



**“A study of China’s Outward Foreign Direct Investment
towards Thailand”**

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Abstract

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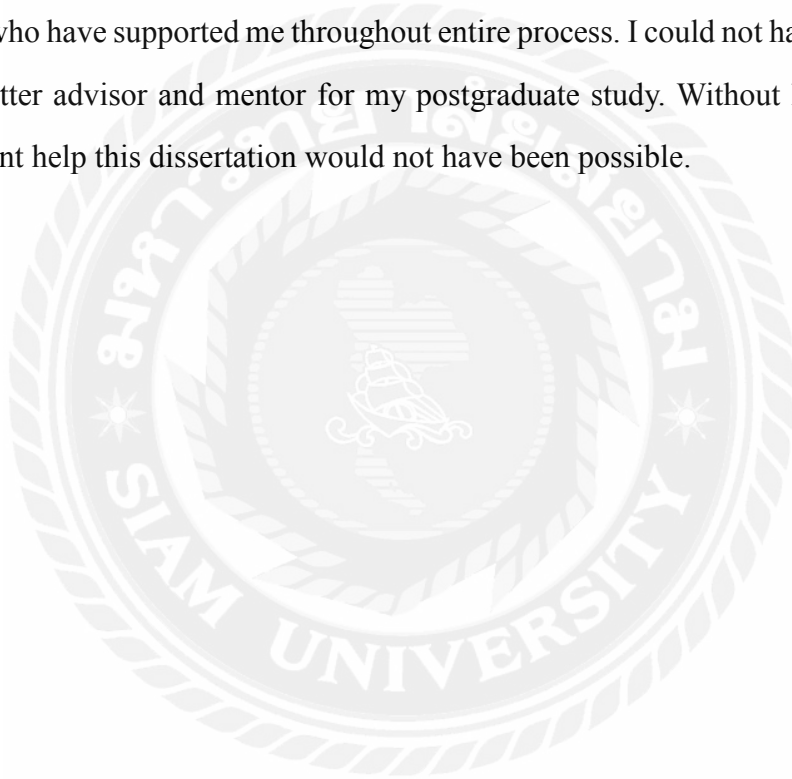
Nowadays, with the pace of Global trade and investment liberalization accelerated, Thailand due to its vital location as the hub in the Southeast has been a hot spot for international direct investment, attracting more and more Chinese investors.

This paper firstly provide a comprehensive analysis of Thailand's investment environment with more details in natural, political, economic, infrastructural, and legal aspects. According to the data from International Institute for Management Development (IMD), Thailand competitiveness index ranks remained between 25 and 33 in the past ten years. Thailand environment of investment and operating is in the medium level, but the operation effect is not very good. Then the study describes the development of Chinese FDI in Thailand mostly based on source and data from the Board of Investment of Thailand, with the analysis of PRC investment projects submitted to BOI by application approved no. of projects and by investment, to provide statistical reference for Chinese investor. Furthermore, influencing factors of Chinese direct investment in Thailand are also included. They are economic relations, Thailand investment policy and incentives, China's opening-up policy and Chinese ASEAN Free Trade Area. However, there are constraints of political uncertainties, disturbance in Thailand Southern, the shortage of skilled labor force, lack of transparent, and cultural difference from Thailand side and the lack of understanding, small investment size, less well-known brand, and less powerful multinational companies from China side. Lastly, the paper suggests several strategy recommendations for Thailand government to improve Thailand investment environment and for Chinese enterprises to invest in Thailand.

Keywords: Chinese enterprises, foreign direct investment, Thailand

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Chapter 1

Introduction

1.1 Research Background

Since 1990s the world economy has been growing rapidly with the pace of Global trade and investment liberalization accelerated. Developed countries always holds a dominant position in foreign direct investment, but in recent years developing countries achieve a growing trend. The Asia Pacific region has been a hot spot for international direct investment, among which Thailand with its superior geographical location and broad market prospects has attracted an increasing number of Chinese outward FDI.

China and Thailand has a long history in economic and trade cooperation. China – Thailand relations officially started in 1975 and it has been 42 years history. In recent years, both economy not only have collaborated at the framework of bilateral or multilateral strategy, but also have regional organization cooperation, such as the establishment of Chinese ASEAN Free Trade Area and the Greater Mekong Sub-regional Cooperation. China work hand in glove with Thailand, especially in the trade and investment concept. With the Chinese go-out policy in 1998, Thailand as the hugest market in Southeast Asia and a vital part of the China-ASEAN Free Trade Area, China has gradually increased the direct investment in Thailand, which greatly promoted the bilateral relationship in the field of economic and trade. In 2010, China ASEAN free trade area was completed on schedule, more than 90% of the import tariffs gradually reduced to zero. With the amounts of bilateral trade continuously increasing at present years, economic corporation of both economy have huge potentials. Bilateral trade volume in 2015 was of 75.46 billion US dollars, increase by 3.8%, among which China exports 38.29 billion US dollars, increased by 11.6%, and imports 37.17 billion US dollars, decreased by 3.1%. China has become the second biggest business partner of Thailand, and being Thailand's largest exporter and second largest importer ranked after Japan. From an investment perspective, China has become the top three source of capital for Thailand. China firstly applied for investment projects from the Board of

Investment of Thailand in 1978, and from that to the year of 2014 the accumulative total number of projects reached 418, in the amount of 146 billion Bath. China's direct investment in Thailand has a trend of development, this paper is based on the good prospects of the development. Therefore, with optimistic trend regard Chinese direct investment to Thailand, this study will focus on the analysis of Chinese outward foreign direct investment towards Thailand.

1.2 Research Significance

In this paper, researcher strive to analyze the investment environment of Thailand and the overview of FDI in Thailand through related documents, and this will help investors have a deeper understanding in that circumstance. And then researcher describes the status quo and developing trend of Chinese enterprises' FDI towards Thailand, which provides theoretical basis for the enhancing of investment and further strengthen bilateral economic and trade relations. Influencing factors such as Thailand incentives, China's opening-up policy, and Chinese ASEAN Free Trade Area are pointed out to provide a reference for Chinese investor to make a wiser decision investing in Thailand. Also, it is evitable that there are constraints that comes from both China and Thailand side hindering the investment process. Through the study of factors and constraints faced by Chinese investors, author put forward several strategy recommendation with the hope of that Thailand government can attach importance to and support Chinese enterprises to invest directly in Thailand.

1.3 Literature Review

1.3.1 Definition of foreign direct invest (FDI)

According to the IMF and OECD definition, foreign direct investment (FDI) is an investment made by a resident entity of one economy (direct investor) in an enterprises that is resident in another economy (the direct investment enterprise), for the aim of obtaining a lasting interest. The "lasting interest" means that there is a long-term relationship between direct investors and direct investment enterprises, which has a

significant impact on the management of the latter. FDI implies that the foreign investor has control over the company purchased, and this control means an owning 10% or more of the business in accordance with the definition of control from The Organization of Economic Cooperation and Development (OECD). Foreign direct investments are often made by multinational corporations (MNCs) or multinational enterprises (MNEs), in the form of the establishment of a new foreign enterprises and the acquisition of a foreign firm. The establishment of a new foreign enterprises is also called a Greenfield investment, via the establishment of factories or subsidiaries and branches. The acquisition of a foreign firm is also called an acquisition or brownfield investment via the acquisition of foreign existing enterprises or companies.

1.3.2 Motives of foreign direct investment

Motives for enterprises invested overseas might be different based on different kind of business. The motives of FDI from developing economies can be categorized into 5 types according to the United Nations identified, namely resource-seeking market-seeking, export-oriented, efficiency seeking, and technology-seeking, which can provide a framework to analysis Chinese investment overseas. What is more, the motive of seeking incentives also has significant influence on FDI in case of Chinese outward FDI towards Thailand.

1) resource-seeking

The full and timely supply of resources is needed during the production and operation of enterprises, but no country can have a full range of natural resources. So there is reasons for enterprises invest overseas. In the face of growing demand for raw materials and the global energy crisis, multinational companies will make a direct investment towards to a country that of rich in resource to seek a stable supply of resources and make a full use of cheap resource, in order to solve the problem of resource shortage to ensure the normal production. Here resources not only refers to natural resources, but also includes labor, technology and other kind of resources. And this kind of investment motivation plays an important role in foreign direct investment.

2) market-seeking and export-oriented

With the development of production and competition aggravating, it is possible that domestic market demand will soon be saturated, so the international market share is of great significance for the survival and development of multinational corporations. This kind of motivation can be classified into three types. First is to open up new business in host country to occupy a certain market. Second is to protect and expand the existing business in host country. Third is to overcome trade barriers and restrictions, in the interest of maintaining the original market share via investing to manufacture products in import country.

3) efficiency seeking

This type of investment motivation is generally for two reasons. One is to reduce the production cost, if the enterprises' domestic production cost is higher than those in a foreign country, so that investor can choose to set up factories in foreign countries via FDI for the sake of lower production cost and even transportation cost, which can improve production efficiency. The other is to obtain economies of scale. It is difficult for enterprises to obtain economies of scale when the development of enterprises suffer from the domestic market capacity constraints. At this time, enterprises can transfer its relatively idle productivity to foreign countries through FDI to improve production efficiency and realize scale economic benefit.

4) technology-seeking

To seek more advanced technology multinational companies might choose to invest directly in countries with higher in development path. From *Pittaya Suvakunta's* viewpoint, there are several ways to that, via technological transfers from foreign partners participating in joint venture, through the acquisition of foreign company shares, via technology-licensing, and by the purchase of advanced equipment via foreign partners at a lower price.

5) seeking incentives

This kind of motivation usually takes place in developing countries, primarily because of many developing countries take incentive measures to attract foreign capital. Incentive measures are mainly tax incentives, so that enterprises can reduce investment costs and increase profits.

1.3.3 Theories of foreign direct investment

1) Investment development cycle theory

The investment development cycle theory was put forward in 1981 by John H. Dunning, a famous British international investment expert. It is an extension and application of the eclectic theory of international production in developing countries. He had an empirical analysis of the relationship of direct investment and economic development between 67 countries in the year of from 1967 to 1978, and pointed out that there is a close relationship between a country's international investment scale and the level of economic development, that is the higher per capita GDP, the greater net foreign direct investment.

John H. Dunning distinguishes four stages of economic development: First stage, the per capita GDP less than \$400. Countries of this stage can obtain little foreign capital and no outward foreign direct investment. Second stage, the per capita GDP in 400-1500 dollars, countries of this stage has slightly increase of obtaining foreign capital but still no outward foreign direct investment, so there is a negative growth in net foreign direct investment. In the third stage of economic development, the per capita GDP in 2500-4750 dollars. At this stage, volume of inward FDI is still greater than those of outward FDI, but the gap is gradually narrowing. In the fourth stage of economic development, there is a positive growth in the country's net foreign direct investment.

In this theory, Denning combines the economic development cycle with the competitive advantage of the enterprise to illustrate how the international investment position of a country changes with the change of its competitive advantage. It shows that the theory of investment development cycle is the combination of a country to

attract foreign investment and the ability of investing outside as well as the level of economic development. Denning claims that the international investment position of a country is proportional to the per capita GDP and the changes of international investment status in developed and developing countries are in line with this trend. However, the amount of attracting foreign capital and outward FDI cannot be measured only by economic indicators, it also depends on a country's political and economic system, legal system, market mechanism, education level, scientific research level and the government's economic policy and other factors.

2) The Theory of Small Scale Technology

American economist Louis T. Wells put forward the theory of small scale technology in 1977 in the article of internationalization of enterprises in developing countries. And then Wells discuss that theory in more detail in his book of “Third World Multinational” in 1983. Wells considered that the competitive advantage of multinational companies in developing countries is mainly reflected in three aspects:

First, the Labor intensive of small scale manufacturing technology for small market. A common feature of the commodity market in low income countries is that demand of those country is limited, as a result mass scale manufacturing technology cannot obtain benefit from the small market, and many developing countries are gaining competitive advantage through this way.

