TREND OF JAPANESE MANUFACTURING INVESTMENT INFLOWS TOWARDS ASIAN ECONOMIC COMMUNITY (AEC). A CASE STUDY OF THAILAND INVESTMENT POSITION AND ITS LOCATION ADVANTAGE

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Research Title	Trend of Japanese Manufacturing Investment Inflows towards Asian Economic Community (AEC). A Case Study of Thailand Investment Position and its Location Advantage
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Abstract

The role and benefit of foreign direct investment (FDI) has brought a national prosperity and suitability into a recipient developing countries through foreign investment inflows, enhance local government revenue, generated national employment and income to local people lead to improved national domestic product (GDP). An increase of FDI inflows to Thailand were contributed by Japanese business network. Thus, no wonder, Japanese MSMEs (Micro, Small and Medium Enterprises) make strengthen of Thailand production networks, especially in Thailand automobile and electronics industry. As of this manifest, research sampling of the study were selected from upstream to downstream line in Thailand supply chain system.

The study examines of Thailand investment position at macro evaluation by using documentary analysis, as the data record by Bank of Thailand (BOT), Board of Investment (BOI), Thailand, World Economic Forum etc. The attractiveness countries in ASEAN region were examines through the lens of Japanese investors (headquarter in Tokyo, Japan and twelve subsidiaries in Thailand), Business Advisor by The Japan External Trade Organization (JETRO) and Commercial Attaché, Japan Embassy in Thailand. The study is scope on the overview of Japanese investment trend towards ASEAN countries in general and Thailand in particular. The content of the interview data is back up by theoretical approach. The results of the study indicated that Thailand location still the desirable investment destination in ASEAN via Japanese investor perspective. Therefore, Thailand must be preparing for high technology development, R&D and human resources development for further investment trend.

Keywords: FDI, ASEAN, AEC, Japan, Thailand

บทคัดย่อ

การลงทุนโดยตรงจากต่างประเทศ (FDI) มีบทบาทสำคัญต่อการนำมาซึ่งความมั่นคง มั่งคั่ง และยั่งยืน ให้กับประเทศกำลังพัฒนาซึ่งต้องพึ่งพาเงินทุนไหลเข้าจากต่างประเทศ ยกระดับรายได้ให้กับภาครัฐ สร้างงานสร้างรายได้ให้กับคนในประเทศ อันนำมาซึ่งการเพิ่มรายได้ผลิตภัณฑ์มวลรวม (GDP) ของประเทศ ในประเทศไทยแนวโน้มที่เพิ่มขึ้นของเงินทุนไหลเข้าจากต่างประเทศ ส่วนหนึ่งได้รับปัจจัยสนับสนุนจากเครือข่ายธุรกิจของญี่ปุ่น ดังนั้นจึงไม่น่าแปลกใจที่วิสาหกิจขนาดกลางและขนาดย่อมของญี่ปุ่น จึงสร้างความแข็งแกร่งให้กับเครือข่ายการผลิตของไทยโดยเฉพาะในอุตสาหกรรมรถยนต์และอิเล็กทรอนิกส์ จากประเด็นดังกล่าวการวิจัยในครั้งนี้จึงคัดเลือกกลุ่มตัวอย่างของการศึกษาจากธุรกิจต้นน้ำถึงธุรกิจปลายน้ำในระบบซัพพลายเชนของประเทศไทย

การศึกษาในครั้งนี้เป็นการวิเคราะห์สถานะการลงทุนของประเทศไทยในระดับมหาภาคด้วยการวิเคราะห์ข้อมูลเอกสารจากธนาคารแห่งประเทศไทย *(Bank of Thailand: BOT)* สำนักงานคณะกรรมการส่งเสริมการลงทุน *(Board of Investment BOI, Thailand)* รายงานการประชุมเศรษฐกิจโลก *(World Economic Forum)* เป็นต้น ประเทศในกลุ่มอาเซียนที่น่าสนใจต่อการลงทุน ในมุมมองของผู้บริหารชาวญี่ปุ่น เก็บข้อมูลจากสำนักงานใหญ่ในกรุงโตเกียวประเทศญี่ปุ่น และบริษัทในเครือ 12 แห่งในประเทศไทย รวมถึงการสัมภาษณ์ที่ปรึกษาทางธุรกิจขององค์การส่งเสริมการค้าต่างประเทศของญี่ปุ่น *(JETRO)* และทูตการค้า สถานทูตญี่ปุ่นในประเทศไทย ขอบเขตของการศึกษาในครั้งนี้อยู่ที่ภาพรวมแนวโน้มการลงทุนของญี่ปุ่นในกลุ่มประเทศอาเซียน โดยเฉพาะประเทศไทยซึ่งเป็นประเทศยุทธศาสตร์สำคัญของการลงทุนจากประเทศญี่ปุ่น ข้อมูลเชิงคุณภาพที่ได้จากการสัมภาษณ์ในครั้งนี้มีทฤษฎีที่เกี่ยวข้องรองรับผลของการวิจัย ผลการศึกษายืนยันว่าประเทศไทยยังเป็นจุดหมายปลายทางที่สำคัญของอาเซียน ที่นักลงทุนญี่ปุ่นให้ความสนใจ ทั้งนี้ประเทศไทยต้องเตรียมความพร้อมด้านเทคโนโลยี การวิจัยและพัฒนา ตลอดจนทรัพยากรบุคคลเพื่อรองรับการขยายตัวด้านลงทุนจากต่างประเทศในอนาคต

คำสำคัญ : การลงทุนจากต่างประเทศ อาเซียน ประชาคมอาเซียน ไทย-ญี่ปุ่น

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"God bless all of you"

Wanida Waddecharoen, PhD

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CHAPTER 1

INTRODUCTION

This chapter will be presenting the issues involving the motive factors that advantage for Japanese FDI to enter into ASEAN in general and Thailand in particular. Introduction and background of the study will be discussed and narrow down to the problem statement, research questions, research objectives, contribution of the study, scope of the study and glossary of term. Finally, the chapter ends with the organization and report of how each chapter proceeds.

1.1 Introduction and Background of the Study

1.1.1 Foreign Direct Investment Inflows towards ASEAN Economic

The Association of Southeast Asian Nation (ASEAN) is composed of Brunei Darussalam, Cambodia, Lau PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Indonesia and Vietnam. ASEAN was established in 1967 with multiple goals-accelerating economic growth, social progress and culture development in the region under the principles of the United Nations Charter (Biswa Nath, 2009). ASEAN's goal is to change this regional into a stable, prosperous and highly competitive region with equitable economic development and reduces poverty and social economic disparities (ASEAN, 2016). By using the benefit of foreign direct investment (FDI) inflows is enable the regional improved their economic growth and step on a higher growth path.

Exploring the foreign direct investment (FDI) inflows in ASEAN region before the establishment of the Asian Economic Community (AEC) on 31 December 2015. In 2010, the top 3 major players of FDI inflows to ASEAN are from USA worthy 8,578.1 Billion US$, following by Japan worthy 8,386.1 Billion US$ and South Korean worthy 3,769.4 Billion US$, an increase of 52%, 55% and 61% investment inflow boost up from previous year. These countries are influencing on ASEAN capital inflows.

Look through regionally, European Union brought a largest among of FDI worthy 16,984 Billion US$ in 2010, an increase of US$ 7,871.20 Billion or 46 % improved from 2009. Intra-ASEAN region also brought a largest FDI of US$ 12,107.5 Billion or 57% increase from 2009 (refer to Table 1.1). Thus, during year 2008 to 2010, five years before the establishment of the AEC on 31 December 2015. The investment inflows from EU, US and Japan called G3 countries are tend to jump double fold which influence on industrial development in ASEAN region. The Multinational Enterprise (MNEs) from these countries (G3) have contributed to the development of the regional landscape within ASEAN micro, small and medium enterprises (MSMEs) networks. Many of them operate as tier 1 or tier 2 contract manufacturers to other foreign and larger ASEAN MNEs (ASEAN Investment Report, 2016).

Particularly, Japan is the major investor in ASEAN motive by three perspectives such as *'natural resource-securing type'*; *'market-securing type'* and *'cost saving type'* (Wadeecharoen, Worapongpat, Lertnaisat, Lertpiromsuk, & Teekasap, 2015; Urata, 1998). These perspectives indicates that Japanese investors has been successfully doing long-term business in ASEAN. Hence, Japanese companies will become our target to explore their motive factors and opportunities to do business towards AEC.

Table 1.1: Top Ten Sources of Foreign Direct Investment Inflow to ASEAN (2008-2010)

Country/region	**Value**: Billion US$			
	2008	**2009**	**2010**	**2008-2010**
EU	7,010.1	9,112.9	16,984.1	33,107.2
ASEAN	9,449.3	5,222.5	12,107.5	26,779.3
US	3,517.5	4,086.7	8,578.1	16,182.4
Japan	4,129.4	3,762.6	8,386.1	16,278.1
Rep. of Korea	1,595.7	1,471.5	3,769.4	6,836.7
Cayman Islands	4,673.0	-693.2	3,089.4	7,069.2
PRC	1,874.0	3,925.6	2,701.0	8,500.6
India	547.3	826.5	2,584.3	3,958.0
Australia	787.3	775.9	1,765.1	3,328.4
Canada	661.1	503.9	1,641.0	2,806.0
Total top ten sources	**34,244.7**	**28,995.0**	**61,606.1**	**124,845.8**
Others[2/]	12,830.9	8,886.3	14,151.6	35,868.8
Total FDI inflow to ASEAN	**47,075.6**	**37,881.3**	**75,757.7**	**160,714.7**

Sources: adapted from Cheewatrakoolpong, Sabhasri & Bunditwattanawong, (2013)

According to ASEAN Central Bank and National Statistical Offices through the ASEAN working Group on International Investment Statistics (WGIIS) reported that Japan is the most powerful economic player in ASEAN regional and Thailand in particular. In 2013, two year before the establishment of the AEC on 31 December 2015, the value of Japanese FDI inflows to ASEAN worth 24,750.2 Billion US$ before jump down to 15,698.7 Million US$ or (-36.6%) decline from previous year. Despite in 2015, the value of investment has little move up to 17,324.2 Million US$ or 9% improve from year 2014. Obviously, a year before established of AEC in 2015, the value of Intra-ASEAN FDI has increase to 13% and took 17% of share to total net inflows, worth 22,265.8 Million US$. Moreover in 2014, an external ASEAN countries such as USA has increase investment value up to 103.6% worth 14,571.7 Million US$, Australia 142.2% worth 6,267.6 Million US$, Canada 106% worth 1,682 Million US$ and New Zealand 63.7% (549.9 Million US$) in 2014 before triple jump to 307.5% (2,241.1 Million US$) in 2015 (see more detail in Table 1.2).

Table 1.2: The Top 10th Major Investment Countries Inflows in ASEAN Regions

Partner Country/Region	Value (Million US$)			Share to Total Net Inflows			Year-on-year change	
	2013[2/]	2014	2015p/	2013[2/]	2014	2015p/	2013-2014	2014-2015
European Union (EU28)	24,511.3	25,028.5	19,640.3	19.6	19.2	16.4	2.1	-21.5
ASEAN	19,562.2	22,265.8	21,938.5	15.7	17.1	18.4	13.8	-1.5
Japan	24,750.2	15,698.7	17,324.2	19.8	12.1	14.5	-36.6	10.4
USA	7,157.2	**14,571.7**	12,184.5	5.7	11.2	10.2	**103.6**	-16.4
China	6,426.2	7,016.4	8,161.2	5.1	5.4	6.8	9.2	16.3
Republic of Korea	4,303.3	**5,744.1**	5,668.9	3.4	4.4	4.7	**33.5**	-1.3
Australia	2,587.7	**6,267.6**	5,176.9	2.1	4.8	4.3	**142.2**	-17.4
India	2,100.9	606.1	**1,252.1**	1.7	0.5	1.0	-71.2	**106.6**
Canada	816.8	**1,682.4**	893.3	0.7	1.3	0.7	**106.0**	-46.9
New Zealand	335.9	**549.9**	**2,241.1**	0.3	0.4	1.9	**63.7**	**307.5**
Russian Federation	607.9	-113.2	-28.9	0.5	(0.1)	0.0	-118.6	-74.5
Pakistan	(2.1)	6.2	(10.5)	0.0	0.0	0.0	-393.1	269.6
Total selected partner Countries	93,157.6	99,3242	94,441.7	74.6	76.4	79.1	6.6	-4.9
Others[2/]	31,706.9	30,724.8	24,970.7	25.4	23.6	20.9	-3.1	18.7
Total FDI inflow to ASEAN	124,864.5	130,049	119,412.4	100	100	100	4.2	-8.2

Source: ASEAN Foreign Direct Investment Statistics Databases as of 3 June 2016
Data is compiled from submission of ASEAN Central Banks and National Statistical Offices through the ASEAN working Group on International Investment Statistics (WGIIS).

The ASEAN+6 cover China, Japan, Korea, Australia, New Zealand and India whereby these countries trend in increase their investment value in ASEAN region. Australia as well know the 1st Thailand vehicle export destination who brought a huge value of 6,267.6 Million US$ inflows to ASEAN in 2014, an increase of 142% as compare to the year before. This is a great sign that Thailand could take an advantage from these huge of investment. As the evident show in Table 1.2 indicates the significant role of ASEAN region before established AEC in Dec 2015 via huge among of investment inflows from superpower countries like USA, China, Korea and India play attention to do business with ASEAN. These foreign MSMEs often have better technology capacity, including production quality, quality control and production process, and network linkages with larger MNEs. The linkages between foreign MSMEs and MNEs based in ASEAN contribute to improving the region's investment environment and help strengthen local and regional supporting industries (ASEAN Investment Report, 2016).

1.1.2 Japanese Foreign Direct Investment Inflows towards Thailand

ASEAN is a major destination for FDI by Japanese MSMEs, many of them operate in automotive parts and components, and electronic industries in the region. A recent survey by Japanese External Trading Organization (JETRO) found most of Japanese MSMEs with overseas bases have located their subsidiaries in ASEAN for general such as efficiency seeking (i.e. to maintain cost competitiveness) and Thailand in particular for market seeking reason (JETRO, 2015). Thus, Thailand become the first choice country targeted by Japanese investor to get engaged in ASEAN region. As the evident show that 552 firms or 37.6 % were located in Thailand (refer to Table 1.3: Japanese Companies with Overseas Bases, by Size and Destination).

Table 1.3: Japanese Companies with Overseas Bases, by Size and Destination

Region/Country	Total (n=1469)		Large-scale firms (n=528)		SMEs (n=941)		SMEs ratio among total numbers
	Numbers	Ratio	Numbers	Ratio	Numbers	Ratio	
■ Asia Pacific	1,360	92.6	510	96.6	850	90.3	62.5
China	948	64.5	425	80.5	523	55.6	55.2
ASEAN	929	63.2	423	80.1	506	53.8	54.5
Thailand	552	37.6	321	60.8	231	24.5	41.8
Viet Nam	324	22.1	184	34.8	140	14.9	43.2
Singapore	318	21.6	204	38.6	114	12.1	35.8
Indonesia	315	21.4	214	40.5	101	10.7	32.1
Malaysia	244	16.6	155	29.4	89	9.5	36.5
Philippiines	151	10.3	98	18.6	53	5.6	35.1
Myanmar	76	5.2	51	9.7	25	2.7	32.9
Cambodia	50	3.4	29	5.5	21	2.2	42.0
Lao People's Democratic Republic	19	1.3	12	2.3	7	0.7	36.8
India	221	15.0	154	29.2	67	7.2	30.3
■ North and Middle/South America	524	35.7	310	58.7	214	22.7	40.8
■ Europe and Russia	360	24.5	227	43.0	133	14.1	36.9
■ Middle East and Africa	91	6.2	71	13.4	20	2.1	22.0
■ Others	14	1.0	3	0.6	11	1.2	78.6

Source: JETRO (2015) cited in ASEAN Investment Report, (2016)
Note: Data on microenterprises are not available

In Thailand, Japan is the largest investor whereby most of Japanese firms are engaged in automobile and its assembling manufacturing (Wadeecharoen et al., 2012a:b; Suwannarat et al., 2010). In 2012, the trend of Japanese investment inflows is continuously increase up to 54% after Thailand flooding crisis in the last quarter of year 2011 (refer to Table 1.4) before jump to 24,750.2 Million US$ in 2013(refer to Table 1.2). *This phenomenal cause by further enlargement for the forthcoming AEC market. Japanese firms will find the attractive location in among ASEAN countries to produce domestic consumer goods.*

Table 1.4: Japanese Investment (No. of projects, Total investment and Total capital)

	2011	2012	2013	2014	2015	2016
No. of Projects	1,653	2,262	2,016	1,662	2,237	1,688
No. of Projects (Japanese Projects)	-	-	686	417	451	285
Total investment (Million Baht)	449,669	983,941	1,027,347	729,445	809,380	861,340
Total foreign Investment	278,447	548,954	478,927	483,511	493,690	358,119
Japanese investment (Million Baht)	-	-	290,491	**181,932**	**148,964**	**79,629**
Total Registered Capital (Million Baht)	-	-	136.54	99	173.45	253.48
Thai	-	-	75.91	40.83	87.09	209.49
Foreign	-	-	60.63	58.17	86.37	43.99

Sources: International Affair Division, BOI, As of February 20, 2017
Note: 1) Japanese investment projects refer to projects with Japanese capital of at least 10%
International Affairs Bureau, BOI, As of June, 2017

The number of total foreign direct investment (FDI) in year 2013, worth 478,927 Million Baht, an increase of 27% from 2012. An over 60% of FDI are from Japanese

investment worthy 290,491 Million Baht in year 2013. Despite, in 2014 Japanese investment has decline to 181,932 Million Baht or 37% decrease from 2013. In 2015, Japanese investment continue to decline up to 18% before getting lower up to 46.5% in 2016. Recently in 2017 (Jan-Aug) the value of Japanese investment seem to be quiescent status worth 49,680 Million Baht (refer to Figure 1.1), which not much change from previous year (refer to Table 1.4).

