population and sampling frame and selection, measurement development, and instrumental development.

3.1 Research Model and Hypothesis

Each of determinant factors is weighed unequally by FDI. Incentive preferences vary among foreign investors with different characteristics (Rolfe et al., 1993). Research revealed that incentive preferences are a function of the type of investment, the countries involved, the market orientation of the investor, the type of product, the size of the investment, and the investment year (Rolfe et al., 1993). Kinoshita (1998) found that low labour cost and sufficient infrastructure are the major determinants for small firms, while large market size is the main consideration of medium and large firms.

Research questions examined in this study stem from the proposition that investment decision of FDI are influenced by characteristics of FDI. These characteristics, so called moderators, affect the relationship between locational determinants and FDI decision to invest, differently. The moderators introduced here are: nationality (Asian vs. Western), industry (manufacturing vs. service), market orientation (domestic vs. export markets), sourcing (local sourcing vs. import), level of inter-group dependency (purchase from non-group vs. from group), investment size (small and medium enterprise – SME vs. large corporate), major shareholder (foreign vs. Thai), and years of establishment in Thailand (eight years or less vs. more). Research model is presented in Figure 3.1.

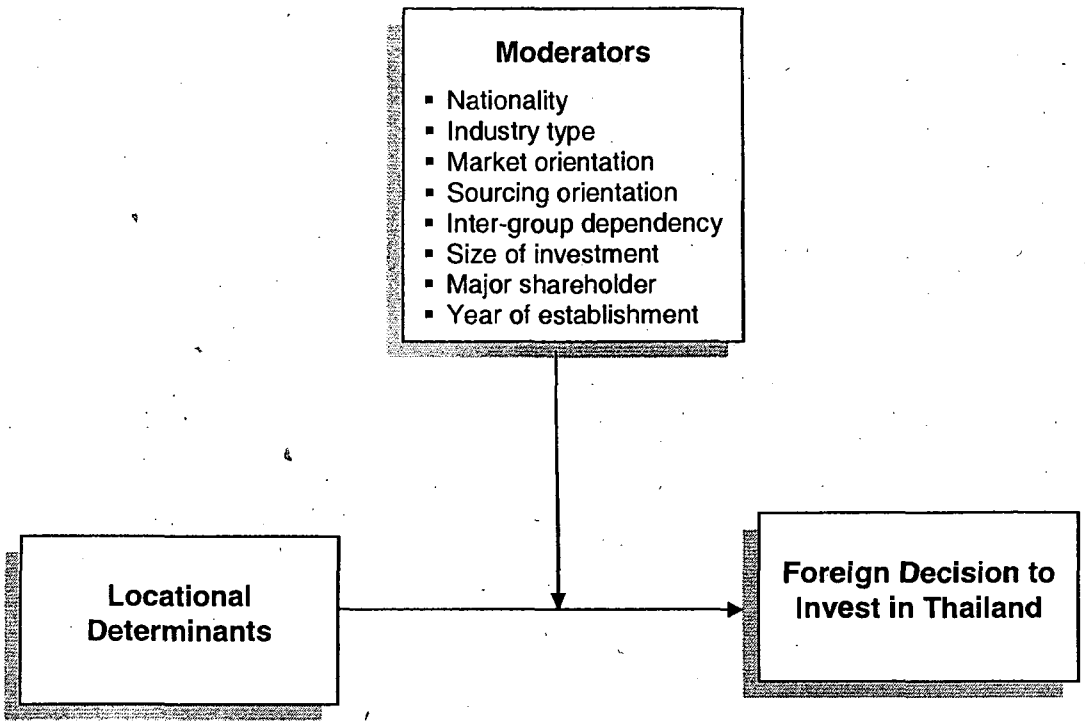


Figure 3.1: Research Model

The following hypotheses are proposed:

H1: Factors encouraging/discouraging FDI are different by nationality; i.e. Asian vs. Western.

H2: Factors encouraging/discouraging FDI are different by industry; i.e. manufacturing vs. service.

H3: Factors encouraging/discouraging FDI are different by nature of market orientation; i.e. domestic vs. export.

H4: Factors encouraging/discouraging FDI are different by sourcing orientation; i.e. local sourcing vs. import.

H5: Factors encouraging/discouraging FDI are different by level of inter-group dependency; i.e. purchase mainly from non-group vs. from group.

H6: Factors encouraging/discouraging FDI are different by firm size; i.e. SME vs. large corporate.

H7: Factors encouraging/discouraging FDI are different by major shareholder; i.e. foreign vs. Thai.

H8: Factors encouraging/discouraging FDI are different by years of establishment in Thailand; i.e. newly start-up vs. long established.

3.2 Research Design and Methodology

This study was a descriptive statistic and empirical research. The research instrument utilized self-administered survey questionnaire mailed in order to collect the data. As the international study, the survey instrument in this study was prepared into three different languages in order to fulfil the convenience of major nationalities of respondents; English, Japanese, and Chinese, and to ensure correct understanding of the respondents.

The questionnaire applied multidimensionality method to reduce the possibility that a single item might be misinterpreted. A pool of items of research questions was mainly derived from the literature review and partly drafted from experts' and academicians' comments. The preliminary interviews done with experts and academicians were to strengthen the content validity of measurement. Upon this process, the feasible questionnaire was conducted via pilot testing. The purpose was to ensure that the statements in the questionnaire were intentionally interpreted as expected and to finalize the flow of questionnaire by examining with actual data.

Mailing lists were randomly and systematically selected from pools of those foreign companies in various manufacturing and service industries in Thailand. Lists of companies were obtained from the official list of Board of Investment of Thailand. After respondents completed and returned questionnaire by posted return package mail, analysis and interpretation of data were performed by conducting SPSS.

3.2.1 Population Identification, Sampling Frame, and Sample Selection

The unit of analysis of this study was at firm level, focusing on international companies in crossed-section manufacturing and service industries in Thailand. The population of this study were foreign companies obtained from an official list of the Board of Investment (BOI) containing 11,956 promoted firms. The sampling frame was logically established based on two criteria: (i) the company has at least one foreign shareholder, and (ii) a foreign shareholder holds at least 10% of total shares, in according to FDI definition

of United Nations. After achieving the sampling frame, sampling selection was performed by re-coding the list of companies based on alphabetical sorting procedure. A systematic random sampling by setting interval selecting scale of 10, starting from 7, was applied to select 1,188 firms as the qualified target sampling size in this study.

3.2.2 Measurement Development

Measurement development was based on the concept "measure what we want to measure" (Hair et al., 1998). Measurement development process started from establishing a pool of items that captured the domain of each research construct in the research model. Those items were thoroughly composed from existing related literature and suggestion from international business experts. Its process was used to generate items or statements in this study.

In this study, some statements were recast to be positively stated and others to be negatively stated to reduce acquiescence bias. Any double-barrel statements were split into two single idea statements (Churchill, 1999). With careful scrutiny of the literatures and measures used in previous research, personal in-depth interviews and pilot test was conducted to help ensure that only relevant items were included in the final instrument.

Each statement was cautiously modified so that it expressed the precise meaning without redundancy. The purification of measures was to assess the reliability and the validity of the proposed measures (Churchill, 1979). To achieve high content validity, construct validity and construct reliability, measurement development was practically preceded in following steps.

a) Preliminary Interview

Two FDI executives and one international business academician were interviewed, in order to enhance rich and useful information, verify scope and content of the measures, and detect some new items. The interview provided

assessment to not only content (face) validity but also construct validity of each questionnaire item.

After minor modification and adjustment, the English version questionnaire was carefully translated into Japanese and Chinese, back and forth, by individual experts in order to ensure its validity on each language. The questionnaire employed seven-point interval rating Likert type scales, with a 1 indicating "Very Strongly Discourage", and a 7 indicating "Very Strongly Encourage".

b) Pilot Test

A pilot test was undertaken in November 2002 before executing actual field survey. Twenty management level officers of foreign firms and three experts were requested to complete the particular questionnaire[6]. Participants were requested to comment on wording, format, presentation, and validity of each statement. This process helped in refining the questionnaire by removed ambiguity and/or misinterpretation, and finalised flow of the questionnaire. All of these procedures were principally to enhance reliability of the instrument. The questionnaire was designed for respondent to totally complete within 25 minutes. The result from this pilot test ensured that the questionnaire met the researcher's expectations, in term of information needed, and clear and correct understanding of the respondents.

3.2.3 Instrumental Development and Organization of Questionnaire

This study employed a self-administrative questionnaire as the instrument of data collection. Questionnaire in this research was a structured-undisguised type of questionnaire, with open-ended format to retrieve further desired information and to fit the objective of the study. Due to dealing with international research arena, the questionnaire was deliberately provided into three different versions: English, Japanese, and Chinese. The instrument was

[6] Hair et al., (1998) suggests that a proper pilot test size is approximately 20-50 cases, in according to the central limit theorem. Therefore, this study performed a pilot test of 23 respondents, which achieved the statistic requirement.

carefully built with non-professional language in order to avoid jargons. From the pre-test process, questionnaire was tested and refined to ensure its clarity and measurability, and also designed to be completed within 25 minutes per each response.

The questionnaire, shown in Appendix 1, comprised two parts; i.e. cover letter and body of questionnaire. Cover letter explained objectives of this study and guideline how to complete the questionnaire. At the end of this part, respondent was assured that all provided information would be kept strictly confidential and only used for the research. A summary of this research was also available, upon request of the respondent.

The body of questionnaire divided into two parts. Part 1 asked respondent to provide attitude towards the 63 locational determinants of FDI, ranging from very strongly discouraging ("1") to very strongly encouraging ("7"). Part 2 asked respondent about demographic data: personal and company information, for researcher to review and screen qualification of the respondent and the company before including/excluding such response into/from the sampling pools.

3.2.4 Operationalization of the Measure

The measures were paid particular attention to operationalization and measurement in this study. The variables were operationalized in two ways: (1) for those variables that have been previously employed in research settings, the measures were adopted with acceptable measurement quality; and (2) for those variables that were unique to our conceptual model, the operational measures were derived through interviewing and discussing with academicians and management level officers who were running international firms, in order to provide useful knowledgeable information.

Existing literature has identified various locational determinants of FDI. In this research, 63 items developed from various existing literature reviews were used to explore the determinants that influenced FDI to invest in Thailand,

other than other countries. The 63 items were originally grouped into six subgroups as presented in Table 3.1.

Table 3.1: Locational Determinants of FDI

Factor	Item	Code
Economic	Gross domestic product	A101
	Economic growth	A102
	Disposable income	A103
	Inflation	A104
	Comparative stability of Baht currency	A105
	Extent of government intervention in the economy	A106
Political and policy	Political stability	A201
	Continuity of government policy	A202
	Government bureaucracy or red tape	A203
	Flexibility of foreign investment regulations	A204
	Enforcement of intellectual property law	A205
	Environmental control policies	A206
	Restrictions on land & property ownership by foreigners	A207
	Restrictions on equity ownership by foreigners	A208
	Regulation & control on foreign exchange transactions	A209
	Extent of corruption	A210
	Risk of war & conflict with neighbouring countries	A211
	Exemptions or reductions of import duties on imported machinery & components	A212
	Exemptions or reductions of import duties on imported raw materials	A213
	Exemptions or reductions of corporate tax	A214
	Regulations regarding tax on repatriation of income & dividend	A215
Facility and utility	Cost of land & construction	A301
	Availability of raw material	A302
	Cost & quality of raw material	A303
	Cost of energy & utility supplies	A304
	Condition/quality of energy & utility supplies	A305
	Cost of transportation	A306

Table 3.1: Locational Determinants of FDI (continued)

Factor	Item	Code
Facility and Utility (cont.)	Condition/quality of transportation system	A307
	Cost of communication	A308
	Condition/quality of communication system	A309
	Traffic condition in & around Bangkok	A310
	Availability of skilled & technical labour	A311
	Wages of skilled & technical labour	A312
	Extent of difficulty in training skilled labour	A313
	Availability of unskilled labour	A314
	Wages for unskilled labour	A315
	Extent of difficulty in training unskilled labour	A316
	Ability of managerial staff	A317
	Salaries required for managerial staff	A318
	Quality of work force in general	A319
	Existence of labour union & their influence	A320
	Business practice & cultural differences	A321
	Development of supportive industry from home country	A322
	Development of supportive industry from Thai government	A323
	Development of science & technology	A324
Market	Trend & size of local market	A401
	Competition in local market	A402
	Trend & size of markets in neighbouring countries	A403
	Existence of distribution channel	A404
	Change in consumer behaviour	A405
	Availability & reliability of market information	A406
Financial and legal	Access to local source of fund	A501
	Cost of capital (e.g. interest rate, etc.)	A502
	Availability of financial systems	A503
	Accounting & auditing standard	A504
	Steadiness & time procedure of laws	A505
	Transparency of Thai partner(s) of corporate governance	A506

Table 3.1: Locational Determinants of FDI (continued)

Factor	Item	Code
Business environment	Attitudes towards foreign investment	A601
	International trade associations (e.g. APEC, AFTA, WTO)	A602
	Geographic & climate conditions	A603
	Literacy level of local people	A604
	Living conditions for expatriates	A605
	Social program to improve standard of living	A606

3.2.5 Data Collection Procedure

This research conducted at firm level, focusing on foreign companies in crossed-section manufacturing and service industries in Thailand. The targeted sample was obtained from the official list of Board of Investment of Thailand (BOI). Mail survey was employed to gather data in this study because it was considered as the method that can cover widely dispersed population.

The questionnaires were mailed to 1,188 firms in the sampling frame, addressed to executive management by specifying their positions who know best the firm's overall business policy. The procedures for distribution and collection of questionnaire were as follows:

(a) Mailing package was prepared, consisted of a cover letter, a questionnaire, and a self-addressed postage-paid replied envelop. A cover letter was considered as mechanism to endorse the aims and contributions of the study and encourage respondents to participate in this research. In addition, a postage-paid return envelope was provided to accommodate the respondent in replying the completed questionnaire.

(b) Prior to mailing the questionnaires, an intensive investigation by telephone was conducted in order to identify the name and address of the right respondents. Moreover the initial individual contacts by phone

were made to personally introduce the objective of study and soundly convinced the contact person in participating in this study.

(c) In addition, this study tried to maximize response rate by using follow-up call. Due to anonymous field research, systematic random follow-up calls by setting every 5 ranking interval were made two weeks after initial mailing date. The preliminary notification and reminder letter together with questionnaire were required and re-sent to those who failed to receive such questionnaire.

(d) This research also employed an implied incentive strategy which might partially improve the response rate. The respondents were offered a copy of summary of the study findings (if want to) in recognition to their participation.

3.2.6 Data Analysis

This section described the analysis of data obtained from field questionnaire, using SPSS, before implementing statistical method to test the hypotheses, and presented in four parts. First part was the presentation of descriptive statistic of respondents. Second part concerned with the analysis of potential non-response bias. Third part exhibited purification of measure, attached with test for assumptions of MANOVA which was the statistic tool employed to test the hypotheses in this study, as the last part.

3.2.6.1 Descriptive Statistic of Respondents

The processes of descriptive statistic of respondents consisted of tests for data preparation, response rate, characteristics of respondents, and characteristics of moderators. Those processes were depicted in details as follows:

a) Tests for data preparation

After receiving the returned questionnaires, preparation procedure was arranged in order to investigate quality of data. The process included

preparation or screen of the data; missing treatment, test for extreme bias, test for outliers and frequency test; and data editing and coding.

- Preparation or screen of the data was to screen out unusable questionnaires. Criteria applied for dropping off questionnaires were (1) those provided incomplete significant information, (2) those answered by unqualified person, and (3) those completed by more than one respondent. Out of total returned questionnaires of 103 cases, there were 91 completed questionnaires, and 12 dropped off.

- Treatment for missing data, test for extreme bias, test for outliers, and frequency test were to correct the missing data. Respondents may be reluctant to cooperate or forgot to answer some statements. This created minor missing data in some cases. The omitted scores were replaced by mean score of each statement.

  Extreme bias and outliers were also considered problematic as they did not truly represent the population and can seriously distort statistical results. Extreme responses like all "straight 7" were dropped off, in order to increase reliability of the data. Outliers were identified and either eliminated or recorded as missing value subject to the rationale of why the errors arose. In addition, to provide full picture of the overall respondent profile, frequency test was employed to classify respondent profile.

- Data editing and coding were to edit and tabulate the data. Every response of each question was numbered within the range of 1-7 Likert-scale, and entered into a computer before running SPSS for Window.

b) Response Rate

From the total sampling frame of 1,188 firms, 103 cases were returned, representing response rate of 8.7% of total mailed questionnaires. However, after visual investigation, only 91 cases or 7.7% were usable for further data analysis. The low response rate was acceptable and was in line with Kanuk

and Berenson's (1975) finding that questionnaires mailed without specific naming usually earn low response rates. In addition, Brennan (1990) and Comegys (2000) found that the status of the researcher has an effect on the response rate. Student researchers normally get a lower response rates than corporate or professional researchers. Table 3.2 presented the response result of data collection.

Table 3.2: Response Result

	Number of case	%
Questionnaires sent	1,188	100.0
No response	1,061	89.3
Returned mail*	24	2.0
Response	103	8.7
Response with no answer/Not participate	5	0.4
Unusable	7	0.6
Usable questionnaires	91	7.7

* Returned mails were due to address changed, and/or company closed.

c) Characteristic of Respondent

Table 3.3 presented characteristic of respondents, extracted from the 91 usable questionnaires used for statistical test. The questionnaires were mailed to FDI addressing to top management of the companies by position, in order to ensure correctness, level of awareness, and expert knowledge of the respondents on the companies' policies. Mainly, 62.6% of total usable questionnaires, were completed by the first tier management, the target of this survey. Another 30.8% were filled by the second tier executives who had well knowledge of the companies' policies. About 6.6% were unidentified. In average, the respondents had worked with the companies for 9.1 years, with the minimum and maximum service years of 0.6 and 31 years, respectively.