Second, manufacturing national products oversea. Foreign investment in developing countries is primarily for the purpose of serving the needs of the same ethnic groups oversea. According to Welsh's research, that countries are India, Thailand, Singapore, Malaysia, China Taiwan, as well as Hong Kong and so on.

Third, Low price marketing strategy. Compared with developed countries, the low production cost and cheap and fine products are the crucial reasons for multinational corporations to form the competitive advantage and the important weapon to seize the market share.

3) State on Localized Technological Capacities

British economist Sanjaya Lal proposed that taking theory of Localized Technological Capacities to explain the behavior of outward investment in developing countries. He believes that the formation of technical features of multinational firms in developing countries contains innovation activities within the enterprise, despite of small scale manufacturing or labor intensive technology. Several factors for developing countries to develop their own unique advantages are as below. First, the localization of technical knowledge in developing countries is different from that of developed countries, which is often associated with the price and quality of a country. Second, in order to meet the needs of the local or neighboring countries, the developing countries might take some changes on imported technology, and this innovative activity will inevitably come to being a competitive advantage. Third, in terms of product characteristics, enterprises in developing countries tend to develop different brand-name products and consumer goods, especially when the market of host country is big enough and there are wide variation in consumer tastes and purchasing power, products from developing countries might still be competitive to a certain.

1.4 Framework of the paper

The paper is divided into five chapters as following:

Chapter 1: Introduction

This chapter describes the research background and significance. Also reviewing literature related to foreign direct investment to offer definition, motives and theoretical basis of FDI. Then layout framework of the paper and indicates methodology that is literature research, statistical analysis and empirical analysis.

Chapter 2: Analysis of Thailand's investment environment

The analysis includes natural, political, economic, infrastructural, and legal environment, and an overview of FDI in Thailand with pointing out the present situation and structural characteristics.

Chapter 3: Chinese Outward FDI in Thailand

This chapter summarizes the development of Chinese FDI in Thailand as well as the influencing factors later, and then outlines the constraints from both of China side and

Thailand side.

Chapter 4: Strategy recommendation

This chapter indicates strategy recommendation for Thailand government to improve Thailand investment environment and for Chinese enterprises to better invest in Thailand.

Chapter 5: Conclusion

This chapter is making a conclusion of the paper.

1.5 Methodology

Literature research: utilize related theory of foreign direct investment to form theoretical basis and analytical framework, in the purpose of analyzing Thailand's investment environment and the status of Chinese outward FDI towards Thailand.

Statistical analysis: collecting statistical information mainly from World Bank, International Monetary Fund (IMF), the Board of Investment of Thailand (BOI), and Ministry of Commerce both of China and Thailand, to conduct analysis in order to reflect Sino Thai economic level and the status quo of foreign direct investment.

Empirical analysis, through listing facts to describe the situation of Chinese outward FDI towards Thailand as well as factors and constraints, in order to offer strategy recommendation.

Chapter 2

Analysis of Thailand's Investment Environment

2.1 Thailand's investment environment

The investment environment refers to all kinds of surrounding circumstances and conditions associated with investment activities. It is policy, infrastructure environment, financial environment, science and technology environment, legal environment, natural geographical environment and so on. For enterprises, the investment environment is not completely controlled factors, enterprises must strive to understand their environment, and strive to adapt to the environment, the use of favorable conditions provided by the environment to avoid adverse factors.

2.1.1 Natural environment

Thailand is located in the middle of Indo-Chinese Peninsula with a land area of approximately 513120 square kilometers, bordered by Burma to the west, Andaman Sea to the north, Laos and Cambodia to the northeast and southeast, and has south long peninsula connected with Malaysia.

The land area of Thailand is third-biggest in Southeast Asia, after Indonesia and Burma, more than 50% of which are plains and lowlands. Thailand has a diverse topography, rich plains in central, mountains in northeast plateau, jungle in northern mountains, and beautiful sight view in southern peninsula.

Thailand is divided into five parts: North, central, South, East and northeast, with a total of 77 provinces. Bangkok is the capital of Thailand, situated on the Mae Nam River, and 15 kilometers away from sea. Total area of Bangkok is around 1569 square kilometers, with a population of approximately 69 million (year 2013), of which working population is around 40 million and agricultural population about 14 million. Bangkok city has a history of near 230 years was founded in 1782, which is the largest city in Thailand with population around 8 million, but also the national political, economic, cultural, transportation center. The second largest city in Thailand is Chiang

Mai, a famous historical and cultural city, built in 1296. Chiang Mai, 700 km away from Bangkok, is the political, economic, cultural and educational center within northern area, and more over the city once was as the capital of the Thailand Lanna Dynasty, has been mostly preserved. The total area of Chiang Mai is 3905 square kilometers, of which 40 square kilometers is city area, and population is around 1.5 million.

Thailand is rich in natural resources, such as potassium, tin, tungsten, lead, iron, zinc, copper, while also barite, gems, petroleum, natural gas and so on. There are approximately 44 million thousand tons of potash reserves, ranking first in the world. The total reserves of tin is about 1.5 million thousand tons, occupying 12% of the worlds, and ranking first in the world. Moreover, the total reserves of oil and natural gas are respectively 25 million thousand tons and 3659.5 billion cubic meters. Meanwhile forest coverage rate is 20%.

Additionally, given the topographical structure, there are tropical monsoon climate in Thailand. The year is divided into three seasons, namely hot season (from February to the middle of May), rainy season (from June to the middle of October), and cool season (from November to second year's February). Temperature of Thailand is year-around 28 degrees, of which the maximum enable more than 40 degrees. And annual precipitation is around 1100 mm.

2.1.2 Political environment

Thailand is a constitutional monarchy, in which the king is the head of state and commander in chief of the military, a symbol of unity of national sovereignty. The present king is Maha Vajiralongkorn, 64 years old, born in July 28, 1952, is the only son of the late king Bhumibol Adulyadej and queen Siriki. On December 1, 2016, crown prince Maha Vajiralongkorn officially became the new king of Thailand Rama ten. The current Prime Minister is Prayuth Chan-ocha, born in March 21, 1954. In May 2014, due to military coup in Thailand, the commander of army Prayuth Chan-ocha acting as prime minister. On August 25, 2014, the late king of Thailand Bhumibol Adulyadej signed the royal decree, officially appointed Prayuth Chan-ocha as the twenty-ninth Prime Minister of Thailand.

According to the 2007 constitution, the Thailand Parliament consists of two chambers: the Senate and the House of Representatives. The Senate are non-partisan and have limited legislative power, with a total of 200 members, elected directly from constituent district, with at least one senator in a province. Term is six years, according to prior constitution, senator are appointed by the king. There are 500 members of the House of Representatives, of which 400 are elected by the national election, and the rest from list of political parties, all with a term of 4 years. The main functions of parliament is responsible for policy review, to formulate relevant legal documents, to examine and revise the constitution, to approve the annual state budget, to supervise the government policies and work, and to appoint or remove the important positions of government. In addition, parliament can show distrust of government through a vote, but suspended in May 22, 2014 after the military announced a coup in Thailand.

The government consists of one prime ministers and no more than 35 ministers. The prime minister is the head of government, elected by Parliament and under the appointment of the kind, with a term of 4 years. After the Second World War, the long-term control of the military junta, Thailand government was changed frequently. In 1990s, military group gradually fade out of politics. In May 20, 2014 the chief of army Prayuth Chan-ocha announced a military coup, imposing a national-wide curfew between 10m and 5pm, taking over media, and banning rally. Subsequently, the military government of Thailand took over state power until the transitional government was established

The Democratic Party, founded in 1946, is the oldest political party in the Kingdom of Thailand, of which policy tends to maintain the constitutional monarchy, safeguarding the interests of the middle class in Thailand. This party has been in power for many times. Nowadays, the Democratic Party in Thailand gets support of large section in economically developed area, Bangkok and southern region.

Thaksin's Thai Rak Thai party was once one of the main political parties,

acting as the ruling party from 2001 to 2006 before the military coup in Thailand, and the party's founder and former Prime Minister is Thaksin Shinawatra. On May 30, 2007, TRT party was officially banned by the Constitutional Court of Thailand because of fraud during the 2006 legislative election. After the Thai Rak Thai Party disbanded, some party members joined the People's Power Party, until the people power party being banned, and Pheu Thai Party was founded.

Thailand Red Shirt is not a political party, claiming to be the National United Front of Democracy Against Dictatorship or UDD, because the organizers and supporters dressed in red in the demonstrations, so called "red shirts" as a recognition. Most UDD members are supporters of reformist former Prime Minister Thaksin Shinawatra.

Thailand Yellow Shirt is also not a political army, but a political movement and pressure group, called The People's Alliance for Democracy or PAD, of which political opinion against Thaksin Shinawatra who is the former Prime Minister of Thailand.

Thailand pursues an independent foreign policy and carry on an omni-directional diplomacy, with a diplomatic cornerstone of political and economic relations with ASEAN countries. Thailand emphasis on economic diplomacy, actively promoting bilateral and multilateral free trade arrangements, and signed a bilateral free trade agreement or economic partnership with India, Australia, New Zealand and other countries, having engaged in trade negotiations and carried out feasibility study with the United States, Japan, and many other countries. Under the framework of China - ASEAN Free Trade Area, there is an implementation of zero tariff arrangements for fruits and vegetables. Thailand attaches great importance to international and regional cooperation, and actively participate in the Asia Pacific Economic Cooperation (APEC), Asia Europe Meeting (ASEM), the World Trade Organization (WTO), the ASEAN Regional Forum (ARF), the Boao Forum for Asia (BFA), and other international organizations.

Thailand is one of the two treaty allies of the United States in South Asia (the other is Philippines) and is the region's main political and economic partner. Thailand is the third largest trading partner of the United States after Singapore and Malaysia in

Southeast Asia. President Bush visited Thailand in August 2008, during the visit, Mr. Bush and senior officials of Thailand held talks, and delivered a speech on the relationship between the United States and Asia. In November 2012, Obama successfully made an official visit to Thailand.

Japan is Thailand's largest export market and the largest source of foreign investment. In April 2007, during the period of Thailand's Prime Minister Surayud official visit to Japan, the two sides signed the Japan-Thailand Economic Partnership Agreement (JTEPA), effective since November 2007, with the goal of establishing a free trade zone in 10 years. In January 2013, Japan's prime minister Abe Shinzo official visit to Thailand.

Thailand is one of the member country of ASEAN, and attaches great importance to the friendly cooperation with ASEAN countries. Thailand and eight other ASEAN member countries except Philippines establish a joint meeting of their cabinet, actively developing cooperation with related countries in the fields of economy, trade, investment, drug control, poverty eradication, combating transnational crimes and the development of the Mekong river. In April 2006, Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy special meeting on avian influenza was held in Bangkok, and foreign minister Kantathi Suphamongkhon attended the meeting. In July, Kantathi attend the thirty-ninth ASEAN foreign ministers' meeting held in Malaysia.

Since the establishment of diplomatic ties between China and Thailand on July 1, 1975, in addition to the establishment of embassies in each other countries, china has set Consulate General in Chiang Mai, Songkhla, Khon Kaen, and Thailand has a Consulate General in Guangzhou, Kunming, Shanghai, Hong Kong, Chengdu, Xi'an, Xiamen, and a consular office in Nanning. Under the friendly and cooperative relations, two countries can comprehensively and smoothly develop in various fields. In April 2012, China and Thailand established a comprehensive strategic partnership, and still keeping close high-level communication.