As of this point, the number of Japanese projects and investment submitted to BOI seem to be decline from year 2014 up to present. Thus, the research question arise here is ***"do Thailand still an attractive country in among ASEAN toward Japanese investor?"*** One of the possibility to answering the declining of Japanese investment value may case from external factors since its investment inflows to AEC has decline up to 36.6% in 2014 (refer to Table 1.2). Moreover, the Intra-ASEAN investment value has boost fastest in year 2015 worth 110,158 Million Baht or 83% increase from 2014 (refer to Figure 1.1). *This advantage may cause by the established of AEC in Dec 2015.*

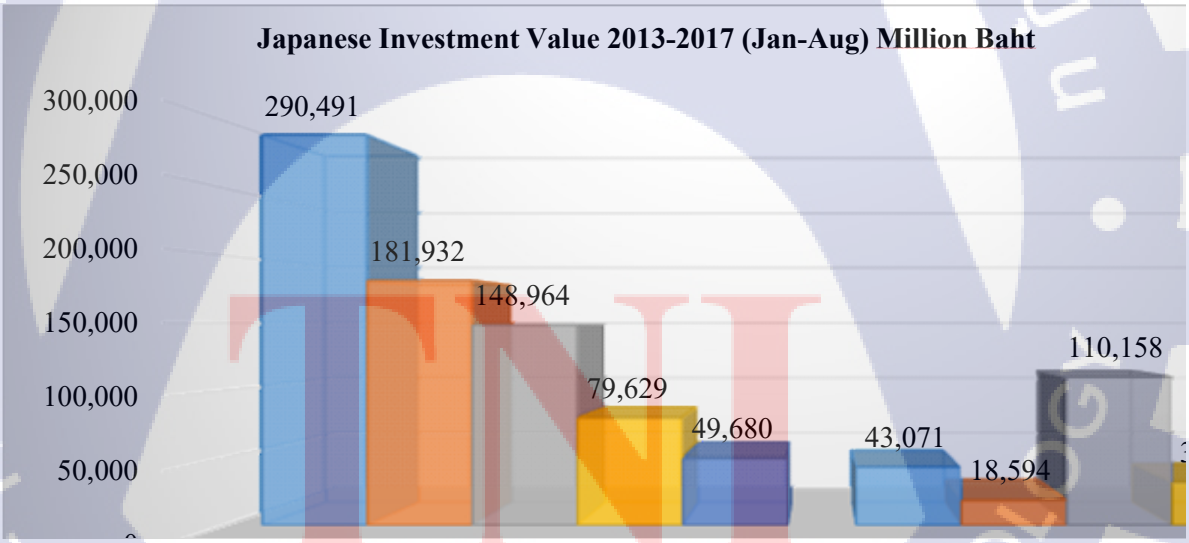


Figure 1.1: Japanese Investment Value 2013-2017 (Jan-Aug) Million Baht
Source: International Affairs Division, BOI, As of June 30, 2017
Note: 1) Japanese investment projects refer to projects with Japanese capital of at least 10%
International Affairs Bureau, BOI, As of June, 2017

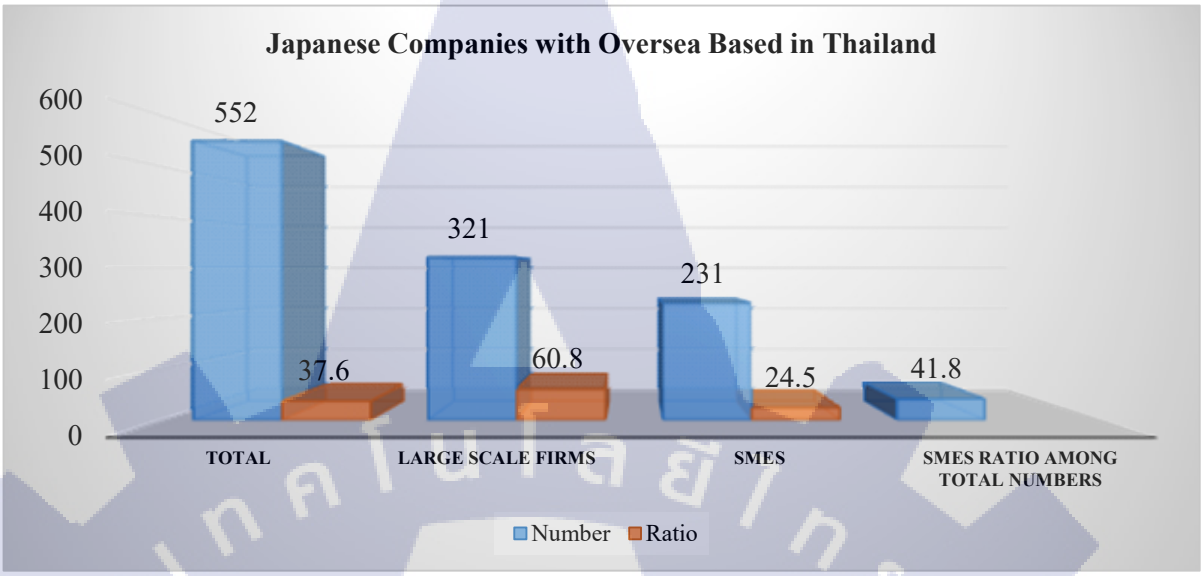


Figure 1.2: Japanese Companies with Overseas Bases in Thailand 2015
Source: JETRO (2015)

Figure 1.1 show the high volume of investment from Japan and ASEAN to Thailand during 2013 to 2017 (Jan-Aug). A majorities of these Japanese MSMEs provide service or produce parts for larger MNEs either as suppliers or subcontract manufacturers. They play a significant role in the linkages between large MNEs and local Thailand SMEs (refer to Figure 1.2). In fact Japanese MSMEs and MNEs also involve many ASEAN MSMEs as their suppliers, distributors, technology collaborators, subcontractors or joint venture partners in their production processes. **In this regard, Japanese firms contribute to ASEAN MSMEs' participation in Global Value Chain (GVCs) driven by lead or principle firms, such as Toyota, Nissan, Mazda, Sony and Matsushita.** In doing so, an increasing of ASEAN investment value to Thailand were contributed by Japanese business network (refer to Figure 1.1). Thus, Japanese MSMEs make strengthen of Thailand production networks, especially in Thailand automotive and electronics industry (Wadeecharoen et al., 2015; Suwannarat et al., 2010). This study will be investigating the opportunities for Japanese FDI towards AEC and Thailand in particular.

1.2 Research Questions

1. Is Japan country is take a place of top ten sources of foreign direct investment inflows (FDI) in ASEAN?
2. What are motive factors for Japanese FDI engaged in ASEAN?
3. What are the opportunities for Japanese FDI towards AEC?
4. What are the attractive countries for Japanese investment in among ASEAN countries?
5. Is Thailand investment position and Thailand location still attractive via the lens of Japanese investor?

1.3 Research Objectives

1. To explore top ten sources of foreign direct investment inflows (FDI) to ASEAN
2. To explore the motive factors for Japanese FDI in ASEAN
3. To explore the opportunities of Japanese FDI towards AEC
4. To explore the attractive countries for Japanese investment in among ASEAN countries.
5. To explore of Thailand investment position and Thailand location attractive towards Japanese investor.

1.4 Limitation of the Study

The limitation of the study are consists with 3 parts are as following

1.4.1 Content Limitation

The study examines of Thailand investment position at macro evaluation through the lens of Japanese investment inflows. The attractive countries in ASEAN region examines in the view of **Japanese investor (in Japan and Thailand), Business Advisor by The Japan External Trade Organization (JETRO) and Commercial Attaché, Japan Embassy in Thailand.** Hence, the scope of the study relines on the overview of Thailand investment position and the role of Japanese firm towards Thailand economic development in macro evaluation aspect.

1.4.2 Analysis Data Limitation

The content and data of this study was obtain from secondary data which is came from the following sources such as bellows;

1. Statistic data provided by Bank of Thailand (BOT)
2. Statistic data provided by Board of Investment (BOI), Thailand
3. Thailand Ministry of Commerce http://www.moc.go.th/
4. Asian Development Bank Institute (ADBI), Tokyo www.econstor.eu
5. Thailand county report www.eiu.com
6. Business news www.bangkokpost.com
7. The ASEAN Secretariat
8. World Economic Forum
9. Japanese Chamber of Commerce (JCC)
10. The Japan External Trade Organization (JETRO)

Once documentary analysis is conducted, personal interview is followed up on the research objectives. The content of the interview data is back up by theoretical approach. Thus, this study is scope on the overview of Japanese investment trend towards ASEAN countries in general and Thailand in particular.

1.4.3 Sampling Size

The sampling of the study is based on the president, executive vice president (EVP), Japanese senior managers in Thailand subsidiaries across several business types. The companies name and address were listed from Thailand factory directory year book 2016-2017. In-depth interview method were make both in Japan headquarter and Thailand subsidiaries. Moreover, The Japan External Trade Organization (JETRO) and Embassy of Japan are also involved in the sample of the study.

According to Chen & Paulraj, (2004) represented supply chain system into five section are such as (1) suppliers (2) purchasing (3) Production (4) distribution and (5) customers. This procedure involved raw material, component suppliers,

manufacturers, wholesalers/distributors, retailers and final customer. Figure 1.3 shows the logistic suppliers of raw material requiring to purchasing and manufacturing production (a-c called upstream), in other direction, distributor and customer (d-e called downstream).

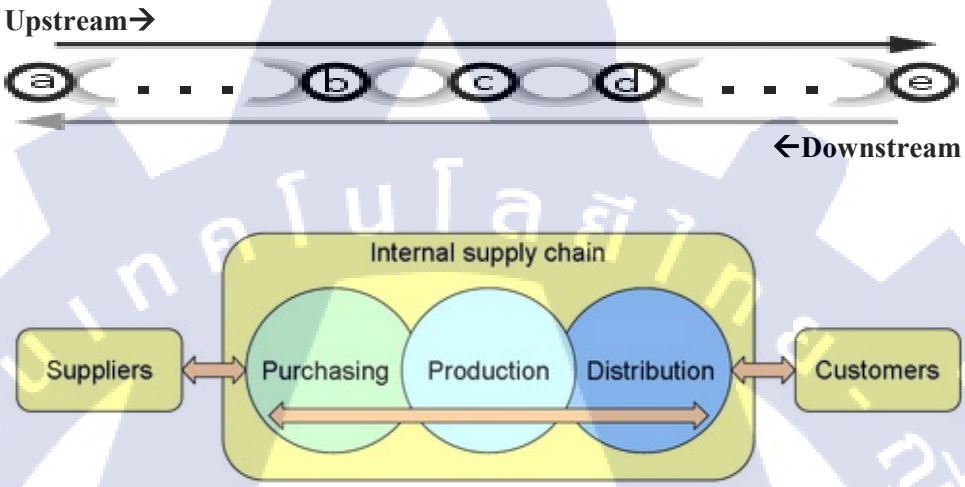


Figure 1.3: Supply Chain System and Upstrean Downstream Line
Source: Chen Paulraj, (2004). Towards a theory of supply chain management: the constructs and measurements. Journal of Operations Management, 22(2), 119-150.

Thus, the principle fundamental to selecting sample of the study reline on the direction of *'upstream'* and *'downstream'* business. The type of business units will be selected follow up by industrial location. Furthermore, JETRO and Japanese Embassy were selected to clarify the overall performance and opportunities of Japanese business in Thailand. Therefore, the sample of the study are represented in the Table 1.5 below;

Table 1.5: Research Sampling Size and their Type of Business

No.	Type of Business	Up stream	Manufacturing/ Production	Down stream	Location
1	▪ Electronic distributor ▪ Simi Conductor		✓	✓	Headquarter Tokyo, Japan
2	▪ Snack Food		✓	✓	Bangpoo Industrial, Samutprakarn
3	▪ Air condition parts ▪ Brass parts for Air conditioner	✓			Patumthani
4	▪ Machinery and Tooling ▪ Mold Business	✓			Bangkok
5	▪ OEM Automotive System and Components		✓		Samutprakarn
6	▪ Precision Molds Plastic	✓			Samutprakarn
7	▪ Mold Business ▪ Robotic System	✓			Bangkok
8	▪ Machinery and Tooling ▪ Mold Business	✓			Bangkok
9	▪ Logistic			✓	Bangkok
10	▪ Aluminum distributor ▪ Copper, Brass ▪ Stainless Steel	✓			Lad Krabang Industrial Estate, Bangkok
11	▪ OEM ▪ Trading Company		✓	✓	Bangkok
12	▪ Chemical	✓			Samutprakarn
13	▪ OEM automotive		✓	✓	Rojana Industrial Ayutthaya
14	▪ JETRO, Japan Government	←	———	→	Bangkok
15	▪ Commercial Attaché, Japan Embassy,	←	———	→	Bangkok

Source: Self Interview

1.4.4 Timing Limitation

Since May 2014, Thai's economic situation was changed again due to Thai government revolution. The trend of Japanese investment may change due to some internal and external factors before the established of AEC in Dec 2015. Therefore, the study plan to collecting data and evaluated the perception of Japanese investor after two year of AEC established in third to fourth quarters of year 2017 (Aug to Oct). Thus, the result of this study may not usable for the long-term consistent and its limitation is for identified the trend of Japanese investment inflow at only some specific period of time.

1.4.5 Macro Evaluation

The study examines of Thailand investment position through the lens of Japanese investment inflows. The attractive countries in ASEAN region examines in the view of Japanese investor. Hence, the scope of the study relines on the overview of Thailand investment position and the role of Japanese firms towards Thailand economic development in macro evaluation aspect.

1.5 Contribution of the study

The intention of the study are mainly contribute into 2 sectors are as below;

1.5.1 Private Sector

A study is intentionally contributes of the knowledge to business sectors by identifying the top ten sources of foreign direct investment (FDI) in ASEAN. Thailand business opportunities and Thailand location advantage will be examine via Japanese investor perspective. The information provided by the study is useful for the business man both Thai and foreigner who are seeking a long-term partner for operating business in Thailand. Additionally, this study will be useful for foreign investors who seeking the new location advantage for their business expansion in ASEAN region.

1.5.2 Public Sector

By using the information in the form of statistic data and report provide by this study. This will remind Thai's government to awareness the role of foreign direct investment (FDI) towards Thailand investment position and Thailand economic stability. Hence, Thailand's government should plan an action to promote international investment in short and long-term. Additionally, flood management and labour supply should be designed in appropriate and secure. Thus, this will be recalled foreign investment confident and magnetize of international investment inflows for long-term.

1.6 Organization of the Study

This study is organized in five chapters are as following;

Chapter 1: represents introduction and background of the study. Following by research questions, research objectives, contribution and limitation of the study.

Chapter 2: represents literature review of foreign direct investment (FDI) inflow to ASEAN. The theories of trade behind foreign direct investment (FDI) inflows to ASEAN and Thailand.

Chapter 3: represents research methodologies used in this study. This is followed by a discussion of the research design and sampling method. The analysis method consists of secondary data analysis and interview data.

Chapter 4: reveals research finding that describes the result analysis in view of demographic profile of respondents and objectives of the study. The motive factors for Japanese FDI in ASEAN. Thailand opportunities for Japanese FDI towards ASEAN and Thailand international investment position will be examine in this chapter.

Chapter 5: discussion and conclusion of research finding are elaborated up on research objectives of the study.

1.7 Glossary of Terms

AEC = Asean Economic Community

AFTA = ASEAN Free Trade Area

CEO = Chief Executive Offiver

FDI = Foreign Direct Investment

FTA = Free Trade Agreement

GDP = Gross Domestic Product

GVCs = Global Value Chains

FMC = Free Movement Capital

MNEs = Multinational Enterprise

MSMEs = Micro, Small and Medium Enterprises

IJVs = International Joint Vemture

ODM = Original Design Manufacturer

OEM = Original Equipment Manufacturer

OFDI = Outward Foreign Direct Investment

R&D = Research and Development

RVCs = Regional Value Chains

SME = Small and Medium-Sized Enterprise

UNCTAD = United National Conference on Trade and Development

WIR = World Investment Report

Notes*

Multinational Enterprise (MNE) refer to companies that operate on a global scale, (whether headquartered in advanced or developing countries) which operate in multiple countries. The way to interpret this is a company that has at least 20% of its sales in each of at least three different continental markets.

International Joint Venture (IJV) is legally and economically created of a new legal entity by two or more partners. These firms are collectively invest financial as well as other resources to pursue certain objective.

1.8 Summary of the Study Overall Structure

In this study represented the research background and problem, research objectives, contribution and limitation of the study as well as the overall structure of the study (refer to Figure 1.4). An overview of FDI inflows to ASEAN and Japanese FDI in ASEAN and Thailand will be explored. The theories of trade behind FDI inflows to ASEAN will be discussed in the next chapter.