Table 3.3: Summary of Characteristic of Respondent

Characteristics of Respondents	N	%
Position of Respondent		
- President/CEO/Managing Director	57	62.6
- Vice president/General Manager/Director	28	30.8
- Unidentified	6	6.6
Length of Service Year of Respondent in this company		
- 0 to 4 years	31	34.0
- > 4 to 8 years	20	22.0
- > 8 to 10 years	6	6.6
- More than 10 years	30	33.0
- Unidentified	4	4.4
Nationality of Major Foreign Partner		
- Japanese	34	37.3
- Other Asians	19	20.9
- USA	10	11.0
- European	24	26.4
- Australian	2	2.2
- Unidentified	2	2.2
Business Industry		
- Manufacturing	75	82.4
- Banking, Insurance, Finance	1	1.1
- Construction	3	3.3
- Service	7	7.7
- Unidentified	5	5.5
Market Orientation		
- Domestic	51	56.0
- Export	35	38.5
- Unidentified	5	5.5
Sourcing Concentration		
- Local sourcing	30	33.0
- Import-Oriented Sourcing	49	53.8
- Unidentified	12	13.2
Inter-group Dependency		
- Group	14	15.4
- Non-group	72	79.1
- Unidentified	5	5.5

Table 3.3: Summary of Characteristic of Respondent (continued)

Characteristics of Respondents	N	%
Total Asset (Size of investment)		
- Less than 500 million Baht (SME)	59	64.8
- More than or Equal 500 Million Baht (Large)	27	29.7
- Unidentified	5	5.5
Major Shareholder		
- Foreign	63	69.2
- Thai	23	25.3
- Unidentified	5	5.5
Number of Year Establishment		
- 0 to 4 years	18	19.8
- > 4 to 8 years	25	27.5
- > 8 to 10 years	5	5.5
- More than 10 years	38	41.7
- Unidentified	5	5.5

Total respondents: 91 cases

Major foreign partner profile of the responded companies was as follows: 37.3% Japanese, 20.9% other Asians, 11.0% U.S.A., 26.4% European, 2.2% Australian, and 2.2% unidentified. Among the respondents, 82.4% were in manufacturing business, 1.1% was in banking, 3.3% were in construction industry, 7.7% were in services, and 5.5% were unidentified.

When considering market orientation of the business, 56.0% concentrated on local market, while 38.5% aimed for export. On the other hand, 33.0% did their sourcing locally, while 53.8% bought mainly from overseas. In addition, for the level of inter-group dependency, 15.4% purchased raw materials mainly within their group of companies, while 79.1% acquired from external.

Size of the company was justified by size of total assets. 64.8% of the respondents were classified as SME, and 29.7% were large corporate. When reviewing major partners holding more than 50% of total shares, 69.2% were classified as foreign-owned FDI, while another 25.3% were categorized as

Thai-owned FDI. Average life of these companies was 11.9 years, with minimum of one year, and maximum of 100 years.

d) Characteristic of Moderator

In this research, besides testing the relationship between locational determinant factors (independent variable) and foreign decision to invest in Thailand (dependent variable), moderators were introduced, to testify changes (stronger/weaker) in the said relationship.

Moderator is a qualitative or quantitative variable that affects the strength of relationship between independent variable and dependent variable (Baron & Kenny, 1986).

The eight moderators applied in this study were nationality, industry type, market orientation, sourcing orientation, inter-group dependency, size of investment, major shareholder, and year of establishment.

Table 3.4: Summary of Characteristic of Moderator

Characteristic	Group 1			Group 2		
	Description	#	%	Description	#	%
Nationality	Asian	53	60%	Western	36	40%
Industry type	Manufacturing	75	87%	Service	11	13%
Market orientation	Domestic-oriented	51	59%	Export-oriented	35	41%
Sourcing orientation	Local sourcing	30	38%	Import-oriented	49	62%
Inter-group dependency	Non-group	72	84%	Group	14	16%
Size of investment	SME	59	69%	Large	27	31%
Major shareholder	Foreign	63	73%	Thai	23	27%
Years of establishment	Newly start-up	42	49%	Long established	44	51%

Table 3.4 summarized characteristics of the moderators. First characteristic was classified by nationality: Asian (60%) or Western (40%), as these two sides of the world are different in several aspects, like culture, ways of living and working, attitudes, etc. Asian included Japan, Taiwan, Singapore, Indonesia, China, Malaysia, Hong Kong, and India, while Western comprised

Switzerland, France, Luxembourg, United Kingdom, Australia, German, Belgium, USA, Canada, Netherlands, Sweden, and Finland.

The second characteristic was by industry: manufacturing (87%) or service (13%), which are the major kinds of business incorporation. The third categorisation was by market orientation: domestic market- (59%) or export (41%) market-oriented; i.e. market-seeker or resource-seeker. FDI firms classified as the export orientation must export at least 50% of total sale value. Next, the responses were classified by sourcing concentration: local sourcing (38%) or import-oriented (62%). An importer must acquire at least 50% of raw materials from overseas. Inter-group dependency: non-group (84%) or group (16%), was also identified, using the criterion of within group purchases of at least 50%.

Firms were also classified in according to their investment size: SME (69%) or large corporate (31%), applying definitions accepted by Bank of Thailand. A SME is defined as a firm with total assets of less than THB 500 million or around USD 12.5 million (Bank of Thailand, n.d.). Otherwise, they are large corporate (Bank of Thailand n.d.). Then, differences in shareholding major shareholder: foreign (73%) and Thai (27%), was investigated, with cut off point of 50% shareholding. The last characteristic was classified by years of establishment in Thailand: eight years (49%) or less and more than eight years (51%). The eight-year benchmark was based on period of tax exemptions previously given by BOI for its promoted business.

3.2.6.2 Non-response bias

After the questionnaires were developed and sent out to the selected samples, follow up was made, in order to maximize response rate. Responses from the two batches of respondents; i.e. those replied by themselves, and those replied in according to the follow up, were tested for non-response bias.

Non-response bias is normally taken place when researcher conducts a field survey. For the nature of this type of research, it is almost impossible that all

units of the survey are responded. Therefore, most researchers would draw their conclusions of the study based on the responding sample and assume that the responding sample is not strongly different from the non-respondent sample. If there is a systematic difference between the respondent and non-respondent sub-samples, the outcomes do not directly allow one to say how the entire sample would have responded in this direction (Armstrong and Overton, 1997).

One common technique to evaluate the potential non-response bias, suggested by Armstrong and Overton (1997), is to compare the demographic characteristics of early respondents; i.e. questionnaires returned within two weeks after initial mail (n= 59, during December 2002), with late respondent; i.e. questionnaires returned after a reminder was sent (n= 32, during February 2003), to identify whether data received from respondents which respond only after repeated contacts resemble non-respondents or not.

In this study, demographic characteristics, like working experience of respondents, years of establishment, and investment size were used to test non-response bias. Working experience identified level of policy involvement of the respondents, whether they were the best knowledgeable persons of the companies' overall investment policies. Years of establishment and investment size implied commitment and significant levels of the venture to shareholders or parent companies.

Means and variances of two mailing waves were calculated by using Levene's test for homogeneity of variances and t-test for equality of means. If t-test analysis shows no significant differences between the two groups, the late response does not cause any problem.

Table 3.5: Test for Non-response Bias

Characteristic	t-test		Levene's Test	
	t value	Sig.	F value	Sig.
Working experience	.088	.930	2.194	.142
Year of establishment	.405	.687	1.332	252
Investment size	.258	.797	.000	.983

As shown in Table 3.5, the results revealed that means and variances of all characteristics; i.e. working experience (t=.088, p>.05; F=2.194, p>.05), years of establishment (t=.405, p>.05; F=1.332, p>.05), and investment size (t=.258, p>.05; F=.000, p>.05), were statistically non-significant difference at 95 % confident interval. Therefore, it was concluded that both first and second waves of respondents were qualified to be feasible representatives of the overall population.

3.2.6.3 Measure Purification

Mail survey instrument was developed by using multiple-item measures to reduce the possibility that a single item might be misinterpreted. The disadvantageous properties of single item measure recommended by Churchill (1979) are categorized into three considerations. First, single items usually have substantial uniqueness in that each item tends to have low correlation with attribute being measured and tends to relate to other attributes as well. Second, individual items tend to classify people into small number of groups. Third, individual items typically have considerable measurement error.

Moreover, Churchilll (1979, 1998) stated that when dealing with multiple-item measure, purification process should be applied. Purification involves eliminating items that seem to create confusion among respondents and items that do not discriminate between subjects with fundamentally different position on the construct. Purification of measures is to assess the (construct)

reliability[7] and the (content) validity[8] of the proposed measures. The reliability of multiple-item scales is assessed via unidimensionality and internal consistency (coefficient alpha), whereas the validity is basically obtained by selecting items based on literature review, comment from experts, and pilot testing.

In this research, the processes of measure purification were depicted as follows:

a) Reliability

Reliability concerns the tendency toward consistency of the results of the same set of sample given by repeated research instruments or measurements (Hair et al., 1998). Reliability of multiple-item scales is assessed by its unidimensionality and internal consistency.

- Unidimensionality

Unidimensionality is an assumption underlying the calculation of reliability and is exhibited when items of a construct have acceptable fit on a single-factor solution (Hair et al., 1998). Theoretically, the measurement was thoroughly derived and cautiously modified from the previous research studies which were conducted at particular period of time and in specific location. Therefore, in order to assure that this measurement was in line with the objective of this study and the sample was also suitable for research conducted in Thailand, the unidimensionality of each multiple-item scale was assessed by conducting the Principle Component Analysis (PCA) with Varimax rotation, with the purpose to determine the number of factors and to measure variance accounted for by a given dimension.

---

[7] Reliability concerns the tendency toward consistency of the results of the same set of sample given by repeated research instruments or measurements (Hair et al., 1998).

[8] Content validity is qualitative and non-formal statistical test, researcher concerns whether the domain of the concept is made clear and the measure is representative of the content. Practically, content validity lies in the procedures that are used to develop the questionnaire development. These

The results from PCA report Eigenvalues as a criterion of determining the number of factors and a measure of variance accounted for by a given dimension (Kim & Mueller, 1990). Only factors that have Eigenvalues greater than one are considered significant, otherwise they are considered insignificant and disregarded. Rationale for the Eigenvalues criterion is that any individual factor should account for the variance of at least one if it is to be retained for interpretation (Hair et al., 1998).

Next, the extracted method by PCA with Varimax rotation is used to examine the estimated loadings and to assess the statistical significant of all items loaded in the factor. Factor loadings were correlations between the original items and the factor. If factor loadings of all items loaded in the same specific factor exceed 0.3 and their signs are in the same direction, these results may provide satisfactory evidence of unidimensionality for these sets of items (Hair et al., 1998). Such items with loading scores loaded in the same specific factor less than 0.3 or their signs shown opposite direction are considered to be dropped.

After completed all of the above process, 13 out of 15 dimensions satisfied the unidimensionality conditions. Factor loadings of the 13 dimensions were depicted in Appendix 2, and Eigenvalues were presented in Appendix 3.

The outcome of PCA with Varimax rotation reported that the 63 conducive items were regrouped and also renamed into 13 factors or constructs, which were (1) economic condition, (2) government policy, (3) barriers and red tape, (4) tax concession, (5) supply of raw material, (6) domestic infrastructure, (7) skilled labour, (8) unskilled labour, (9) research and development, (10) market condition, (11) financial accessibility, (12) transparency and legal practice, and (13) environment condition. However, the result revealed that there were five statements that were dropped because those items were not shared variance with other items. The extracted constructs were summarized in Table 3.6.

---

procedures include the careful scrutiny of the literatures and measures used in the previous research (Churchill, 1999).

Table 3.6: Result from Principal Component Analysis (PCA) with Varimax Rotation

Factor	Measure
1. Economic condition	▪ Gross domestic product ▪ Economic growth ▪ Disposable income ▪ Comparative stability of baht currency
2. Government policy	▪ Political stability ▪ Continuity of government policy ▪ Flexibility of foreign investment regulations ▪ Enforcement of intellectual property law ▪ Environmental control policies
3. Barriers and red tape	▪ Government bureaucracy or red tape ▪ Restrictions on land & property ownership by foreigners ▪ Restrictions on equity ownership by foreigners ▪ Regulation & control on foreign exchange transactions ▪ Extent of corruption ▪ Risk of war & conflict with neighbouring countries
4. Tax concession	▪ Exemptions or reductions of import duties on imported machinery & components ▪ Exemptions or reductions of import duties on imported raw materials ▪ Exemptions or reductions of corporate tax ▪ Regulations regarding tax on repatriation of income & dividend
5. Supply of raw material	▪ Availability of raw material ▪ Cost & quality of raw material
6. Domestic infrastructure	▪ Cost of land & construction ▪ Cost of energy & utility supplies ▪ Condition/quality of energy & utility supplies ▪ Cost of transportation ▪ Condition/quality of transportation system ▪ Cost of communication ▪ Condition/quality of communication system
7. Skilled labour	▪ Availability of skilled & technical labour ▪ Wages for skilled & technical labour ▪ Extent of difficulty in training skilled labour ▪ Ability of managerial staff ▪ Salaries required for managerial staff ▪ Quality of work force in general
8. Unskilled labour	▪ Availability of unskilled labour ▪ Wages for unskilled labour ▪ Extent of difficulty in training unskilled labour
9. Research and development	▪ Development of supportive industry from home country ▪ Development of supportive industry from Thai government ▪ Development of science & technology

Table 3.6: Result from PCA with Varimax Rotation (continued)

Factor	Measure
10. Market condition	▪ Trend & size of local market ▪ Competition in local market ▪ Trend & size of markets in neighbouring countries ▪ Existence of distribution channel ▪ Change in consumer behaviour ▪ Availability & reliability of market information
11. Financial accessibility	▪ Access to local source of fund ▪ Cost of capital ▪ Availability of financial systems
12. Transparency and legal practice	▪ Accounting & auditing standard ▪ Steadiness & time procedure of laws ▪ Transparency of Thai partner(s) or corporate governance
13. Environment condition	▪ Attitudes towards foreign investment ▪ International trade associations ▪ Geographic & climate conditions ▪ Literacy level of local people ▪ Living conditions for expatriates ▪ Social program to improve standard of living
Omitted measures	▪ Inflation ▪ Extent of government intervention in the economy ▪ Traffic condition in & around Bangkok ▪ Existence of labour union & their influence ▪ Business practice & cultural differences

- Internal consistency

Internal consistency method assesses the homogeneity of a set of items. Basic rationale of this assessment is that every item in the same factor should behave similarly (Davis & Cosenza, 1993). The internal consistency of a set of items forming the scale is based on the coefficient alpha (Cronbach's alpha), which provides a summary measure of the inter-correlations that exist among a set of items. A high value of alpha supports high reliability with maximum value of 1. A commonly used threshold value for acceptable reliability is 0.7000, although this is not an absolute standard, and values below 0.7000 have been deemed acceptable if the research is exploratory in nature (Hair et. al., 1998; Nunnally, 1978). In according to Churchill (1999), low alpha value explained two aspects: items with correlation near zero, or items produced a substantial drop in the item-to-total correlation. Therefore, these items were

deemed to be deleted because they might not share equally in the common core.

However, Churchill (1979) suggested that internal consistency is better performed as the first step. Then, factor analysis should be conducted in order to remove the effect of garbage items. Theoretical arguments support the iterative process of calculation of coefficient alpha, elimination of items, and subsequent calculation of alpha until a satisfactory coefficient is achieved. Factor analysis then can be used to confirm whether the number of dimensions conceptualized can be verified empirically.

Based on the data collected in this study, all measures reported an acceptable Cronbach's alpha of 0.9553. Moreover, each of the 13 factors possessed the acceptable reliability, ranging from 0.8140 to 0.9102, as shown in Appendix 4. Five items with low corrected item-to-total correlations were suggested to be deleted in order to enhance alpha scores.

Besides, before conducting factor analysis, the examinations of underlying assumptions, such as Kaiser-Meyer-Ohlin Measure (KMO) and Bartlett's test of Sphericity, were conducted. KMO was used to determine whether the given data were adequate for running factor analysis or not. Typically, the value of KMO of sampling adequacy varied between 0 and 1.0. This research reported KMO of above 0.5, indicating that the data obtained was appropriate for conducting factor analysis. Bartlett's test was used for the overall significance of all correlations within a correlation matrix (Hair et., al., 1998) in order to indicate the suitability of the sample for factor analysis (Hair et al., 1998). Bartlett's test reported the level of significant value ($p<.01$). Therefore, it was concluded that the given data were adequate and suitable for conducting factor analysis.

b) Content Validity

Content or face validity is a key subjective component of construct validity. It focuses on the adequacy with which domain of the concept under study is

captured by the proposed measure (Churchill, 1979; 1999). It is qualitative and non-formal statistical test. Researcher concerns whether domain of the concept is made clear and the measure is representative of the content. Practically, content validity lies on the procedures that are done during developing questionnaire instrument. Validity is basically obtained by selecting items based on reviewing existing literature, commenting from experts, and conducting the pilot test, to ensure that only relevant items were adequately included in the final instrument (Bollen, 1989).

In this study, with careful scrutiny of the literature and measures used in previous researches, a few in-depth interviews with top executives of FDIs and scholars, and pilot test of questionnaire were conducted to ensure that only relevant items fitted with investment issues for the case of Thailand were adequately included.