2.1.3 Economic environment

Thailand is one of the founding members of the association of Southeast Asian

Nations (ASEAN), but also the member of the Asia-Pacific Economic Cooperation (APEC), and it carries out economically liberal policy, taking trade, agriculture and tourism as the three pillars of national economy. King Bhumibol Adulyadej proposed "sufficient economic" as the philosophy of governing a state in 1974, which core is that for economic development we cannot pursue high speed, high income, but should be appropriate and reasonable, for the sake of long-term stability and sustainable development of economy, society and environment. Since 1980s, with the development of economy, Thailand has gradually changed from the agricultural country, which is dominated by agricultural products, to the newly industrialized countries, which is known as the fifth little dragons in Asia

The Southeast Asian financial crisis broke out in Thailand in 1997. The crisis has dealt a serious blow to Thailand's economy. In 1998 economy fell by 10.8%, but began to recover in 1999. Entering the 21st century, Thai government took the restoration and revitalization of economy as the primary task, carrying out positive fiscal policy and monetary policy to expand domestic demand, and stimulate exports, and to implement following programs, "three years of debt repayment ", "rural development fund", "one village one product" and "30 baht health care". By 2001, Thailand's economy has begun to recover. In July 2003, the increasing tax revenues allowed Thailand to balance its budget and pay off its loans of \$172 million to the IMF in 2003, two years ahead of schedule.

In 2008, the global financial crisis had a profound impact on Thailand that has an external economy, coupled with the domestic political turmoil, so that Thailand economy has been the most significant declined, GDP fell by 2.3% in 2009. But in 2010, despite of the political problems, natural disasters and other negative factors, Thailand's GDP still achieved a high growth of 7.8%, which have contributed to the overall recovery of economic. In 2011, due to the devastating floods, the economic growth rate was dragged down to 0.1%. According to the World Bank, floods caused Thailand economic losses in amount to 1.4 trillion baht. In 2012, Thailand's economy was gradually recovering from the impact of floods, and the central government of Prime Minister Yingluck Shinawatra implemented a series of policies to increase

investment effect, which brought GDP growth rate increase by 6.5%. But in 2013, GDP growth of only 2.9%, due to political crisis and other factors.

Over the past 12 years, Thailand's economy has registered a quite high growth rate. But there are 2.5% in 2008 and even minus 2.3% in 2009, which is due to the impact of the global financial crisis from 2007 to 2012. In 2010, Thailand experienced bottoming out after the financial crisis, with GDP rising by 7.8%, the highest level since 1996. In 2011, owing to Thailand disastrous floods, GDP growth rate at that year only increase by 0.1%.

| Year | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| GDP at constant prices (THB billion) | 3008.4 | 3856.53 | 4054.89 | 4259.81 | 4368.64 | 4268.11 | 4596.12 | 4599.65 | 4898.19 |
| GDP growth rate (%) change) | 4.8 | 4.6 | 5.1 | 5 | 2.5 | -2.3 | 7.8 | 0.1 | 6.5 |

Source: IMF's World Economic Outlook Database (April 2013)

2.1.4 Infrastructural environment

Thailand's road transportation industry is developed, and the road network covering the country's urban and rural areas. National highway mileage is about 51537 km, among them first-class highway 7100 km, second-class highway 10780 km, province level highway 33200 km, intercity highway 280 km. Interconnection with China and other neighboring countries as follows:

R3A line: Thailand-Laos-China Yunnan Province, a total length of 120 km;

R3B line: Thailand-Burma-China Yunnan province;

The R3E line or the Kunming-Bangkok highway: Thailand-Laos-China Yunnan Province, a total length of about 1863 km, of which 690 kilometers long in china, 228 kilometers long in Laos, and 945 kilometers long in Thailand;

R3W line: Thailand-Burma-China, a total length of about 1850 km;

R8 line: Laos-Vietnam-China Guangxi province;

R9 line: Thailand-Laos-Vietnam (connecting to R1 line) -China Guangxi province;

R12 line: Thailand Bangkok-Laos-Vietnam-China Guangxi province, a total length of about 1769 km.

Thailand railway system is relatively backward, and the mileage of railway network is about 443 kilometers, which are narrow, covering 47 provinces throughout the country. Taken Bangkok as the center, 4 major railway lines extend to the north, East, South and Northeast, among them north to Chiang Mai, east to the border of Laos, and South to Malaysia. At present, the railway connecting Yunnan Kunming with Vietnam, Cambodia, Thailand, Malaysia and Singapore are built on the basis of existing railways.

Thailand airline business is relatively developed. Air passenger has become the main mode of transportation for foreign tourist to arrive in Thailand, of which the number of taking a plane accounting for about 80 percent of the total number of foreign tourists. As for the transportation of goods, because of relatively high freight cost, the total air cargo service accounts for only 0.02% of domestic cargo and 0.3% of international cargo, of which air transport products mainly have high unit price, including electronic accessories and bouquets, and so on. There are 38 airports in Thailand, of which 7 are international airports, and flight time from every province or regions of Thailand to Bangkok is only about one hour. Moreover, Bangkok is an important air hub in Southeast Asia. There are International flights heading for more than 30 cities in Asia, Europe, the United States and Oceania. Also there are scheduled flights between Bangkok and Beijing, Hong Kong, Shanghai, Guangzhou, Kunming, Chengdu, Shantou and so on.

Thailand's waterway includes marine shipping and river transportation. Nowadays, Thailand has 122 ports, including eight international deep-water port, respectively located in Bangkok (Klong Toei Port/Bangkok Port), Laem Chabang, Lat Krabang, Narathiwat, Songkhla, Satun, Ranong, Phuket, and annual port throughput more than 4.5 million standard containers. What's more, Bangkok port is the most important port,

taking up near 95% of the country's exports and almost all of its imports. Mekong river and Mae Nam river are the two largest waterway in Thailand, with an inland waterway of about 4000 kilometers, and important ports including Chiang Saen Port, Chiang Khong Port and so on.

Thailand telecommunication industry is relatively developed, and various forms of telecommunication network has covered the whole country, including fixed-line telephone, mobile phone, ADSL broadband Internet, satellite modem and dial-up access services and so on. Thailand's major telecom service providers are state-owned CAT, TOT and private AIS, DTAC, TRUE, etc. According to the National Statistical Office of Thailand, a national survey in 2011 of people aged six and over, computer users, internet user and mobile phone user respectively are 19.9 million accounting for about 32%, 14.8 million accounting for about 23.7%, and 41.4 million accounting for about 66.4% of the surveyed people.

At present, Thailand's electricity-generation capacity can basically meet domestic demand. But with the economic development, the contradiction between power supply and demand is increasingly prominent. According to the estimates from Thailand Energy Sector, Thailand in recent years, while GDP increase by 1%, the corresponding increase in electricity demand will increase by 1.4%. Meanwhile if Thailand's economic growth rate maintains at 4%-5%, so that the growth rate of annual electricity demand will reach about 5.8%. Thailand is working actively with Laos, Myanmar and other neighboring countries to continuously meet the growing demand for electricity.

2.1.5 Legal environment

In Thailand, The government department in charge of trade is Ministry of Commerce, of which main function divided into two parts, first is the responsible for promoting enterprise development, domestic commodity trade and service trade development and the regulation of commodity prices, safeguard the interests of consumers and the protection of intellectual property rights, second is the responsible for participating in WTO and various multilateral and bilateral trade negotiations,

promoting the benign development of international trade.

The management department in charge of product quality supervision, inspection and certification is Food and Drug Administration (FDA), and National Bureau of Agriculture Commodity and Food Standards, (ACFS). According to relevant laws and regulations, FDA exercise strict control on market access for goods, auditing all kinds of corresponding health certificate, GMP certificate, HACCP certificate and free sales certificate, etc. Importers must apply for an import license to import food, and designated food storage room must pass the FDA test before storage, and the import license should be updated every 3 years. Moreover, for the food of special control, importer must register on FDA, getting approval before import. Main responsibility of ACFS is to set regulation standard for primary agricultural products, food and agricultural products processing, issue license, certification of related products and enterprises, in addition, also assist in technical problems, and participate in foreign negotiations of non-tariff measures and international standards. Its main objective is to develop the standard system of agricultural products and food in Thailand to adapt to international standards, for expanding the export of agricultural products and food in Thailand.

Customs Act is the fundamental legal system of Customs Administration in Thailand. At present, Thailand customs import and export commodity code and tariff management system is based on the Customs Tariff Decree 1987. In the light of management needs, Thailand government will adjust commodity code classification and customs duties from time to time, and relevant laws and announcement can be found in: www.igtf.customs.go.th/igtf/en/main.frame.jsp. In Thailand, most imported goods are required to pay two kind of the tax, customs duties and value added tax (VAT). The general tariff setting method is Ad valorem tax; and there are also some of the goods in accordance with special tax rate. Normally, the formula for calculating the custom duties on import goods is the CIF price of goods multiplied by its import tariffs, and most import tariffs are in range of 0-80%. The value added tax is calculated by multiplying the total value of duty and consumption tax on imported goods by 7%.

In Thailand, Board of Investment (BOI) is in charge of investment promotion,

making investment policy according to Investment Promotion Act issued in 1977, second revised in 1991 and third revised in 2001. The Office of the Board Investment is responsible for the audit and approval of the project to enjoy preferential investment policies in Thailand, providing investment advice and services. Board of Investment (BOI) provides two forms of preferential policies to investors; one is tax preferential policy, including exemption or reduction of corporate income tax, import duties on machine, raw materials, etc; the other non-preferential policy, including allowing the introduction of experts and technical personnel, allowing access to land ownership, allowing the outward remittance of foreign exchange and other security and protection measures. BOI encourages below investment industry: agriculture and agricultural product processing industry, mining industry, ceramics and metal based industry, light industry, metal products, machinery and transport equipment manufacturing, electronic and electrical industry, chemical products, plastics and paper industry, service industry and public utilities etc.

The current labor protection law in Thailand is Labor Protection Act established in 1998, which defined the rights and obligations of the employer and the employee, setting the minimum standard on general labor, the employment of women and child, wages, etc. At the same time, the Labor Protection Act also gives government the right to interfere in management to ensure the fair and healthy development of the relationship between employers and employees. In addition, there are other relevant legislation, such as Labor Relation Act in 1975, Act on Establishment of Labor Courts and Labor Courts Procedures in 1979, Social Security Act in 1990 and Workmen's Compensation Act in 1994, etc. Thailand has the following requirements for the employment of foreigners: (1) Thailand employers who wish to employ foreigners to work in Thailand must apply for a work permit from the Thailand labor management department. (2) The term of validity of work permit shall be one year, and the application for extension shall be submitted in time. (3) The labor permit must be carried on. (4) In the event that the officials of labor administrative department (must carry identification documents on) to perform their duties, the employer shall provide appropriate assistance for the examination of the documents. (5) The license shall not

be used in different places, and the place of the head office and the branch office shall be indicated in the application of the workplace.

There are laws related to investment cooperation: Civil and Commercial Code, to clear and define relationship between natural persons, organizations and the civil legal; Alien Business Act, to set fundamental law for foreigners doing business in Thailand; Revenue Code, the fundamental laws governing the tax related issues such as the categories of taxes, tax rates and calculation methods; Investment Promotion Act, to define various benefits that foreign invested enterprises can enjoy in Thailand; Labor Protection Act, define rights and obligations between employers and employees; Alien Employment Act, the provisions of law for foreigners working in Thailand; Customs Act, the provisions of the principles and methods for imported goods, to define the rights and obligations of the import and export business operators and customs administration.

2.2 Overview of FDI in Thailand

2.2.1 The present situation of FDI in Thailand

According to statistics, from 2005 to 2013, Thailand attracted foreign direct investment increased by 10.6%, mostly from Japan, mainly in the automotive industry and electrical industry. Although in 2014 Thailand's domestic political problems lead to foreign direct investment slowed down temporarily, but with the political situation gradually smooth at the end of year, increased investors' confidence for large-scale government projects, officially accelerated the approval of investment promotion project applied by foreign investors, and all of these will help foreign investors regain confidence in Thailand's economic development. Statistic from 2004 to 2012 shows that Thailand's foreign capital mainly from Japan, ASEAN, the European Union and the United states. Japan's investment in ASEAN countries are still dominated by Thailand, followed by Indonesia, Singapore, Malaysia, Cambodia, Laos, Myanmar and Philippines.