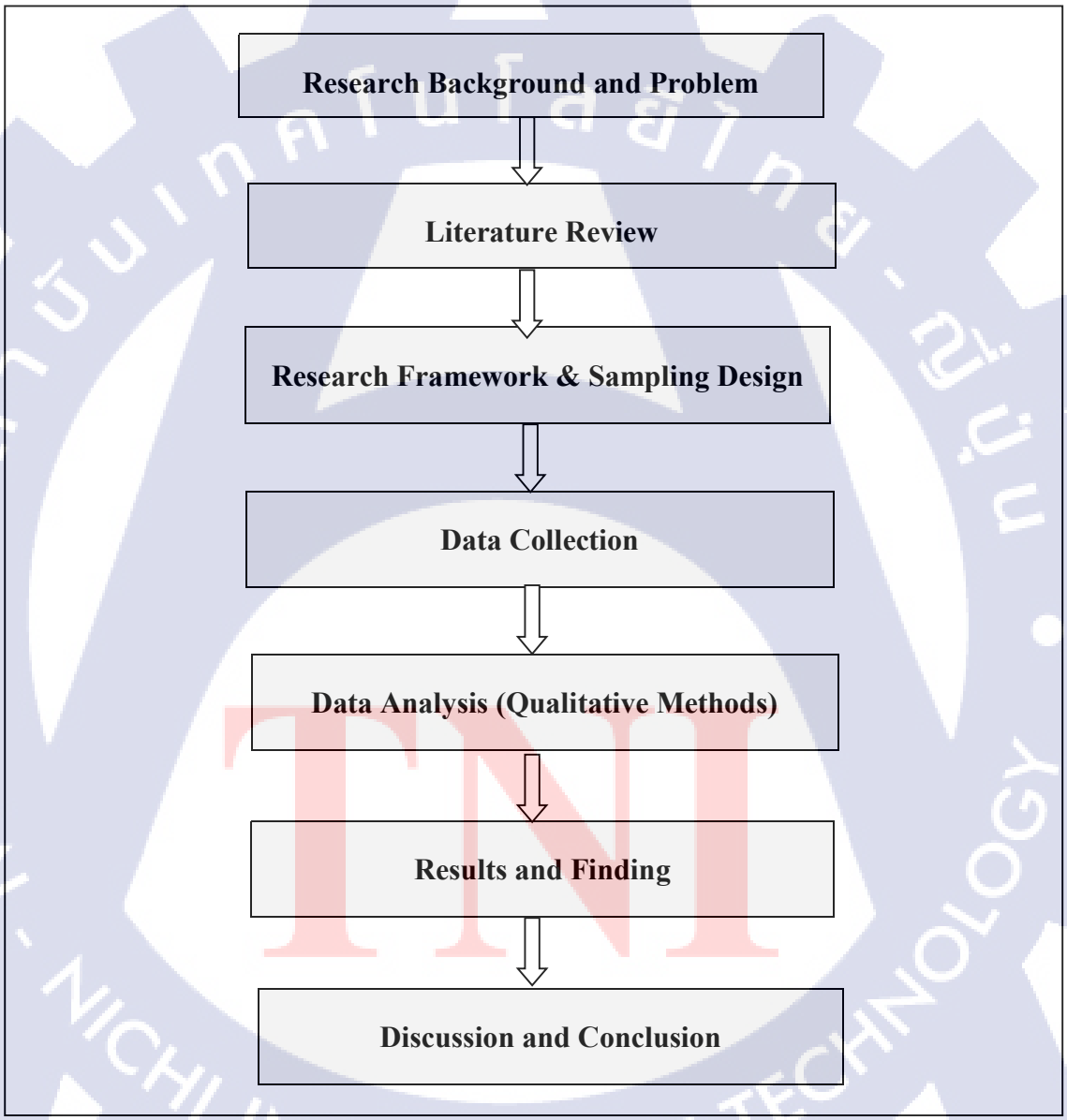


Figure 1.4: Overall Structure of the Study

CHAPTER 2

LITERATURE REVIEW

This chapter presents a review of the literature related to objective of the study. The ASEAN Economic Community (AEC) will be introducing in this chapter. Moreover, an overview of ASEAN geography and demography will be representing in general and Thailand in particular. The role of foreign direct investment (FDI) towards Thailand's economic will be discussed. This chapter will also highlight the importance of Japanese FDI contributing to AEC and focus on Thailand economic in particular.

2.1 ASEAN Economic Community (AEC)

2.2.1 Introduction of AEC 2015

The 10 nations grouping know as ASEAN or the Association of South East Asian Nations formed in 1976 to promote regional solidarity and cooperation. To collectively leverage its influence in regional affairs, the ASEAN grouping is broadly separable into two blocs: **"ASEAN-6" and "CLMV"**. The more developed ASEAN-6 comprises Singapore, Malaysia, Thailand, Indonesia, Philippines and Brunei. Meanwhile, the CLMV comprises Cambodia, Laos, Myanmar and Vietnam which trend to be at the earlier stage in its economic development (refer to Figure 2.1: The 10 Member Nations of ASEAN).

Since 1976, ASEAN was formed nearly half century, apparently, the long-term region's potential become more by annual region average growth approximately 6% over the past decade (Pietersz, 2016). This region took over 4.4 Million square kilometers, more than half the size of the continental United States and larger than European Union. This, together with a young population that is increasingly entering the workforce, and migrating from rural areas to urban centers, makes ASEAN one of the fastest-growing consumer markets in the world.

Figure 2.1: The 10 Member Nations of ASEAN
Source: ASEAN Secretariat, 2015

The interconnectedness of ASEAN's region has taken another step forward 2015 with the inception of AEC aims to promote free movement of goods, services, skilled labor and capital, these are cited in AEC blueprint. The intergrate of AEC should help the region leverage its natural advantages through more connective infrastructure and improved opportunities for its population and workforce, and by better harnessing synergies among its 10 members.

ASEAN Economic Community (AEC) Blueprint has signed in November 2007, their comprehensive master plan has served as the regional development route toward establishment of AEC on 31 December 2015. Underneath this Blueprint, the AEC is built on four interrelated and mutually-reinforcing characteristics: (1) a single market and production base, (2) a highly competitive economic region, (3) a region of equitable economic development, and (4) a region fully integrated into the global economy.

The AEC characteristics firstly introduce by creating a single market and production base through free flow of goods, services, investment, skilled labour and free flow of capital. Secondly, to create a business-friendly and innovation-supporting regional environment through the adoption of common frameworks, standards and

mutual co-operation across many areas, such as in agriculture and financial services, and in competition policy, intellectual property rights and consumer protection. It also supports improvements in transport connectivity and other infrastructure networks. Thirdly, AEC seeks to achieve equitable economic development through creative initiatives that encourage small and medium enterprises to participate in regional and global value chains. AEC focused efforts to build the capacity of newer ASEAN member states to ensure their effective integration into the economic community. Finally, to envisage ASEAN's full integration into the global economy pursued through a coherent approach towards external economic relations, and with enhanced participation in global supply networks (ASEAN Secretariat, 2015). These multi-purpose are summarizing in the table 2.1 below;

Table 2.1: The Multi-Purpose of ASEAN Economic Community (AEC)

No.	Purpose Statement	Implication
1	A single market and production base.	To create a single market and production base through ***free flow of goods, services, investment, skilled labour and free flow of capital.***
2	To competitive economic region.	To create a business-friendly and innovation-supporting regional environment through the adoption of common frameworks, standards and mutual co-operation across many areas, such as in ***agriculture and financial services, and in competition policy, intellectual property rights and consumer protection.*** It also supports improvements in transport connectivity and other infrastructure networks.
3	To be equitable economic development regional.	To achieve equitable economic development through creative initiatives that encourage small and medium enterprises to participate in regional and global value chains and focused efforts to build the capacity of newer ASEAN member states to ensure their effective integration into the economic community.
4	To be fully integrated regional into the global economy.	To envisages ASEAN's full integration into the global economy pursued through a coherent approach towards external economic relations, and with enhanced participation in global supply networks

Source: ASEAN Secretariat, 2015

The establishment of AEC brings about opportunities in the form of a huge market worth over US$ 2.5 trillion. Collectively, the region is the 7th largest economy in the world and, with a population of over 622 Million people, represents the 3rd largest

market base in the world, behind only China and India. ASEAN integrated market has increased by nearly US$ 1 trillion between 2007 and 2014, with intra-ASEAN trade comprising the largest share of ASEAN's total trade by partners. Due to ASEAN connectivity cause to annual tourist arrivals were up from 62 Million in 2007 to 105 Million in 2014. Nearly half of these tourists were intra-ASEAN tourists. Moreover, the most significant role of AEC establishment cause ASEAN become ***'a world class investment destination'***, which attract US$ 136 Million FDI in 2014, accounting for 11% of global FDI inflows. These are the beneficial opportunity gain from AEC establishment 2015 (refer to Figure 2.1: ASEAN Economic Community at a Glance).

Figure 2.2: ASEAN Economic Community at a Glance
Source: ASEAN Secretariat, 2015

2.2.2 Key Achievements under AEC 2015

The establishment of AEC 2015 bring about eight key achievements in the following below;

I. **To achieve market liberalized:** Intra-ASEAN import tariffs have been virtually eliminated and formal restrictions in services sector gradually removed, providing its peoples with greater opportunities in trading and doing business within ASEAN region.

II. **To reduced trading costs:** Cross-border trading processes have been simplified, including in customs procedures and rules of origin (ROR), harmonization of technical regulations and mutual recognition arrangements.

III. **To improved investment regimes:** ASEAN has become a more attractive investment and *'a world class investment destination for international and domestic investors'*

IV. **To enhanced skilled labour mobility:** Cross-border movement of skilled labour and professionals has been facilitated.

V. **Free trade area comprehensive and economic partnership agreements:** ASEAN businesses are provided more opportunities to reach in the external markets, and strengthen their role in regional and global value chains.

VI. **To be a business-friendly and innovation-supportive environment:** ASEAN achieved this goal through the adoption of common frameworks, standards and mutual cooperation in various areas, such as in agriculture and financial services, and in competition policy, intellectual property rights, consumer protection as well as SME development.

VII. **To make improvements in physical transportation and other infrastructure networks:** ASEAN improving several facilitates cross-border transportation which in turn reducing the overall costs of doing business. These improvements have providing ASEAN peoples and business the opportunity to work together more productively.

VIII. **To narrowing the development gap:** Along with the process of regional integration, initiatives that help narrow the development gap among and within ASEAN member states have also been put in place.

Despite, the formal establishment of the AEC in 2015 is not a static end goal, but a dynamic process that requires continuous reinvention of the region to maintain its relevance in an evolving global economy. Therefore, AEC Blueprint 2025 has been adopted to guide ASEAN economic integration from 2016 to 2025. Under the new Blueprint 2025, a stronger AEC is envisaged by 2025 with the following characteristics:

(a) A highly integrated and cohesive economy

(b) A competitive, innovative, and dynamic ASEAN

(c) Enhanced connectivity and sectoral cooperation

(d) A resilient, inclusive and people-oriented, people-centered ASEAN; and

(e) A global ASEAN

Table 2.2: AEC Blueprint 2015 and AEC Blueprint 2025

No.	Purpose Statement	AEC Blueprint 2015	AEC Blueprint 2025
1	A single market and production base.	1. To achieve market liberalized 2. To reduced trading costs 3. To enhanced skilled labour mobility	1. A resilient, inclusive and people-oriented, people-centred ASEAN; and
2	To competitive economic region.	1. Free trade area comprehensive and economic partnership agreements	1. A competitive, innovative, and dynamic ASEAN
3	To be equitable economic development regional.	1. To make improvements in physical transportation and other infrastructure networks 2. To narrowing the development gap 3. To be a business-friendly and innovation-supportive environment	1. Enhanced connectivity and sectoral cooperation
4	To be fully integrated regional into the global economy.	1. To improved investment regimes	1. A Highly Integrated and Cohesive Economy 2. A global ASEAN

Source: ASEAN Secretariat, (2015)

The way forward AEC 2025, ASEAN will strive to build on the early gains from the AEC 2015 as well as be forward looking in anticipating new opportunities and challenges. The post-2015 agenda would thus include a clear strategy to address any

unfinished agenda from AEC 2015 which are deemed critical in deepening regional economic integration. Furthermore, efficient institutions, adequate resources as well as effective planning and monitoring are imperative to ensure successful outcomes of the community building process beyond the establishment of the AEC 2015. Thus, the summary of AEC Blueprint 2015 and AEC Blueprint 2025 are representing in Table 2.2 AEC Blueprint 2015 and AEC Blueprint 2025.

2.2 ASEAN's Position Demographics Underpins Stable Growth

ASEAN (the ten member Association of Southeast Asian Nations) is becoming increasingly important in the light of weak GDP growth in developed countries and the recent growth slowdown in China, Brazil and India. We consider the ASEAN region's relatively young population as one of the main factors behind its attractiveness. This study will discussion the ASEAN demographics and GDP growth in the following section.

2.2.1 ASEAN Demographics

ASEAN is the 3rd largest global population of over 630 Million people, a potential market larger than European Union or North America. The ASEAN strategic location advantage located between Asia's two economic Giants-that are China and India (refer to Figure 2.6: ASIA Real GDP), as compared to other major asia pacific economic)

In the perspective of FDI driven global economic development, young population in ASEAN become attractiveness factor of foreign investment and its also contribute to regional economic growth. The population between 15-29 years that is increasingly entering the workforce in industrial sectors and they are mitigating from rural to urban areas. CLMV countries is the visible example to show high power of young population whereby the rate of urban population still low.

Table 2.3: ASEAN Social Demography

	Land area (Sqkm)	Population (000)	Population Density (Persons per sqkm)	Sex ratio (Male per 100 Femal)	Persons below 5 year (000)	Persons 65 year and over (000)	Youth 15-29 year (000)	Urban Population (%)	Below National Poverty Line (%)
Brunei Darussalam	5,769	417.2	72.3	108	32.9	17.8	109.5	78.8	NA
Cambodia	181,035	15,405.2	85.1	96.2	1,600.5	710.2	4,814.6	23	16
Indonesia	1,913,578.7	255,461.7	133.5	101	24,065.5	13,730.1	64,353.7	53.3	11.1
Lao PDR	236,800	6,902.4	29.1	100	956.8	254.1	2,033	38	23.2
Malaysia	330,290	30,485.3	92.3	105.5	2,577.5	1,779.9	8,550.9	74	1.7
Myanmar	676,577	52,476	77.6	97.2	4,936.4	3,078.4	14,191.3	30	23.6
Philippines	300,000	101,562.3	338.5	101.8	11,327.3	4,873.8	28,122.8	44	25.2
Singapore	719.1	5,535	7,697.1	96.5	183.6	459.7	778.1	100	NA
Thailand	513,119.5	68,979	134.4	96.2	3,960.8	5,999.3	15,606.7	49	13.2
Vietnam	330,951.1	91,713.3	277.1	97.3	7,795.6	6,511.6	**22,561.5**	8.4	8.4

Sources: ASEAN Statistical Leaflet Selected Key Indicators (2016)
ASEAN Secretariat, UNCTAD, UNICT

Particularly in Vietnam, worker generation are in higher ratio at 22.56 Million people while only 8.4% of them are in urban population. As of this point, Vietnam has opportunity to boost up a large number of workforce to industrial sectors for further foreign investment host country (refer to Table 2.3).

Thailand population 68.97 Million people, 15.6 Million people are in youth workforce (15-29 years) while 5.9 Million people are in aging population (>65 years). Thailand aging population approximately 1:11 of total population while Vietnam averagely 1:14 of total population.

Table 2.4: ASEAN Countries Population and Trade

	Population (000)	GDP at Current Market Price (US$mn)	GDP per Capital (US$)	GDP Growth at Constant Price (%)	Share of Service Sector in GDP (%)	Inflation Rate (%) end of period	Trade in Goods Export (US$mn)	Trade in Good Import (US$mn)	Trade in Good Balance (US$mn)
Brunei Darussalam	417.2	19,909	30,942.1	(0.6)	37.7	(1.0)	6,350.1	3,042.3	3,307.8
Cambodia	15,405.2	18,463	1,198.5	7.1	39.6	2.8	8,838.5	10,837.6	(1,999.1)
Indonesia	255,461.7	857,603	3,357.1	4.8	46.0	3.4	150,282.3	142,694.8	7,587.5
Lao PDR	6,902.4	12,639.3	1,831.2	7.6	40.2	0.9	3,714.3	3,049.2	665.1
Malaysia	30,485.3	294,389.6	9,656.8	5.0	53.5	2.7	199,869.2	175,961	23,908.2
Myanmar	52,476	65,391.8	1,246.1	7.1	40.7	10.3	11,431.8	16,843.6	(5,411.8)
Philippines	101,562.3	289,502.8	2,850.5	5.8	57.0	1.5	58,648.4	70,295.3	(11,646.9)
Singapore	5,535	291,937.6	52,743.9	2.0	67.9	(0.6)	366,344.3	296,764.9	69,579.4
Thailand	68,979	395,726.3	5,736.9	2.8	57.7	(0.9)	214,396.2	202,751.2	11,645.1
Vietnam	91,713.3	193,406.7	2,108.8	6.7	38.3	0.6	162,013.9	165,729.9	(3,716)

Sources: ASEAN Statistical Leaflet Selected Key Indicators (2016)
ASEAN Secretariat, UNCTAD, UNICT

Despite, Thailand aging rather higher as compare to Vietnam but the overall population workforce approximately 22.6% in Thailand and 24.6% in Vietnam. Look forward in term of GDP per capital Thailand is in the 3rd after Singapore and Malaysia while Vietnam is in the 6th after Philippines. The GDP at current market price Indonesia is in the 1st due to large economic of scale, the next is Thailand and Malaysia while Vietnam is the 6th following by Myanmar, Cambodia and Lao PDR (see more in Table 2.4: ASEAN Countries Population and Trade).

Philippines is the second largest in term of population after Indonesia, the national workforce averagely 27.6% of total population and GDP growth at 5.8 while Indonesia 4.8%. In CLMV countries, workforce averagely 31.25% in Cambodia, 29.4% in Lao PDR, 27% in Myanmar and 24.6% in Vietnam. The average age of workforce in these counties are 24 years in Cambodia, 22 years in Laos, 27.9 years in Myanmar and 30 years in Vietnam (refer to Figure 2.4 Median Age of ASEAN Population). Thus, the CLMV countries have higher potential for labour intensive industries whereby young population and workforce are available at lowest cost as compare to Thailand, Malaysia and China (refer to Figure 2.3). Thus, ASEAN population advantage can be classified into skill labour up to higher skill labour that use of high-technology in Thailand and Malaysia. In textile industries and low to medium-technology in production can gain the benefit of labour intensive in Cambodia, Indonesia, Vietnam and Philippines.