After assessing purification, the measurement was thoroughly modified and renamed in order to be in line with the objectives of this study and to ensure that the sample was proper for research conducted in Thailand. As a result, the revised research model was proposed in Figure 3.2.

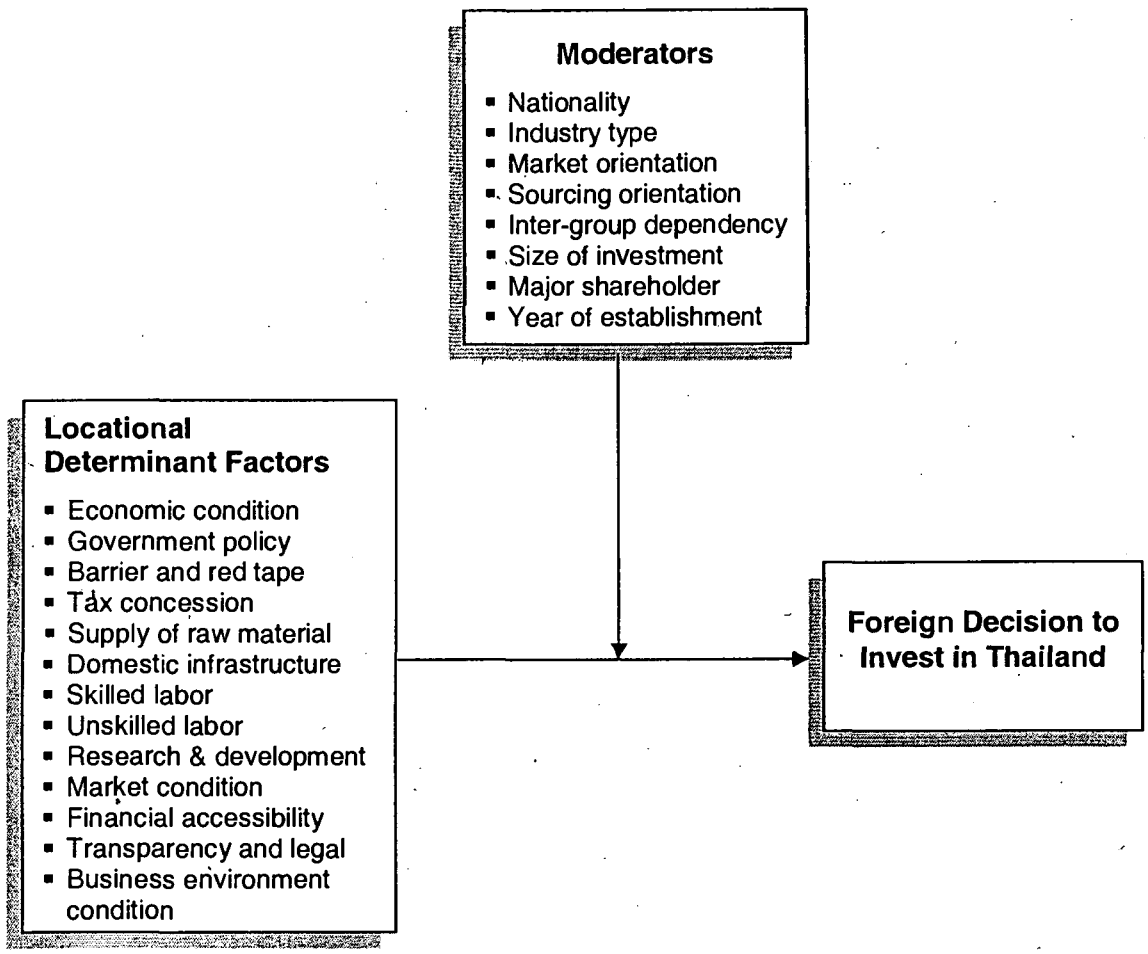


Figure 3.2: Revised Research Model

3.2.7 Evaluation for the Assumption of Statistic Method

Since testing of hypotheses of this study is supposedly occurred to investigate mean differences among groups on the combination of several dependent variables, therefore the multivariate statistic; such as MANOVA – Multivariate Analysis of Variance, and MANCOVA – Multivariate Analysis of Covariance, is best to theoretically employ in this research. There are a number of advantages over univariate statistic; such as ANOVA – Analysis of Variance, and ANCOVA – Analysis of Variance, which is used to test mean difference among groups on a single dependent variable. First, multivariate statistic is more effective than a series of univariates when there are several dependent variables in protecting against inflated Type I error due to multiple tests of (likely) correlated dependent variables. Second multivariate statistic helps

researcher to improve the chance of discovering resulted from different dependent variables and their interactions (Tabachnick & Fidell, 1996).

This research used MANOVA, instead of MANCOVA, because independent variables in this study were in form of categorical variables, while independent variables used for MANCOVA must be in form of continuous or interval class of variables and added as "covariates". These covariates serve as control variables for the independent factors (NC State University, 2007).

Therefore, this research employed statistical methods which are descriptive statistic to investigate the sampling profiles of population and multivariate analysis of variance (MANOVA) to test the hypotheses. However, before performing MANOVA, it was necessary to test for underlying assumptions whether the data and the methodology matched. Hair et al. (1998) suggested that to achieve this pre-requirements, examinations of multivariate normality, equality of covariance matrix, and sensitivity of outliner must be performed.

a) Multivariate Normality

Normality refers to the shape of data distribution for an individual matrix variable and its correspondence to the normal distribution, whereas multivariate normality assumes that individual variables are normal distributed and the joint effects of two or more variables are normal distributed. Practically, the normality of data distribution is assessed by using histograms and the normal probability plots. Histogram is the simplest diagnostic for the set of predictor variables. Histogram provides a visual check for a distribution approximating the normal distribution (Hair et al., 1998).

Benchmark for testing normality was 30 cases or more, in order to imply the existence of distributional normality (Hair et al., 1998). The sample size of 91 in this study was, therefore, considered to be accepted. In addition, in order to further confirm the acceptance, each variable was examined for distributional normality by conducting scatter plot and histogram. From the visual

investigation, distributions of each variable showed distributional normality pattern. Therefore, the assumptions of MANOVA were satisfied.

b) Equality of covariance matrix

MANOVA requires a test of equivalence of covariance matrix of the dependent variables. Practically, a violation of this assumption has a minimal impact if the groups are of approximately equal size, i.e. if the largest group size divided by the smallest group size is less than 1.5 (Hair et al., 1998). However, if the sizes differ more than this, then unequal variances will be tested and corrected. Box's test in SPSS provides the test for equality of covariance matrix and shows insignificance levels for the test statistic.

The covariance matrix outcomes of all subgroups of moderators, except year and nationality showed insignificant different level, indicating that there was an equality of covariance matrix. For year and nationality subgroups, the results showed significant different levels which implied that there were the inequalities of covariance matrix of the dependent variables. However, Hair et al. (1998) suggested that the violation of this assumption had minimal impact on the outcome, when samples in each subgroup were approximately of equal size, i.e. the largest subgroup size divided by the smallest subgroup size is less than 1.5. These ratios of year and nationality were 1.05 and 1.47, respectively. Therefore, the assumptions of MANOVA were satisfied.

c) Sensitivity of outliers

MANOVA is especially sensitive to outliers and its impact on Type I error. Outliers are problematic because they are not representative of the population, are counter to the objectives of the analysis, and can seriously distort statistical test. Theoretically, outliers are either eliminated, or recorded as missing values and replaced by mean, subject to the rationales of why the errors arose.

In this study, outliers were investigated in the data screening process. Only a few outliers were found in this survey. All missing values were replaced by mean score, as the outliers were considered not problematic in this study.

After completing the process of research design and methodology, and data analysis, research findings were conducted. The results and analysis were presented and discussed in the next chapter.

CHAPTER 4

RESEARCH FINDING AND ANALYSIS

This chapter presented research findings and analysis, together with the result of hypothesis testing. Those hypotheses were tested by using statistical tool provided by SPSS. First part described descriptive statistic of the overall sample. Then, the eight moderators; i.e. nationality, industry type, market orientation, sourcing orientation, group dependency, size of investment, major shareholder, and years of establishment, were introduced and tested. Outcome of hypothesis testing were also analyzed in details.

4.1 Overall Sample

Table 4.1: Descriptive Statistic Result of the Factor

	Determinant factor	Mean	Rank	S.D.
1	Economic condition	4.64	2	1.12
2	Government policy	4.47	3	1.10
3	Barriers and red tape	3.29	13	1.00
4	Tax concession	5.02	1	1.28
5	Supply of raw material	4.25	8	1.41
6	Domestic infrastructure	4.27	6	1.00
7	Skilled labour	4.12	11	1.10
8	Unskilled labour	4.17	10	1.00
9	Research and development	4.27	7	.84
10	Market condition	4.31	5	.86
11	Financial accessibility	4.18	9	1.06
12	Transparency and legal practice	3.97	12	1.11
13	Business environment condition	4.45	4	.67

Note 1) Encourage determinant factors are shown with mean score equal or above 4.0
2) Discourage determinant factors are shown with mean score below 4.0

As presented in Table 4.1, the results from overall sample reveals that eleven out of thirteen determinant factors, except Transparency and legal practice,

and Barriers and red tape; were considered as encouraging incentives (mean score above 4.0) for FDI to invest in Thailand. Unsurprisingly, the top five encouraging factors were tax concession (mean=5.02), economic condition (mean=4.64), government policy (mean=4.47), business environment condition (mean=4.45), and market condition (mean=4.31), respectively. When considered in details, these five factors were most related to profitability and efficiency in business operation of FDI.

The tax concession factor included all exemptions of tax ranging from import tariff, corporate income tax to tax on remitted profit/dividend out of Thailand. Tax effect hit directly to the company's profitability, and, thus, dividend pay out to its parent. High tax rate deteriorated profit unavoidable and uncontrollable. In addition, high tariff on imported raw material and machinery significant increased production cost, which naturally led to less competitive of FDI against local competitors.

Net profit after tax, then, was paid out to FDI's parent in overseas. Relax regulation regarding tax on repatriation of income and dividend would enable the parent to enjoy full benefits from its investment. In sum, countries that provided favourable tax concession attract more foreign investment.

Economic condition factor was ranked as the second encouraging factor by FDI in Thailand. Mainly this factor contained measurements of market size, like GDP, economic growth, and disposable income, and stability of Thai bath currency, which was a factor confirming net receipt of FDI. The high importance of this factor implied that most of FDI aimed to operate in Thailand were market-seeker FDI, concentrating mainly on domestic market, more than other types of FDI; i.e. resource seeker, efficiency seeker, and strategic seeker. As a result, firms needed to feel confident that the economic factor is favourable before making investment internationally.

The third encouraging incentive was government policy factor, reflecting concern of investors over stability and continuity of government policy, and enforcement of intellectual property law. Government policy towards FDI was

classified as systematic risk for FDI and is unlikely to mitigate. All investment could be collapsed just because of change in government policy. Thus, continuity and stability of the policy was desirable. Furthermore, as described in the Eclectic Paradigm of Dunning (1980), foreign firms normally owned specific assets (ownership specific advantages – "O"), which enabled them to be competitive in host market. FDI, therefore, required proper and developed intellectual property law to protect its specific assets, especially technology and know-how.

Business environment condition came in the fourth. The factor included those related directly to personnel, like attitudes towards foreign investment, geographic and climate conditions, living conditions for expatriates, and social program to improve standard of living, and those related to profitability and efficiency of business operation, like international trade associations, and literacy level of local people. This factor was considered important because it indicated level of wellness and standard of living of expatriates. In addition, the more participation of Thailand in international trade associations and free trade agreements, the more benefit to business located in Thailand, in term of country of origin subject to less or zero import duties when exporting to the countries within the same associations and/or agreements.

The fifth encouraging factor for FDI in Thailand was market condition, which was about demand of Thailand and neighbouring countries, including competition and distribution channel, consumer behaviour and market information. The factor was viewed to be favourable because Thailand was considered as the gate to South East Asian region.

On the discouraging side, there are two unfavourable factors: barriers and red tape, and transparency and legal practice, which affect operating efficiency, and, thus profitability of the firms. Discouraging or unfavourable factor implies FDI's view over Thailand's investment environment. Barriers and red tape factor consists of government bureaucracy or red tape, restrictions on land, property and equity ownership by foreigners, regulation and control on foreign exchange transactions, extent of corruption, and risk of war and conflict with

neighbouring countries. It is well realised that government bureaucracy in Thailand is quite high, with redundant process and unnecessary time consuming, which increases costs of operation indirectly. High bureaucracy also leads to corruption, i.e. have to pay to accelerate services and approvals. In addition, as the respondents of this study were picked randomly from the list of promoted companies of Board of Investment (BOI), they feel unsatisfied with restrictions on asset and equity ownership set for companies wanting to gain privileges provided by BOI, as this means that foreign investors have to share their ownership, and thus, knowledge and know-how with locals.

Another discouraging factor is transparency and legal practice, including accounting and auditing standard, steadiness and time procedure of laws, and corporate governance. The accounting and auditing standard of Thailand is in developing stage. There were a lot of unqualified auditors whose licenses were suspended/cancelled. Legal system, however, is still an issue. Litigation and enforcement of laws take long time (five years up) to achieve final result.

4.2 Nationality

In this analysis, overall sample was divided into two subgroups by nationality; Asian and western FDI. As presented in Table 4.2, the top two encouraging factors for both Asian and western FDI were the same: tax concession, and economic condition, which affected directly profitability of the firms. The third favourable factor for Asian FDI was business environment condition, while that of Westerners was supply of raw material. Asians viewed business environment condition of Thailand as another important factor for their investment decisions. This was due to a key feature of international trade association and free trade agreements Thailand has signed with so many countries that provided investors benefits from country of origin and the fact that Asian countries and Thailand were quite similar in most aspects, ranging from investment attitude, culture, demographic, geographic, and living conditions. This factor, however, did not rank much different by western FDI.

Table 4.2: MANOVA Result of Nationality

	Determinant factor	Asian		Western	
		Mean	Rank	Mean	Rank
1	Economic condition	4.42**	2	5.13	2
2	Government policy	4.29**	5	4.77	4
3	Barriers and red tape	3.22	13	3.28	13
4	Tax concession	4.70**	1	5.44	1
5	Supply of raw material	3.78**	11	4.84	3
6	Domestic infrastructure	4.12	7	4.38	10
7	Skilled labour	3.73**	12	4.66	5
8	Unskilled labour	4.02**	9	4.46	7
9	Research and development	4.16	6	4.41	8
10	Market condition	4.34	4	4.36	11
11	Financial accessibility	4.07	8	4.41	9
12	Transparency and legal practice	3.82*	10	4.24	12
13	Business environment condition	4.35*	3	4.63	6

* significantly different at $p < .10$
** significantly different at $p < .05$

Westerners, on the other hand, gave more weight on supply of raw material. This was because majority of this group were resource seeker FDI, aimed to change their production base because of availability of local supply – local sourcing oriented (around 69% of total western FDI), and export the finished products to overseas (59% of total western FDI). In contrary to their western colleagues, Asian FDI did not concern much about this factor, as they can import easily from their home time, since the distance between home and Thailand seemed insignificant, rarely affecting import cost, especially when receiving exemptions of import duties from BOI.

In addition, between these two groups of nationality, six incentives were significantly different at the 0.05 level. They were economic condition, government policy, tax concession, supply of raw material, skilled labour, and unskilled labour. Furthermore transparency and legal practice, and business environment condition were significantly different at the .10 level. In all factors, Westerners gave higher scores than Asians. This implied that western

investors required more investment preference as they had to face with liability of foreignness; i.e. inevitable risk occurred when entering into markets/countries with much different characteristics from their home countries'.

Among the eight factors that were viewed significantly different by the two subgroups, five were ranked alike, and three were ranked much different (more than two ranking different). The three far different ranking were supply of raw material, skilled labour, and business environment condition. Westerners gave the third rank to the supply of raw material factor (mean 4.84), while Asians viewed this factor as the eleventh (mean 3.78). This was because western FDI chose Thailand because of her availability of raw material, while Asian investors such as Japan, Korea, and Taiwan can secure raw material from their home towns, which were not far away.

The skilled labour factor was ranked fifth by western investors (mean 4.66), and twelfth by Asians (mean 3.73). This was because of training pattern of each nationality. Western countries transferred their technology know-how by using "job manual", while the Asians used "on the job training". Job manual required more skilled person to accomplish such complex lesson whilst "on the job training" may start with neutral labour that is only ready to learn from experienced staff.

Business environment condition was ranked third (mean=4.35) by Asians, and ranked sixth (mean=4.63) by Westerners, as mainly Asian investors expanded their investment to Thailand to enjoy benefits from Thailand being members of several trade associations, such as ASEAN (Association of South East Asian Nations), APEC (Asia-Pacific Economic Cooperation), etc., and free trade agreements (FTA), such as FTAs with ASEAN (AFTA – ASEAN Free Trade Area, Australia, China, Japan, New Zealand, USA, etc.

Another factor that was much different in rank between the two subgroups was market condition, though not statistically different, ranked fourth by Asian FDI, but eleventh by the western. This was because most of the Asian FDI

(55% of total Asian investors) were the market seeker FDI, focused their sales on local market, and, on the contrary, most of the western FDI (59% of total western investors) were export-oriented FDI.

Unsurprisingly, barriers and red tape was considered by both subgroups to be the most discouraging factor for investing in Thailand.

Thus, the hypothesis H1: Factors encouraging/discouraging FDI are different by nationality; i.e. Asian vs. Western, is accepted. There were eight significantly different factors: economic condition, government policy, tax concession, supply of raw material, skilled labour, and unskilled labour at 95% confident level, and transparency and legal practice, and business environment condition at 90% confident level.