According to the annual report of the BOI New York office, foreign investment in Thailand in 2016 has soared to 584.55 billion baht, about 16.6 billion dollar, exceeding the target of more than 550 billion baht, and it is expected that the total investment in 2017 will exceed 600 billion baht. In 2016, the number of foreign investment projects increased by 56% compared with 2015, creating 139,000 jobs for Thailand, and indirectly stimulated Thailand's domestic raw material market and boosted sales of Thai exports. "Foreign investment in Thailand will help Thailand's economy lay an important place in Asia," said Ms. Ajarin Pattanapanchai, Deputy Secretary-General of the Thailand Investment Promotion Board, "low cost of doing business and good business environment make Thailand one of the most popular direct investment destinations.

According to BOI data, Thailand's top foreign investment sources are Japan, Singapore, mainland China, the Netherlands, and Hong Kong, China. In 2017, in order to attract more foreign talents and high technology, Thailand government launched a new digital economy strategy named of "Thailand 4.0", including: the support of infrastructural construction, electric vehicles and spare parts, aviation, medical equipment and medicines, renewable energy and other industries. "Thailand is trying to create a stable and orderly business environment," said Deputy Secretary General Ms. Pattanapanchai.

According to the data from International Institute for Management Development (IMD), Thailand competitiveness index ranks remained between 25 and 33 in the past ten years. In 2015, Thailand ranked thirtieth in the world, downing from the previous year, ranking the top third in ASEAN countries. The competitiveness ranking of Singapore, Malaysia, Taiwan, Japan, China and South Korea and some other countries and regions are always better than Thailand. According to the analysis, the competitiveness of infrastructure projects in Thailand compared with other projects, has the biggest setback, and those of education, health and environmental protection projects also lag behind many projects. However Malaysia continues to develop infrastructure, which better than Thailand.

Thailand environment of investment and operating is in the medium level, but the

operation effect is not very good. Thailand's advantage lies in the government's fiscal measures and financial base, but the level of social structure, social norms, as well as the laws and regulations relating to business operations has a low ranking. What's more, minimum daily wage of Thailand increased, which is more than other countries within the same region, such as Vietnam, Indonesia, India and China, as a result price rankings appeared draw back since 2011. In addition, from the perspective of investment tax and investment environment, Thailand's tax policy has little difference compared to other Asian countries.

2.2.2 Structural characteristics of FDI in Thailand

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Foreign direct investment in Thailand is more concentrated in manufacturing sector, with the proportion of nearly 60%, more than Singapore, Malaysia, Philippines, Indonesia, Vietnam and other ASEAN countries. Comparing the data of two stages from 2009 to 2012 and from 2000 to 2007, there is a growth of foreign capital flows to manufacturing and real estate, while a decrease of those in commercial trade, and little difference in the service and financial sector remained at around 10%. As for Thailand's manufacturing industry, especially in the automotive industry, because of the strong support from foreign investment, Thailand has become the Asian automotive industry center, playing an important role in the Global Value Chain on the developing countries side.

Compared Thailand with Singapore, Singapore's ability to attract foreign direct investment far exceeds Thailand, and its foreign capital distributed in various fields, reflecting the country's economic power, especially Singapore as a regional financial center and the status of the real estate development, greatly attracting bankers and investors transferring their strategic base to Singapore. But for Thailand, due to excessive concentration of foreign capital in certain economic field, causes other economic areas cannot get greater benefits from the world value chain.

Compared with other major ASEAN countries, in addition to Philippines's little change in foreign direct investment, which is the same as a few years ago, the introduction of foreign direct investment of Vietnam, Indonesia, and Malaysia has a growth of 2-4 times when compared the past five years with from 2007 to 2011, in which Thailand's growth rate at around 20%, and all of them are concentrated in the manufacturing sector, promoting the formation of Asian factories, making it a global market for the export of a variety of products, especially electronic products, automotive and spare parts.

In recent years, types of foreign direct investment attracted by Thailand mostly are Expansion Investment. In the light of data from the board of investment of Thailand (BOI), in the ten years from 2005 to 2014, the number of the approval of investment project on the basis of original project are two times of new projects, which is

consistence with the survey of the United Nations Conference this trade and development, that is investors believe that it is better to invest in the expansion of original project, instead of starting a new one, mainly because it will cost more money to start new projects.



Chapter 3

Chinese Outward FDI in Thailand

3.1 The development of Chinese FDI in Thailand

Chinese enterprises began investment in Thailand since the formal establishment of diplomatic relations between China and Thailand in 1975, has been 42 years. In 1985, China and Thailand have signed a mutual protection investment agreement, and a year later they also signed an agreement that avoids double taxation, which help to encourage both investors to actively operate business and enhance relationship between the two countries. From 1998 until now, during the period of Chinese government's "going out" strategy, Chinese enterprises have yearly increased their investment in Thailand, which effectively promote economic exchanges and trade between the two countries. On the grounds of China Customs statistics, bilateral trade volume in 2015 was of 75.46 billion US dollars, increase by 3.8%, among which China exports 38.29 billion US dollars, increased by 11.6%, and imports 37.17 billion US dollars, decreased by 3.1%. By 2015, China's direct investment in Thailand has accumulated 3.52 billion US dollars, and Thailand's direct investment in China valued 4.06 billion US dollars. For the year of 2015, China's direct investment in Thailand valued 0.44 billion US dollars, grow by 21.1%, and Thailand's direct investment in China valued 44.38 million US dollars, fall by 26.7%.

The history of Chinese enterprises outward FDI in Thailand can be divided into three main stages:

The first stage is 1975-1991, in that time China and Thailand began to establish diplomatic relations. In economic respect, there is trade and investment agreements. China began to invest in Thailand, seeking to develop in Thailand. In the meantime, China is carrying out the reform of the economic system, and the application of international direct investment must follow the development strategy and measures of China's economic system reform, and it is only available to some large trading companies. As shown in chart one, in 1987, China first applied for investment projects

through Board of Investment, but all have not been approved. In the following years, China applied for direct investment projects in the amount of 22, however only 12 got approved. In the past five years between 1987 and 1991, China has applied to Thailand for a total number of 62 direct investment projects, of which there are 41 projects got approved, and the passing rate of projects is gradually increasing. Statistics from chart two shows that China's capital that inflows into Thailand mostly concentrated in the field of agriculture and agricultural products, accounting for almost half of the total amount of investment, and has least in the field of Minerals and Ceramics, Services, Electric and Electronic Products, and Chemicals and Paper, less than a quarter of total amount.

Chart 3.1: PRC Investment Projects Submitted to BOI (1987-1991)

| Year | Net Application No. of projects | Application Approved No. of projects | Investment (Million Bath) |
|-------|------------------------------------|--|------------------------------|
| 1987 | 2 | — | — |
| 1988 | 22 | 12 | 40.6104 |
| 1989 | 21 | 14 | 30.4412 |
| 1990 | 13 | 12 | 133.2635 |
| 1991 | 4 | 3 | 30.345 |
| Total | 62 | 41 | 234.6601 |

Source: the Board of Investment of Thailand

Chart 3.2: PRC Investment Projects Applying for Promotion Classified by Sector (1987-1991) (Unit: No. of Projects)

| Year Sector | 1987 | 1988 | 1989 | 1990 | 1991 | Total |
|----------------------------------|------|------|------|------|------|-------|
| Agricultural Products | - | 12 | 8 | 2 | - | 22 |
| Minerals and Ceramics | - | - | - | - | 1 | 1 |
| Light Industries/Textiles | - | - | 3 | 2 | - | 5 |
| Metal Products and Machinery | - | - | 2 | 2 | 1 | 5 |
| Electric and Electronic Products | - | - | 1 | 2 | - | 3 |

| | | | | | | |
|---------------------|---|----|----|----|---|----|
| Chemicals and Paper | - | - | - | 2 | 1 | 3 |
| Services | - | - | - | 2 | - | 2 |
| Total | - | 12 | 14 | 12 | 3 | 41 |

Source: the Board of Investment of Thailand

The second stage is 1992-1997, during the period not only after the Cold War, but also the Deng Xiaoping period to promote the development of economy, China was still expanding investment, but not at a great number. Investment tends to heavy industry such as steel, and it is also popular in agriculture and agricultural products, and chemicals. During this period, there were 30 projects that achieve the approval of the Board of Investment of Thailand, at the investment amount of 204 million US dollar. The least investment year of Chinese enterprises' direct investment in Thailand is 1997, of which the investment amount is only 1.43 million US dollar, with the approval of one projects when applying for two. Because of the Asian financial crisis in 1997, leading to the result of Chinese investor reduce their investment in Thailand.

Chart 3.3: PRC Investment Projects Submitted to BOI (1992-1997)

| Year | Net Application No. of projects | Application Approved No. of projects | Investment (Million Bath) |
|-------|------------------------------------|--|------------------------------|
| 1992 | 5 | 1 | 1.9685 |
| 1993 | 19 | 13 | 68.4174 |
| 1994 | 11 | 6 | 89.122 |
| 1995 | 2 | 5 | 7.8788 |
| 1996 | 6 | 4 | 35.0933 |
| 1997 | 2 | 1 | 1.4344 |
| Total | 45 | 30 | 203.9144 |

Source: the Board of Investment of Thailand

Chart 3.4: PRC Investment Projects Applying for Promotion Classified by Sector (1992-1999) (Unit: No. of Projects)

| Sector \ Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | Total |
|----------------------------------|------|------|------|------|------|------|-------|
| Agricultural Products | - | 6 | 1 | 1 | - | - | 8 |
| Minerals and Ceramics | - | 3 | 4 | - | - | - | 7 |
| Light Industries/Textiles | - | 1 | - | - | - | - | 1 |
| Metal Products and Machinery | 1 | 1 | - | 1 | 1 | - | 4 |
| Electric and Electronic Products | - | - | - | - | 1 | - | 1 |
| Chemicals and Paper | - | 2 | 1 | 3 | 2 | 1 | 9 |
| Services | - | - | - | - | - | - | - |
| Total | 1 | 13 | 6 | 5 | 4 | 1 | 30 |

Source: the Board of Investment of Thailand

The third stage is star from 1998, Chinese enterprises went to invest more in Thailand, because of the government's "going out" strategy, arousing a lot of cooperation with Thailand. Affected by the Asian financial crisis in 1997, investment projects and amount of Chinese enterprises in Thailand dropped significantly, of which investment inflows become the historical lowest level. After that, in order to attract foreign investment, Thailand' government quickly promoted the economic liberalization reform, as a result Chinese outward FDI in Thailand slowly returned to normal. China's direct investment in Thailand in 1999 jumped 782.36% compared with the year before, at the amount of \$14.8 million thousand, and it is the biggest rise since 1997. In 2001, after China joined the World Trade Organization, directly driven by trade liberalization, there was a rising trend of investment to Thailand. Affected by the global economic crisis of in 2008, although there were 36 approved projects, the investment amount only 3.5 billion Bath. In 2009, Chinese investment in Thailand recovered growth momentum, reached the amount of 7 billion Baht. In 2010, there is a rapid growth of Chinese enterprises investment in Thailand, investment projects approved by the Board of Investment of Thailand reach 36 projects, with amount of 17.3 billion baht. Experienced three years of declining investment, the

Chinese investment capital in Thailand dramatically grow to 38.2 billion Bath, which is two times more than those in 2010.

According to the Board of Investment of Thailand, Chinese outward FDI in Thailand as shown in chart 5: Chinese enterprises totally apply for 543 projects, but the no. of application approved only 418 projects, with total investment amount of 145.67 billion Baht.