Philippines become one of population attractiveness in ASEAN whereby the young labour are available at 27.6% and their average age is 24 years old (refer to Figure 2.4). The Philippines GDP growth at 5.8% and 57% of these GDP generated from service sectors while unemployment rate at 6.5% highest in among ASEAN countries. The population below national poverty line approximately 25.2% while adult literacy rate at 95.4% and net enrollment in primary education at 93.8%. Considering the Filipino educated and unemployed rate as higher, these factors pushing Philippines become largest labour exporter to intra-ASEAN and internationally.

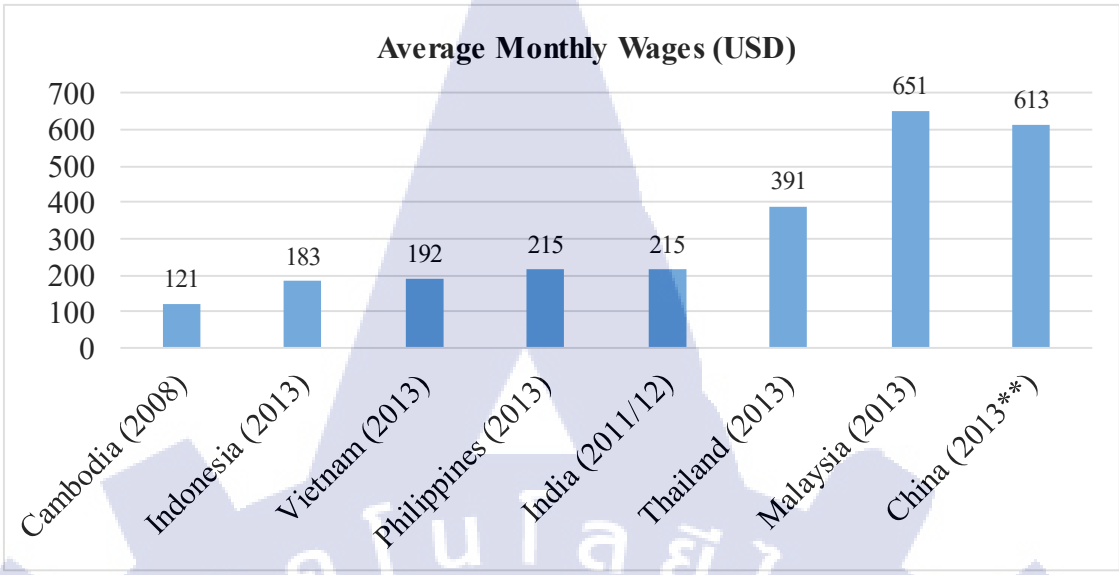


Figure 2.3: Average monthly wages (USD) countries from Asia Pacific comparable data, (2013)
Note: *Average daily wage or salary earnings of regular wage and salaried employees aged 15 to 59 years, multiplied by 313/12. The exchange rate is from the Statistical Yearbook, India 2014.
**Based on an establishment survey with broad coverage; Hong Kong (China) and Japan refer to full-time employees.
***Based on establishment surveys; calculated as employment-weighted average of urban units and private enterprises
****Based on administrative records from the Central Provident Fund Board. Source: ILO: Global Wage Database 2014/15, based on national statistics.

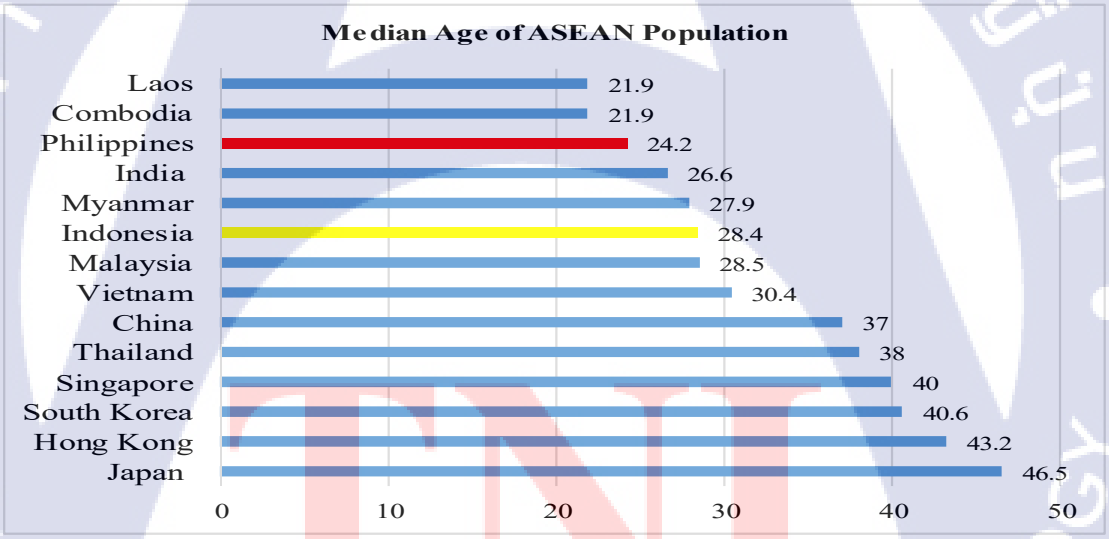


Figure 2.4: Median Age of ASEAN Population
Source: United Nations Department of Economic and Social Affairs, Population Division, (2015)

ASEAN the 3rd largest population in the world and 52% of regional population was under 30 years (refer to Figure 2.5). This young regional population will stay attractive over the next 15 years, with the under 30 year's population expected to ease modestly to 45% by 2030. ASEAN population estimated to growth of 0.9% from 2015 to

2030 while China, Europe and Japan are about -0.3%, -0.6% and -0.7%, respectively, during the same period.

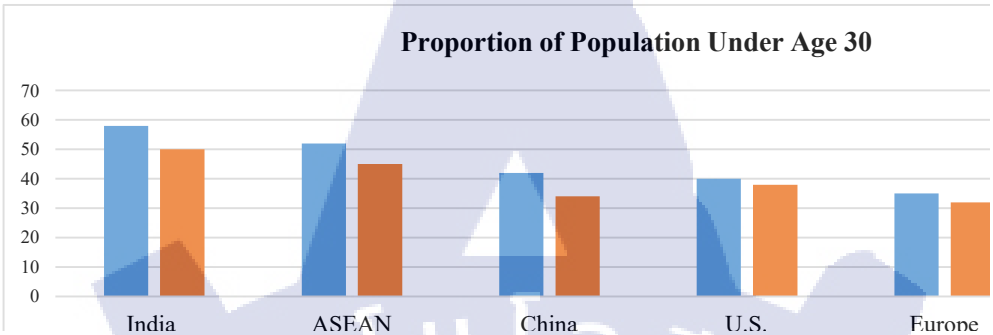


Figure 2.5: Proportion of Population under Age 30
Source: United Nations Department of Economic and Social Affairs, Population Division, 2015

Broadly, the more developed ASEAN countries are more aged. Singapore is most senior with a median age of 40, followed by Thailand at 38 years. The CLMV block ranges from Vietnam's 30.4 year median age to Laos' dewy 22, pointing to years of potentially strong growth ahead as the earning power of these young populations is realized (refer to Table 2.4). The labor engine that is CLMV can also help to power the more aged countries in ASEAN region. Particularly, in Thailand borders share with Cambodia, Myanmar and Laos (refer to Figure 2.1: The 10 Member Nations of ASEAN).

2.2.2 ASEAN GDP Growth

Today the ASEAN Economic Community (AEC) has a combined GDP of US$ 2.4 trillion, and is the 3rd fastest growing major Asian economy after China and India. The AEC seeks to reduce or remove many trade barriers within the region with the goal to facilitate the free movement of goods, services, capital, and skilled labor within the region. A single customs window has already been created, with support from the US, while regional agreements to facilitate the movement of ASEAN nationals are also being developed (refer to Figure 2.6).

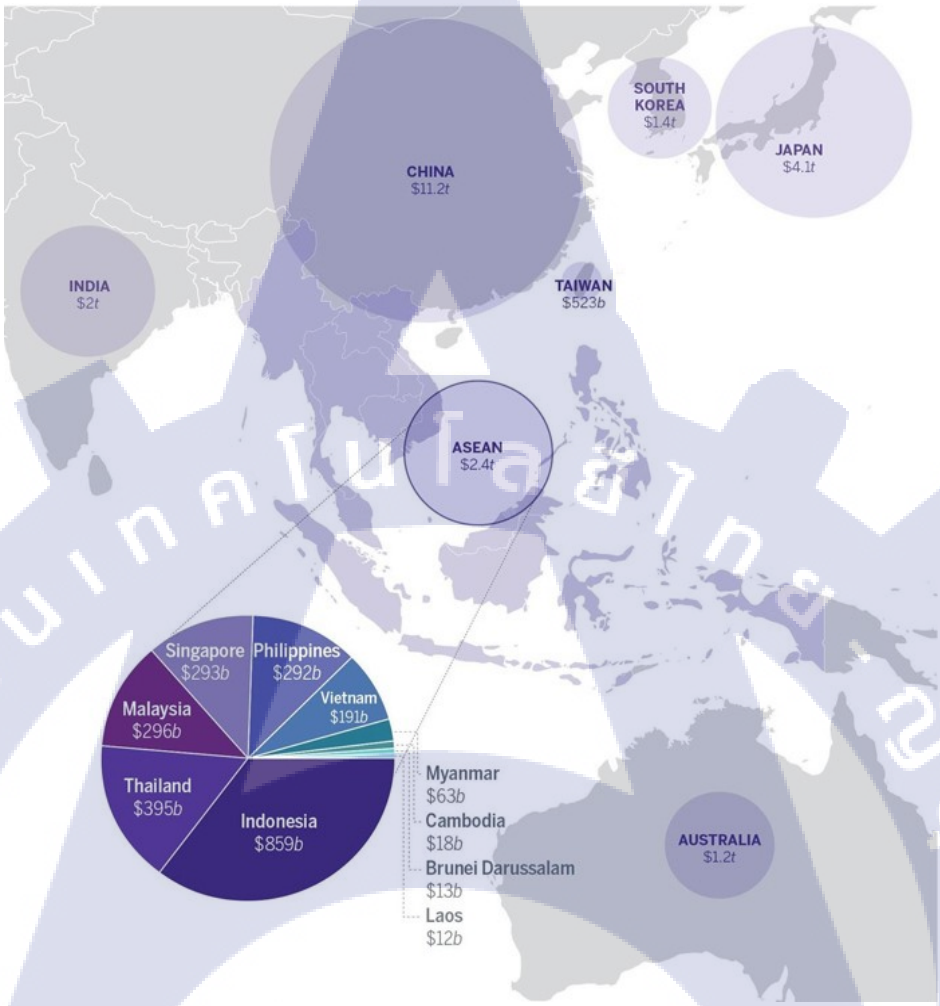


Figure 2.6: ASEAN GDP Compared to other Major Asia Pacific Economic
Source: International Monetary Fund World Economic Outlook, (2015)
Note: LEGEND: b-Million, t-Trillion

In ASEAN, Thailand GDP is the 2rd after Indonesia worth US$395 Million following by Malaysia (US$ 296 Million), Singapore (US$293 Million), Philippines (US$ 292 Million), Vietnam (US$191 Million) and CLMV countries (>US$65 Million). Thus, the ASEAN region is the fastest growing economies integration in the Asia Pacific during 2006 to 2015 after China and India (refer to Table 2.7: Real GDP Growth from 2006-2015).

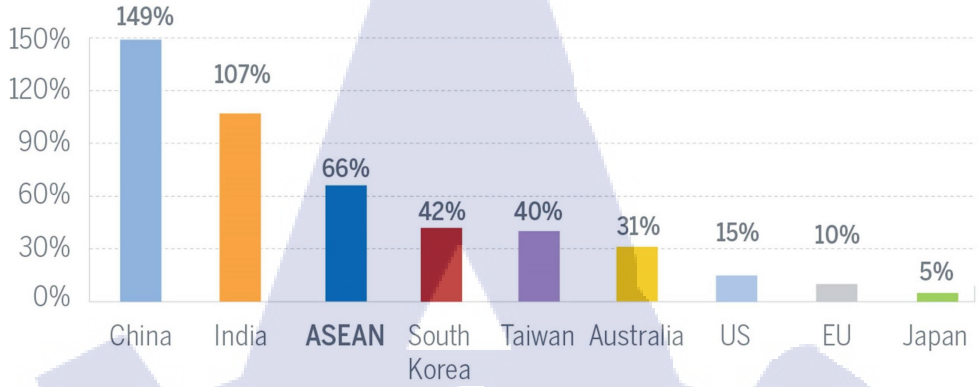


Figure 2.7: Real GDP Growth from 2006-2015
Source: International Monetary Fund World Economic Outlook, (2015)

In aspect of GDP per capital, Singapore GDP is the 1st in ASEAN worth 52,888 Million US$, approximately 5.6% less than US GDP per capital. Brunei is the 2nd worth 30,993 Million US$, Malaysia is the 3rd worth 9,501 Million US$, and Thailand is the 4th worth 5,742 Million US$ (refer to Figure 2.8).

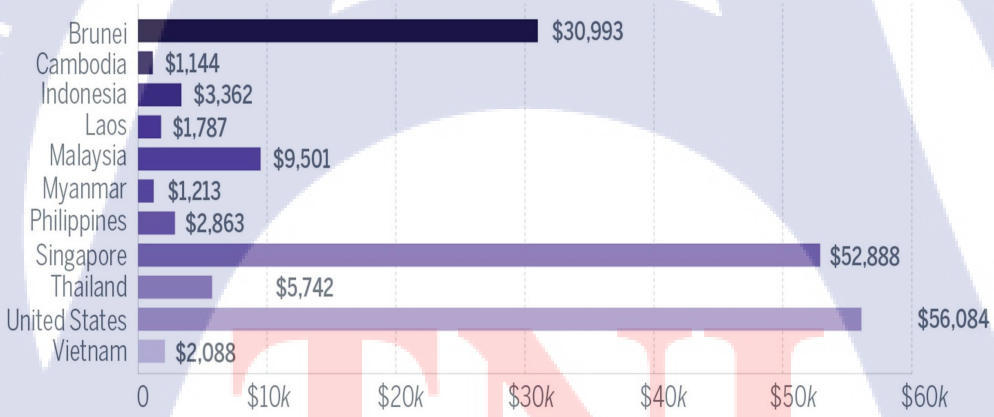


Figure 2.8: ASEAN Members Per Capital GDP (value in Million $USD)
Source: International Monetary Fund World Economic Outlook, (2015)

The growth prospects of emerging Asia (ASEAN-6, China and India) remain robust at 6.4% in 2016 and at an average of 6.4% over 2017-2018, driven to a large extent by private consumer price (refer to Table 2.6 ASIA Real GDP and Table 2.7 ASIA Consumer Price). Asia economic growth will continue to slow down in China (see more

detail China GDP in Table 2.5), while India is expected to be amongst the region's fastest growing economies by GDP growth 7-8% annually.

Growth in the ASEAN region is projected to average 4.8% in 2016, 4.9% in 2017 and over 5% in 2018 forward, led by the Philippines and the CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) countries. These countries are expected to fastest growing economies by GDP growth 6-7% annually. To achieving sustained growth will require Emerging Asian policy makers to manage slowing export growth, the impacts of persistent low interest rates in the advanced economies, as well as plateauing productivity growth in the region. These issues are covering in the key policy areas in Table 2.5 below;

Table 2.5: Progress in Emerging Asia's integration in Key Policy Areas

Policy area	Assessment of the progress in integration
Trade in goods	The elimination of tariff rates for most of the tradeable products has been undergone. The issue of Non-Tariff Measures (NTMs) however needs to be addressed by each country as part of its national policy.
Trade in services	The mutual recognition arrangements (MRAs) were implemented successfully in recent years. Nevertheless, owing to the existence of skill gaps in ASEAN, the issue of the applicability of MRAs needs to be addressed.
Investment and capital market liberalisation	Efforts have been made in integrating the capital market. Nevertheless, ASEAN countries need to harmonise their laws and regulations, in particular investment protection.
Competition and consumer protection	Many ASEAN countries face difficulties in enforcing the details of their competition and consumer protection policies, especially with the slow speed of adopting these policies.
Intellectual property	The new Blueprint highlighted similar sectors to work on to strengthen co-operation and integration among member countries. Progress made is somewhat slow as different countries have different levels of development and intellectual property (IP) awareness.
Infrastructure and connectivity	The past decade has seen progress on regional infrastructure projects such as the ASEAN Highway Network, power and gas connectivity and the ASEAN Broadband Corridor. Nevertheless implementation of rail links remains a challenge in the region.
Small and medium-sized enterprises	Key deliverables from the Strategic Action Plan 2010-2015 include the ASEAN SME Policy Index, the ASEAN Guidelines on One Village One Product and the ASEAN SME Online Academy.
Food, agriculture and forestry	Progress has been made in information sharing, food safety testing and inspection. Due to the high risk of exposure to foodborne disease and the complexity of regional food industry in the region, ensuring food safety in Southeast Asia remains a difficult task.
Tourism	Integration in the tourism sector has received wide attention from policy makers in the region after the inception of AEC in 2015. The development of ecotourism will enhance connectivity of ecotourism sites among ASEAN countries and improve economic conditions of poor communities.
Human and social development	Human and social development concerns are addressed in the ASEAN Socio-Cultural Community Blueprint and recent ASEAN sectoral plans. Other forms of co-operations included a strong focus on issues of human and social development, particularly in education and health.
Energy	Though the progress in developing the ASEAN Power Grid (APG) and Trans-ASEAN Gas Pipeline (TAGP) continues gradually, it has been slow owing to technical and financial challenges.
Initiative for ASEAN Integration (IAI)	The Initiative for ASEAN Integration Work Plan II ended in 2015 and was replaced by Work Plan III, covering 2016-20. The new plan provides greater detail on intended support for improving the implementation of IAI actions.