4.3 Industry Type

Table 4.3: MANOVA Result of Industry Type

	Determinant factor	Manufacturing		Service	
		Mean	Rank	Mean	Rank
1	Economic condition	4.61*	2	5.25	1
2	Government policy	4.45	4	4.65	3
3	Barriers and red tape	3.37	13	2.86	13
4	Tax concession	4.97	1	5.09	2
5	Supply of raw material	4.24	9	3.81	11
6	Domestic infrastructure	4.27	7	3.92	8
7	Skilled labour	4.13	11	3.81	10
8	Unskilled labour	4.30**	6	3.42	12
9	Research and development	4.26	8	4.24	5
10	Market condition	4.41**	5	3.93	7
11	Financial accessibility	4.22	10	4.09	6
12	Transparency and legal practice	3.99	12	3.91	9
13	Business environment condition	4.48	3	4.27	4

* significantly different at $p < .10$
** significantly different at $p < .05$

When considered locational determinant factors encouraging FDI in different industry type; manufacturing and servicing industries as shown in Table 4.3, both subgroups had similar favourable factors in their top four; i.e. tax concession, economic condition, business environment condition, and government policy, which were in line with the overall sample's ranking.

Servicing industry emphasized more on economic condition, as evidenced by the .10 significant different level, than manufacturing sector did. This was in line with the fact that service firms generally did their business well when countries were in good status, with high economic growth rate. Manufacturing companies placed significantly more preference on unskilled labour and market condition incentives than servicing companies with 95% confident level. This was because manufacturing FDI relied more on unskilled labour, and concerned more on market size and distribution channel of their goods; i.e. demand and marketing for physical/tangible products.

Barriers and red tape was the most discouraging factor for both subgroups. In addition, on the view of manufacturing FDI, transparency and legal practice was considered to be another major obstacle for doing business in Thailand, as they needed intense and reliable monitoring and legal system to take care of their huge investment from opportunistic behaviour of local partners. For servicing companies, several determinants had mean scores lower than 4.0. The low mean score could be interpreted as either unfavourable or unimportant. The unfavourable one was barriers and red tape. The others; i.e. unskilled labour, supply of raw material, skilled labour, transparency and legal practice, domestic infrastructure, and market condition, were more likely to be unimportant, as servicing business did not rely much on these factors. Service business required no complication in accounting system, and was easily to monitor, so they did not pay much attention on transparency and legal practice. In addition, they can adjust their service easily to change in consumer behaviour, or even competitors' strategies, reflecting in immaterial of market condition factor.

In sum, the hypothesis H2: Factors encouraging/discouraging FDI are different by industry; i.e. manufacturing vs. service is accepted. There were three significantly different factors: unskilled labour, and market condition at 95% confident level, and economic condition at 90% confident level.

4.4 Market Orientation

When separated by market orientation; domestic-oriented (sell to local more than 50%), and export-oriented (sell to overseas more than 50%), these two subgroups has the same two most desirable determinants, which were tax concession, and economic condition. The third encouraging factor for domestic-oriented group was government policy (ranked fourth by the other group), while that of export-oriented was business environment condition (ranked fifth the domestic concentration group). However, these two factors were not statistically significantly different between the two subgroups, same result also applied to all of the remaining factors, as shown in Table 4.4.

Table 4.4: MANOVA Result of Market Orientation

	Determinant factor	Domestic oriented		Export oriented	
		Mean	Rank	Mean	Rank
1	Economic condition	4.69	2	4.69	2
2	Government policy	4.56	3	4.37	4
3	Barriers and red tape	3.32	13	3.29	13
4	Tax concession	4.87	1	5.11	1
5	Supply of raw material	4.18	11	4.20	8
6	Domestic infrastructure	4.25	6	4.19	9
7	Skilled labour	4.13	10	4.04	11
8	Unskilled labour	4.14	9	4.25	6
9	Research and development	4.22	8	4.30	5
10	Market condition	4.45	4	4.23	7
11	Financial accessibility	4.24	7	4.15	10
12	Transparency and legal practice	3.94	12	4.03	12
13	Business environment condition	4.44	5	4.47	3

* significantly different at $p < .10$
** significantly different at $p < .05$

The result was in contrary with expectation. It was anticipated that tax concession would play significant different role between the domestic- and export-oriented FDI, as before 1998, tax exemptions were given to export-oriented only. However, this condition was revoked, and the research finding reflected this fact. Another factor that was expected to be different was the market condition, which should be much significant for domestic-oriented firms than the exported ones. The result somewhat supported this hypothesis, but not statistically different.

For the unfavourable factor, both viewed barriers and red tape as the undesirable factor. The domestic market concentration FDI also considered transparency and legal practice in Thailand unfavourable.

Thus, the hypothesis H3: Factors encouraging/discouraging FDI are different by nature of market orientation; i.e. domestic vs. export is rejected. There were no factors significantly different.

4.5 Sourcing Orientation

Table 4.5 shown locational determinant factors of FDI categorized by sources of raw material purchased; i.e. local sourcing and import sourcing. Tax concession was ranked as the most favourable incentive for both subgroups. The local sourcing FDI preferred economic condition and government policy factors in the second and third rank, respectively. These factors were viewed significantly different by the import sourcing FDI. On the other hand, firms with overseas sourcing viewed market condition, and business environment condition as the second and third importance, though did not statistically different from those of the domestic sourcing subgroup. This was because most of the domestic sourcing firms concentrated their sales mainly on local market (59% of total domestic sourcing FDI), while the imported firms exported most of their products to overseas, mainly to neighbouring countries of Thailand (67% of total import-oriented FDI were also export-oriented.

Table 4.5: MANOVA Result of Sourcing Orientation

	Determinant factor	Local sourcing		Import-oriented	
		Mean	Rank	Mean	Rank
1	Economic condition	4.99**	2	4.25	5
2	Government policy	4.65*	3	4.21	6
3	Barriers and red tape	3.24	13	3.40	13
4	Tax concession	5.18*	1	4.70	1
5	Supply of raw material	4.47**	5	3.78	11
6	Domestic infrastructure	4.28	9	4.13	7
7	Skilled labour	4.24	10	3.87	10
8	Unskilled labour	4.12	12	4.29	4
9	Research and development	4.38*	6	4.07	8
10	Market condition	4.32	8	4.39	2
11	Financial accessibility	4.33	7	4.01	9
12	Transparency and legal practice	4.17*	11	3.71	12
13	Business environment condition	4.50	4	4.39	3

* significantly different at $p < .10$
** significantly different at $p < .05$

Between these two groups, two factors were significantly different at .05 level; i.e. economic condition and supply of raw material. Both factors were viewed to be more important by local sourcing firms than the imported ones. This was because most of the local purchased FDI were also domestic market oriented. In addition, as they were local sourcing, supply of raw materials was definitely important for them. Therefore, local sourcing firms mostly were in local buyer-seller concentration. The other four factors that were significantly different at .10 level were government policy, tax concession, research and development, and transparency and legal practice. All factors were scored higher by local sourcing FDI than the import-oriented firms.

Thus, the hypothesis H4: Factors encouraging/discouraging FDI are different by sourcing orientation; i.e. local sourcing vs. import is accepted. There were six significantly different factors: local sourcing, and supply of raw materials at 95% confident level, and government policy, tax concession, research and development, and transparency and legal practice at 90% confident level.

4.6 Inter-group Dependency

Table 4.6: MANOVA Result of Inter-group Dependency

	Determinant factor	Non-group		Group	
		Mean	Rank	Mean	Rank
1	Economic condition	4.80**	2	4.12	8
2	Government policy	4.52	3	4.22	6
3	Barriers and red tape	3.31	13	3.26	12
4.	Tax concession	5.08	1	4.50	1
5	Supply of raw material	4.43**	5	2.96	13
6	Domestic infrastructure	4.23	8	4.19	7
7	Skilled labour	4.19*	9	3.59	11
8	Unskilled labour	4.16	11	4.31	3
9	Research and development	4.29	7	4.09	9
10	Market condition	4.35	6	4.32	2
11	Financial accessibility	4.18	10	4.28	4
12	Transparency and legal practice	4.04	12	3.69	10
13	Business environment condition	4.49	4	4.27	5

* significantly different at $p < .10$
** significantly different at $p < .05$

Preferences of FDI classified by inter-group dependency were presented in Table 4.6. The first three determinants that preferred by the non-group depended companies; i.e. mainly purchased raw material from the market, were tax concession, economic condition, and government policy, respectively. On the other hand, the top three preferences of the inter-group dependent FDI; i.e. bought most of raw material from within its own group, were tax concession, market condition, and unskilled labour. However, the dissimilarity in rankings did not statistically significant difference.

Two determinant factors; economic condition and supply of raw material, were significant difference at 95% confidential level. The non-group dependency viewed these two factors as more preferable than the non-group dependent FDI, mainly the companies in this subgroup were the market seeker, aimed to sell their products locally. On the contrary, the group-depended companies mainly established to be production base for re-export to parents or

neighbouring countries of Thailand. Thus, this type of FDI did not pay much attention on host country economic, but just enjoyed benefits, like cheap but high quality unskilled labour, low cost of capital, country of origin (for free trade agreement), or tax heaven.

Another factor, skilled labour, was significantly different at 90% confident level, more preferable by non-group dependency companies. This was because usually the group-depended FDI were supported by their parents in all aspects, including raw material supply, and personnel requirement. In addition, being the manufacturing base for standardized product[9], competing with low cost, these FDI tended to concern more on unskilled labour (mean 4.19), than skilled ones (mean 3.59).

Thus, the hypothesis H5: Factors encouraging/discouraging FDI are different by level of inter-group dependency; i.e. purchase mainly from non-group vs. from group is accepted. There were three significantly different factors: economic condition, and supply of raw materials at 95% confident level, and skilled labour at 90% confident level.

4.7 Size of Investment

Table 4.7 presented the comparison of incentive preference between SME and large corporate. Top encouraging factors were similar; tax concession, and economic condition. Four incentives were significantly different at the 95% confident level: government policy, financial accessibility, transparency and legal practice, and business environment condition. Another two incentives were significantly different at the .10 level: economic condition, and research and development. In all of these factors, large corporate had high preferences than SME. This was due to their huge amount of investments did not allow them to make mistake. Thus, before making investment, the large

[9] According to Vernon's (1974) Product Life Cycle theory, when the products are in standardized stage, firms will compete with low pricing, thus, need to find new production base with low cost of production, especially labor cost. Consequently, advanced countries would place production location in where they can achieve low cost strategy, like Thailand. The outcome of this research confirms that advanced countries use Thailand as manufacturing base especially for standardized product and exporting back to designed destination.

corporate must be certain that policies of host government supported its operation, they can easily access reasonable cost of fund, no opportunism behaviour happened, the markets for their products were available in both local and overseas (through free trade agreements), and the industries they are in were supported by both home and host countries. SME, on the other hand, had more flexibility in investment and management due to their compact size.

Table 4.7: MANOVA Result of Size of Investment

	Determinant factor	SME		Large corporate	
		Mean	Rank	Mean	Rank
1	Economic condition	4.56*	2	4.97	2
2	Government policy	4.30**	4	4.85	3
3	Barriers and red tape	3.20	13	3.53	13
4	Tax concession	4.83	1	5.32	1
5	Supply of raw material	4.08	9	4.42	9
6	Domestic infrastructure	4.12	7	4.44	8
7	Skilled labour	3.98	10	4.33	12
8	Unskilled labour	4.11	8	4.37	11
9	Research and development	4.15*	6	4.49	6
10	Market condition	4.28	5	4.48	7
11	Financial accessibility	3.93**	11	4.78	4
12	Transparency and legal practice	3.79**	12	4.40	10
13	Business environment condition	4.34**	3	4.69	5

* significantly different at $p < .10$
** significantly different at $p < .05$

Thus, the hypothesis H6: Factors encouraging/discouraging FDI are different by firm size; i.e. SME vs. large corporate is accepted. There were six significantly different factors: government policy, financial accessibility, transparency and legal practice, and business condition environment at 95% confident level, and economic condition, and research and development at 90% confident level.

4.8 Major Shareholder

Table 4.8: MANOVA Result of Major Shareholder

	Determinant factor	Foreign		Thai	
		Mean	Rank	Mean	Rank
1	Economic condition	4.79	2	4.42	1
2	Government policy	4.63**	3	4.05	8
3	Barriers and red tape	3.32	13	3.28	13
4	Tax concession	5.21**	1	4.35	2
5	Supply of raw material	4.20	10	4.15	6
6	Domestic infrastructure	4.32	6	3.96	9
7	Skilled labour	4.09	11	4.08	7
8	Unskilled labour	4.31*	7	3.84	12
9	Research and development	4.29	9	4.15	5
10	Market condition	4.40	5	4.20	4
11	Financial accessibility	4.30	8	3.94	10
12	Transparency and legal practice	4.02	12	3.87	11
13	Business environment condition	4.54*	4	4.23	3

* significantly different at $p < .10$
** significantly different at $p < .05$

Table 4.8 delineated the comparison of investment preference between companies having foreigner as major shareholder (foreign-owned companies) and companies having Thai as major shareholder (Thai-owned companies). There were four determinants factors that were viewed significantly different by the two subgroups: government policy, and tax concession at .05 level, and unskilled labour, and business environment condition at 0.10 level. All were considered more favourable to foreign-owned FDI, than to Thai-owned FDI.

For government policy, tax concession, and business environment condition, they were related directly to profitability and continuity of business. Foreign investing abroad had less flexibility in doing business than in their home towns, as they had to face with liabilities of foreignness, which increased their costs, both tangible and intangible. Therefore, they cannot afford any losses

occurred from change in government policy. Tax concession would, then, enhance their business performance and profitability. In addition, foreign investing abroad had to bring their ownership specific asset, like knowledge and know-how to the new investment, thus, required intensive intellectual property protection. Thai-owned companies, on the contrary, can easily synchronize their business to the host's policy. Moreover, as foreign-owned companies normally equipped with a number of expatriates who cannot speak Thai, well-being of their living and literacy of local people were considered essential.

Unskilled labour was ranked seventh by foreign-owned companies whilst ranked twelfth by Thai-owned companies. This was because Thai-owned firms had much better access to unskilled labour than the foreigners; thus, did not pay much attention on this factor. Thai investors, on the other hand, concerned much on barriers and red tape; i.e. leakage of profits to government agencies, and transparency and legal practice; i.e. opportunistic behaviours of their partners.

In general the mean scores rating by foreign-owned companies showed the higher scores than that of Thai-owned companies did. This revealed that foreign-owned FDI required more favourable incentives from host country than the Thai-owned ones, in order to alleviate their liability of foreignness.

Thus, the hypothesis H7: Factors encouraging/discouraging FDI are different by major shareholder; i.e. foreign vs. Thai is accepted. There were four significantly different factors: government policy, and tax concession, at 95% confident level, and unskilled labour, and business environment condition at 90% confident level.

4.9 Year of Establishment

Table 4.9 presented statistical results, when applying years of establishment as a moderator to the relationship between locational determinant factors and FDI in Thailand. Both subgroups of FDI; i.e. newly start up (established for

eight years or less), and long establishment (set up for more than eight years), had the same three most encouraging factors; i.e. economic condition, tax concession, and government policy, and also the same most discouraging factors; i.e. barriers and red tape.

Table 4.9: MANOVA Result of Year of Establishment

	Determinant factor	Newly start-up		Long establishment	
		Mean	Rank	Mean	Rank
1	Economic condition	4.76	1	4.62	2
2	Government policy	4.45	3	4.50	3
3	Barriers and red tape	3.37	13	3.24	13
4	Tax concession	4.92	2	5.05	1
5	Supply of raw material	4.09	8	4.28	10
6	Domestic infrastructure	4.19	7	4.25	11
7	Skilled labour	3.87*	12	4.29	9
8	Unskilled labour	4.02	10	4.35	6
9	Research and development	4.19	6	4.32	8
10	Market condition	4.34	5	4.35	5
11	Financial accessibility	4.04	9	4.35	7
12	Transparency and legal practice	3.87	11	4.09	12
13	Business environment condition	4.44	4	4.46	4

* significantly different at $p < .10$
** significantly different at $p < .05$

Factor that was significantly different at the .10 level was skilled labour, with higher value in the group with long period of establishment. This was because in this group of FDI, important works have been gradually transited from expatriates to locals, thus requiring more skilled people to work with the firms.

Thus, the hypothesis H8: Factors encouraging/discouraging FDI are different by years of establishment in Thailand; i.e. newly start-up vs. long established is marginally accepted. There was only one significantly different factor: skilled labour at 90% confident level.

The results of hypothesis testing conducted in this study were summarized in Table 4.10. All hypotheses, except H3 regarding market orientation, were accepted.

Table 4.10: Summary of Hypothesis Testing

Hypothesis	Statement
H1:	Factors encouraging/discouraging FDI are different by nationality; i.e. Asian vs. Western. Accepted H1. The following factors were significantly different at 95% confidence level: economic condition, government policy, tax concession, supply of raw material, skilled labour, unskilled labour. The following factors were significantly different at 90% confidence level: transparency and legal practice, business environment condition.
H2:	Factors encouraging/discouraging FDI are different by industry; i.e. manufacturing vs. service. Accepted H2. The following factors were significantly different at 95% confidence level: unskilled labour, market condition. The following factor was significantly different at 90% confidence level: economic condition.
H3:	Factors encouraging/discouraging FDI are different by nature of market orientation; i.e. domestic vs. export. Rejected H3. All factors were not statistically significantly different.