Table 3.5: PRC Investment Projects Submitted to BOI (1987-2014)

| Year | Net Application No. of projects | Application Approved No. of projects | Application Approved Total Investment (Billion Bath) |
|------|---------------------------------|--------------------------------------|--|
| 1987 | 2 | - | - |
| 1988 | 22 | 12 | 1.0272 |
| 1989 | 21 | 14 | 0.7824 |
| 1990 | 13 | 12 | 3.4096 |
| 1991 | 4 | 3 | 0.7743 |
| 1992 | 5 | 1 | 0.05 |
| 1993 | 19 | 13 | 1.7323 |
| 1994 | 11 | 6 | 2.2414 |
| 1995 | 2 | 5 | 0.1963 |
| 1996 | 6 | 4 | 0.8894 |
| 1997 | 2 | 1 | 0.045 |
| 1998 | 11 | 2 | 0.0694 |
| 1999 | 16 | 7 | 0.5601 |
| 2000 | 5 | 17 | 2.5509 |
| 2001 | 17 | 12 | 8.6904 |
| 2002 | 16 | 7 | 0.3792 |
| 2003 | 18 | 11 | 1.3896 |
| 2004 | 20 | 20 | 4.4325 |
| 2005 | 18 | 15 | 2.2856 |
| 2006 | 26 | 16 | 2.4557 |
| 2007 | 31 | 26 | 15.8559 |
| 2008 | 21 | 27 | 3.4738 |
| 2009 | 25 | 15 | 7.0087 |
| 2010 | 31 | 28 | 17.3115 |
| 2011 | 36 | 36 | 16.9221 |
| 2012 | 44 | 38 | 7.901 |
| 2013 | 45 | 30 | 4.991 |
| 2014 | 74 | 40 | 38.247 |

| | | | |
|-------|-----|-----|----------|
| Total | 543 | 418 | 145.6723 |
|-------|-----|-----|----------|

Source: the Board of Investment of Thailand

Table 3.6: PRC Projects Classified by Investment Size

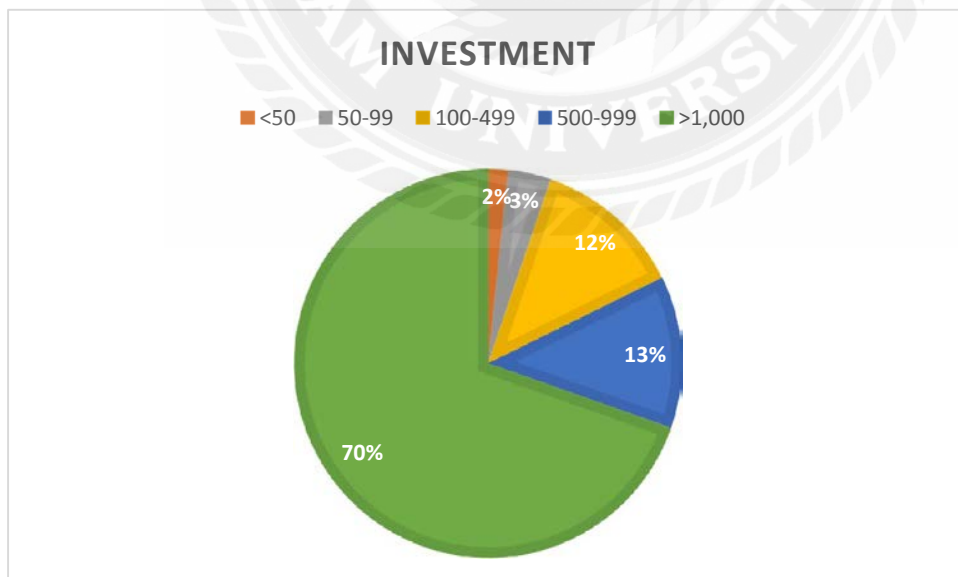
| Investment Size (million Baht) | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | |
|-----------------------------------|-------------------|----------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment |
| Net Application | | | | | | | | | | | | | | |
| <50 | 14 | 269.8 | 11 | 206.8 | 12 | 255.8 | 13 | 116.5 | 18 | 465.1 | 13 | 248.9 | 20 | 363.7 |
| 50-99 | 4 | 265.5 | 5 | 344.0 | 9 | 602.8 | 5 | 331.3 | 7 | 564.0 | 11 | 835.4 | 20 | 1,311.8 |
| 100-499 | 3 | 969.7 | 3 | 543.1 | 6 | 1,122.6 | 7 | 1,503.0 | 13 | 3,549.5 | 16 | 3,601.9 | 19 | 3,980.9 |
| 500-999 | - | - | 1 | 780.2 | 1 | 500.0 | 10 | 7,512.0 | 4 | 2,801.7 | 1 | 800.0 | 4 | 2,615.9 |
| >1,000 | - | - | 5 | 41,315.1 | 3 | 8,217.2 | 1 | 19,032.2 | 2 | 5,448.7 | 4 | 37,044.4 | 11 | 25,434.7 |
| Total | 21 | 1,505.0 | 25 | 43,189.2 | 31 | 10,698.4 | 36 | 28,495.0 | 44 | 12,829.0 | 45 | 42,530.6 | 74 | 33,707.0 |
| Application Approved | | | | | | | | | | | | | | |
| <50 | 11 | 219.9 | 9 | 164.0 | 10 | 230.1 | 13 | 187.8 | 16 | 343.2 | 9 | 210.2 | 12 | 227.5 |
| 50-99 | 7 | 576.6 | 3 | 216.6 | 7 | 503.3 | 5 | 403.3 | 7 | 529.0 | 7 | 518.9 | 10 | 714.7 |
| 100-499 | 7 | 1,393.8 | 1 | 300.0 | 4 | 881.5 | 8 | 1,648.3 | 9 | 1,852.2 | 13 | 3,261.7 | 14 | 2,620.9 |
| 500-999 | 2 | 1,283.5 | 1 | 780.2 | 2 | 1,117.6 | 7 | 5,134.1 | 5 | 3,807.1 | - | - | - | - |
| >1,000 | - | - | 1 | 5,547.9 | 5 | 14,579.0 | 3 | 9,548.6 | 1 | 1,369.6 | 1 | 1,000.0 | 4 | 34,684.4 |
| Total | 27 | 3,473.8 | 15 | 7,008.7 | 28 | 17,311.5 | 36 | 16,922.1 | 38 | 7,901.1 | 30 | 4,990.8 | 40 | 38,247.0 |

Note: 1) PRC Investment projects refer to projects with PRC capital of at least 10%.

Table 3.7: PRC Projects Classified by Investment Size

| Investment Size (million Baht) | Application Approved No. of Projects | Investment |
|-----------------------------------|--|------------------|
| <50 | 80 | 1582.7 |
| 50-99 | 46 | 3462.4 |
| 100-499 | 56 | 11958.4 |
| 500-999 | 17 | 12122.5 |
| >1,000 | 15 | 66729.5 |
| Total | 214 | 95,855.50 |

Table 3.8: the Percentage of Investment Size



During 2008-2014, Chinese companies invested 214 projects in Thailand, with the amount of 9585.55 billion Baht within seven years. In addition, PRC Projects classified by investment size can be divided into five layers: (1) investment size less than 50

million baht has 80 projects; (2) investment size between 50-99 has 46 projects; (3) investment size between 100-499 million baht has 56 projects; (4) investment size between 500-999 million baht has 17 projects, (5) investment size more than 1 billion baht has 15 projects. The number of investment size less than 50 million baht is the largest, but investment capital accounted for only about 2%. Although there are minimum number in the projects that investment size more than 1 billion baht, the amount of investment capital more than 67 billion baht, and accounting for 70% of the total investment amount. Mostly, large projects often invest in mines, steel, agricultural products, services and chemicals.

Table 3.9: PRC Projects through BOI Classified by Type

Unit: Million Baht

| Type | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | |
|-----------------------------|----------------|----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
| | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment |
| Net Application | | | | | | | | | | | | | | |
| Expansion Projects | 2 | 16.1 | 4 | 4,903.5 | 10 | 810.9 | 5 | 683.9 | 13 | 8,221.8 | 19 | 24,681.8 | 32 | 23,153.4 |
| New Projects | 19 | 1,488.9 | 21 | 38,285.7 | 21 | 9,887.5 | 31 | 27,811.1 | 31 | 4,607.2 | 26 | 17,848.8 | 42 | 10,553.6 |
| Total | 21 | 1,505.0 | 25 | 43,189.2 | 31 | 10,698.4 | 36 | 28,495.0 | 44 | 12,829.0 | 45 | 42,530.6 | 74 | 33,707.0 |
| Application Approved | | | | | | | | | | | | | | |
| Expansion Projects | 4 | 201.5 | 2 | 36.0 | 8 | 5,737.1 | 8 | 2,309.4 | 14 | 5,644.6 | 13 | 1,585.7 | 20 | 28,603.5 |
| New Projects | 23 | 3,272.3 | 13 | 6,972.7 | 20 | 11,574.4 | 28 | 14,612.7 | 24 | 2,256.5 | 17 | 3,405.1 | 20 | 9,644.0 |
| Total | 27 | 3,473.8 | 15 | 7,008.7 | 28 | 17,311.5 | 36 | 16,922.1 | 38 | 7,901.1 | 30 | 4,990.8 | 40 | 38,247.0 |

Note: 1) PRC investment projects refer to projects with PRC capital of at least 10%.
International Affairs Bureau., BOI
As of January 28, 2015

The increasing of FDI can be divided into two group: one is on the basis of original projects, another is start new projects. According to chart 11, we can see that, from 2008 to 2014, the number of expansion project is yearly growing, increased by 5 times in the past seven years. However, the number of the expansion of new projects changed little, in addition to only 13 in 2009, and flooded in-topping 28 new projects in 2011, remaining years are maintained at about 20. Chinese companies gradually tend to expand reinvestment, rather than start new projects.

Table 3.10: PRC Investment Projects through BOI Classified by Factory Location

Unit: Million Baht

| Location \ Year | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | |
|-----------------------------|----------------|----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|
| | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment | No. of Project | Investment |
| Net Application | | | | | | | | | | | | | | |
| Zone 1 | 10 | 822.7 | 5 | 218.7 | 4 | 6,160.1 | 8 | 991.3 | 4 | 111.4 | 6 | 376.1 | 20 | 2,211.9 |
| Zone 2 | 6 | 536.3 | 11 | 41,531.6 | 15 | 2,913.2 | 18 | 24,355.6 | 29 | 9,468.3 | 29 | 36,988.6 | 36 | 25,627.4 |
| Zone 3 | 5 | 146.0 | 9 | 1,438.9 | 12 | 1,625.1 | 10 | 3,148.1 | 11 | 3,249.3 | 10 | 5,165.9 | 18 | 5,867.7 |
| Total | 21 | 1,505.0 | 25 | 43,189.2 | 31 | 10,698.4 | 36 | 28,495.0 | 44 | 12,829.0 | 45 | 42,530.6 | 74 | 33,707.0 |
| Application Approved | | | | | | | | | | | | | | |
| Zone 1 | 7 | 440.3 | 5 | 148.2 | 6 | 6,875.0 | 8 | 292.8 | 8 | 1,920.7 | 6 | 447.1 | 7 | 446.7 |
| Zone 2 | 11 | 2,392.7 | 3 | 5,611.9 | 16 | 9,179.5 | 16 | 13,609.3 | 22 | 4,241.1 | 20 | 3,874.0 | 25 | 37,208.8 |
| Zone 3 | 9 | 640.8 | 7 | 1,248.6 | 6 | 1,257.0 | 12 | 3,020.0 | 8 | 1,739.3 | 4 | 669.7 | 8 | 592.0 |
| Total | 27 | 3,473.8 | 15 | 7,008.7 | 28 | 17,311.5 | 36 | 16,922.1 | 38 | 7,901.1 | 30 | 4,990.8 | 40 | 38,247.0 |

Note: 1) PRC investment projects refer to projects with PRC capital of at least 10%.

The Board of Investment of Thailand divided investment area into three regions, according to each region's per capita income, infrastructure conditions, the distance to

Bangkok, and other economic factors, for the purpose of narrowing the regional disparity of economic development, and expanding the economic prosperity to other regions within the country. Detail of the number of projects and investment capital located in each zone as shown in chart 12, and containing provinces as follows:

Zone 1:

Bangkok, Nakhon Pathom, Nonthaburi, Pathoum Thani, Samut Prakan, and Samut Sakhon;

Zone 2:

Ang Thong, Ayutthaya, Chachoengsao, Chon Buri, Kanchanaburi, Nakorn Nayok, Ratchaburi, Samut Songkhram, Saraburi, Supanburi, Phuket and Rayong.