Source: World Economic Forum (2016), The Global Competitiveness Report 2015-2016, http://reports.weforum.org/global-competitiveness-report-2015-2016

According to key policy area enable to promote ASEAN middle-income countries to reach high income status. For instant, Thailand middle term policy challenges try to

eliminate hurdles to attract more FDI, developing the digital economy as new engine of growth and develop human capital through education to make the most of the country's economic potential. With all these supportive policy enable Thailand middle income country to reach high income status in 2035 (OECD, based on MPF-2016)

Table 2.6: ASIA Real GDP

	Actual Data and Latest Projections					Difference from October 2016 *World Economic Outlook*		
	2014	2015	2016	2017	2018	2016	2017	2018
Asia	**5.6**	**5.6**	**5.3**	**5.5**	**5.4**	**−0.1**	**0.1**	**0.0**
Emerging Asia[1]	**6.8**	**6.8**	**6.4**	**6.4**	**6.4**	**−0.1**	**0.1**	**0.1**
Industrial Asia	**0.8**	**1.5**	**1.3**	**1.6**	**1.1**	**0.3**	**0.6**	**0.1**
Australia	2.8	2.4	2.5	3.1	3.0	−0.4	0.5	0.1
Japan	0.3	1.2	1.0	1.2	0.6	0.5	0.7	0.1
New Zealand	2.8	3.1	4.0	3.1	2.9	1.2	0.4	0.3
East Asia	**6.7**	**6.2**	**6.1**	**6.0**	**5.7**	**0.1**	**0.3**	**0.1**
China	7.3	6.9	6.7	6.6	6.2	0.1	0.4	0.1
Hong Kong SAR	2.8	2.4	1.9	2.4	2.5	0.5	0.5	−0.3
Korea	3.3	2.8	2.8	2.7	2.8	0.1	−0.4	−0.2
Taiwan Province of China	4.0	0.7	1.4	1.7	1.9	0.4	0.1	−0.1
South Asia	**7.0**	**7.7**	**6.7**	**7.1**	**7.5**	**−0.7**	**−0.4**	**0.0**
Bangladesh	6.3	6.8	6.9	6.9	7.0	0.0	0.0	0.0
India[2]	7.2	7.9	6.8	7.2	7.7	−0.8	−0.4	0.0
Sri Lanka	4.9	4.8	4.3	4.5	4.8	−0.7	−0.5	−0.2
Nepal	6.0	2.7	0.6	5.5	4.5	0.0	1.5	0.8
ASEAN	**4.7**	**4.7**	**4.8**	**4.9**	**5.1**	**0.0**	**−0.1**	**−0.1**
Brunei Darussalam	−2.5	−0.4	−3.2	−1.3	0.7	−3.5	−5.2	−1.1
Cambodia	7.1	7.0	7.0	6.9	6.8	0.0	0.0	0.0
Indonesia	5.0	4.9	5.0	5.1	5.3	0.1	−0.2	−0.2
Lao P.D.R.	8.0	7.5	6.9	6.8	6.7	−0.5	−0.5	−0.6
Malaysia	6.0	5.0	4.2	4.5	4.7	−0.1	−0.1	0.0
Myanmar	8.0	7.3	6.3	7.5	7.6	−1.8	−0.2	−0.1
Philippines	6.2	5.9	6.8	6.8	6.9	0.4	0.1	0.1
Singapore	3.6	1.9	2.0	2.2	2.6	0.3	0.0	−0.1
Thailand	0.9	2.9	3.2	3.0	3.3	0.0	−0.3	0.2
Vietnam	6.0	6.7	6.2	6.5	6.3	0.1	0.3	0.1
Pacific island countries and other small states[3]	**3.2**	**3.6**	**3.4**	**3.4**	**3.8**	**0.4**	**0.1**	**0.1**
Bhutan	4.0	6.1	6.2	5.9	11.2	0.2	−0.5	−0.1
Fiji	5.6	3.6	2.0	3.7	3.7	−0.5	−0.2	−0.2
Kiribati	2.4	3.5	3.2	2.8	2.0	0.1	0.3	0.0
Maldives	6.0	2.8	3.9	4.1	4.7	0.9	0.0	0.0
Marshall Islands	0.6	1.4	1.8	1.8	1.6	0.0	0.0	0.0
Micronesia	−2.4	3.7	2.0	2.0	1.5	0.9	1.3	0.7
Palau	4.4	9.3	0.1	5.0	5.0	0.1	0.0	0.0
Papua New Guinea	7.4	6.6	2.5	3.0	3.2	0.0	0.0	0.7
Samoa	1.2	1.6	6.6	2.1	0.9	3.5	0.6	−1.1
Solomon Islands	2.0	1.8	3.2	3.0	3.0	0.2	−0.3	0.0
Timor-Leste	5.9	4.3	5.0	4.0	6.0	0.0	−1.5	0.0
Tonga	2.9	3.6	3.5	3.9	3.6	0.8	1.4	0.9
Tuvalu	2.2	2.6	4.0	2.3	2.3	0.0	0.0	0.0
Vanuatu	2.3	−0.8	4.0	4.5	4.0	0.0	0.0	0.0
Mongolia	7.9	2.4	1.0	−0.2	1.8	0.9	−1.2	−1.6

Sources: IMF, World Economic Outlook database; and IMF staff estimates and projections

[1]Emerging Asia includes China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. India's data are reported on a fiscal year basis.

[2]India's data are reported on a fiscal year basis. Its fiscal year starts from April 1 and ends on March 31.

[3]Simple average of Pacific island countries and other small states which include Bhutan, Fiji, Kiribati, Maldives, the Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Table 2.7: ASIA Consumer Price

	Actual Data and Latest Projections					Difference from October 2016 *World Economic Outlook*		
	2014	2015	2016	2017	2018	2016	2017	2018
Asia	**3.2**	**2.3**	**2.3**	**2.9**	**2.9**	**−0.2**	**0.0**	**−0.1**
Emerging Asia[1]	**3.4**	**2.6**	**2.8**	**3.2**	**3.2**	**−0.2**	**0.0**	**−0.1**
Industrial Asia	**2.7**	**0.9**	**0.2**	**1.2**	**1.0**	**0.0**	**0.4**	**0.0**
Australia	2.5	1.5	1.3	2.0	2.4	0.0	−0.1	0.0
Japan	2.8	0.8	−0.1	1.0	0.6	0.0	0.5	0.0
New Zealand	1.2	0.3	0.6	1.5	2.0	0.0	0.0	0.0
East Asia	**1.9**	**1.3**	**1.9**	**2.3**	**2.2**	**−0.1**	**0.1**	**−0.1**
China	2.0	1.4	2.0	2.4	2.3	−0.1	0.1	−0.1
Hong Kong SAR	4.4	3.0	2.6	2.6	2.7	0.1	0.0	0.0
Korea	1.3	0.7	1.0	1.8	1.9	0.0	0.0	−0.1
Taiwan Province of China	1.2	−0.3	1.4	1.4	1.3	0.3	0.3	0.0
South Asia	**5.9**	**4.9**	**5.0**	**4.9**	**5.1**	**−0.6**	**−0.4**	**−0.2**
Bangladesh	7.0	6.2	6.4	6.4	5.8	−0.4	−0.5	−0.8
India[2]	5.9	4.9	4.9	4.8	5.1	−0.6	−0.4	−0.2
Sri Lanka	3.3	0.9	3.7	5.8	5.0	−0.4	0.5	−0.1
Nepal	9.0	7.2	9.9	6.7	7.6	−0.1	−3.2	−0.4
ASEAN	**4.4**	**3.3**	**2.4**	**3.6**	**3.7**	**−0.2**	**0.1**	**0.0**
Brunei Darussalam	−0.2	−0.4	−0.7	−0.1	0.0	−0.5	−0.1	−0.1
Cambodia	3.9	1.2	3.0	3.2	3.1	−0.1	0.5	0.0
Indonesia	6.4	6.4	3.5	4.5	4.5	−0.1	0.4	0.1
Lao P.D.R.	4.1	1.3	2.0	2.3	2.7	5.3	0.0	0.0
Malaysia	3.1	2.1	2.1	2.7	2.9	0.0	−0.3	0.0
Myanmar	5.1	10.0	7.0	6.9	6.7	−2.8	−2.1	−1.0
Philippines	4.2	1.4	1.8	3.6	3.3	−0.2	0.2	−0.2
Singapore	1.0	−0.5	−0.5	1.1	1.8	−0.2	−0.1	0.0
Thailand	1.9	−0.9	0.2	1.4	1.5	−0.1	−0.3	−0.3
Vietnam	4.1	0.6	2.7	4.9	5.0	0.6	1.2	1.1
Pacific island countries and other small states[3]	**2.4**	**1.5**	**1.8**	**2.9**	**3.0**	**−0.4**	**0.2**	**−0.1**
Bhutan	9.9	6.3	4.2	4.1	4.6	−0.2	−0.5	−0.5
Fiji	0.5	1.4	3.9	4.0	3.5	0.6	1.2	0.7
Kiribati	2.1	0.6	1.9	2.2	2.5	0.4	0.2	0.0
Maldives	2.5	1.4	0.9	2.5	1.9	−1.3	−0.1	−1.6
Marshall Islands	1.1	−2.2	0.9	1.1	1.8	0.3	0.0	0.0
Micronesia	0.7	−0.2	1.3	2.6	2.4	−0.7	1.2	0.5
Palau	4.1	0.9	−1.0	2.0	2.0	−3.0	0.0	0.0
Papua New Guinea	5.2	6.0	6.9	7.5	6.5	0.0	0.0	0.0
Samoa	−1.2	1.9	0.1	1.8	1.9	−0.2	0.8	0.0
Solomon Islands	5.2	−0.6	0.4	2.5	2.6	−1.9	−1.5	0.0
Timor-Leste	0.7	0.6	−1.3	1.0	2.7	−0.7	−0.3	−1.1
Tonga	1.2	−0.3	1.4	3.7	3.4	1.3	2.2	0.7
Tuvalu	1.1	3.2	3.5	2.9	2.8	0.0	0.0	0.0
Vanuatu	0.8	2.5	2.2	2.6	2.8	0.0	0.0	0.0
Mongolia	12.9	5.9	0.5	4.0	5.1	−1.9	−2.7	−0.2

Sources: IMF, World Economic Outlook database; and IMF staff estimates and projections

[1]Emerging Asia includes China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. India's data are reported on a fiscal year basis.

[2]India's data are reported on a fiscal year basis. Its fiscal year starts from April 1 and ends on March 31.

[3]Simple average of Pacific island countries and other small states which include Bhutan, Fiji, Kiribati, Maldives, the Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

In summary, ASEAN + China and India considered emerging Asia whereby GDP growth raise up to 6-7% annually. The demographics of young population in ASEAN led by the Philippines and the CLMV countries are attractive FDI into this region. The FDI and trade are important drivers ASEAN economic growth, with its linkages to the regional GDP. Thus, ASEAN attempt to promote FDI and MNE activities via several key policy area (see more detail in Table 2.5: Progress in Emerging Asia's integration in Key

Policy Areas), FDI development and its activities in ASEAN will be discussion in the next section.

2.3 Foreign Direct Investment (FDI) in ASEAN

This section will be introducing of FDI inflows and outflows by region and major economic countries in global economic. According to World Investment Report, (2017) record that in year 2016, the regional and countries brought a huge amount of FDI in ASEAN region were European Union is the 1st with value of 566,234 Million US$, follow by USA is 2nd value of 391,104 Million US$, East Asia included Japan and China is 3rd with value of 260,033 Million US$ and ASEAN involved 10 nation members with value of 101,099 Million US$. These are the major region and country plays a significant role and economic activities in global trading.

In South-East Asia, declining flows to Indonesia, Singapore and Thailand weighed on aggregate FDI inflows, whereas low-income economies (CLMV) continued to perform well (refer to Table 2.6: ASIA Real GDP). ***FDI flows to the 10 economies in South-East Asia dropped by 20 %, to 101 Billion US$ in 2016*** (refer to ASEAN FDI inflows in Table 2.8). Singapore, one of the economies most dependent on developments in the global economy, as a hub for foreign MNEs' regional headquarters, recorded a ***13 % decline in FDI inflows to 62 Billion US$.*** Malaysia the second largest recipient in ASEAN in 2016, ***declined by 11 % to 10 Billion US$ in the face of economic uncertainties.***

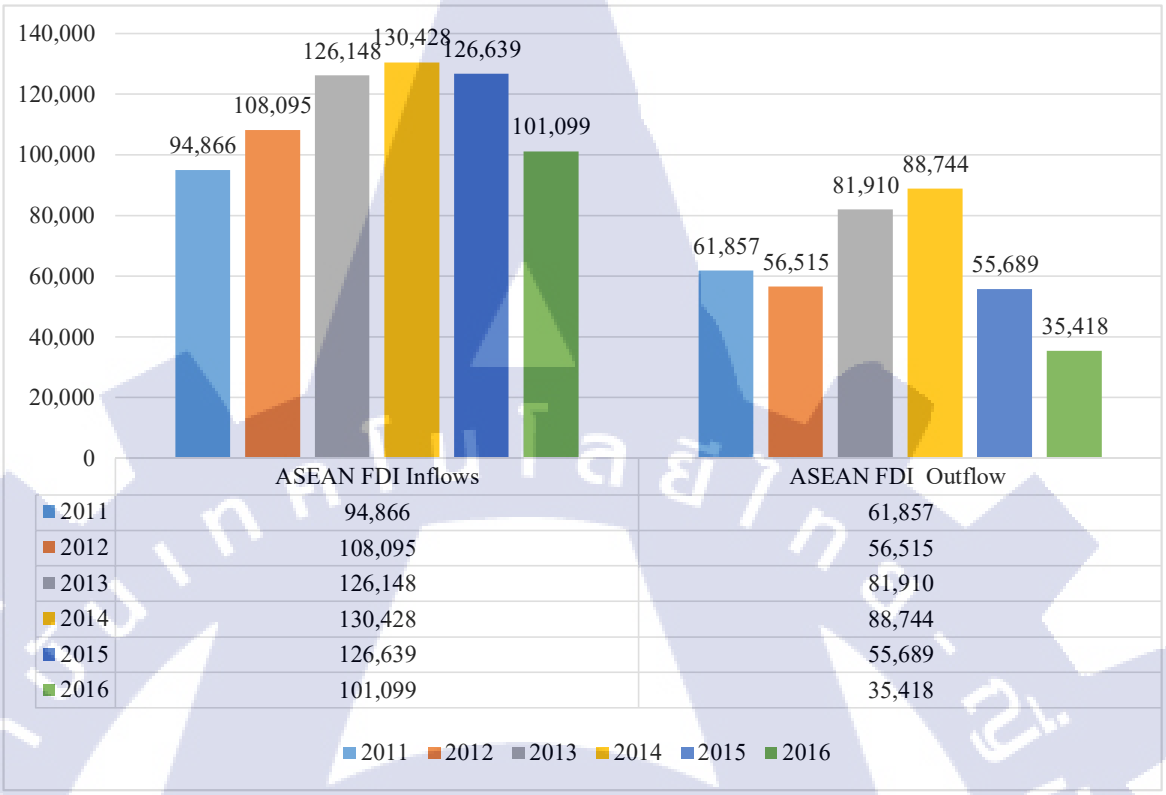
Despite an increase in cross-border M&A sales. Thailand and Indonesia also saw their FDI inflows plunge in sluggish due to cross-border M&A sales and significant divestments by foreign MNEs. In Indonesia, large negative equity inflows in the fourth quarter dragged total FDI inflows to 3 Billion US$. In contrast FDI flows to the Philippines the third largest recipient in the sub region increased by more than 60 % to a new high of 8 Billion US$ in 2016 (see more detail in Table 2.8: FDI Inflows and Outflows, by Region and Major Economic Countries).

FDI inflows to Myanmar, a major LDC in the region, decreased to 2.2 Billion US$ in 2016. Telecommunication became the largest industry absorbing FDI, accounting about 47% of inflows in the fiscal year 2016/2017, followed by manufacturing, hotel and construction. Recent foreign investment projects in the manufacturing sector targeted labor-intensive industries such as garments, footwear and electronic assembly inflows to Vietnam rose by 7 % to a new record of 13 Billion US$. That country is becoming a major electronics manufacturing center in the region, attracting projects from other developing economies, including the Republic of Korea and ASEAN members such as Singapore and Malaysia. MNEs from these countries are benefiting from trade liberalization, low production costs, a relatively stable regulatory environment and tax incentives (World Investment Report, 2017).