Table 4.10: Summary of Hypothesis Testing (continued)

Hypothesis	Statement
H4:	Factors encouraging/discouraging FDI are different by sourcing orientation; i.e. local sourcing vs. import. Accepted H4. The following factors were significantly different at 95% confidence level: economic condition, supply of raw material. The following factors were significantly different at 90% confidence level: government policy, tax concession, research and development, transparency and legal practice.
H5:	Factors encouraging/discouraging FDI are different by level of inter-group dependency; i.e. purchase mainly from non-group vs. from group. Accepted H5. The following factors were significantly different at 95% confidence level: economic condition, supply of raw material. The following factor was significantly different at 90% confidence level: skilled labour.
H6:	Factors encouraging/discouraging FDI are different by firm size; i.e. SME vs. large corporate. Accepted H6. The following factors were significantly different at 95% confidence level: government policy, financial accessibility, transparency and legal practice, business environment condition. The following factors were significantly different at 90% confidence level: economic condition, research and development.

Table 4.10: Summary of Hypothesis Testing (continued)

Hypothesis	Statement
H7:	Factors encouraging/discouraging FDI are different by major shareholder; i.e. foreign vs. Thai. Accepted H7. The following factors were significantly different at 95% confidence level: government policy, tax concession. The following factors were significantly different at 90% confidence level: unskilled labour, business environment condition.
H8:	Factors encouraging/discouraging FDI are different by years of establishment in Thailand; i.e. newly start-up vs. long established. Marginally accepted H8. The following factor was significantly different at 90% confidence level: skilled labour.

Following the research finding and analysis in this chapter, next chapter described conclusion from this study, and recommendation to FDI policy maker of Thailand. Limitation of the study and further research were also discussed.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusion and Recommendation

Recent years have seen increasing competition between countries to attract and host finite FDI flows. But the challenge for policy makers is not just about attracting a greater share of FDI inflows, but also harnessing it to optimal effect. For policy makers, the key question is how can a country best position itself to take advantage of this new phenomenon? While policy instruments that proved effective in attracting and harnessing FDI yesterday may prove less effective today, new instruments may be part of the answer.

While FDI policy making is increasingly more complex and diverse, host governments, according to their development needs, have to adapt to the FDI dynamic activities by sequencing and switching, in a predictable manner, their FDI policy instruments. The government needs to prioritize which characteristics, e.g. industry, nationality, etc., it wants to focus, and provide incentives to directly attract such FDI. When the characteristics in focus changed, the government needs also to change incentives offered accordingly. On the other hand, in seeking to identify which potential host countries offer the most attractive enabling environment for investment, FDI will often use the increasing number of benchmark surveys, rankings and indices that are available, and which seek to evaluate and compare states.

Given that countries are vying with each other for greater amounts of FDI, it becomes critical for countries to be aware of developments in other FDI competitors and to catch up and remain competitive in the eyes of foreign investors. Thus, public and private agencies related to FDI needs to be kept up to date on insights that are supported by available information, and additional creative measures should continue to be created for deeper analysis of the issue.

Investment incentives may be provided to attract FDI in order to solve temporary macroeconomic problems of the host country, such as when the country is in weak growth or experiences rising unemployment rate. FDI benefits local country indirectly through knowledge spillover or externalities (Kokko, 2002), which could be in various forms: (i) bring in new technology know-how, train local workers, who later would be hired by local firms, create technology transfer; (ii) increase market supply, lessen monopolistic; (iii) stimulate competition and efficiency, force local firms to develop themselves, (iv) transfer management techniques through its forward or backward linkages (Aitken & Harrison, 1991; Blomstrom & Kokko, 2002; Katz, 1969; Kokko, 2002; Sjoholm, 1999). However, level of the spillover is based on ability and motivation of local firms to evolve and catch up with FDI in competition (Kokko, 2002).

This research found that different types of FDI viewed each locational determinant factor differently. Thus, incentives provided should be restricted to and designed for targeted FDI only, in order to gain desirable benefits and promote the spillover. Yet, it was not obvious whether the benefits to the host country would overcome or equal to the costs for providing the incentives (Kokko, 2002).

Incentives-based competition also created some problems. Indeed, the first problem of incentives was that they represent an opportunity cost for host governments. Secondly, there can be a significant lack of transparency regarding incentives, which left space for corruption and other kinds of rent-seeking behaviour. Finally, incentives also provoked market distortions. The major distortions were that incentives tend to favour large corporate investors, at the detriment of small firms, as well as foreign over domestic companies, partly because of their lower risk profile and higher bargaining power.

Research result of this study revealed that major encouraging locational determinants for FDI invested in Thailand were tax concession, economic condition, and government policy factors, respectively. Therefore, Thai investment agency should place these factors as priority for attracting foreign

direct investment. When comparing these preferred incentives with those provided by the Board of Investment of Thailand (BOI), tax concession was what already provided, including corporate tax exemption and holiday; import duties exemption on imported raw materials and machinery; and exemption of withholding tax on dividend payout to foreign parents.

Economic condition factor referred to gross domestic product, economic growth, disposable income, and comparative stability of Thai baht currency. Economic condition of Thailand was considered favourable, comparing to those of neighbouring countries. In addition, within just a few years after the financial crisis in 1997, Thai baht was maintained and considered stable, ranging within THB 40/USD, which enabled foreign investors to manage the business easily, as they did not have to pay for currency exchange management. Profit or return on investment was based purely on the ability of management, which is controllable and manageable.

Government policy factor included political stability, continuity of government policy, flexibility of foreign investment regulations, enforcement of intellectual property law, and environmental control policies. Thailand could be claimed as one of the countries that has moderate to high political stability. Government policies towards foreign investment were also stable, with slightly adjustment on the promoted industries over time. However, Thai government should pay more attention in improving the enforcement of intellectual property law, and environmental control policies, as penalty on failure behaviours is still very low and ineffective. Enhancing these enforcements will provide insurance to FDI that their technology and know how will be protected reasonably, promoting their re-investments.

Besides the encouraging factors, this research also introduced factors that were considered to be the most discouraging determinant factors in view of FDI invested in Thailand. Theses unfavourable factors were transparency and legal practice, and barriers and red tape factors. This implied that the government must not pay attention only to satisfy investors with the desired

encouraging factors, but must also focus on remedying these discouraging factors.

The important level of transparency and legal practice emphasizes that Thailand must focus more on developing accounting and legal systems, and enhancing corporate governance, in order to ensure transparency among FDI partners, which would result in high trust and, thus, further investment. In addition, Thai government must pay more attention in evolving bureaucracy and red tape, in order to minimize waiting time and corruption, which were considered as uncontrollable costs for the business. If the costs from this part were high, the investors would not take risk in doing business here, as the net return to them may not achieve the targeted level, creating opportunity loss.

When introduced moderators and divided the sample into subgroups by criteria of nationality, industry type, market orientation, sourcing orientation, inter-group dependency, size of investment, major shareholder, and years of establishment, the result reported that there were differences in encouraging and discouraging locational determinant factors viewed by each group of moderators.

Under the nationality moderator (Asians and Westerners), determinant factors preferred by each subgroup were reported having the most differences, when comparing to the results of the other seven moderators. Six factors; i.e. economic condition, government policy, tax concession, supply of raw material, skilled labour, unskilled labour; were significantly different at 95% confidence level, while another two; i.e. transparency and legal practice, business environment condition; were different at 90%. The Western FDI typically emphasized more on all of factors than the Asian. This may be concluded that Westerners normally required stronger preference factors than Asians because Westerners carries higher cost of foreignness. This cost may derive from distance from home markets, physic distance, culture and demographic difference, and so on.

The top three favourable factors for Asians were tax concession, economic condition, and business environment condition. The first two were shared by Westerners, while the third rank for Westerner FDI was supply of raw material, instead. The reason why Asians felt that business environment condition was important because they did want to invest in countries that have similar environment conditions to their countries, so that expatriates did not have to worry about the living standard and conditions, and can concentrate on the business only. On the other hand, Westerners viewed supply of raw material as an encouraging factor because they were quite far away from their home towns. Importing raw material from home would create big burden and huge costs for them, and could affect return on investment finally.

On the discouraging factors, both took into account barriers and red tape, which was the factor that was uncontrollable and can drawback their business performance. In addition, Asian FDI did not pay much attention on skilled labour factor, which included wages, quality and training extent of skilled labour; and supply of raw material, which consists of cost and availability issues. This was because the Asian FDI can easily import expatriates and/or raw materials from their home countries, with minimal costs incurred, due to short distance between Thailand and their home.

Under the industry type moderator (manufacturing and service), the most encouraging factors for both subgroups; manufacturing and service FDI, were economic condition, tax concession, business environment condition, and government policy. However, there were three factors that were significantly different; unskilled labour, market condition, economic condition.

Manufacturing firms certainly concerned more on unskilled labour than the service firms, as their business performance were more relied on the labour. Market condition also viewed as more important for manufacturers than service providers, as, due to huge amount of investment, wrongly calculate and forecast of the market condition, such as trend and size of market, customer behaviour, and degree of market competition, would result in high amount of loss. On the other hand, service FDI paid more attention on

economic condition than the manufacturing one, as a factor to determine its market size and potential growth.

On the discouraging factors, manufacturers disliked barriers and red tape, transparency and legal practice most, while service providers shared the same view on barriers and red tape. Several factors also disregarded by service FDI. They were unskilled labour, supply of raw material, skilled labour, transparency and legal practice, domestic infrastructure, market condition. This may because the service had no involvement in the labours and raw material factors, and because of small amount of investment, their loss was limited.

When divided by market orientation (domestic- and export- oriented), these two subgroups of FDI had no different views over all the factors. The result was in contrast with literature, which found that market condition and economic condition were the two factors that were viewed more significantly important by domestic market oriented FDI than the export oriented FDI.

On the preference factors, both subgroups considered tax concession and economic condition as the first two encouraging factors. The third rank for domestic oriented FDI was government policy, while that of export oriented FDI was business environment condition. This was because FDI that focused on local market was more controlled by local regulations.

Under the sourcing orientation moderator (local and import sourcing), two factors; economic condition, supply of raw material; were significantly different at 95% confidence level; and four factors; government policy, tax concession, research and development, transparency and legal practice; were different at 90% confidence level. Local sourcing gave more weigh on these factors than the import sourcing, as these factors had influences directly on their business performance.

The most encouraging factors for local sourcing FDI were tax concession, economic condition, government policy, and business environment condition,

respectively. For import sourcing FDI, the most favourable factors were tax concession (the same as local sourcing), market condition, and business environment condition. Again, the discouraging factor for both subgroups was barriers and red tape. Moreover, the import sourcing firms disregarded supply of raw material factor, as expected.

Under the inter-group dependency moderator (non-group and group dependent), two factors; economic condition, supply of raw material; were found to have significantly different at 95% confidence level, and another factor; skilled labour; was significantly different at 90% confidence level. All three factors were viewed more important to the non-group dependent FDI than the group dependent firms. This was because the business performance of the non-group dependent FDI was relied purely on their ability, without support from the group in any aspects. The group dependent FDI, on the other hand, were intensively sponsored by the group, especially in terms of marketing, raw material, and human capital. Moreover, the inter-group firms paid significantly less attention on economic condition because most of them placed Thailand as a production base in order to enjoyed benefits from country of origin and free trade agreements.

Like in other moderators, tax concession was viewed as the most important factor for each subgroup; while barriers and red tape, and transparency and legal practice were considered as the most discouraging factors. The next most desired factors for the non-group dependent FDI were economic condition and government policy, while those for the group dependent firms were market condition and unskilled labour.

Under the size of investment moderator (SME and large corporate), four factors; government policy, financial accessibility, transparency and legal practice, business environment condition; were significantly different at 95% confidence level, and two factors; economic condition, research and development; were significantly different at 90% confidence level. All the factors were viewed as more important to the large corporate than to the SME. This could be explained by the fact that large firms normally operated

with high amount of investment, which, in turn, implied huge amount of loss also, if failed. As a result, these large FDI required higher degree of all the favourable factors, in order to ensure high rate of return on investment.
The two most encouraging factors for both subgroups were tax concession and economic condition. The third rank for large corporate was government policy as another major effect on their business performance, while that of SME was business environment condition. As expected, SME paid no attention to the skilled and unskilled labour factors, due to its insignificant involvement and requirement.

Under the major shareholder moderator (Thai and foreign), two factors; government policy, tax concession; were significantly different at 95% confidence level, and another two factors; unskilled labour, business environment condition; were significantly different at 90% confidence level. Foreign firms concerned more on these factors than the local firms. To extent to that they were foreign firms (having foreigners as major shareholders held more than 50% stakes) they carried higher cost of foreignness and exposed to more uncertainty.

Thus the expectation that every determinant factor would be important to foreign firms can be a considerable incentive to invest. FDI having foreign major shareholder viewed government policy tax concession, unskilled, and environment condition, as more significantly important factors than FDI with Thai major shareholder. Foreign FDI viewed tax concession, economic condition, and government policy as the top three encouraging determinants. On the other hand, they considered barriers and red tape as the discouraging factors for their investment. Thai firms also regarded tax concession and economic condition as the most desirable factors, but viewed business environment condition as the third rank, as a concern for their foreign partners. Thai firms did not worry much on the government policy as got used to, and can easily and correctly assess the local situations.

Under the years of establishment in Thailand moderator (newly start-up and long establishment; i.e. established for less and more than eight years,

respectively), the only factor that was significantly different was skilled labour. This was because the long established FDI had successfully developed their own personnel, thus, did not have to rely on the manpower in the market. The most desirable factors of these two subgroups were the same; i.e. economic condition, tax concession, and government policy. Also, the unfavourable factors were similar; barriers and red tape, and transparency and legal practice.

In conclusion, as evidenced by the research result described above, the different types/natures of FDI have different preferences on the locational determinant factors, thus, require different incentives for their investment. However, major encouraging factor is tax concession, which consists of exemptions or reductions of import duties on imported machinery and components, and raw materials; exemptions or reductions of corporate income tax; and regulations regarding tax on repatriation of income and dividend. Another common preference is on economic condition, though less preferred by the import sourcing and the group dependent FDI. Economic condition factor refers to gross domestic product, economic growth, disposable income, and comparative stability of baht currency. On the contrary, the most discouraging factor is barriers and red tape, which comprises government bureaucracy or red tape; restrictions on land, property, and equity ownership by foreigners; regulations and control on foreign exchange transactions; extent of corruption; and risk of war and conflict with neighbouring countries.

The Locational condition ("L" factor), prescribed by Dunning (1979, 1980), is what can be managed and controlled by host countries. It is, therefore, important for the policy makers to pay attention on this fact. This research result provides some recommendations for the policy makers, to enhance the benefits from the incentives given to attract specific FDI types.

5.2 Theoretical Contribution

As mentioned earlier, the study of FDI locational determinants in Thailand had been conducted quite a few. This study provided broader knowledge to the academic, by introducing moderators to intervene the relationship between the determinants and decision to make FDI of MNEs. The research findings confirmed that the preferences of FDI over locational factors changed, and were different from the direct relationship, when moderators were presented, except for the market orientation case.

For Thailand study, Chandprapalert (2000) found that market size, growth rate, and the composition of the host country market were the critical determinants for FDI, but also found that no significant relationship between host governmental policies and FDI existed. The research, however, did not mention anything about the effect of tax incentives on FDI, which were the major incentives provided by Thai government, even before the 1997 crisis. This study introduced tax concession factor as one of the locational determinants. The result reported that tax concession was the most desirable factor for FDI; both in overall sample and in various subgroups.

5.3 Limitation and Future Research

World situations have changed rapidly. Replication of this research is recommended to reflect current situations as Thailand has recently entered into several free trade agreements (FTAs), in order to see how these FTAs affect FDI's locational determinants. In addition, to confirm the reliability and validity of the research results presented here, replication of this study should be done with different data set to generalize the findings.

This study made a survey on the topic which is considered as the sensitive issue on the management information. Data obtained in this study is a relatively small sample size with skewed demographic characteristics. The informants may not be the right persons for this research, as instead of responding to the questionnaire by them selves, top management of the companies assigned the work to other persons whom they believed would be

able to provide the responses correctly. However, these persons, such as general manager, plant manager, marketing director, etc, may know only their aspects and work criteria, but may not thoroughly understand overall perspectives. As a result, multiple data collection with multiple sampling methods, like face-to-face interview, telephone interview and/or focus group, and a larger sample size should be adopted in future research to better validate the model. This would be helpful to confirm the robustness of the model and increase the practical implications of the findings.

Concentration of this research was on FDI that have at least one foreign shareholder hold at least ten percent of total shares, as defined by United Nations. Percentage of minimum foreign shareholding may be too small that sometimes that foreign investor may not have any responsibilities in making decision on the policy of FDI. To extent the understanding of the result, replication of this study is recommended with stricter on foreign shareholding, for example holding 20 percent at least, in order to identify if there are any deviations of the research results, and to widen the finding's applicability.

Eight moderators were introduced to intervene the relationships between locational determinant factors and FDI in Thailand. Each moderator was divided into two subgroups. However, in order to get more information about the effect of such moderator, more separation should be done. For example, when grouped by nationality, instead of categorized into Asian and western, it could be divided into smaller groups, like Japan, NIEs, other Asians, USA, EU, other European, Australia and New Zealand, and others. In addition, in the current rapid environment change, seeking to examine potential of other moderators, such as size of labour force, or authorization, is also recommended to be used for the future model.

This research approach is on subgroup analysis of respondents, which, in some cases, like industry type and inter-group dependency, may result in too small sample sizes. The sampling strategies should be carefully planned and implemented in order to enhance the sample size. Replication of this study should be done with a larger sample, in order to confirm the reliability and

generalization of the research findings. Once a large sample size is chosen then other statistical methods such as regression, etc, are also applicable.