Zone 3

The remaining 59 provinces with low income and with less-developed infrastructure, which are designated as Investment Promotion Zones.

36 Provinces: Krabi, Kamphaeng Phet, Khon Kaen, Chanthaburi, Chai Nat, Chumphon, Chiang Rai, Chiang Mai, Trang, Trat, Tak, Nakhon Ratchasima, Nakhon Si Thammarat, Nakhon Sawan, Prachuab Khiri Khan, Prachin Buri, Phangnga, Phattalug, Pichit, Phitsanulok, Phetchaburi, Phetchabun, Mukdahan, Mae Hong Son, Ranong, Lop Buri, Lamphang, Lamphun, Loei, Songkhla, Sa Kaew, Sing Buri, Sukhothai, Surat Thani, Uttaradit, and Uthai Thani.

23 Provinces: Kalasin, Nakhon Phanom, Narathiwat, Nan, Buri Ram, Pattani, Phayao, Phrae, Maha Sarakham, Yasothon, Yala, Roi Et, Si Sa Ket, Sakhon Nakhon, Satun, Surin, Nong Bua Lamphu, Chaiyaphum, Nong Khai, Ubon Ratchatani, Udon Thani Amnatcharoen and Bueng Karn.

Table 3.11: PRC Investment Projects Applying for Promotion Classified by Sector

| Sector | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | |
|---|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment |
| <i>Agricultural Products</i> | 4 | 685.7 | 6 | 5,308.5 | 10 | 2,014.4 | 9 | 4,649.8 | 6 | 1,262.7 | 6 | 887.8 | 11 | 6,173.9 |
| <i>Minerals and Ceramics</i> | 1 | 89.0 | 2 | 4,591.7 | 2 | 92.0 | 1 | 5.1 | 5 | 6,755.4 | 1 | 126.9 | 5 | 5,275.3 |
| <i>Light Industries/Textiles</i> | 3 | 123.9 | 2 | 66.3 | 4 | 365.1 | 6 | 2,102.6 | - | - | 3 | 106.5 | 4 | 633.5 |
| <i>Metal Products and Machinery</i> | 5 | 119.7 | 4 | 203.1 | 6 | 1,375.8 | 8 | 20,513.7 | 15 | 2,543.6 | 18 | 31,040.4 | 19 | 10,505.9 |
| <i>Electric and Electronic Products</i> | 4 | 415.5 | - | - | 2 | 23.0 | 7 | 1,097.2 | 4 | 168.5 | 9 | 5,511.1 | 14 | 8,308.9 |
| <i>Chemicals and Paper</i> | 3 | 56.2 | 7 | 6,483.5 | 5 | 697.1 | 4 | 118.0 | 10 | 830.8 | 5 | 584.9 | 16 | 1,525.6 |
| <i>Services</i> | 1 | 15.0 | 4 | 26,536.1 | 2 | 6,131.0 | 1 | 8.6 | 4 | 1,268.0 | 3 | 4,273.0 | 5 | 1,284.0 |
| Total | 21 | 1,505.0 | 25 | 43,189.2 | 31 | 10,698.4 | 36 | 28,495.0 | 44 | 12,829.0 | 45 | 42,530.6 | 74 | 33,707.0 |

Note: 1) PRC Investment projects refer to projects with PRC capital of at least 10%.

Table 3.12: PRC Investment Projects Approved by BOI Classified by Sector

| | | Unit: Million Baht | | | | | | | | | | | | | |
|----------------------------------|------|--------------------|----------------|-----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|----------------|-----------------|-----------------|
| Sector | Year | 2008 | | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | | 2014 | |
| | | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment | No. of Projects | Investment |
| Agricultural Products | | 4 | 312.0 | 2 | 321.5 | 6 | 1,685.9 | 10 | 3,688.4 | 5 | 1,844.7 | 5 | 916.7 | 4 | 884.4 |
| Minerals and Ceramics | | 2 | 351.2 | - | - | 2 | 1,810.0 | 2 | 6,745.6 | 1 | 1,369.6 | - | - | - | - |
| Light Industries/Textiles | | 4 | 143.4 | 2 | 94.0 | 4 | 912.3 | 8 | 1,190.3 | 1 | 768.7 | 1 | 10.0 | 2 | 39.0 |
| Metal Products and Machinery | | 8 | 627.9 | 2 | 87.0 | 7 | 5,990.9 | 6 | 4,233.1 | 14 | 1,794.0 | 13 | 1,842.0 | 11 | 30,800.5 |
| Electric and Electronic Products | | 4 | 553.3 | - | - | 2 | 40.3 | 6 | 982.7 | 7 | 337.5 | 4 | 395.0 | 9 | 5,173.0 |
| Chemicals and Paper | | 3 | 202.5 | 6 | 6,402.5 | 4 | 191.1 | 3 | 79.0 | 8 | 334.2 | 6 | 1,821.9 | 13 | 1,340.0 |
| Services | | 2 | 1,283.5 | 3 | 103.1 | 3 | 6,681.0 | 1 | 3.0 | 2 | 1,452.4 | 1 | 5.2 | 1 | 10.6 |
| Total | | 27 | 3,473.8 | 15 | 7,008.1 | 28 | 17,311.5 | 36 | 16,922.1 | 38 | 7,901.1 | 30 | 4,990.8 | 40 | 38,247.0 |

Note: 1) PRC investment projects refer to projects with PRC capital of at least 10%.
International Affairs Bureau., BOI
As of January 28, 2015

Table 3.11 and table 3.12 are PRC Investment Projects Applying for Promotion Classified by Sector, and PRC Investment Projects Approved by BOI Classified by Sector, respectively. Chinese investors concentrated most in these following industries: agriculture product, metal products and machinery, electric and electronic products, chemicals and paper, in which most applying projects and investment capital goal for metal products and machinery industry, and as for all investment projects approved by BOI, investment in metal products and machinery is 30.8 billion Bath, occupied for 80%. Chinese companies invest relative less in the following industries: minerals and ceramics, light industry/textiles, services. What is more, although there are applications for light industry/textiles each year, it was rarely approved and none in 2009, 2013 and 2014.

3.2 The factors of Chinese FDI in Thailand

3.2.1 Good economic relations between China and Thailand

Since the middle of 1970s, the economic and trade relations between China and Thailand have developed rapidly and the bilateral cooperation has been expanding. In 1975 the same year the two countries established diplomatic relations, bilateral trade amounted to only 24.62 million US dollar. March 1978, the two governments signed a trade agreement, Sino Thai trade amounted to 144 million US dollar. In the middle of 80s, due to the adjustment of energy structure in Thailand, began to produce natural gas, reduce imports of oil from China, coupled with China's agricultural harvest, and reduced imports of agricultural products from Thailand, bilateral trade drop. In 1985, the two governments signed an agreement on the establishment of a joint economic and trade commission. In 90s, with the economic development of the two countries, bilateral trade has expanded rapidly. 1991 Sino Thai bilateral trade volume exceeded 1 billion

US dollar in 1995 exceeded 3 billion US dollar in 1999 exceeded 4 billion US dollar. Since twenty-first Century, with the rapid development of Sino Thai economic and trade cooperation, bilateral trade volume increased year by year, the improvement of business environment, the rapid development of Sino Thai economic and trade cooperation, and many other favorable factors, providing a good opportunity for Chinese enterprises to invest and develop in Thailand. Since 2001, besides of the outbreak of the financial crisis resulting on negative economic growth, Sino Thai import and export trade has keep steady growth, especially in 2010 the trade growth rate reaching up to 38.5%.

According to China Customs Statistics, seen from table 3.1, in 2014, Sino Thai Trade amounted 72.67 billion US dollar, of which Chinese exports to Thailand amounted 34.29 billion US dollar, and China imported from Thailand amounted 38.21 billion US dollar, China's trade deficit reaching 3.92 billion US dollar. China's direct investment flows to Thailand amounted 37 million US dollar in 2014, and 1.99 billion by the end of 2014. In 2014, Thailand enterprises invest 60.52 million US dollar in China, and by the end of 2014 Thailand's cumulative direct investment amounted about 4 billion US dollar.

Table 3.13: Sino Thai Trade Investment Statistics in 2014

| | |
|--|---------------|
| Bilateral trade volume | 72.67 |
| China's Export | 34.29 |
| China's Import | 38.21 |
| China's Investment in Thailand (year of 2014) | 0.37 |
| China's Investment in Thailand (by the end of 2014) | 1.99 |
| Thailand's Investment in China (year of 2014) | 60.52 million |
| Thailand's Investment in China (by the end of 2014) | 4.01 |

Source: Ministry of Commerce of the People's Republic of China

In addition, Thailand government will actively promote the economic and trade relations with China, taking the development of Sino Thai economic and trade cooperation as an important way to adjust the foreign trade strategy and promote their

domestic economy. Thailand Princess Sirindhorn, who is very interested in Chinese culture, paid a friendly visit to China on April 4-11, 2017, and her cumulative visits reached 41 times, which making the relationship between these two countries closer, as well as rapid development in political, economic and cultural, especially because China has similar culture to Thailand, making cooperation more smoothly, thus has more advantages than Western investors.

3.2.2. Thailand investment policies and incentives

For the sake of attracting foreign investment, Thailand government takes a series of measures to provide assistance and services to overseas investors, as well as Thailand industrial zone also provides foreign companies tax incentives. In addition, there are many government agencies to provide Services to foreign investors, such as the board of investment (BOI) that is responsible for attracting foreign investment and making variety of investment incentives and rules. Based on the development of economic situation and form of investment, benefited from irregular regulation of investment incentives, enterprises under the support of BOI can get more tax and other concessions, making less operating costs.

There are liberal investment policy, no foreign equity restrictions in manufactory sectors, 100% foreign ownership possible in many services, no restrictions on foreign currency remittances, no export requirement, and no local content requirement. Activities eligible for BOI investment promotion are divided into seven types: agriculture and agricultural products, mining, ceramics and basic metals, light industry, metal products, machinery and transport equipment, electronics and electrical appliances industry, chemicals, paper and plastics, service and public utilities. Additionally, there 38 eligible activities as shown in table 3.14. Package of privileges and incentives can be divided into two groups, tax incentives and non-tax incentives respectively. Tax incentives includes: import duty reductions or exemptions on machinery and raw materials, corporate income tax holidays up to 8 years and additional 50% reductions for 5 years, double deduction of public utility costs, and deductions for infrastructure construction/installation costs. Nontax incentives consists

of 100% ownership land rights for foreign incentives, permission to bring in foreign experts and technicians, and work permit and visa renewal within 3 hours or less. Example of priority activities are agriculture and agro-industries, R&D, software development, Molds & Dies, biotechnology, alternative energy, manufacture of hi-tech products such as advanced ceramics, waste recycling & recovery.

Table 3.14: Eligible Activities for BOI Investment Promotion

| 7 Types | 38 Eligible Activities |
|--|--|
| Agriculture and Agricultural Products (8 Activities) | Animal propagation or animal husbandry; Grading, packaging and storage of plants, vegetables, fruits or flowers; Natural rubber products |
| Mineral, Ceramics and Basic Metals (5 Activities) | Glass or ceramic products; Cast iron/steel parts; Forged iron/steel parts |
| Light Industry (7 Activities) | Textile products; Bags or Shoes; Sports Equipment; Musical Instruments; Furniture; Gems and Jewelry |
| Metal Products, Machinery and Transport Equipment (5 Activities) | Metal Products; Machinery and equipment; Vehicle parts; Building or repair of ships |
| Electronics and Electrical Appliances Industry (5 Activities) | Electrical products; Electronic products; Software |
| Chemicals, Paper and Plastics (4 Activities) | Plastic products for industrial goods; Plastic products from recycled plastic; Medicine; Printed matter |
| Service and Public Utilities (4 Activities) | Logistics service centers; Thai motion picture production; Motion picture supporting services: Hotels |

For investment promotion criteria and activities, in the light of Seven-Year Investment Promotion Strategy (2015-2021), BOI has developed two models to enterprise investment incentives: namely group A and group B. Industry Group A is

divided into four grades A1-A4, enjoying different level of incentives policies, according to technology content in investment projects. Industry group B is divided into B1 and B2, including industry that with no high-tech but still play an important role in the industry chain. Acquisition of additional interest like an extent of deadline to exempt business income tax should be accordance with the value of project, the proportion of investment and expenditure, additionally, which is given in accordance with the region. Thailand government will consider to provide long-term residence permit to top adviser of industrial clusters in the interest of promoting clusters to create investment concentration, to allow foreign enterprises enjoying the preferential rights of ownership of land for business investment. Furthermore, BOI will carry out investment promotion measures to adjust production efficiency in the sake of meet the needs of market development.