Table 2.8: FDI Inflows and Outflows, by Region and Major Economic Countries

Country/ Region	FDI Inflows (Value in Million US$)						FDI Outflows (Value in Million US$)					
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
European Union (EU28)	435,139	491,644	336,811	256,613	483,839	566,234	493,461	406,575	340,011	204,344	535,957	470,351
United Kingdom (UK)	42,200	55,446	51,676	44,821	33,003	253,826	95,587	20,700	40,484	-148,303	-82,138	-12,614
USA	229,862	199,034	201,393	171,601	348,402	391,104	396,569	318,196	303,432	292,283	303,177	299,033
ASEAN	94,866	108,095	126,148	130,428	126,639	101,099	61,857	56,515	81,910	88,744	55,689	35,418
Brunei Darussalam	691	865	776	568	173	-150	166[a]	1,070[b]	218[b]	-456[b]	58[b]	-60[b]
Cambodia	1,373	1,835	1,872	1,720	1,701	1,916	29	36	46	43	47	121
Indonesia	19,241	19,138	18,817	21,811	16,641	**2,658**	7,713	5,422	6,647	7,077	5,937	-12,463
Lao PDR	301	294	427	721	1,119	890[B]	0.4[b]	0.1[b]	1[b]	2[b]	2[b]	2[b]
Malaysia	12,198	9,239	12,115	10,877	11,121	9,926	15,249	17,143	14,107	16,369	9,899	5,601
Myanmar	1,118	497	584	946	2,824	2,190	-	-	-	-	-	-
Philippines	1,852	2,449	2,430	5,740	4,937	7,912	339	1,692	3,647[b]	6,754[b]	5,540[b]	3,698[b]
Singapore	49,156[b]	56,236[b]	64,685[b]	73,987[b]	70,579[b]	61,579[b]	31,371	19,443[b]	43,576[b]	52,217[b]	31,405[b]	23,888[b]
Thailand	1,370	9,135	15,493	4,809	5,700	**1,554**	6,072	10,497	11,679	5,575	1,687	13,229
Vietnam	7,519	8,368	8,900	9,200	11,800	12,600	950	1,200	1,956	1,150	1,100	1,388
East Asia	223,789	212,357	221,275	257,487	317,796	260,033	213,680	215,517	232,976	288,750	237,176	291,243
Japan	-1,758	1,732	2,304	10,612	-2,250	11,388	107,599	122,549	135,749	129,038	128,654	145,242
China	123,985	121,080	123,911	128,500	135,610	133,700	74,654	87,804	107,844	123,120	127,560	183,100
Republic of Korea	9773[b]	9,496[b]	12,767[b]	9,274[b]	4,104[b]	10,827[b]	29,705[b]	30,632[b]	28,360[b]	28,039[b]	23,760[b]	27,274[b]
Australia	58,908	59,552	56,303	40,328	19,477	48,190	1,716	7,891	1,441	306	-1,672	6,012
India	36,190	24,196	28,199	34,582	44,064	44,486	12,456	8,486	1,679	11,783	7,572	5,120
Canada	39,669	43,111	69,397	59,062	41,512	33,721	52,148	55,864	57,381	60,466	67,037	66,403
New Zealand	4,238	3,659	1,862	2,529	-337	2,292	2,688	-433	530	471	90	-44
Pakistan	1,162	859	1,333	1,867	1,289	2,006	35	82	212	122	25	52

Source: World Investment Report, (2017)



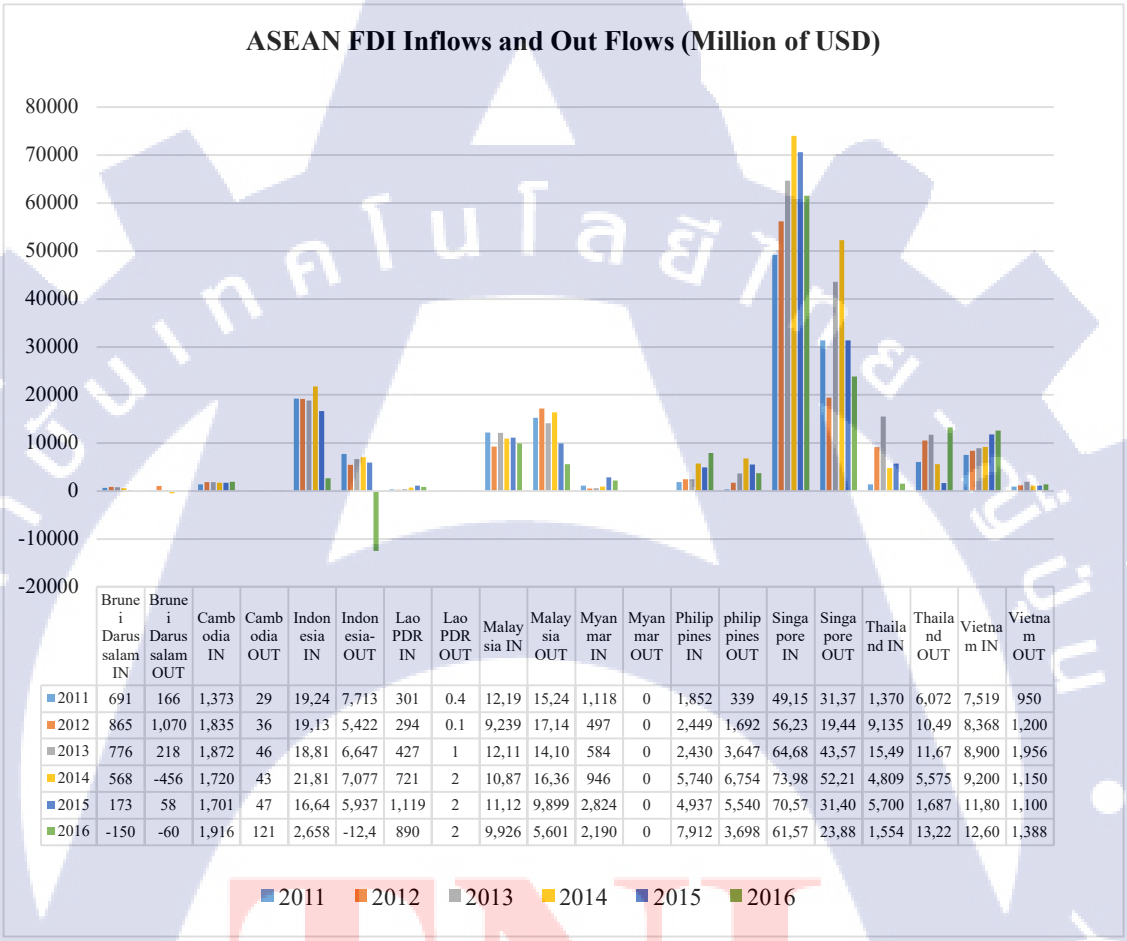
	ASEAN FDI Inflows	ASEAN FDI Outflow
2011	94,866	61,857
2012	108,095	56,515
2013	126,148	81,910
2014	130,428	88,744
2015	126,639	55,689
2016	101,099	35,418

Figure 2.9: ASEAN FDI Inflows and Outflows (Value in Million US$)
Source: World Investment Report, (2017)

Indonesia and Singapore dragged down outflows investment from South-East Asia. FDI outflows from the sub-region dropped by 36% to 35 Billion US$. Outflows from Singapore, the leading outward investing economy in ASEAN, fell by 24 % to 24 Billion US$ as the regional investment hub was affected by uncertainty in the global economy. FDI flows from Indonesia turned negative at -12 Billion US$, owing to equity divestments (see more detail in Figure 2.10: ASEAN Members Nation FDI Inflows and Outflows and Table 2.8: FDI Inflows and Outflows, by Region and Major Economic Countries).

FDI outflows from Malaysia, traditionally another major investor in South-East Asia, fell sharply by 43% to 6 Billion US$. The country has a strong position in outward investment in the primary sector, particularly in oil and gas; the oil price decline that started in 2014 has led to a continued fall in its outward FDI, now at its lowest level in a

decade. ***Thailand, in contrast, diverged from the general decline, with outflows surging by nearly seven times to a historical high of US$ 13 Billion, driven by sizeable Greenfield investments in neighboring countries.*** This is the positive effect gain from AEC integration.



	Brunei Darussalam IN	Brunei Darussalam OUT	Cambodia IN	Cambodia OUT	Indonesia IN	Indonesia- OUT	Lao PDR IN	Lao PDR OUT	Malaysia IN	Malaysia OUT	Myanmar IN	Myanmar OUT	Philippines IN	philippines OUT	Singapore IN	Singapore OUT	Thailand IN	Thailand OUT	Vietnam IN	Vietnam OUT
2011	691	166	1,373	29	19,24	7,713	301	0.4	12,19	15,24	1,118	0	1,852	339	49,15	31,37	1,370	6,072	7,519	950
2012	865	1,070	1,835	36	19,13	5,422	294	0.1	9,239	17,14	497	0	2,449	1,692	56,23	19,44	9,135	10,49	8,368	1,200
2013	776	218	1,872	46	18,81	6,647	427	1	12,11	14,10	584	0	2,430	3,647	64,68	43,57	15,49	11,67	8,900	1,956
2014	568	-456	1,720	43	21,81	7,077	721	2	10,87	16,36	946	0	5,740	6,754	73,98	52,21	4,809	5,575	9,200	1,150
2015	173	58	1,701	47	16,64	5,937	1,119	2	11,12	9,899	2,824	0	4,937	5,540	70,57	31,40	5,700	1,687	11,80	1,100
2016	-150	-60	1,916	121	2,658	-12,4	890	2	9,926	5,601	2,190	0	7,912	3,698	61,57	23,88	1,554	13,22	12,60	1,388

Figure 2.10: ASEAN Members Nation FDI Inflows and Outflows (Value in Million US$)
Source: World Investment Report, (2017)

2.4 The Theories of Trade behind Foreign Direct Investment (FDI)

This sector will be presenting the important theories behind the motive of FDI in global business. These theories have been recognized as the root theories of global business. The review will be start in two sections *'how foreign firms compete aboard?'*

and *'why do foreign firm exist?'* With all these structure enable to explain the trend of Japanese FDI and the motive of Japanese FDI in ASEAN region.

2.4.1 The First Approach: How Foreign Firms Compete Abroad?

Foreign Direct Investment (FDI) is recognized as a factors driven host country economic growth and prosperities in ASEAN region (Wadeecharoen, Worapongpat, Lertnaisat, Lertpiromsuk, & Teekasap, 2015; Wang, 2009). This is because FDI can contribute to national income and escape even circumvent the poverty trap. This study will be analysis and critical determinant of FDI theories and how do MNEs or IJVs complete abroad.

2.4.1.1 International Capital Movement Theory

The first proposed model to explained the motived of FDI was introduce by Heckscher–Ohlin, (1933) called *"H–O model"*, the model is referred to a general equilibrium mathematical model of international trade, developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics. It builds on David Ricardo's theory of comparative advantage by predicting patterns of commerce and production based on the factor endowments of a trading region. The model essentially says that countries will export products that use their abundant and cheap factors of production and import products that use the countries' scarce factor (Blaug, 1992). Within this framework, Macdougall, (1996) and Kemp, (1964) point out that differential interest rate of capital between countries lead to the flow of portfolio and direct investment from capital abundant country to capital poor country. It's implies that of the parent firms (developed countries) leading to a subsidiary or investing in a subsidiary (developing countries). The theory is based on the basic assumption that the investors maximize the rate of return by the differences in inter-country interest rates. The different rate exists because the different in capital labor ratio. Thus, an equilibrium of international trade explain the motive of FDI behind the economic, thus, theory consider FDI exclusively as a form of international capital movement.

According to Macdougall, (1996) and Kemp, (1964) state that FDI was motive by higher profitability in foreign markets to enjoying growth, lower labour costs and exchange risks. While the theory seem to explain well with the general fact that the gap of factor endowment between countries can allow capital rich country to invest in capital poor country. However when such capital flows across national boundaries into foreign lands, markets and cultures, the special case becomes a different subject. The source firm must contend with different in distance, time, markets, cultures, languages, personnel, currency, and governments, and other obstacles, which all favor the local competitors under normal circumstances. FDI theory, then must explain why firms can and do, go against this tide of market elements to conduct business in foreign markets and nations. The theory does not address these issues.

2.4.1.2 Industrial Organization Theory

Hymer, (1960) was one of the pioneers who developed the FDI theory approach of industrial organization. In his doctoral dissertation, Hymer, (1976) distinguish the difference between portfolio investment and direct investment in following; the portfolio investment refers to investment with no control over the operating entity, whereas direct investment infers that control also accompanies the investment. Portfolio theory at the time hypothesized that international investment took place because portfolio investments were attracted to countries with higher interest rates (assuming risk was held equal).

Hymer noted that in the early part of the 20th century the pattern of international investment did not conform to the expectations of portfolio investment theory. He suggests that direct investment took place for other reasons than interest rate differentials. Investors use direct investment for the purpose of gaining control of the enterprise for two reasons: (1) to ensure the safety of the investment and (2) because the investor (or investing firm) has some types of advantages that it wishes to exploit to foreign markets.

As Hymer explained, *'If the markets are imperfect, that is, if there is horizontals or bilateral monopoly or oligopoly, some form of collusion will be profitable'*. One from

of collusion is to have the various enterprises owned and controlled by one firm. This is imperfect and the investor has some types of advantage over the competing firms in the host country, then it is logical for the investor to exploit the advantage and invest in the foreign country. Thus, the essence of Hymer's theory is that firm operating aboard (parent firms) have to compete with domestic firms (local firms) that are in an advantages position in terms of local culture, language, legal system, distribution channel and local consumer's preference.

In term of monopolistic advantage Kindleberger, (1969) follow by Hymer, (1976) argue that foreign firms must possess some advantages that would allow a direct investment to earn enough return to competing with firms in the host country. According to Hymer, *'technological superiority'* is the most important advantage as it facilitates the introduction of new products with new features. Additionally, the possession of firm's knowledge specific, patent-protected and brand name helps in developing other skills such as marketing and improved production process. The significant feature of the theory is enable to transmitted of firm's specific advantages (patent-protected superior technology) from one firms division to another firm division effectively , irrespective of the fact that they are either located in one country or in more than one country (Caves, 1971).

Due to imperfect market, firms seeking the opportunities of their market power to reap good profits by investing abroad. For instance, European firms was possessed the technological advantage that had led them to invested in the United States (Graham & Krugman, 1989). Similarly, when firms willingness to increase profits by taking advantage of technological superiority or superior organizational structure, they are preferred to enter to host country by using mode of direct investment (Sodersten, 1970).

However, firms that possessing specific advantages did not necessarily mean investment abroad as they might very well exploit their advantages through exporting or licensing modes (Robock & Simmond, 1983). Despite, there are several number of factors influence the choice of entry modes between FDI and licensing/exports, these are

such as local government policy, local market conditions and size, the reaction of rival firms and the riskiness of investment. FDI allows firm to exploit its advantages to the full, so it can capture all the rents provided by that control. In fact, it may cause to the lack of direct control, this would be increase the likelihood of technology leaking to competitors (Sodersten & Reed, 1994).

Despite, Hymer's theory does not complete an explanation for FDI because it fails to explain where and when FDI takes place. This has been attempted by Vernon's (1966) PLC theory, the eclectic approach by Dunning (1977; 1979; 1988) and the internalization theory by Buckley and Casson, (1976).

2.4.1.3 Product Life Cycle (PLC) Theory

The product life cycle (PLC) is an economic theory that was developed by Raymond Vernon in response to the failure of the Heckscher-Ohlin model to explain the observed pattern of international trade. The essence of the theory suggests that all product parts and labor are associated with product's life-cycle generated from inventor country. After adopted product in global markets, production gradually moves away from origin country. An example in new product stage, the product is produced and consumed in U.S., then no export trade occurs. In the maturing product stage, mass-production techniques are developed and foreign demand (in developed countries) expands; the US now exports the product to other developed countries. In the standardized product stage, production moves to developing countries, which then export the product to developed countries. In some situations, the product such as personal computer was imported by its original country of invention such as United States (Charles, 2007).

Vernon, (1996) uses a micro-economic concept, *'the product life cycle',* to explain a macro-economic phenomenon. The rapid growth and worldwide spread of the foreign activities of US-based MNCs in the first two decades following World War II. Vernon's *product life cycle theory* can be called an extension of the industrial organization approach of foreign direct investment, based upon product differential with

a time lag. The focus will be more on the FDI aspects of the model. The model rests on four assumptions, which are well explained, by Buckley, (1985): (1) Product undergoes predictable changes in production from the innovating country to the developing countries. (2) Information available on technology is restricted. (3) Production process change over time and economies of scale are prevalent. (4) Testes differ according to income, thus, products can be standardized at various income levels.

The Vernon's model demonstrate *'the product life cycle theory'* into four stages such as following;

Stage 1: Introduction; the stimulus to develop new products is provided by the needs and opportunities of the market. The market where the firm is best aware of these needs and opportunities is the one closest at hand, the home market. New products are the result of research and development activities by the firm. This requires that production and sales take place in the home country. At this stage, firms profit are low and there are only a few competitors in the market. As more product unites were sold out, it automatically enters into the next growth stage.

Stage 2: Growth; in this stage, consumer demand of the product increases with sales volume. As a result, production costs decrease and profits are high. The product becomes widely known and competitors enter to the market with their own version of product. Thus, to attract consumers as more as possible, the company will decided to developed the original product and increases promotional spending. When many potential new customers have bought the product, it enters the next maturing stage automatically.

Stage 3: Maturity; in the maturity of product life cycle stage, the product is commonly known and own by global customers. At this maturity stage phase of the product life cycle, product demand level off and sales volume continue at a slower rate. There are several competitors in this stage, the original supplier may reduce prices to maintain market share and support sales. At this stage the profit margins decrease while

the business remains attractive due to costs rather low as compare to sale volume. As firm will take activities such as for production development and promotion, are also lower.

For instance, in the case of the newly invented product, this rise in foreign demand (assisted by economies of scale) leads to a trade pattern whereby the United States exports the product to other high-income countries. Other developments also occur in the maturing product stage. Once the American firm is selling to other high-income countries, it may begin to assess the possibilities of producing abroad in addition to producing in the United States. With a plant in France, for example, not only France but other European countries can be supplied from the French facility rather than from the U.S. plant. Thus, an initial export surge by the United States is followed by a fall in U.S. exports and a likely fall in U.S. production of goods. As of this phenomenal, it automatically enters into the next decline stage.

Stage 4: Decline; this stage occurs when the product peaks in the maturity stage and then begins a downward slide in sales. This eventually, revenues drop to the point, investment is minimized, where it is no longer economically feasible to continue making the product. Thus, the product can simply be discontinued, or it can be sold to another company. As of this stage, the production process may shift to the developing countries. This is because parent firms have fewer needs in term of specialized labour and innovative technology, and the firms (developed countries) are busy introducing other new innovative products. Therefore, in the maturity and decline stages, production is shifted to developing countries whereby product are less innovative and generating pressure to reduce production cost (Hill, 2007). As the results, trade pattern have changed that the United States and other developed countries have now started importing the product from the developing countries.