In this study, there is confusion in meaning of the discouraging factor that some respondents interpreted as the factor that they did not pay attention to. Future research, then, should be done with deliberated definition of the terminology.

The scope of this study did not cover the costs and benefits of providing FDI incentives, and the effect of FDI on spillovers. Future research should take into consideration these two issues, as actually the incentives should be provided only if the country can enjoy significant net gain from FDI.

It is also recommended to extend the scope of the research to cover regional area, rather than only Thailand as done in this research. The high commonality of challenges implied that gains can be made through cooperation between investment promotion agencies across the region, in sharing their responses and pursuing regional best practices, rather than over competing.

REFERENCE

Aharoni, Y. (1966), *The Foreign Investment Decision Process*, Boston: Harvard University Press.

Ahmed, Q. M. (1997), "The influence of tax expenditures on non-residential investment", *Unpublished Ph.D. Dissertation*, University of Bath.

Aitken, B. J. and Harrison, A. (1999), "Do domestic firms benefit from direct foreign investment? Evidence from Venezuela", *American Economic Review*.

Asian Development Bank, (1999), "Foreign direct investment spurs Asia's development", *News Release No. 024/99*, viewed 20 Dec. 2005, <http://adb.org/Documents/News/1999/nr1999024.asp>.

_____, (2001), "FDI inflows to the crisis-affected countries", viewed 20 Dec. 2005, <http://aric.adb.org/external/arr2001/arr_mar01/theme.pdf>.

Auerbach, A. (1990), "The cost of capital and investment in developing countries", *PRE Working Papers No.410*, The World Bank.

Armstrong, J. S. and Overton, T. S. (1977), "Estimating nonresponse bias in mail surveys", *Journal of Marketing Research*, 14, 396-402.

Bajo-Rubio, O. and Sosvilla-Rivero, S. (1994), "An econometric analysis of foreign direct investment in Spain, 1964-89", *Southern Economic Journal*, 61, 104-20.

Baniak. A., Cukrowski. J. and Herczynski. J. (2002), "On the determinants of foreign direct investment in transition economies", CERGE-EI Foundation, *Global Development Network: Center for Social and Economic Research* (CASE).

Bank of Thailand, 2002, Economic Data, viewed 15 October 2004, http://www.bot.or.th/BOTHomepage/DataBank/EconData/EconFinance/Download/Tab62-1.xls.

Bank of Thailand, 2007, Economic Data, viewed 15 May 2007, http://www.bot.or.th/BOTHomepage/DataBank/EconData/EconFinance/Download/Tab55.xls, line 11, 18, and 24.

Bank of Thailand, various issues, *Bank of Thailand Quarterly Bulletin.*

Baron, R.M. and Kenny, D.A. (1986), "Conceptual, strategic, and statistical considerations", *Journal of Personality and Social Psychology*, 51, 1173-82.

Barrell, R. and Pain, N. (1996), "An econometric analysis of U.S. foreign direct investment", *Review of Economics and Statistics*, 78, 200-07.

Basi, R. S. (1963), *Determinants of United States Private Direct Investment in Foreign Countries*, Kent State University Press.

Bende-Nabende, A., Ford, J. L., Sen, S. and Slater, J., (2000), "FDI locational determinants and the linkage between FDI and other macro-economic factors: Long-run dynamics in pacific Asia", *Working paper of University of Birmingham.*

Bennett, P. D. and Green, R. T. (1972), "Political instability as a determinant of direct foreign investment", *Journal of Marketing Research*, 9, 182-86.

Bergsman, J. (1999), "Advice on taxation and tax incentives for Foreign Direct Investment", FIAS.

_____ and Bora, B. (1999), "Foreign direct investment and the east Asian financial crisis", *Background paper prepared for this report.*

_____, Broadman, H.G. and Drebentsov, V. (2000, "Improving Russia's policy on foreign direct investment", *The World Bank, Policy Research Working Paper 2329.*

Blomstrom, M. and Wolff, E. (1994), "Multinational corporations and productivity convergence in Mexico", in *Convergence of Productivity: Cross-National Studies and Historical Evidence*, eds. W. Baumol, R. Nelson and E. Wolff, Oxford: Oxford University Press.

Blomstrom, M. and Kokko, A. (2002), "The economics of foreign direct investment incentives", *Working Paper 9489, NBER Working Paper Series*, National Bureau of Economic Research, Inc.

Board of Investment, n.d., viewed 11 Jun. 2004, <http://www.boi.go.th/english/boi/index.html>.

Bollen, K.A. (1989), *Structural Equations with Latent Variables*, New York: John Wiley & Sons.

Botric, V. and Skuflic, L. (2005), "Main determinants of foreign direct investment in the south east European countries", viewed 20

December 2005, <http://www.euroframe.org/fileadmin/user_upload/euroframe/docs/2005/session2/eurof05_botric.pdf>.

Brainard, S. L. (1997), "An empirical assessment of the proximity-concentration trade-off between multinational sales and trade", *American Economic* Review, 87(4), 520-44.

Brander, J.A. (1986), "Rationales for strategic trade and industrial policy", in *Strategic Trade Policy and New International Economics*, ed. P. Krugman, Mass.: MIT Press, 28-9.

Brander, J.A. and Spencer, B.J. (1981), "Tariffs and the extraction of foreign monopoly rents and potential entry", *The Canadian Journal of Economics*, 14 (August), 371-89.

Brander, J.A. and Spencer, B.J. (1983), "International R&D rivalry and industrial strategy", *Review of Economic Studies*, 50 (October), 707-22.

Brander, J.A. and Spencer, B.J. (1984a), "Tariff protection and imperfect competition", in *Monopolistic Competition and International Trade*, ed. H. Kierzkowski, Oxford: Oxford University Press, 194-206.

Brander, J.A. and Spencer, B.J. (1984b). "Trade warfare: Tariffs and cartels", *Journal of International Economics*, 16 (May), 227-42.

Brander, J.A. and Spencer, B.J. (1985), "Export subsidies and international market share rivalry", *Journal of International Economics*, 18 (February), 83-100.

Brennan, M. (1990), "The effect of researcher status on mail survey response rates", *Marketing Bulletin*, 1, 50-2.

Brooker Group, (2002), "Foreign direct investment: Performance and attraction – The case of Thailand", *Paper presented for workshop on FDI in the Mekong, Hanoi*.

Buckley, P. J. and Casson, M. (1976), *The Future of the Multinational Firm*, London: MacMillan, 2ª ed., 1991.

_____ (1991), "Multinational enterprises in less developed countries: Cultural and economic interaction", in *Multinational Enterprises in Less Developed Countries*, eds. P.J. Buckley and J. Clegg, London: Macmillan.

Carr, D. W. (1978), *Foreign Investment and Development in The Southwest Pacific*, New York: Praeger Publishers.

Carr, D. L., Markusen, J. R. and Maskus, K. E. (2001), "Estimating the knowledge-capital model of the multinational enterprise", *American Economic Review*, 91(3), 693-708.

Chalk, N. (2001), "Tax incentives in the Philippines: A regional perspective", *IMF Working Paper WP/01/182*, Washington: International Monetary Fund.

Chandprapalert, A. (2000), "The determinants of U.S. direct investment in Thailand: A survey on managerial perspectives", *Multinational Business Review*, Fall, 82-8.

Chantasasawat, B., Fung, K. C., Iizaka, H. and Siu, A, (2003), "International competition for foreign direct investment: The case of China", *Paper presented at the ADB Institute*, May 2004, mimeo, University of California, Santa Cruz and COE-RES Discussion Paper No. 22, Center for Excellence Project, Hitotsubashi University, Tokyo: Japan.

_____, Fung, K. C. and Iizaka H. (2005), "The giant sucking sound: is China diverting foreign direct investments from other asian economies?", viewed 25 Dec. 2005, <http://repositories.cdlib.org/cgi/viewcontent.cgi?article=1050&context=ucscecon>.

Cheng, L. K., and Kwan, Y. K. (1999), "FDI Stock and its determinants", in *Foreign Direct Investment and Economic Growth in China*, Chapter 3, ed. Y. Wu, Cheltenham: Edward Elgar, 42-56.

_____ and Kwan, Y. K. (2000), "What are the determinants of the location of foreign direct investment? The Chinese experience", *Journal of International Economics*, 51(2), 379-400.

_____ and Zhao, H. (1995), "Geographical pattern of foreign direct investment in China: Location, factor endowments, and policy incentives", Department of Economics, Hong Kong University of Science and Technology.

Chia, S. Y. (1995), "The international procurement and sales behaviour of multinational enterprises", in *Corporate Links and Foreign Direct*

Investment in Asia and the Pacific, eds. E. Chen and P. Drysdale, NSW: Harper Educational.

Chuang, Y-C. and Lin, C-M. (1999), "Foreign direct investment, R&D and spillover efficiency: Evidence from Taiwan's manufacturing firms", *Journal of Development Studies*, 35, 117-137.

Churchill, G.A., Jr. (1979), "A paradigm for developing better measures of marketing constructs", *Journal of Marketing Research*, 16 (February), 64-73.

_____ (1999), *Marketing research methodological foundations*, 7th ed. Orlando: Dryden Press.

Coase, R. H. (1937), "The nature of the firm", *Economica*, N.s4, 386-405.

Comegys, C. (2000), "The effect on mail response rate of using student names versus executive names in client-sponsored marketing research course projects", *Journal of Business Education*, 1, viewed 10 Jun. 2004, <http://www.abe.villanova.edu/proc2000/n109.pdf>.

Coughlin, C. C., Terza, J. V. and Arromdee, V. (1991), "State characteristics and the location of foreign direct investment within the United States", *Review of Economics and Statistics*, 73, 675-683.

Crenshaw, E. (1991), "Foreign investment as a dependant variable: Determinants of foreign investment and capital penetration in developing nations, 1967-1978", *Social Forces*, 69(4), 1169-82.

Culem, C.G. (1988), "The locational determinants of direct investments among industrialized countries", *European Economic Review*, 132, 885-904.

Dasgupta, D. and Ratha, D. (2000), "What factors appear to drive capital flows to developing countries? And how does official lending respond?", *Policy Research Working Paper* 2392, The World Bank.

Davis, D., and Cosenza, R.M. (1993), *Business Research for Decision Making*, 3rd ed., California: Wadsworth Publishing Company.

Dimelis, S. and Louri, H. (2002), "Foreign ownership and production efficiency: A quantile regression analysis", *Oxford Economic Papers* (forthcoming).

Diwan, I. and Hoekman, B. (1998), *Competition, Complementarity and Contagion in East Asia*, Washington, D.C: The World Bank.

Driffield, N. (2001), "The impact on domestic productivity of inward investment in the UK", *Manchester School*, 69(1), 103-19.

Dunning, J.H. 1973, "The determinants of international production", *Oxford Economic Papers*, 25(3), 289-336.

_____ (1979), "Explaining changing patterns of international production: in defense of the eclectic theory", *Oxford Bulletin of Economics and Statistics*, 41, 269-95.

_____ (1980), "Toward an eclectic theory of international production: Some empirical tests", *Journal of International Business Studies*, 11, 9-31.

_____ (1988), "The eclectic paradigm of international production: A restatement and some possible extensions", *Journal of International Business Studies*, 19(1), 1-32

_____ (1993), *Multinational Enterprises and the Global Economy*, Workingham: Addison-Wesley.

_____ (1994), "The prospects for foreign direct investment in central and eastern Europe", in *The economics of change in east and central Europe*, eds. P. J. Buckley and P. N. Ghauri, London: Academic Press Limited.

_____ (1995), "Reappraising the eclectic paradigm in the age of alliance capitalism", *Journal of International Business Studies*, 26(3), 461-91.

_____ (2000), "A rose by any other name .....? FDI theory in retrospect and prospect", *Journal of International Business*, viewed 20 Dec. 2005, <http://copenhagen.jibs.net/LitReview/2000/2000_3_20.pdf>.

EAER, (1992a), "Investing in Thailand (Part I)", *East Asia Executive Reports*, 14(11), 18-22.

EAER, (1992b), "Investing in Thailand (Part II)", *East Asia Executive Reports*, 14(12), 8-12.

Eaton, J. and Grossman, G.M. (1986), "Optimal trade and industrial policy under oligopoly", *The Quarterly Journal of Economics*, 225-47.

Fan, X. and Dickie, P. M. (2000), "The contribution of foreign direct investment to growth and stability: A post-crisis ASEAN-5 review", *ASEAN Economic Bulletin*, 17(3), 312-23.

Friedman, J., Gerlowski, D. A., and Silberman, J. (1992), "What attracts foreign multinational corporations? Evidence from branch plant location in the United States", *Journal of Regional Science*, 32(4), 403-18.

Froot, K. and Stein, J. (1991), "Exchange rates and foreign direct investment: an imperfect market approach", *Quarterly Journal of Economics*, 106, 191-217.

Fung, K. C., Iizaka, H., Lee, J. and Parker, S. (1999), "Determinants of U.S. and Japanese foreign direct investment in China", viewed 20 Dec. 2005, <http://econ.ucsc.edu/faculty/kcfung/fdidet.pdf>.

_____, Iizaka, H. and Parker, S. (2002), "Determinants of U.S. and Japanese foreign direct investment in China", *Journal of Comparative Economics*, 30, 567-78.

_____, Iizaka, H. and Siu, A. (2003), "Japanese direct investment in China", *China Economic Review*, 14, 304-15.

_____, Garcia-Herrero, A., Iizaka, H. and Siu, A. (2005), "Hard or soft? Institutional reforms and infrastructure spending as determinants of foreign direct investment in China", *Japan Economic Review*, forthcoming.

Gastanaga, V. M., Nugent, J. B. and Pashamova, B. (1998), "Host country reforms and FDI inflows: How much difference do they make?", *World Development*, 26(7), 1299-314.

Graham, E.M. and Krugman, P. (1995), *Foreign Direct Investment in the United States*, Washington: Institute for International Economics.

Grossman, G. M. and Helpman, E. (1991), *Innovation and Growth in the Global Economy*, Cambridge: MIT Press.

Grossman, G. and Richardson, J.D. (1985), *Strategic Trade Policy: Survey of Issues and Early Analysis*, Princeton: Princeton University Press.

Hair, J. F., Jr., Anderson, R. E., Tatham R. L., and Black, W. C. (1998), *Multivariate Data Analysis*, New Jersey: Prentice Hall.

Head, K. and Ries, J. (1996), "Inter-city competition for foreign investment: static and dynamic effects of China's incentive areas", *Journal of Urban Economics*, 40(1), 38-60.

Helpman, E. and Krugman, P. (1985), *Market Structure and Foreign Trade*, Mass.: MIT Press, 45-66.

Hines, J. R., Jr. (1995), "Forbidden payment: foreign bribery and American business after 1977", *NBER Working Paper No. 5266.*

_____ (1996), "Altered states: Taxes and the location of foreign direct investment in America", *American Economic Review*, 86(5), 1076-94.

Hood, N., and Stephen, Y. (1979), *The Economics of Multinational Enterprise*, New York: Longman.

Horst, T. (1971), "The theory of the multinational firm: optimal behaviour under different tariff and tax rates", *Journal of Political Economy*, 79(5), 1959-72.

Horstmann, I. and Markusen, J.R. (1986), "Up the average cost curve: Inefficient entry and the new protectionism", *Journal of International Economics*, 20 (May), 225-47.

Hsiao, C. (2001), "Efficient estimation of dynamic panel data models – with an application to the analysis of foreign direct investment to developing countries", *Paper prepared for the 2001 Econometric Society Far Eastern Meeting in Kobe, Japan.*

_____ and Shen, Y. (2002), Foreign direct investment and economic growth: causes and effects", *Economic Theory and Business Management*, 133, 11-6.

Hymer, S. H. (1960, published 1976), *The International Operations of National Firms: a Study of Direct Foreign Investment*, Cambridge: MIT Press.

_____ (1968), "The large multinational corporation: an analysis of some motives for international integration of business", *Revue Economique 6*, translated from the French by N. Vacherot with an introduction by M. Casson.

_____ (1979), *The multinational corporation: A radical approach*, New York: Cambridge University Press.

Jantarangs, U. (2005), "FDI in Thailand: Trend and relationship with the macro economy", in Thai, viewed 20 Dec. 2005, <*http://www.bot.or.th/BOThomepage/DataBank/Econcond/seminar/EcoM/3-2-2005-eng-i/FDI_R.pdf*>.

JETRO, (2001), White paper on FDI, <*http://www.jetro.go.jp*>.

Julius, D. (1990), *Global Companies and Public Policy*, London: Royal Institute for International Affairs.

Jun, K. W. and Singh, H. (1996), "The determinants of foreign direct investment: New empirical evidence", *Transnational Corporations*, 5, 67-106.

Kanuk, L. and Berenson, C. (1975), "Mail surveys and response rates: A review", *Journal of Marketing Research*, 12, 440-53.

Khan, A. H. (1997), "FDI in Pakistan: Policies and trends", *The Pakistan Development Review,* 36(4), 959-85.

Kim, J. and Mueller, C.W. (1990), *Factor Analysis: Statistical Method and Practical Issues*, Newsbury Park: SAGE Publications.

Kindleberger, C.P. (1969), *American Business Abroad: Six Lecture in Direct Investment*, New Haven: Yale University Press.

_____ (ed) (1970), *The International Corporation*, Cambridge: MIT Press.

Kinoshita, Y. (1998), "Firm size and determinants of foreign direct investment", viewed 8 Oct. 2001, <http://econwpa.wustl.edu:8089/eps/io/papers/0012/0012006.pdf>.