3.2.3 China's opening-up policy

In December 1978 the Third Plenary Session of the Eleventh Central Committee, first indicated that taking economic construction as the center of reforms, then cleared the policy that economic construction should open both domestic market and foreign market and should take a comprehensive utilization of domestic resources and foreign resources, which China's foreign direct investment is about to begin. On August 13, 1979, the State council on the China's economic system reform firstly proposed to run business overseas. And on the Third Plenary Session of the Twelfth Central Committee in 1984 economic system reform further implement the "internal reform and opening-up policies", to accelerate the development of productive forces, which created a good policy environment for the development of china's foreign direct investment. However, due to China's foreign investment still in its infancy, the vast majority of foreign direct investment was still dominated by government.

Since 1990s, Deng Xiaoping indicated to further deepen economic system reform. The Communist Party of China (CPC) 14th national party congress called for speeding up the construction of socialist market economy and the pace of opening up, and expanding Chinese outward foreign direct investment and transnational business

actives". China's foreign direct investment increased significantly at that time, but with the characteristics of "ups and downs". Foreign direct investment flows in 1992 soared to 4 billion US dollar, four times more than in 1991, but dropped to 920 million US dollar in 2000, returned to the level before the year of 1992, however by 2001 it dramatically increased again to 6.89 billion US dollar, an increase of 648.9% over 2000. Outward FDI vacillated up and down reflected that under the background of the acceleration of China's market economic system reform and opening-up policy, domestic enterprises have acquired more managerial decision-making power, and began to implement and expand foreign direct investment. But restricted by various factors, Chinese foreign direct investment enterprises obviously driven by accidental factors and short-term profit target, not by their long-term development needs, most of them lack of long-term investment goal and strategic positioning.

With the deepening of the opening-up of China, China has successful accessed to the WTO by the end of 2001, creating a more open and transparent international investment environment for domestic enterprises to invest oversea. In 2002, China has carried out "go out" policy, in accordance with the international rules of foreign direct investment, to promote eligible domestic enterprises go abroad as well as to encourage and support offshore project contracting and labor export and other economic activities. Following, government proposed making innovations on the way of foreign investment cooperation like Greenfield Investment, Merger and Acquisition Investment, Securities Investment, Joint investment and other innovative ways, and making efforts to improve the core competitiveness of enterprises and international business capabilities. In pace with the increasingly mature domestic policy environment, enterprises' experience of going abroad is becoming more and more abundant, The China's foreign direct investment is growing steady and rapid.

3.2.4 Chinese ASEAN Free Trade Area

Chinese ASEAN Free Trade Area (CAFTA) refers to the construction of Free Trade Area between Chinese and 10 countries of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Burma, Cambodia. In

November 2001, during the ASEAN Summit held in Brunei, Chinese and the 10 ASEAN member countries announced a target of the establishment of Free Trade Area in the next ten years. CAFTA completed in 2010, created an economic zone with 1.9 billion consumers, near 6 trillion US dollar in GDP (data of 2009), and 1.2 trillion US dollar in total trade volume. In terms of population, it is the world's largest free trade area; in terms of economic scale, it is the world's third largest free trade zone after the European Union and the North American Free Trade Area, and it is the largest free trade area of developing countries.

The establishment of China ASEAN Free Trade Area is of positive significance to both China and ASEAN. On the one hand, CAFTA is conducive to China's cooperation with developing countries and neighboring countries, but also conducive to ASEAN in international affairs to enhance the status and play an important role. On the other hand, CAFTA is conducive to further promote the economic development of China and ASEAN countries, to expand bilateral trade and investment, to promote the logistics, capital flow and information flow between countries in the region, to improve the overall competitiveness of the region, and seeking benefits for people in the region. At the same time, the establishment of China ASEAN Free Trade Area makes for promoting the economic integration of ASEAN, as well also has a positive effect on world economic growth.

At present, Although ASEAN and China are not the main investment market of each other, especially less Chinese investment in ASEAN, but with both sides to further open up the market and the gradual elimination of barriers, mutual investment will increase a lot. The overseas investment is an important measure for Chinese implementation of the "going out" strategy, of which key investment areas in the future will be firstly in Southeast Asian countries, especially neighboring countries like Vietnam, Laos, Cambodia, Burma and other ASEAN member country. Thailand's superior geographical position and relatively developed economic environment, as an important economic bridgehead for China developing in Southeast Asia, attracting more and more Chinese investors.

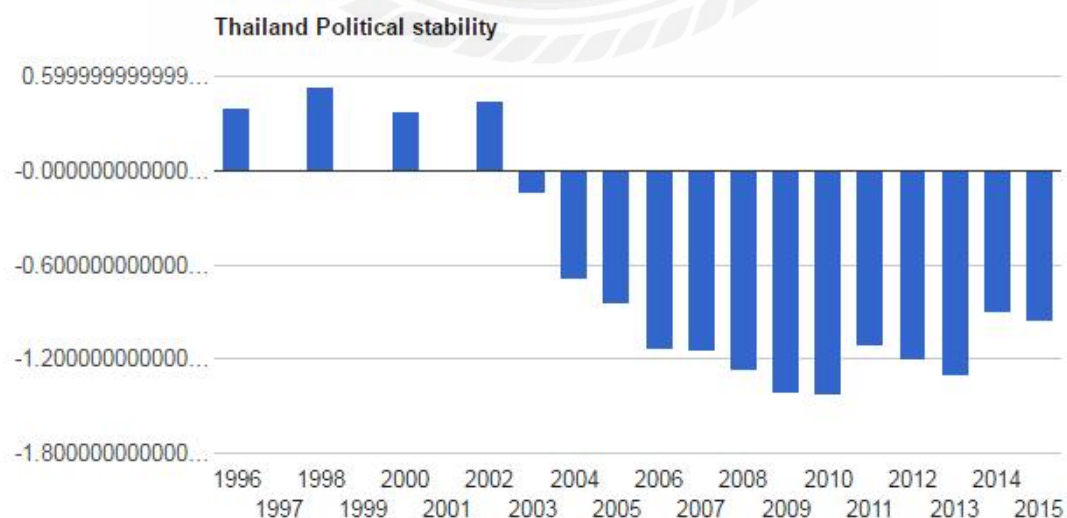
3.3 The constraints of Chinese enterprises' direct investment in Thailand

3.3.1 The constraints from Thailand side

1) The political uncertainties

In recent years, there are political instabilities like continuously political turbulence in Thailand, along with frequent partisan conflict and anti-government demonstrations to the disadvantage of the country's image, which influences the development of economy. A Thailand banker described the economic situation as: if the political stability, economy of Thailand will be able to leave behind other ASEAN countries, but the "if" is difficult to achieve. By the end of 2015 the political crisis made Thailand's tourism sector suffered heavy losses, and Thailand economy slipped into recession track. Domestic and foreign investors lose confidence due to huge investment risk, resulting in foreign direct investment dropped significantly. Foreign companies have few willing to continuously expand the investment in Thailand, or even change the production base. Table 3.15 shows data of Thailand's political stability index provided by The World Bank (govindicators.org) from 1996 to 2015. During that period, Thailand's average value was -0.7 points with a minimum of -1.43 points in 2010 and a maximum of 0.53 points in 1998.

Table 3.15: Political stability index of Thailand (-2.5 weak; 2.5 strong)



Source: The World Bank

The government's policies have a direct impact on foreign and domestic investors. The fuzziness and discontinuity of policy would seriously affect the confidence of investors. These factors make it difficult for investment companies to develop and implement business policies on investment, products and operations.

For example, Thailand's subsidies policy for solar power plants. The government initially planned to develop 2000 megawatts of solar capacity by 2021, but stopped supporting the project in 2010, at which time it was only 1000 megawatts.

Another example is that the lack of support for the domestic ethanol industry policy. The government had planned to phase out the use of benzene 95 before January 2007, in order to promote domestic ethanol production. But lately the domestic ethanol production was unable to meet domestic demand, the government adjusted the plan in the late 2006. In addition, due to the unstable political factors leading to the authorities of government was overthrow by a military coup. Then, the new government decided to suspend the cancellation of benzene 95 indefinitely. This shift in policy would inevitably affect the energy industry, automobile manufacturing business as well as investment plans.

2) Disturbance in Thailand Southern

There is no established state religion in Thailand's constitution, but the protection of religious freedom for all citizens in Thailand. A survey in 2000 shows that 94.6% of Thais are Buddhists, and the second largest groups are Muslim accounting for 4.6% of Thailand's population mainly distributed in three southern provinces namely Changwat Pattani, Changwat Yala, Narathiwat. Since the beginning of 1960s, a large number of military separatist movements appeared in several Muslim provinces in southern Thailand. Although the govern concept of these extremist group is not the same, but they work toward a common goal is to establish an independent Muslim countries. From 60s to 80s, the separatist movement of ambush, assassination, kidnapping, extortion, destruction and explosion seriously affected the stability of southern Thailand. As a result, foreign investors do not dare to invest directly in these three provinces, and also Thailand workers do not want to work in these places. These factors are harmful to a number of industries, especially rubber and tourism industry.

3) The Shortage of Skilled Labor Force

Thailand abundant cheap labor once attracted many investors, but this advantage is gradually weakened, because the supply of unskilled workers exceed the demand, however the number of eligible skilled personnel are scarce. In accordance with data from Economic Intelligence Center (EIC) of Siam Commercial Bank, this shortage reflects the changes in demographic structure. Thailand's main labor force is aging and will soon shrink, as the number of retiring workers will be soon more than the number of workers who are going to be employed. In the next 10 to 15 years, there will be 5.3 million people reaching retirement age, while only about 4.1 million people will join the workforce. This situation will limit the development of labor-intensive industries. As for education, data from EIC in 2010, there are 1/3 of the labor force whose education less than primary level. In marked contrast to two other ASEAN countries: only about 4% of Malaysia's power fails to complete primary education, and a rate of \$0 in Singapore. In terms of secondary education, about 1/3 of the workforce in Thailand reaches a high school or higher education level, however this ratio is about 80% in Malaysia and Singapore.

4) Lack of Transparent

Corruption has always been a concern in Thailand. As we all know, corruption is an important factor to hinder the development of politics, economy and society in developing countries. Corruption will affect the implementation of government decision-making, and it makes citizens can not enjoy the full benefits of public expenditure, causing serious loss in economic and social opportunities. Corruption Perceptions Index (CPI) is an annual ranking tool based on the degree of countries' corruption, of which score ranges from 100 (highly transparent) to 0 (highly corrupt). Corruption is a long-standing problem in Thailand society. According to data released by an international organization the Transparency International in 2012, Thailand's corruption index ranked eighty-eighth among 176 countries. Compared with other ASEAN countries, Thailand's corruption performance is better than most ASEAN countries, but lagged behind Brunei and Malaysia and moreover far behind Singapore (top 5).

5) Cultural Difference

Most Thai companies emphasize the harmony within employees. Companies tend to experience employees, so that managers can obtain obedience and respect from subordinates. In short, a relational approach is needed when working in a Thailand team, and employees tend to respect up-bottom management.

However, Thai employees are generally considered too idle and complacent. They sometimes fail to comply with deadlines, and seem to be indifferent to the serious consequences of the project delay. Some Thais are habitually late for meetings. The more complex problem is that there are few Thai companies willing to offer bonuses for the early or on-time completion of projects.