Thus, there are some shortcomings concerning Vernon, (1997; 1971) in explaining the FDI. First, it cannot explain certain type of FDI such as non-standardized products or special designed products for overseas market. Second, some firms are capable of developing, marketing and standardizing products almost simultaneously

differentiating the product to suit a variety of demand without significantly time lag. Third, the theory tends to treat the four development stages independently, but in fact they are interdependent. Therefore, the Vernon's theory is not a dynamic one trying to explain the motive of FDI.

2.4.1.4 Eclectic paradigm (OLI) Theory

Dunning was one of the pioneers who developed the most robust and comprehensive theories of FDI. Dunning, (1971) identifies market imperfections as being the reason for companies (or countries) to invest abroad. He suggests three primary reasons to explain why a firm opens a foreign subsidiary, these are such as (1) to exploit market potential, (2) to secure material for manufacturing and (3) to exploit a comparative advantage that they possess (Dunning, 1977; 1979).

Location theory is the important determinant to address of who are the produces in what goods or services in which locations in global market (Feinberg & Keane, 2001). Several researchers attempting to understand the factors that influence locations of MNC subsidiaries via location theory, these enumerated factors such as host country policies, economic fundamentals, firm strategy and agglomeration economies.

Based on the fundamental above, Dunning (1993) put forward his theory, which came to be known as the *'eclectic paradigm or OLI paradigm'*. Dunning suggested that a firm would engage in FDI when the three conditions were fulfilled:

(i) The firm have *ownership* advantages vis-à-vis other firms **(O)**;
(ii) There are some location advantages in using a firm's ownership advantages in a foreign *location* **(L)**;
(iii) The firm gain the beneficial from *internalize* rather than the advantages to use of market transfer to foreign firms **(I)**

Dinning suggest the feature of eclectic theory in that all three types of conditions must be satisfied before FDI occurs. The ownership advantage must be enjoyed over

domestic and foreign competitors. They can be in the form of both tangible and intangible assets, these include patents, technical Knowledge, management skills, access to control over raw materials, superior technology, brand name and host country scale of economies. These ownership advantages lead to reductions in a firm's production costs, competitiveness and allow firm to compete aboard. The countries location advantages play a significant role in determining which country will play host to the activities of multinational corporations. These location advantages can be in the form of access to protected markets, favorable tax treatments, lower production, lower risk, cheap inputs for production, transportation costs, political, legal and cultural environment etc.

As discussion above, a firm try to avoiding market uncertainty and a problems of subsidiary control in foreign market. Thus, the internalization gains make it more profitable to carry out transactions within the firm than to depend on external markets.

The main contribution by Dunning's eclectic paradigm to the existing in literature of FDI was to combine several complementary theories, and identify a set of factors that influence the activities of MNCs. He specified that the OLI factors play a significant role to determining FDI and MNCs activities to be existed in global market. These factors must be supportive with each other and linked with FDI activities. For instant, the firm having ownership advantage, where there are internationalization gains but no locational advantage. This firm is very likely to increase its production at home and export its products abroad. Similarity, a firm having ownership and locational advantages will find it more profitable to produce abroad rather than produce domestically and export its products abroad. However, if there are no internalization gains then the firm will be better using of licensing its ownership advantage to foreign firms.

Despite, the main criticisms of the OLI eclectic paradigm is that it includes several linked factors that firms may loses some of them in their operational practicality. Dunning have accepted this criticisms fact and argue that it was an inevitable consequence of trying to incorporate the different motivations behind FDI to integrate all them become a single theory.

2.4.2 The Second Approach: Why Do Foreign Firm Exist?

2.4.2.1 Internalization Theory

Since the industrial organization approach is an attempt to answer how foreign firm complete abroad, it does not address the more fundamental question why foreign firm exist? The majority of the works in this field has centered upon the notion of internalization. Its basic hypothesis is that multinational hierarchies represent an alternative mechanism for arranging value-added activities across national boundaries to that of the market, and that firms are likely to engage in FDI whenever they perceive that the net benefits of their joint ownership between domestic and foreign activities, and the transactions arising from them, are likely to exceed those offered by external trading relationships.

Coase, (1973) is the first pioneer to show that a domestic corporation could bypass the regular market and use internal prices to overcome the excessive transactions costs of an outside market. Hamada, (1974) proposes various economics of scale (the reasons to internalize) that multinational companies could realize in such following;

(i) An information network all over the world.

(ii) Ability to set up distribution and/or production facilities behind the tariff walls of host countries.

(iii) Ability to make full use of patent systems and the granting of franchises in order to restrict exports from the host country to competitive markets.

(iv) Economics of scale in advertising, sales, and after-sales service

(v) Increase in the value of brand names in different markets

(vi) Ability to utilize incentives and concessions in taxation in both source and host countries.

(vii) Transfer pricing and tax havens.

(viii) Economies of scale in fund raising.

(ix) Foreign exchange operations and speculation in the foreign exchange markets.

(x) Ability to exert political influence in both source and host countries.

Williamson, (1975) proposes his view of internalization theory that due to the transaction costs, which must be born as a result of conducting business in imperfect markets, it is more efficient (less expensive) for firm to use FDI or internal structure rather than market intermediaries to serve a foreign market. He suggests the reasons for these market imperfections arise from two environmental conditions: uncertainty and a small number of market agents. When these conditions existed with two sets of human factors, opportunism and bounded rationality, he argues that the costs of writing, executing and enforcing arms-length complex contingent claims contracts with market intermediaries are greater than costs of internalization the market. In other words, a firm facing a complex, unpredictable business environment and having few potential channel member to utilize would be more profitable performing the distribution function itself if: (1) there is a strong likelihood market agents would try to take advantage of the firm's lack of complete knowledge; and (2) the firm is unable to specify all possible future transaction contingencies.

Buckley, (1979) applies the internalization concept and its advantage in explaining FDI motive behavior. FDI will be motivated if the cost of resource allocation with internalization is less than the cost of international transaction through the market mechanism. In other words, the existing of FDI is the consequences of market imperfection. Moreover, the internalization of markets across nation boundaries will depend on location-specific factor. When host country location-specific advantages are not available, a firm will internalize the market within the national boundary and exploit its advantages on exporting. On the other hand, when host country location specific advantages are present, internalization of the market will take place across national boundaries as the result of motivate FDI.

Buckley and Casson's theory is based on three postulates: (1) firms maximize profit in a world of imperfect markets. (2) When firms in intermediate markets are imperfect, they have an incentive to bypass such markets by creating internal markets.

This involves bringing under common ownership and control the activities linked by the market. (3) Internalization of markets across national boundaries generates MNCs. They are specify four groups that are relevant to the internalization decision are as following:

(i) Industry-specific factors relating to the nature of the product and the structure of the external market.

(ii) Region-specific factors relating to the geographic and social characteristics of regions linked by the market.

(iii) Nation-specific factors relating to the political and fiscal relations between the nations concerned.

(iv) Firm-specific factors that reflect the ability of the management to organize an internal market.

The internalization theory views the MNCs as a special case of the multi-plant firm. The further extension of the work of Hymer, Kindleberger and Dunning; they emphasis on the industry-specific factors. They suggested excellent reasons for internalizing markets such as intermediate products and market knowledge (Buckley & Casson, 1976).

Furthermore, Buckley and Casson, (1976) identify types of market imperfections that could provide significant benefits to internalization in five aspects such as below;

(i) When the interdependent activities linked by the market involve significant time lags but the futures markets required for their coordination are missing.

(ii) When efficient exploitation of market power over an intermediate product requires discriminatory pricing of a kind not feasible in an external market.

(iii) When a bilateral concentration of market power leads to an indeterminate or unstable bargaining power.

(iv) When there is inequality between buyer and seller with respect to knowledge of the nature or value of the product.

(v) When there is government intervention such as ad valorem tariffs or restrictions on capital movements.

Buckley and Casson make the logical assumption that companies have an incentive to internalize markets as long as the marginal benefits outweigh the marginal costs. Then the MNCs are created as firms internalize markets across national boundaries. Furthermore, they suggest that the previous theories could be show to possess certain methodological shortcomings. They mention the short comings are such as: (1) the previous theories prejudge some of the crucial issues such as the decision to internalization a market. (2) They are often vague about the assumptions on which their analysis is based, in particular the objective of firms and the competitive constraints to which they are subject and, (3) they fail to distinguish between short-run and long-run analysis.

Buckley, (1985) note, *'the thrust of the concept on internalization is that the actions of firms can replace the market or alternatively can augment it'.* They listed the several advantages of internalization in such following:

(i) To increased ability to control and plan production flows of crucial inputs.

(ii) Exploitation of market power by discriminatory pricing.

(iii) Avoidance of bilateral market power.

(iv) Avoidance of uncertainties in the transfer of knowledge between parties.

(v) Avoidance of potential government intervention.

Rugman, (1979) analyzes the role of the MNCs as a vehicle for international diversification. He extends the internationalization theory to include not only direct investment but also international diversification. MNCs use internalization of knowledge as a means to create internal markets to bypass imperfections in the capital markets. Rugman also suggests that the internalization theory synthesized the works of the preeminent writers and their individual theories. These scholars are such as Vernon, (1966); Kindleberger, (1969); Caves, (1971); Aliber, (1970); Johnson, (1970); Magee,

(1977:b); Kojima, (1978); they are surveys the literature on the MNC and focuses on the concept of internalization.

Thus, according to Rugman's theory states that the *'internalization theory is at the core theory of the MNCs'*. He also concludes that the internalization theory is perfectly consistent with the transaction cost theory (Rugman 1981; Dunning, 1981) and the eclectic theory (Dunning, 1978; 1981).

2.4.2.2 Internationalization Theory

Internationalization is the process of internalization by which firms increase their awareness of the influence of international activities on their future establish and conduct transactions with firms from other countries. Business decisions made in one country, regarding such things as foreign investments and partnership arrangements, can have significant impact on a firm in different country-and vice versa.

The impact of such decisions may not be immediately and directly evident. The development of an awareness and appreciation for the role of foreign competition becomes an integral-and sometime overlook-part of the internationalization process. Most countries lament that too few of their companies participate in foreign trade. This keeps the country from earning sufficient foreign exchange to pay for need imports. Many government sponsor aggressive export-promotion programs to get their companies export. These programs require a deep understanding of how companies become internationalization.

According to Stan, (1981) and Igal, (1982) state that most of the firms work with an independent agent and enter a nearby or similar country. A company then engages further agents to enter additional countries. Later, its establishes an export department to manage its agent relationships. Still later, the company replaces its agents with its own sales subsidiaries in its larger export markets. This increases the company's investment and risk but also its earning potential. To manage these subsidiaries, the company replaces the export department with an international department. If certain markets

continue to be large and stable, or if the host country insists on local production, the company takes the next step of locating production facilities in those markets, representing a still larger commitment and still lager potential earnings. By this time, the company is operating as a multinational company and engaged in optimizing sourcing, financing, manufacturing, and marketing

Kindleberger, (1969) given the term of internationalization usually refer as *'attitude of the firm toward foreign activity or actual carrying out of activity abroad'.* On the other hand, there is close relationship between attitudes and actual behavior. The attitudes are the basic on the decisions to undertake international ventures and the experiences from the international activity influence these attitudes. In the case of descriptions we have to concentrate on those aspects of the internationalization that is the international activities. However, these attitudes as interesting and important discussion on internationalization process is basically an account of the interaction between attitudes and actual behavior.

Vernon, (1996) study on the basic assumption reline on two enquiries such as '*is that the firm first develops in the domestic market, and is that the internationalization is the consequence of the series of incremental decisions'.* He also assumes that the most important obstacles to internationalization are lack of knowledge and resources. These obstacles are reduced through incremental decision making and learning about the foreign market and operations. The perceived risk of market investments decreases and the continued internationalization is stimulated by increased need to control sales and the increased exposed to offers the demand and extend the operations.

According to Johanson and Wiedersheim-Paul, (1971), attempt to explain *'why firms start exporting, they assume that, because of lack of knowledge about foreign countries and a propensity to avoid uncertainty'*. Thus, firms starts exporting to neighbor countries or countries that are comparatively well-know and similar with regard to business practices etc. Similarly, Vahlne, (1974) also believe that the firm starts selling

aboard via independent representatives, as this means a smaller resources commitment than the establishment of sales subsidiary.

In summary, internationalization process emerge because of companies can't simply stay domestic and expect to maintain their markets. Despite there are many challenges in the international arena (shifting borders, unstable governments, foreign-exchange problems, corruption, and technological pirating). Thus, companies selling in global industries need to selected the most affective internationalize mode to fit with their company operations abroad. In deciding to go abroad, a company needs to define its international marketing objective and policies. The company must determine whether to market in a few countries or many countries. Then it must decide on which types of countries to consider. In general, the candidate countries should be rated on three criteria: marketing attractiveness, risk, and competitive advantage.

Once a company decides on a particular country, it must determine the best mode of entry. Its broad choices are indirect exporting, direct exporting, licensing, direct investment and joint venture. Each succeeding strategy involves mode commitment, risk, control, and profit potential. Companies generally begin with indirect exporting then process through later stages as they gain more experience in the international arena.

According to Franklin, (1979) concludes that the first stage of outward-looking a firm might progress in internationalization such as following;

(i) Indirect exporting-perhaps from unsolicited export orders;

(ii) Active exporting or licensing;

(iii) Active exporting, licensing and joint equity investment in foreign manufacture

(iv) Full-scale multinational marketing and production.

Thus, firms will elaborate the types of internationalization process according to their ownership advantage and business characteristic. As the Franklin's concept idea of outward-looking internationalization, firms can decided to test their product in global market from non-equity up to equity investment and control in the following modes below;

(1) Exporting

Exporting is the beginning stage of international expansion. The normal way to get involve in a foreign market is through exports from time to time, either on its own initiative or in response to unsolicited orders from aboard. Active exporting take place when the company makes a commitment to explain its exports to a particular market. In either case, the company produces its goods in the home country and might or might not adapt them to the foreign market.

Companies typically start with indirect export that they work through independent intermediaries to export their product. There are four types of intermediaries are as domestic-based export merchants buy the manufacturer's products and then sell them abroad. The next is domestic-based export agents seek and negotiate foreign purchase and paid a commission, in this group are trading companies. Cooperative organizations carry on export activities on behalf of several producers and partly under their administrative control. Finally, they are often used by producers of primary products such as fruits or nuts.

Indirect export has two advantages are as, firstly, it involves less investment because firm does not have to develop an export department, an overseas sales force, or a set of foreign contacts. Secondly, it involves less risk because international marketing intermediaries bring know how and services to the relationship, the seller will normally make fewer mistake. In other way, companies may decide to handle their own exports, even the investment and risk are somewhat greater, but the return of profit is potential. A company can carry on direct exporting in several ways are as follow;

Firstly, domestic-based export department or division; this might evolve a self-contained export department operating as a profit center. Secondly, overseas sales branch or subsidiary; the sales branch handles sales and distribution, this might handle warehousing and promotion as well. Thirdly, traveling exports sales representatives; home-based sales representatives are sent abroad to find business. Finally, foreign-based

distributors or agents; these distributors and agents might be given exclusive rights to present the company in that country or only limited rights.

Whether companies decide to export indirectly or directly, many companies use exporting as a way to *"test the market"* before building a plant and manufacturing product overseas. This strategy worked well for IPSCO, Inc. In the early 1980s, this Saskatchewan-based steel producer exported its steel pipe and flat steel to the United States from Canada-despite significant transportation costs. Once the company realized there was a significant U.S. demand for its products, it decided to set up shop there.

(2) Licensing/Franchising;

Licensing is a simple way to become involved in international marketing. The licensor and licenses of foreign company is for using a manufacturing process, trademark, patent, trade secret, or other item of value for a free or loyalty return. Our knowledge of international licensing is incomplete but growing. There are unresolved issues regarding the types of firms that license out; the predominate industries that are involved; the revenues generated; the extent to which they consider alternative modes; the countries they license to; whether they tend to consider it a stage in an internationalization process (or an end in itself); the costs of negotiating, administering, and policing license agreements; the frequency with which they lose proprietary advantage after licensing out; the most common terms in their license agreements; the areas in which there is most disagreement; and so forth. Despite these limitations, we do know that firms license out their technology, trademark or other proprietary advantages in order to generate additional profits. Further, we know that licensing involves Millions of dollars annually.

For the licensor, licensing is a chance to exploit its technology in markets that are too small to justify larger investments or in markets that restrict imports or FDI, or as a means of testing and developing a market. Firms are far willing to license their peripheral technologies than their core technologies: no one wants to create a future competitor.

For the licensee, there are two principal advantages of licensing. The first is that it permits the acquisition of technology more cheaply than by internal development. Second, it allows the firm to acquire a technology that, when combined with other skill already present, permits it to diversify. It is important for technology buyers to (a) develop a minimum level of technical competence, (b) know their needs, and (c) consider alternative modes such as JV (Killing, 1980)

According to Grosse, (1989) state that entry strategy has proven successful in Japan, the licensing of a Japanese firm to use the foreign firm's proprietary technology. After World War II, when the Japanese government restricted industries to local participants, this was the only way (expect for exporting) that the Japanese market could be entered. Foreign direct investment has been permitted more and more freely since the 1960s but licensing continues to offer a low-cost alternative. The study refer to the main advantage of licensing is that it allows immediate entry without the start-up costs of setting up production, distribution and so on. The main disadvantages are that earnings are limited to the licensing fee, and that the proprietary technology must give up to the licensing.