Kokko, A. (2002), "Globalization and FDI Incentives", viewed 8 Mar. 2003, <http://wbln0018.worldbank.org/eurvp/web.nsf/Pages/Paper+by+Ari+Kokko/$file/ARI+KOKKO+PDF>.

Knickerbocker, F.T. (1973), *Oligopolistic reaction and multinational enterprise*, Boston: Harvard University Press.

Kravis, I.B. and Lipsey, R.E. (1982), "The location of overseas production and production for export by U.S. multinational firms", *Journal of International Economics*, 12(1), 201-23.

Krkoska, L. (2001), "Foreign direct investment financing of capital formation in central and eastern Europe", viewed 20 Dec. 2005, <*http://www.ebrd.com/pubs/econo/wp0067.pdf*>.

Krugman, P.R. (1984), "Import protection as export promotion: International competition in the presence of oligopoly and economies of scale", in *Monopolistic Competition and International Trade*, ed. H. Kierzkowski, Oxford: Oxford University Press, 180-93.

_____ (1985), "Increasing returns and the theory of international trade", *NBER Working Papers 1752*, National Bureau of Economic Research, Inc.

_____ (1987), "Strategic sectors and international competition", in *Trade Policies in a Changing World Economy*, ed. R.M. Stern, Mass.: MIT Press.

_____ (1991), Geography and Trade, Massachusetts: MIT Press.

_____ (1996), *The Self-Organizing Economy*, Massachusetts: Blackwell Publishers.

_____ (1998), *Strategic Trade Policy and The New International Economics*, Cambridge, Massachusetts: MIT Press.

Lim, E-G. (2001), "Determinants of and the relation between foreign direct investment and growth: a summary of the recent literature", *IMF Working Paper WP/01/175.*

Lim, Y. C. and Fong, P. E. (1991), *Foreign Direct Investment and Industrialization in Malaysia, Singapore, Taiwan, and Thailand*, London: Development Centre of the Organization for Economic Co-operation and Development.

Lipsey, R. E. (2001), "Foreign direct investors in three financial crises", *NBER Working Paper No. 8084.*

_____ and Sjoholm, F. (2001), "Foreign direct investment and wages in Indonesian manufacturing", *NBER working paper No. 8299.*

Liu, X., Siler, P., Wang, C. and Wei, Y. (2000), "Productivity spillovers from foreign direct investment: Evidence from UK industry level panel data", *Journal of International Business Studies*, 31(3), 407-25.

Love, J. H. and Lage-Hidalgo, F. (2000), "Analysing the determinants of US direct investment in Mexico", *Applied Economics*, 32(10), 1259-67.

Lucas, R. E. (1993), "On the determinants of direct foreign investment: evidence from East and Southeast Asia", *World Development*, 21, 391-406.

_____ 1998, "On the mechanics of economic development", *Journal of Monetary Economics*, 22, 3-42.

Lunn, J. (1980), "Determinants of US direct investment in the EEC", *European Economic Review*, 13(1), 93-101.

Maki, D. R. and Meredith, L. N. (1986), "Production cost differentials and foreign direct investment: a test of two models", *Applied Economics*, 18(13), 1127-34.

Markusen, J. (1998), "Contracts, intellectual property rights, and multinational investment in developing countries", *NBER Working Paper 6448.*

_____ and Maskus, K. (1999), "Discrimination among alternative theories of FDI", *NBER Working Paper 7164.*

Moore, M. O. (1993), "Determinants of German manufacturing direct investment in manufacturing industries", *Weltwirtschaftliches Archiv*, 129, 120-37.

Moosa, I. A. (2002), *Foreign Direct Investment Theory, Evidence and Practice*, Haundmills, Basingstoke, Hampshire, New York: Palgrave.

Morisset, J. and Pirnia, N. (2000), "How tax policy and incentives affect foreign direct investment – A review", *Policy Research Working Paper 2509*, viewed 20 Dec. 2005, <http://wdsbeta.worldbank.org/external/default/WDSContentServer/IW3P/IB/2001/01/20/000094946_01010905342188/Rendered/PDF/multi_page.pdf >, The World Bank and International Finance Corporation Foreign Investment Advisory Service, December.

Nadiri, M. I. (1991), "US direct investment and the production structure of the manufacturing sector in France, Germany, Japan, and the UK", mimeo, New York University and NBER.

Narula, R. and Wakelin, K. (1997), "The pattern and determinants of US foreign direct investment in industrialised countries", *Research Memoranda 001*, Maastricht: MERIT Maastricht Economic Research Institute on Innovation and Technology, viewed 20 Dec. 2005, <http://edata.ub.unimaas.nl/www-edocs/loader/file.asp?id=64>.

NC State University (2007), "GLM: MANOVA and MANCOVA", viewed 15 May 2007, <http://www2.chass.ncsu.edu/garson/PA765/manova.htm>.

Noorbakhsh, F., Paloni, A. and Youssef, A. (2001), "Human capital and FDI inflows to developing countries: New empirical evidence", *World Development*, 29 (9), 1593-610.

Nunnally, J. C. (1978), *Psychometric theory* (2nd ed.), New York: McGraw-Hill.

OECD, (1994), *Assessing Investment Opportunities in Economies in Transition*, Paris: OECD.

OECD, (1999), *OECD Benchmark Definition of Foreign Direct Investment* (3rd ed.), viewed 20 Dec. 2005, <http://www.oecd.org/dataoecd/10/16/2090148.pdf>.

Ohlin, B. (1933), *Interregional and International Trade*, Cambridge, MA: Harvard University Press.

Oman, C. (2000), *Policy Competition and Foreign Direct Investment: A Study of Competition among Governments to Attract FDI*, Paris: OECD.

Owen, R.F. (1982), "Inter-industry determinants of foreign direct investment: a Canadian perspective", in *New Theories of Multinational* Enterprise, ed. A. M. Rugman, 303-18, London: Croom Helm.

Pain, N. ed. (2001), *Inward Investment, Technological Change and Growth. The Impact of Multinational Corporations on the UK Economy*, Houndsmills: Pelgrave.

Porter, M. E. (1980), *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: Free Press.

Price WaterhouseCoopers (2001), *Corporate Taxes 2001-2002: Worldwide Summaries*, New York: John Wiley and Sons.

Ramcharran, H. (1999), "Foreign direct investment and country risk: Further empirical evidence", *Global Economic Review*, 28, 49-59.

Rolfe, R. J., Ricks, D. A., Pointer, M. M. and McCarthy, M. (1993), "Determinants of FDI incentive preferences of MNEs", *Journal of International Business Studies*, Second Quarter, 335-55.

Root, P. (1990), *International trade and investment*, Cincinnati: South-Western Publishing Company.

Root, F. and Ahmed, A. (1979), "Empirical determinants of manufacturing direct foreign investment in developing countries", *Economic Development and Cultural Change*, 9, 81-93.

Rugman, A. M. (1980), "Internalization as a general theory of foreign direct investment: A reappraisal of the literature", *Weltwirtschaftliches Archive,* 116(2), 365-79.

_____ (1981), *Inside the Multinationals*, New York: Columbia University Press.

Saunders, R. (1983), "The determinants of interindustry variation of foreign ownership in Canadian manufacturing", *Canadian Journal of Economics*, 15, 77-84.

Scaperlanda, A. and Balough, R. S. (1983), "Determinants of US direct investment in the EEC: Revisited", *European Economic Review*, 27(4), 381-90.

Schneider, F. and Frey, B. S. (1985), "Economic and political determinants of foreign direct investment", *World Development*, 13(2), 161-75.

Shatz, H. J. and Venables, A. J., (2000), "The geography of international investment", in *The Oxford Handbook of Economic Geography*, eds. G.L. Clark, M. Feldman, and M. S. Gertler, Oxford: Oxford University Press.

Sjoholm, F. (1999), "Technology gap, competition and spillovers from direct foreign investment: evidence from establishment data", *Journal of Development Studies*, 36(1), 53-73.

Smith, D. F. and Florida, R. (1994), "Agglomeration and industrial location: An econometric analysis of Japanese affiliated manufacturing establishments in automotive-related industries", *Journal of Urban Economics*, 36, 23-41.

Stackelberg, H. (1951), Grundlagen der theoretischen Volkswirtschaftslehre, 2nd ed., Mohr/Siebeck: Tübingen, 206-18.

Stackelberg, H. (1952), *The Theory of the Market Economy*, London: William Hodge & Co., 190-204.

Sujarittanonta, L. (2005), "Deeper look into FDI competitors: Available databases to date", viewed 29 May 2006, <http://www.itd.or.th/th/node/233/print>.

Swenson, D. L. (1994), "The impact of U.S. tax reform on foreign direct investment in the United States", *Journal of Public Economics,* 54(2): 243-66.

Tabachnick, B.G. and Fidell, L.S. (1996), *Using Multivariate Statistics*, 3rd ed. California State University, Northridge: Harper Collins College Publishers.

United Nations, (1999), "Foreign direct investment and the challenge of development: Overview", *World Investment Report 1999*, United Nations Conference on Trade and Development, New York.

UNCTAD (1996), *World Investment Report*, New York: UN.

UNCTAD (1998), *World Investment Report*, New York: UN.

UNIDO (1990), "Foreign direct investment in South-East Asia: Experience and Future Policy Implications for Developing Countries", *Report of UNIDO Expert Group Meeting (EGM)*, 21-23 March 2005, Bangkok, Thailand.

Vernon, R. (1966), "International investment and international trade in the product cycle", *Quarterly Journal of Economics*, 80(2), 190–207.

_____ (1974), *Economic Analysis and the Multinational Enterprise*, ed. J. Dunning, London: George Allen & Unwin.

Wang, Z. Q. and Swain, N.J. (1995), "The determinants of foreign direct investment in transforming economies: Empirical evidence from Hungary and China", *Weltwirtschaftliches Archiv*, 131(2), 359-82.

Wei, S. (1997), "Why is corruption so much more taxing than tax? Arbitrariness kills", *NBER Working Paper No. 6255*.

Wheeler, D. and Mody, A. (1990), *Risk and Rewards in International Location Tournaments: The Case of US Firms*, Washington DC: The World Bank.

_____ (1992), "International investment location decisions: The case of US firms", *Journal of International Economics*, 33(1), 57-76.

Woodward, D. and Rolfe, R. J. (1993), "The location of export-oriented foreign direct investment in the Caribbean basin", *Journal of International Business Studies*, 24(1), 121-44.

_____ (1992), "Locational determinants of Japanese manufacturing start-ups in the United States", *The Southern Economic Journal*, 58(3), 699-708.

Yamawaki, H. (1991), "Location decision of Japanese multinational firms in European manufacturing industries", in *European Competitiveness*, ed. K. S. Hughes, Cambridge: Cambridge University Press, 11-28.

Yarbrough, B.V. and Yarbrough, R.M. (1988), *The World Economy: Trade and Finance*, Chicago: Dryden Press.

World Bank, (2000), *World Bank Development Report*, Washington DC: The World Bank.

Appendix

Appendix 1: Cover Sheet and Questionnaire English version



UNIVERSITY OF SOUTH AUSTRALIA

International Graduate School of Management

Research Project: An Exploratory Model of Thai Government Incentives and Policies for Foreign Direct Investment in Thailand

conducted by
Viyada Kowvorakul
DBA Candidate
Tel. (+66) 1 812 4246, Fax (+66) 2 724 5386
e-mail: viyada_k@hotmail.com

Dear Sir,

This questionnaire is part of research undertaken in a doctoral degree study of University of South Australia, located in Adelaide, Australia.

Objective of the research is to find out important factors that would encourage or discourage foreign investments in Thailand, in order to develop/propose suitable incentive models for each type of foreign investments, which would lead to the best mutually benefits for both the investors and Thailand as the host. Your contribution, as a result, would be most useful for the economy, as a whole.

This questionnaire (3 pages) is divided into two parts:

Part I requests you to provide opinion on the degree each factor encourages or discourages your investment in Thailand. Please answer every question.

Part II is about your company profile for our statistical records. Please note that your anonymity will be preserved.

In total, the questionnaire would take you only 10 – 15 minutes to complete. If you do not have time, kindly assign your executive who understands well investment policies of your firm to complete it.

Please return the completed questionnaire via the enclosed pre-paid envelope within 28 February 2003.

Please note that all information, including your company profile, collected as part of this study will be retained safely for seven years, and will be kept strictly confidential. No information which could lead to identification of any individual will be released.

Should you have any ethical concerns about this questionnaire/research, please contact the University's Ethics Officer: Vicki Allen, Ethics Officer, Research Services, Tel. +61 8 8302 3118; Fax +61 8 8302 3921; e-mail: Vicki.allen@unisa.edu.au

Your contribution and dedication to this research would be much appreciated.

Best regards,

VK.

Viyada Kowvorakul (12 February 2003)

Note: The research result will be available upon request. Please indicate your requirement separately, in order to maintain your anonymity.

Research Project: An Exploratory Model of Thai Government Incentives and Policies for Foreign Direct Investment in Thailand

Questionnaire

Part I: Please mark an "X" in an appropriate box, in correspondence to your firm's value to the degree of influence of each of the following factors has on encouraging or discouraging your investment in Thailand.

Factors Pertaining to Thailand	Very Strongly Discourage	Strongly Discourage	Discourage	Neutral or Uncertain	Encourage	Strongly Encourage	Very Strongly Encourage
Economic Factors							
1. Gross domestic product							
2. Economic growth							
3. Disposable income							
4. Inflation							
5. Comparative stability of Baht currency							
6. Extent of government intervention in the economy							
Political and Policy Factors							
1. Political stability							
2. Continuity of government policy							
3. Government bureaucracy or red tape							
4. Flexibility of foreign investment regulations							
5. Enforcement of intellectual property law							
6. Environmental control policies							
7. Restrictions on land & property ownership by foreigners							
8. Restrictions on equity ownership by foreigners							
9. Regulation & control on foreign exchange transactions							
10. Extent of corruption							
11. Risk of war & conflict with neighboring countries							
12. Exemptions or reductions of import duties on imported machinery & components							
13. Exemptions or reductions of import duties on imported raw materials							
14. Exemptions or reductions of corporate tax							
15. Regulations regarding tax on repatriation of income & dividend							
Facility & Utility Factors							
1. Cost of land & construction							
2. Availability of raw material							
3. Cost & quality of raw material							
4. Cost of energy & utility supplies							

Factors Pertaining to Thailand	Very Strongly Discourage	Strongly Discourage	Discourage	Neutral or Uncertain	Encourage	Strongly Encourage	Very Strongly Encourage
5. Condition/quality of energy & utility supplies							
6. Cost of transportation							
7. Condition/quality of transportation system							
8. Cost of communication							
9. Condition/quality of communication system							
10. Traffic condition in & around Bangkok							
11. Availability of skilled & technical labor							
12. Wages for skilled & technical labor							
13. Extent of difficulty in training skilled labor							
14. Availability of unskilled labor							
15. Wages for unskilled labor							
16. Extent of difficulty in training unskilled labor							
17. Ability of managerial staff							
18. Salaries required for managerial staff							
19. Quality of work force in general							
20. Existence of labor union & their influence							
21. Business practice & cultural differences							
22. Development of supportive industry from home country							
23. Development of supportive industry from Thai government							
24. Development of science & technology							
Market Factors							
1. Trend & size of local market							
2. Competition in local market							
3. Trend & size of markets in neighboring countries							
4. Existence of distribution channel							
5. Change in consumer behavior							
6. Availability & reliability of market information							
Financial & Legal Factors							
1. Access to local source of fund							
2. Cost of capital (e.g. interest rate, etc.)							
3. Availability of financial systems							
4. Accounting & auditing standard							
5. Steadiness & time procedure of laws							
6. Transparency of Thai partner(s) or corporate governance							

Factors Pertaining to Thailand	Very Strongly Discourage	Strongly Discourage	Discourage	Neutral or Uncertain	Encourage	Strongly Encourage	Very Strongly Encourage
Environmental Factors							
1. Attitudes towards foreign investment							
2. International trade associations (e.g. APEC, AFTA, WTO, etc.)							
3. Geographic & climate conditions							
4. Literacy level of local people							
5. Living conditions for expatriates							
6. Social program to improve standard of living							

Please indicate the most <u>two</u> important factors that <u>encourage</u> your investment in Thailand.

(1) _____

(2) _____

Please indicate the most <u>two</u> important factors that <u>discourage</u> your investment in Thailand.