Conservative Thai workers tend to be silent at the meeting, and they are unwilling to express their views, but later usually refuse to be in accordance with the plan. Moreover, solutions are often proposed informally, rather than through meetings and agendas, which causes a lot of difficulties for foreign managers who are not used to this working style.

Thai employees tend to switch jobs based on higher pay, leaving an impression of disloyalty to investors. Even if the employer has invested heavily in providing financial support and training to employees, employees may be able to switch to a rival company.

3.3.2 The constraints from China side

1) The Lack of Understanding

Thailand's political, social and legal system is different from China, as well as the concept of life, habits and ways of doing things are not the same. Some Chinese companies with only read some related information or listen to someone else's speaking of investment news, without do a feasibility study and project investigation, blindly make a direct investment in Thailand, which is not advisable. Having no real understanding of Thailand investment policies, laws and regulations, enterprises may easily suffered from problems and add-on cost, and it will even cause giving-up halfway or collapse.

2) Small Investment Size

From table 3.7 of chapter three the analysis of Chinese enterprises direct investment scale in Thailand, it shows that the majority of investment projects are small size. Scale management is an important means to develop enterprise, through the establishment and improvement of product structure and the formation of industrial chain to achieve competitiveness to some degree, which can reduce production costs and improve economic efficiency. Therefore, enterprise with small size operation is difficult to obtain scale benefit. Moreover, small-scale enterprises will easily become weak in the international market competition, and the lack of market competitiveness, making enterprises difficult to survive. At the same time, enterprises' financing capacity become weakened in the international market, hindered the ability to expand investment in Thailand.

3) Less Well-known Brand

Most Chinese enterprises competitive advantage is providing “cheap and fine” products, pursue low cost and do not pay attention to the added value of the brand. In addition, although Chinese products are at low price, but the quality is frequently not stable, meanwhile there is often no effective customer service after sales, which make consumers often usually think Chinese product is not worth buying and being more willing to spend money other countries' products. China already has a number of successful marketing brands in many countries, but they are still strange to Thailand. Except of Haier and Lenovo and other well-known trademarks in China, Thai people have no confidence in the quality of other Chinese products, and the reasons for the purchase of Chinese products are generally low prices, easy to buy as well. Therefore, China's brands account for a relatively low market share in Thailand, and there is a huge risk for Chinese multinational companies to invest in Thailand

4) Less Powerful Multinational Companies

China is the second economic power, but their multinational companies' strength do not meet the country's economic power. Although China's multinational companies are much stronger than Thailand's, the main powerful Chinese multinational companies are state-owned enterprises, of which generally invest in energy and mining industry. However, Thailand is on the situation of energy shortage, and normally these kind of

industries are hard to entry. As for other industries, Chinese multinational strength is less than those of the United States and Japan, which is also related to the brand's popularity, and additionally it is relatively late when China began to direct investment in Thailand, so the idea of entering Thailand market is quite a difficulties. Said the car industry, Japanese cars begun to invest directly in Thailand as early as 50 years ago, so at present most of the cars on the streets are Japanese cars.



Chapter 4

Strategy Recommendation

4.1 Strategy recommendation for Thailand government to improve Thailand investment environment

4.1.1 Maintain political stability

The most important thing of foreign direct investment is the political stability of host country. Thailand government should carry out some policies and measures to make foreign investors have confidence in the investment environment of Thailand, to establish a stable political situation and a transparent government management system. In terms of policies related to foreign direct investment, it is necessary to ensure the continuousness of the policies and measures, to avoid foreign investors having no confidence and adverse effects. In the aspect of industry, Thailand government should actively implement policies to promote related industries benefited the national long-term development, especially the industries that are helpful to improve the employment rate and national economy as well as the development of science and technology, such as health services, automotive, advanced electronic technology, biological products and alternative energy industry and so on. Nowadays, with the changes of the world economic situation and transformation in international economic relations, there is a trend of growing proportion of Thailand foreign capital from China, India, the Middle East, and Latin America as well as other countries. In a word, Thailand government should attach great attention to foreign direct investment from developing countries.

4.1.2 Increase the supply of skilled labor force

In recent years, Thailand is facing a lacking of human resources and skilled labor force, which is because of the imperfect higher education in Thailand. Unless that is solved, the problem of human resources will become more seriously. Thailand government should pay attention to the demand for skilled labor in each industry, and

strategically adjust the number of students in higher education to meet the needs of industry talents. Schools can cooperate with multinational companies to develop suitable courses that meet the needs of the company. To provide students with internship opportunities will also help in the successful absorption of talent after graduation. For example, many car manufacturers and vocational schools can work together, to offer summer internship opportunities for students, as a result many interns choose to enter that enterprise after graduation.

4.1.3 Keep transparent

The most important progress in the fight against corruption is the establishment of the Anti-Corruption Network in 2010, which consists of many major Private Companies, by the leadership of Thai Chamber of Commerce and Board of Trade of Thailand, and obtains support from government and the international organizations. Thai government, private sector and society should make efforts to solve corruption problem in a positive way, taking active monitoring mechanism to combat corruption, and against the widespread social acceptance of corruption. These organizations can be used to monitor the abuse of government spending and investment projects, prompting government to take a more serious approach to solve the problem of corruption in Thailand.

At present, Thailand government should also establish some new mechanisms to gradually eliminate corruption, such as reducing the steps during public service and improving the implementation of complex regulations. Moreover, in the case of unfair treatment and corruption, dereliction of duty, investors can protect themselves through effective and rapid appeal channels.

4.2 Strategy recommendation for Chinese enterprises to invest in Thailand

4.2.1 Pay attention to possible changes in policy

Foreign investors need to do a lot of background surveys, and to understand laws and regulations at the meantime of paying attention to current situation, in order to take

countermeasures before possible changes in policy direction.

One method to keep up-to-date on the latest policies and regulations in Thailand is to establish and maintain good relations with government officials. In fact, a great number of large multinational enterprises pay much attention to it, and they will appoint a senior staff or even a specific unit responsible for the connection with relevant government officials. Due to the availability of timely and complete information, including non-public information, companies can better develop strategic plans. Meanwhile, foreign investors can obtain information from various Thailand business information center. For example, Chinese investors can contact the Thailand-China Business Council, which can provide a one-stop service for the promotion of bilateral investment, business and trade exchanges. Japanese companies can seek help from Thai-Japanese Chamber of Commerce and The Japan External Trade Organization (JETRO) for a variety of business information services.

Another option is to hire local business consultants for the sake of professional services and the know-how. For example, a Thailand legal adviser may give advice on real estate, civil litigation, bankruptcy, accounting, taxation, labor and other relevant laws and regulations. What is more, some advisers may also have partnerships with government agencies, of which they can serve as liaisons between governments and contract parties. Therefore, hiring consultants can help avoid unnecessary problems.

4.2.2 Stop bribery

Bribery is not a standard for business success. However, private enterprises play an important role in corruption. So here is an important remedy that is private sector stopping bribery. It is not an appropriate or normal way to conduct business via the need to persuade senior employees to bribe officials. Private enterprises need to support comprehensive and fair competition in government related bids and contracts. Companies need to work hard to build a business that is not corrupt, legal, transparent and traceable. What is more, enterprise should strengthen moral cognition among employees, and make it a pillar of corporate culture.

4.2.3 Coping with shortage in skilled labor force

From chapter three the point of the shortage of skilled labor force, this restrictions on the structure of the labor force means that investors should invest in industries with low dependence on labor. Manufacturers need to strengthen the integration of machinery to achieve more automation of production processes. Investors can choose to set key functions in Thailand, and other functions in other areas to reduce employment pressure. Enterprise could promote shared service in terms of administrative function, in order to reduce the number of employed staff. Attracting employees has become an increasingly important topic. Enterprises should focus on creating a favorable working environment and a pleasant working atmosphere to attract and retain talent in Thailand. It means that these factors are essential for white-collar employees like providing good public facilities and expanding the scope of medical insurance. Blue collar workers are more likely to enjoy convenient facilities, such as a staff restaurant with reasonable food prices and convenient transportation benefits.

In case of the employment of low skilled labor, enterprises that do not apply for certification of the Board of Investment (BOI) do not need to follow the rules of requirements for the employment of Thai employees, instead of hiring Laos, Burma or Cambodia. Companies that want to apply projects from the Board of Investment (BOI), will enjoy the special preferential policy simultaneously accompanied by strict terms and conditions of their employment. Or they choose to skip the BOI certification to obtain relatively flexible qualifications on the employment of foreigners.

4.2.4 Improve the competitiveness of enterprises

Core competence is the ability to distinguish own enterprises from others, which is usually the only advantage, or absolute advantage, at least the relative competitive advantage. The enterprises can improve their competitiveness by means of, enlarging the power and scale, protecting the intellectual property rights, paying attention to the introduction and training of talents, and constantly carrying out technological innovation, dealing with the relationship between specialization and diversification as well. Also, measures to improve the quality of products, implement brand strategy, and

increase brand value, are helpful to improve the competitiveness of enterprises. The management of a multinational company is not only product management, or capital management, but more about brand management. China enterprises entering Thailand market must adhere to the implementation of the strategy of invigorating trade through science and technology and "win through high quality", to grasp the opportunities in the global market competition, winning the initiative.

Chinese companies have invested a lot in Thailand, but in terms of product advertising, there is not enough input. Encountered the problem of product image, Chinese enterprises should input more in advertising, so that the Thai people can be familiar with Chinese brands. The establishment of a new image of Chinese products, that is, high quality, and good technology. Chinese enterprises should develop based on products quality, and ensure after-sales service, or it will be difficult to survival in Thai market.

4.2.5 Bridging the cultural difference

Investors need to be careful about cross cultural differences. Foreigners with rich working experience of working in Thailand would know that Thai people value the importance of interpersonal relations and respect for their elders.

Cultural differences require planning and adaptation. Investors should keep in mind the cultural differences and make necessary adjustments. For example, some companies may need to set a buffer time for the delivery of goods in order to meet customer expectations.

It is sure that Multinational companies need to build a strong corporate culture, which requires a strong leadership team. The management team needs to show that they care about their employees, so that employees can focus on their work, and creating an environment allowing employees to express their views. All these efforts may yield significant results in retaining staff and reducing unnecessary friction

Designing and providing competitive compensation programs has become a more critical factor. Review and adjust the salary according to the market factors to ensure obtaining good results.

It is necessary to introduce and complement the work reward measures like the completion of projects on time, to encourage employees for better performance.



Chapter 5

Conclusion

Nowadays, the pace of global trade and investment liberalization has accelerated, so does the foreign direct investment in developing country also achieve a growing trend. Thailand due to its advantageous geographic position as the hugest market in Southeast Asia has attracting more and more Chinese investors. With Chinese go-out policy and under the framework of China ASEAN Free Trade Area, China has increasing directly invested towards Thailand, and had become the second biggest business partner of Thailand. This optimistic trend of Chinese outward FDI towards Thailand worth us to study.

This paper firstly make an introduction of Sino-Thai economic situation, with focus on the status quo of foreign direct investment. Then paper points out four factors that influence Chinese FDI in Thailand, which are economic relations, government incentives, China's opening-up policy and Chinese ASEAN Free Trade Area. Following by the constraints of Chinese enterprises' direct investment in Thailand are indicated from the perspectives of bilateral economics. Finally strategy recommendation is presented to offer suggestion for Thailand government to improve investment environment and for Chinese enterprises to invest in Thailand.

Through the analysis of Chinese FDI in Thailand, it comes out that Chinese investors concentrated most in these following industries: agriculture product, metal products and machinery, electric and electronic products, chemicals and paper. And as for all investment projects approved by BOI, investment in metal products and machinery is occupied for 80%. The constraints of Chinese Enterprises' Direct Investment in Thailand mainly are the political uncertainties, disturbance in Thailand Southern, the shortage of skilled labor force, lack of transparent and cultural difference from Thailand side and the lack of understanding, small investment size, less well-known brand and less powerful multinational companies from China side. Corresponding suggestions are given in the light of problems above, aiming at Chinese

enterprises can pay attention to possible changes in Thailand investment environment.



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