(1) _____

(2) _____

Do your parent/group have a plan to invest in other countries within the next five year? Yes/No

Please indicate countries _____

What are the major determinant factors of such investment 1._____

2._____

3._____

Part II: Company Profile

Your position in the company _____

Year of working experience with this company _____

Year of the company's establishment in Thailand _____

Shareholding structure:

Thai _____ %

Foreign (Please specify nationality) _____ _____ %

_____ _____ %

_____ _____ %

Line of business:

_____ Agriculture _____ Mining

_____ Banking, insurance, finance _____ Real estate

_____ Construction _____ Trading

_____ Manufacturing _____ Others (Please specify: _____)

Export value, in percentage of total output/sales _____ %

Raw material import value, in percentage of total purchase _____ %

Raw material import value from foreign shareholders, in percentage of total purchase _____ %

Total assets (as of date___) Currency _____ Amount _____

Japanese version

サウス・オーストラリア大学　国際経営大学院

タイの外資に対するタイ政府の奨励及び政策の探求モデル

ヴィヤダ・コウヴォラクル　(博士課程)
Tel. (66) 1 812 4246, Fax (66) 2 724 5386
e-mail: viyada_k@hotmail.com

各位

拝啓

このアンケートはサウス・オーストラリア大学(オーストラリア、アデレード)の博士過程における研究の一環として行われるものです。

これは、各種の海外からの投資について最適な投資奨励モデルを発展及び提言すべく、外国企業がタイ国内に投資をする際の主なメリット及びデメリットを把握し、ひいては外国企業及びホスト国であるタイ双方の利益となることを目的とするものです。このアンケートがタイの経済環境の改善に役立つことと考えております。

このアンケート(3ページ)は次の２つの部分から構成されます。

パートⅠ　ここでは貴社の対タイ投資の優位性または問題点に関する意見をお尋ねします。全ての質問にお答えください。

パートⅡ　ここでは、統計記録のために貴社のプロフィールについてお尋ねします。ただし貴社の名前が外部に漏れることはありません。

アンケートに要する時間は 10～15 分程度です。お時間をお取りすることが難しいようでしたら、貴社の投資戦力を理解されているスタッフの方に、ご記入いただけるようお願いできれば幸いです。

ご記入されましたアンケートは、同封いたしました封筒(切手不要)にて２００３年２月 28 日までにご返送ください。

この研究のために収集された、貴社のプロフィールを含む全ての情報は、7 年間機密情報として厳重に保管されます。特定の個人あるいは団体と判明する情報は一切外部に出ません。

このアンケートもしくはこの調査に関して倫理上の点でご質問などございましたら、当大学のヴィッキー・アレン(倫理担当)までご連絡ください。
電話　+61 8 8302 3118; Fax +61 8 8302 3921; e-mail:Vicki.allen@unisa.edu.au

当調査へのご協力をよろしくお願い申し上げます。

敬具

VK・

ヴィヤダ コウヴォラクル　（２００３年２月 12 日）

注:　この調査の結果はご要望に応じて公開いたします。情報提供いただいた方の保護のため、このアンケートとは別にご請求ください。

研究プロジェクト：　タイの外資に対するタイ政府の奨励及び政策の探求モデル

アンケート

パートⅠ：　貴社のタイでの投資を促進又は減退させる次の要因のうち、その影響の度合いが貴社の基準に照らし合わせて適当なものに‘X’を記入してください。

タイ国に関する要因	極めて重要な問題であると感じる	重要な問題であると感じる	問題であると感じる	どちらでもない	優位であると感じる	より優位であると感じる	極めて優位であると感じる
経済要因							
1. 国内総生産							
2. 経済成長							
3. 可処分所得							
4. インフレーション							
5. バーツ通貨の安定							
6. 政府の経済への干渉程度							
政治的及び政策要因							
1. 政治的安定							
2. 政府の政策の持続性							
3. 官僚政治							
4. 外国投資に関する規則の弾力性							
5. 知的所有権に関する法的拘束							
6. 環境政策							
7. 外国人による土地並びに不動産所有の権利への制限							
8. 外国人による株式所有権への制限							
9. 外国為替取引の規制							
10. 贈収賄の程度							
11. 近隣諸国との戦争並びに戦闘の危険							
12. 輸入機械並びに部品への輸入税の免除または減税							
13. 輸入原材料への輸入税の免除または減税							
14. 法人税の免除または減税							
15.本国へ送還する所得並びに配当への税に関する規制							
施設＆公共財に関する要因							
1. 土地並びに建設のコスト							
2. 現地における原材料の入手可能性							
3. 原材料の品質並びにコスト							
4. エネルギー並びに公共用水等インフラの供給のコスト							
5. エネルギー並びに公共用水等インフラの供給状態並びに品質							
6.輸送のコスト							
7.輸送制度の状態並びに品質							

タイ国に関する要因	極めて重要な問題であると感じる	重要な問題であると感じる	問題であると感じる	どちらでもない	優位であると感じる	より優位であると感じる	極めて優位であると感じる
8.通信のコスト							
9.通信制度の状態並びに品質							
10.バンコク市内及び周辺の交通状態							
11.熟練並びに技術労働者の入手可能性							
12.熟練並びに技術労働者の賃金水準							
13. 熟練労働者への訓練の難しさの範囲							
14.未熟練労働者の入手可能性							
15. 未熟練労働者の賃金水準							
16. 未熟練労働者への訓練の難しさの範囲							
17.経営スタッフの能力							
18. 経営スタッフの賃金水準							
19.一般的な労働力の質							
20. 労働組合の存在並びにその影響力							
21. 実際の経営及び文化的あつれき							
22. 本国からのサポーティング産業の発達							
23. タイ政府によるサポーティング産業の発達							
24. 科学及び技術の発達							
市場要因							
1. 現地市場の規模と傾向							
2. 現地市場における競争							
3. 近隣諸国の市場規模と傾向							
4. 有通経路の存在							
5. 消費者行動の変化							
6. 市場の情報の信頼性及び有効性							
金融及び法律要因							
1. 現地での資金調達の利便性							
2. 資金調達のコスト(利子率など)							
3. 金融制度の有効性							
4. 会計並びに監査の基準							
5. 法的手続きに要する期間と信頼性							
6. タイのパートナー又は企業統治の透明性							
環境要因							
1. 外国投資に対する態度							
2. 国際貿易機関（e.g. APEC, AFTA, WTO, etc.)への参加状況							
3. 地理及び気象状況							
4.現地の人の読み書き能力レベル							
5. 駐在員の生活状況							
6. 生活水準改善のための社会事業							

タイでの投資を最も優位であると感じる要因２つ書いて下さい。

(1) _____

(2) _____

タイでの投資を最も大きな問題点を２つ書いて下さい。

(1) _____

(2) _____

貴社の親会社又は企業グループは、今後５年以内に他国への投資を計画していますか？はい/いいえ

国名を明示してください _____

その投資を決定させる要因は何ですか　1．_____

2．_____

3．_____

パートII：貴社のプロフィール

貴殿の役職 _____

勤続年数 _____

貴社のタイでの設立年 _____

株式保有の構造:

タイ _____%

外国（明記して下さい） _____ _____%

_____ _____%

_____ _____%

業種の分野

_____ 農業　　_____ 鉱業

_____ 銀行業、保険業、金融業　　_____ 不動産業

_____ 建設業　　_____ 貿易業（輸出入業）

_____ 製造業　　_____ その他（明記して下さい _____）

全生産/売上に占める輸出価値の割合 _____%

全購入に閉める輸入原材料の価値の割合 _____%

全購入に占める、外国株式所有者からの輸入原材料の価値の割合 _____%

総資産（_____年現在） _____

（通貨を明記してください）

Chinese version

澳洲国立南澳大学
国际管理研究所

研究计划: 泰国政府对外国在泰国直接投资的鼓励和政策的试探模型

举办者

比亚大 靠博拉昆女士

(Viyada Kowvorakul)

工商管理博士候选人

电话号码 (+66) 1 812 4246, 传真号码 (+66) 2 724 5386

电子邮件: viyada_k@hotmail.com

尊敬的先生/女士,

此调查表是属于学习澳洲国立南澳大学(位于澳洲亚特雷德市)的博士学位的研究工作的一个部分。

研究的目标是为了了解鼓励或劝阻外国投资在泰国的重要因素,以为各类型的外国投资提高/提供适当的鼓励措施模型,这将导致最佳相互有益于投资者和作为主人的泰国。您的意见将贡献给整体经济。

此调查表 (3 页) 分成 二 个部分:

第一部分:要求提供您的看法对于在泰国投资的各个鼓励或劝阻因素的重要程度。请回答每个问题。

第二部分:要求提供贵公司的概况为了统计纪录。您所提供的个人身份信息是绝对保密的。

总之,此调查表将在10-15分钟内作完。若您没有时间,请分配给最了解贵公司投资 政策的执行委员代替回答,为此真心感谢。

请在 2003 年2月28 日内退回完成的调查表,使用附上的预付信封。

请注意,这项研究所收集的信息包括贵公司的概况将被保留七年,并且绝对保证机密性。任何证明个体的信息将不会被发布。

若您对此调查表/研究有任何道德方面的问题, 请与大学的道德官员联系:比克 亚伦 (Vicki Allen),道德官员,研究服务,电话号码 +61 8 8302 3118;传真号码 +61 8 8302 3921;电子邮件: Vicki.allen@unisa.edu.au

衷心感谢您对此研究的贡献和致力。

此致

敬礼 VK.

比亚大 靠博拉昆 (Viyada Kowvorakul)

2003 年 2 月12 日

备注:您可以要求此研究的结果。请分开地表明您的要求,为了保护您的匿名。

研究计划：泰国政府对外国在泰国直接投资的鼓励和政策的试探模型

调查表

第一部分：请在适当的空格内划“x”，为了指定以下每个鼓励或劝阻的因素对贵公司在泰国投资的影响程度。

泰国内的因素	非常强烈劝阻	强烈劝阻	劝阻	中立或不一定	鼓励	强烈鼓励	非常强烈鼓励
经济因素							
1. 国民生产总值							
2. 经济增长							
3. 可用收入							
4. 通货膨胀							
5. 泰币的稳定性							
6. 政府干预经济业务的程度							
政治与政策因素							
1. 政治的稳定性							
2. 政府政策的继续性							
3. 政府官僚主义或形式主义							
4. 外国投资章程的灵活性							
5. 知识产权法律的执行							
6. 环境控制政策							
7. 外国人拥有土地与物产的制约							
8. 外国人拥有产权的制约							
9. 外币兑换交易的章程与控制							
10. 贿赂的程度							
11. 战争与边境冲突的风险							
12. 机械与部件的进口税的豁免或减少							
13. 原材料的进口税的豁免或减少							
14. 企业税的豁免或减少							
15. 回汇收入与股息的收税章程							
设施与公共事业因素							
1. 土地与建筑的成本							
2. 原材料的可用性							
3. 原材料的成本与质量							
4. 能源与公共事业供应的成本							

泰国内的因素	非常强烈劝阻	强烈劝阻	劝阻	中立或不一定	鼓励	强烈鼓励	非常强烈鼓励
5. 能源与公共事业供应的条件/质量							
6. 运输成本							
7. 运输系统的条件/质量							
8. 通信成本							
9. 通信系统的条件/质量							
10. 曼谷市内与附近的交通条件							
11. 熟练与技术劳动力的可用性							
12. 熟练与技术劳动力的工资							
13. 训练熟练劳动力的难度							
14. 非熟练劳动力的可用性							
15. 非熟练劳动力的工资							
16. 训练非熟练劳动力的难度							
17. 管理人员的能力							
18. 管理人员的要求薪水							
19. 一般情况下的工作质量							
20. 工会的成立与影响力							
21. 商业惯例与文化区别							
22. 祖国的支援产业的发展							
23. 泰国政府的支援产业的发展							
24. 科学与技术的发展							
市场因素							
1. 当地市场的趋向与规模							
2. 当地市场的竞争							
3. 邻国市场的趋向与规模							
4. 分配渠道的存在							
5. 消费者行为的变化							
6. 市场信息的可用性与可靠性							
融资与法律因素							
1. 接入当地资金来源							
2. 资金成本 (如：利率， 等。)							
3. 融资系统的可用性							
4. 会计与审计的标准							
5. 法律的稳定性与程序时间							
6. 泰国伙伴或企业治理关系的透明度							

泰国内的因素	非常强烈劝阻	强烈劝阻	劝阻	中立或不一定	鼓励	强烈鼓励	非常强烈鼓励
环境因素							
1. 对外国投资的态度							
2. 国际贸易协会(如：亚太经济合作组织、东盟自贸区、世贸，等。)							
3. 地理与气侯的条件							
4. 当地人的识字水平							
5. 移民的生活条件							
6. 改进生活水准的社会活动							

请填上鼓励您在泰国投资的两个最重要因素。

(1) _____

(2) _____

请填上劝阻您在泰国投资的两个最重要因素。

(1) _____

(2) _____

您的父母或组织在 5 年之内在其它国家有没有投资计划? 有/没有

请填上国家 _____

这项投资的主要决定因素是什么

1. _____

2. _____

3. _____

第二部分：公司概况

您在公司内的职业 _____

在这个公司的工作经验年期 _____

在泰国成立公司的年期 _____

持股结构:

泰方 _____ %

外方 (请填上国籍) _____ _____ %

_____ _____ %

_____ _____ %

营业范围：

_____ 农业　　_____ 矿业

_____ 银行业，保险业，融资业　　_____ 房地产业

_____ 建筑业　　_____ 商业

_____ 制造业　　_____ 其它（请指定：_____）

出口值，与总产量/销售量的百分比 _____ %

原材料进口值，与总收购量的百分比 _____ %

从外国股东的原材料进口值，与总收购量的百分比 _____ %

总财产(于_____) 货币_____ 数额_____

Appendix 2: Factor Loading with Varimax Rotation for Independent Variable

Variable	Factor												
	1	2	3	4	5	6	7	8	9	10	11	12	13
A101								.737					
A102								.827					
A103								.615					
A105								.696					
A201	.351												
A202	.557												
A204	.614												
A205	.559												
A206	.328												
A203				.461									
A207				.798									
A208				.891									
A209				.747									
A210				.746									
A211				.458									
A212	.833												
A213	.848												
A214	.866												
A215	.549												
A302		.458											
A303		.378											
A301				.458									
A304				.610									
A305				.568									
A306				.655									
A307				.692									
A308				.620									
A309				.522									

Economic condition

Government policy

Barriers and red tape

Tax concession

Supply of raw material

Domestic infrastructure

Appendix 2: Factor Loading with Varimax Rotation for Independent Variable (con't)

Variable	Factor												
	1	2	3	4	5	6	7	8	9	10	11	12	13
A311		.809											
A312		.475											
A313		.842											
A317		.671											
A318		.482											
A319		.586											
A314					.853								
A315					.886								
A316					.473								
A322									.743				
A323									.735				
A324									.494				
A401						.462							
A402						.702							
A403						.766							
A404						.821							
A405						.605							
A406						.465							
A501										.612			
A502										.747			
A503										.644			
A504							.725						
A505							.772						
A506							.603						
A601												.465	
A602												.695	
A603												.687	
A604												.404	
A605												.736	
A606												.468	

Skilled labor

Unskilled labor

Research and development

Market condition

Financial accessibility

Transparency and legal practice

Environment condition

Note: Extraction method: Principal Component Analysis. Rotation converged in 15 iterations

Appendix 3: Result of Factor Analysis to Examine Unidimensionality

Variables	Number of Items	Initial Eigenvalue		
		Total	% of Variance	Cumulative
Economic condition	4	18.673	29.639	29.639
Government policy	5	6.149	9.761	39.400
Barrier and red tape	6	3.869	6.141	45.541
Tax concession	4	3.070	4.872	50.413
Supply of raw material	2	2.690	4.270	54.683
Domestic infrastructure	7	2.523	4.005	58.688
Skill labour	6	2.303	3.655	62.343
Unskilled labour	3	2.039	3.236	65.579
Research and development	3	1.918	3.044	68.623
Market condition	6	1.676	2.660	71.283
Financial accessibility	3	1.515	2.405	73.688
Transparency and legal practice	3	1.316	2.160	75.848
Environment condition	6	1.202	1.908	77.756

Appendix 4: Cronbach's Alpha for Reliability Test

Variable	Item	Item-Total Correlation	Alpha if Item Deleted	Cronbach's Alpha
Economic Condition				0.8664
	A101	0.6695	0.8498	
	A102	0.8203	0.7853	
	A103	0.6752	0.8478	
	A105	0.7174	0.8297	
Government Policy				0.8794
	A201	0.6763	0.8652	
	A202	0.8485	0.8182	
	A204	0.7924	0.8343	
	A205	0.6638	0.8647	
	A206	0.6043	0.8779	
Barrier and Red Tape				0.8448
	A203	0.5718	0.8294	
	A207	0.7103	0.8051	
	A208	0.7980	0.7840	
	A209	0.7060	0.8037	
	A210	0.7009	0.8043	
	A211	0.3330	0.8793	
Tax Concession				0.9000
	A212	0.8540	0.8437	
	A213	0.8519	0.8425	
	A214	0.8372	0.8488	
	A215	0.5829	0.9357	
Supply of Raw Material				0.9278
	A302	0.8725	-*	
	A303	0.8725	-*	
Domestic Infrastructure				0.9094
	A301	0.4986	0.9177	
	A304	0.8203	0.8805	
	A305	0.7671	0.8913	
	A306	0.7326	0.8958	
	A307	0.8265	0.8851	
	A308	0.7503	0.8932	
	A309	0.7014	0.8993	

Note: * Alpha score if item deleted is not recommended because construct consists of only two items.

Appendix 4: Cronbach's Alpha for Reliability Test (continued)

Variable	Item	Item-Total Correlation	Alpha if Item Deleted	Cronbach's Alpha
Skilled Labour				0.9102
	A311	0.8071	0.8867	
	A312	0.6949	0.9020	
	A313	0.7977	0.8874	
	A317	0.7996	0.8874	
	A318	0.7269	0.8983	
	A319	0.6969	0.9018	
Unskilled Labour				0.8765
	A314	0.8615	0.7300	
	A315	0.7987	0.7916	
	A316	0.6430	0.9243	
Research and Development				0.8440
	A322	0.6928	0.8036	
	A323	0.8315	0.6626	
	A324	0.6296	0.8740	
Market Condition				0.8679
	A401	0.7333	0.8330	
	A402	0.5848	0.8605	
	A403	0.6209	0.8531	
	A404	0.7163	0.8375	
	A405	0.7140	0.8379	
	A406	0.6386	0.8501	
Financial Accessibility				0.8140
	A501	0.6962	0.7117	
	A502	0.5805	0.8267	
	A503	0.7237	0.6838	
Transparency and Legal Practice				0.8650
	A504	0.7705	0.7909	
	A505	0.7479	0.8064	
	A506	0.7181	0.8349	