Licensing has some potential disadvantages, this is because of the licensor has less control over the licensee rather than if it had set up its own production and sale facilities. Furthermore, if the licensee is very successful, the firm has given up profits; and when the contract ends, the company might find that it has created a competitor. To avoid this situation, the licensor usually supplies some proprietary ingredients or components need in product (as Coca-Cola does). But the best strategy is for the licensor to lead in innovation so that the licensee will continue to depend on the licensor.

There are several variations on a licensing arrangement such as Hyatt and Marriott sell management contract to the foreign owners hotels for manage these businesses and received of loyalty fee in return. The management firm may even be given the option to purchase some share in the managed company within a stated period.

Another variation is contract manufacturing, in which a firm hires local manufactures to produce the product. When Sears opened department stores in Maxico and Spain, it found qualified local manufacturers to produce many of its products. Contract manufacturing has the drawback of giving the company less control over the manufacturing process and the loss of potential profits on manufacturing. However, it offers a chance to start faster, with less risk and with the opportunity form a partnership or buy out the local manufacturer later

Finally, a company can enter a foreign market through franchising, which is a more complete form of licensing. The franchiser offers a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchiser. McDonald's, KFC, and Avis have entered scores of countries by franchising their retail concepts.

According to Green, (1993) Franchising is basically a licensing system by which the owner (the licensor) of product or service licenses another (the licensee) to market his product or service within a defined territory following the guidelines established by the licensor.

The centralization of franchising networks study by Josef, (2004), his study based on the property right approach, residual decision rights in franchising networks must be allocated according to the distribution of intangible knowledge assets between the franchiser and franchisee. His analysis follows from his hypothesis: the more important the franchiser's system-specific assets for the generation of residual surplus, the more residual decision right are assigned to the franchiser, and the higher is the degree of centralization network. This property right hypothesis is testes in the Austrian franchise sector. The result of the study suggest that the franchiser's intangible system-specific know-how and brand name assets have stronger influence on the allocation of residual decision rights in the franchising then the franchisee's intangible local market assets.

Franchising is a variation of licensing, such licenses is an entire business system as well as other property rights to an independent company or person (the franchisee). The franchisee organizes its business under the franchiser's trade name and runs its as per the rules and procedures laid down by the franchiser receives fees, royalties, and other payments (Rajib & Sanyal, 2001).

Despite the term of franchising and licensing are differ; such franchising contracts are much longer in duration. While licensing is typically used by manufacturing firms, franchising is employed by service organization such as 7-Eleven convenience stores, Hilton hotels, McDodald's hamburger restaurants and Avis car rental agencies usually expand via franchising. Unlike licensing, the franchisee is bound to operate its business as per the guidelines set by the franchiser which is one reason why McDonald's restaurants appear similar the world over. As with licensing, franchising agreements usually require payment of a fee upfront and then percentage of revenues.

The advantage through franchising study by Steven, (2003), he said that franchising has been argued to be a technique for entrepreneurs in service industries to assemble resources in order to rapidly create large chains and gain fast mover advantage. Despite, how such first mover advantage that created the subject of his study. Using theories from strategic management and marketing, it is argued that the first mover advantage initially takes the form of a lead in the number of retail outlets then followed up by a market share lead and, finally, superior profitability.

(3) Contract Assembly

There are two types of contract assembly are such (a) subcontracting and (b) venture capital which will be examine in the following below;

a) Subcontracting: the complexity of the current economic situation, characterized by the internationalization of markets and by the increasing integration, both horizontal and vertical, of the relationship between firms, has served to modify

radically the way in which production is organized and in which manufacturing firms relate to the market. Competition forces all firms to concentrate their investments and their energies on their '*core capabilities'* and to buy what they do not produce from external sources.

Consequence, the *'subcontracting'* is a widespread practice in modern production management. Subcontracting can be done in either such firm does not have or don't want to have the technology to manufacture the sub-product with sufficient efficiency or capability. In other hand, the firm can manufacture the product but doesn't have or don't want to have all the production capability needed to make all the volume needed reason. For example, one company given order to foreign company to produce some part of their products such order's company determines the product's detail and company's standard, this production called Original Equipment Manufacturing (OEM). Consequently, the channel distribution is under the responsibility of the order's company.

Subcontracting can take different forms depending on the production volumes of complex products that could make a specific subcontractor entirely responsible for the manufacturing and timely delivery to the assembly line of a specific sub-product or component. Often this develops into a co-maker relationship where design can part of the subcontracted work (co-design). Much work has been published on this type of industrial relationship.

Sammet and Kelley, (1980) state that in high volume manufacturing, subcontracting is made typically in term of yearly agreement between subcontracting firm and its subcontractors. It deals with specific items to be produced and delivered, rang of volumes, prices and call-off procedures, and delivery condition. When such firms use subcontracting for capacity reasons, they could realize volume flexibility by marketing flexible delivery agreement with one or more subcontractors. The idea is that each subcontractor will produce similar items for many subcontracting firms and, thus, realize economy of scale and pool risks and uncertainty.

According to Bertrand and Sridharan (2001), they were study a low volume component manufacturing operation facing order arrival rate greater than service rate, thus necessitating subcontracting of some of the orders, for the case where order lead times are exogenous and highly variable. The major objective of the firm is to maximize capacity utilization and minimize tardiness (so as to minimize cost and maximize delivery reliability). Limiting the focus to operational decisions four heuristic decision rules with varying informational need and complexity to determine and which orders should be subcontracted.

Yan, (1999) examines a simple principal-agent framework of subcontracting relations in Korean automotive industry. The primary objective is to understand how technological capabilities of small component suppliers affect the nature of contracts and in turn, are affected by buyer-supplier relationship. Kinds of contracts or subcontracting relations are categorized on the basis of the degree of risk sharing. The risk sharing parameter is estimated and the determinants of risk sharing such as supplier's attitude toward risk, cost variability and technological capability are explored.

According to González-Díaz, Arruñada, and Fernández, (2000), they examines factors explaining subcontracting decisions in the construction industry rather than the more common cross-sectional analyses. They also use panel to evaluate the influence to estimate the extent of hold-up problems. Results show that as specificity economic grows, firms tend to subcontract less. Since, the beneficial of this strategy mode is avoiding uncertainty and risky in the foreign market, whenever the market isn't large enough to invest (economics of scale), then the firms takes long time to get return of investment or the company can't achieve of profit margin point. As of this study reason, we can see the market size (economics of scale) has influence on the company entry mode decision.

b). Venture Capital; in the venture capital industry matures competition increases, understanding the processes by which entrepreneurs select venture capitalists will become increasingly important. Empirical work suggests that awareness of venture

capital firms is still low and that the specialist financial and legal advisers have an important role to play in guiding the flow of proposals to venture capitalists. The start-up of new firms, or the renewal of old ones, is often related to substantial financial commitment. Venture capital is often referred to as an increasingly important form of financial investment, and the amount of venture-capital backed firms is growing in most parts of the world.

Venture capital typically accept, i.e. agree to finance, around 5 % of all investment proposals they receive (Bannock, 1991; Dixon 1991; Roberts 1991). The growth in competition between alternative providers of venture finance in the mature markets of the USA and UK. Bygrave and Timmons (1992) and Murray (1995) suggest that the strategic importance to the venture capital firm to ensuring a regular stream of attractive and fundable enterprises. The critical issue of their study is not the volume of perspective candidates for equity investment which the venture capitalist sees, but the equity of the proposed projects, including the competences of the management term.

According to Ang, (1991) and Bruton, Fried & Hisrich, (1997), a venture capitalist is here defined as a firm that provides capital and takes on a temporary ownership engagement in another firm. Venture capital backed firms we therefore regard as companies with any ownership control by venture capitalists, regardless of the size of their stake. From their study, a venture capital-backed family firm is any firm that meets the requirements of the family firm definition above, and that has less than 50 % of ownership controlled by a venture capitalist. This means that a firm with more than 50 % ownership by venture capitalists ceases to be considered as a family firm since in this case the venture capitalist is able to control decision making more or less independently of other owners.

(4) Foreign Direct Investment

The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities. The foreign company can buy part or full interest in

a local company or build its own facilities. If the foreign market appears large enough, foreign production facilities offer distinct advantages. First the firm secures cost economies in the form of cheaper labor or law materials, foreign government investment incentives, and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm develops a deeper relationship with government, customers, local supplies, and distributors, enabling it to adapt its products better to the local environment. Fourth, the firm retains (Full control over its investment and therefore can develop manufacturing and marketing policies that serve it long-term international objectives. Fifth, the firm assures itself access to the market in case the host country starts insisting that local purchased goods have domestic content. Here is how one firm use local relationships to advantage in its overseas plants.

The main disadvantage of direct investment is that the firm exposes a large investment to risk such as blocked or devalued currencies, worsening markets, or expropriation. The firm will find it expensive to reduce or close down its operations because the host country might require substantial severance pay to the employees.

Although the transaction cost reasoning has provided the international approach with a powerful logic in explaining foreign direct investment, it is still deficit in some aspects as a general theory of FDI. The major limitation as argued by Knickerbocker, (1985) is that the theory focused mainly on one mode of hierarchy or organization. This therefore provides a firm with one solution to the problem of imperfect international market that is the establishment of wholly-owned subsidiaries. What is seen in the real phenomena is that joint ventures, not wholly-owned subsidiaries are dominant ownership pattern of MNCs in developing countries.

Based on the discussion above, Teece, (1980) tries to justify the utilization of IJV within the framework of internalization theory by pointing that two necessary conditions must exist. First, the firm must possess a rent-yielding asset, which will allow it to be

competitive in foreign market. Second, the IJV arrangements are superior to other means for appropriating the rents from the sale of this asset in the foreign market.

Beamish, (1988) argues that the attractiveness of IJV is a function of both the revenue enhancing and cost reducing opportunity for foreign firm because the local partner can provide location-specific knowledge regarding the local market. Moreover, even though the startup cost of wholly owned subsidiaries might be substantially lower, the long term average costs might be higher than the joint venture due to the very significant cost associated with independent effects to overcome a lack of knowledge about the local economy, politics and culture. As a result, *'IJV might be the outcome of host country local equity requirement as well as the preferred strategic choice of multinational firm particularly in the context of minimizing the risk of international operation in certain host countries'.*

Hennart, (1988) suggested that the cost minimization was as important reason for FDI (or MNCs) motivation, his study using transaction cost theory to examine the motives of IJVs. He explains cost minimization in the following areas is a reasonable cause for IJVs: raw materials and components, knowledge, distribution, and loan capital. In 1990, Hennart provided a survey of the work done on the MNC and FDI and developed the transaction cost theory of the MNC. He explains the type and forms of FDI including horizontal investments (of knowledge and goodwill), vertical investments (of backward and forward integration) and the actions of freestanding firms (with no particular national alliance). Thus, he has developed the transactions cost theory to explain such occurrences as joint ventures, contracts, and other forms of investment and counter-trade. He concludes that the transactions costs approach provided a *'convincing explanation'* for the varied forms of existence of MNCs (Hennart, 1990).

In summary, under the concept of internalization theory, a firm possessing an advantage can either use the advantage itself or can sell or lease the advantage to other firms. This choice is usually explained in the context of transactions costs. There are costs involved in use of markets, internal coordination and control. The FDI decision

depends on which option presents the best net return, when the risks associated with each alternative are taken into account. The use of location advantage in the host country is required if FDI is to take place. *Thus, the cost of moving resources used in the host country must less the costs of controlling a subsidiary at a distance plus the costs of trade. Otherwise, the resources would be exported or moved to the home country, production would take place in the home country, and the foreign country market would be served by exports.*

Since, internationalization and their mode of entry concerned as the hart of Foreign Direct Investment (FDI). What is seen in the real phenomena is that International Joint Ventures (IJV) are dominant ownership patter of Multinational Companies (MNC) in developing country (Knickerbocker, 1985). In content of developing county, IJV can minimizing the risk of international operation to overcome the lack of knowledge about host country economic, culture and environment. As of this result, IJV might be the best outcome of host country requirement as well as the preferred strategy choice of multinational firm (Beamish, 1988). Thus, this chapter will linkage the relationship of FDI and motive of IJV as one of the significant internationalization strategic mode used by foreign firms to enter developing countries. The four theoretical dimension to explain the motive of IJV will be discussion in the following;

2.4.2.3 Transaction Cost

Kogut, (1988a) proposes that transaction cost is especially relevant in explaining the motivations and choice of IJVs. A transaction cost explanation for JVs involves the question of how a firm should organize its boundary activities with other firms. Under this perspective, a transaction cost must explain the choice between a JV and a long-term contract.

Williamson, (1985) proposes that firms choose how to transact according to the criterion of minimizing the sum of production and transaction costs, production costs

may differ between firms due to the scale of operations, to learning, or to proprietary knowledge. Transaction costs refer to the expenses incurred for writing and enforcing contracts, for disputing over terms and contingent claims, for deviating from optimal kinds of investments in order to increase dependence on a party or to stabilize a relationship, and for administering a transaction.

Williamson posits that the principle feature of high transaction costs between arms-length parties is small number bargaining in a situation of bilateral governance. Small number bargaining results when switching costs are high due to asset specificity; namely, the degree to which assets are specialized to support trade between only a few parties. Walker and Weber (1984) analyze the outcome of this situation and propose that a firm may choose for example, to product a component even though its production costs are higher than what outside suppliers incur. Such a decision may, however, be optimal if the expected transaction costs of relying on an outside supplier outweigh the production saving.

Kogut, (1988a) argues that because a JV straddles the broader of two firms, it differs from a contract in so far as cooperation is administered within an organizational hierarchy. It differs from a vertically integrated activity in so far as two firms claim ownership to the residual value and control rights over the use of the assets. A firm chooses to share ownership because the diseconomies of acquisition due to the costs of divesting or managing unrelated activities or the higher costs of internal development. Therefore, a necessary condition is that the production cost achieved through internal development or acquisition is significantly higher than external sourcing for at least one of the partners. If vertical or horizontal integration is not efficient, than an alternative is the market or contract. A transaction cost explanation for why market transactions are not chosen rests on potential exploitation of one party when assets are dedicated to the relationship and there is uncertainty over redress.

Hennart, (1988) also shows that the transaction cost framework developed by Williamson (1975; 1985) can provide a unifying paradigm which accounts for the

common element among *'scale and link'* JVs. According to Hennart, *'scale'* JVs are created when two or more firms enter together a contiguous stage of production or distribution or a new market. The main characteristic of these venture is that they result from similar moves by all the parents; forward or backward vertical integration, horizontal expansion, or diversification. The partners are pursuing strategies of backward vertical integration. In *'link'* JVs, on the other hand, the position of the partners is not symmetrical. The JV may, for example, constitute a vertical investment for one of the parties, and diversification for the other.

Hennart suggest that both scale and link JVs have two main characteristics. First the relationship between the parent(s) and the JV is equity, or hierarchical one. This equity link suggests that hierarchical coordination has been found preferable to coordination through spot markets or contracts. Thus, JV represents a particular type of internationalization. Second, hierarchical control over the firm is shared with other firms. This is in contrast to an exclusive link as in a wholly owned subsidiary.

Hennart distinguishes between scale and link IJVs. Scale JVs allow firms to reconcile the need to bridge a failing market with the presence of large differences in minimum efficient scale (MES) across successive stages. She uses the aluminum industry as the example where the MES of bauxite mining and refining is much higher than that for smelting and fabricating, a bauxite mining firm establishing a wholly owned, captive alumina refinery of efficient size would face the problem of disposing of the bulk of the alumina produced, since its needs are likely to be only a fraction of the output. Because the market for alumina is very narrow selling the output on the spot market of through contracts would cause difficult marketing problems. The alternative of setting up a captive downstream network of sufficient size to absorb all of the alumina would involve a tremendous investment. The solution lies in a JV with other vertically integrated aluminum companies. Each member of the JV will take a share of the output. This allows the bauxite firm to build an efficiently sized refinery while solving the problem of disposing of the alumina (Stuck 1983).

Link JVs are created to remedy the simultaneous failure of at least two markets. Assume that efficient production requires the combination of two types of knowledge held by firms A and B. If A's know-how is marketable, but B's is not, A will license B. If B's knowledge is marketable, but A's is not. B will license A. if both types of know-how are difficult to sell, A and B will form a JV. Hennart uses the JV of Dow and BASF as the example. Dow-Badische is a JV of Dow Chemical and BASF, a German chemical company. BASF set up the venture to exploit its proprietary technology in the U.S. market, while for Dow, which took responsibility for marketing the JV's output, the JV is a way to fill in its product line. Absent failure in the market for production know-how, BASF would have licensed Dow. If the market for country-specific knowledge and distribution service was competitive, BASF would have contracted with Dow to obtain those services. A JV is chosen because both of those markets are experiencing high transaction costs.

Hennart concludes that scale IVs arise when parents seek to internalize a failing market, but indivisibilities due to scale or scope economies make full ownership of the relevant assets inefficient. Link JVs result from the simultaneous failing of the markets for the services of two or more assets whenever these assets are firm-specific public goods, and acquisition of the firm owning them would entail significant management costs. JVs will thus represent a first-best strategy in a limited number of specific circumstances.

Stuckey, (1983) examines 64 JVs among the six major firms. He finds that of 15 possible linkages, eight occur that each major has at least one JV with another and five have at least two. He also finds a high number of JVs with new entrants and other industry members. Moreover, which he notes that many of JVs resulted in more efficiency through achieving optimal scale economics, the ventures between the majors occur in bauxite and alumina production, the stage where coordination on expansion is

most vital. Hence he concludes that transaction cost explanations appear more relevant to aluminum production.

Kogut, (1988a) claims that joint ownership (and control) rights and the mutual commitment of resources are two properties which are particularly distinctive between JV and a contract. Under the transaction cost framework, the situational characteristics best suited for a joint venture are higher uncertainty over specifying and monitoring performance in addition to a high degree of asset specificity. It is uncertainty over performance which plays a fundamental role in encouraging a JV over a contract.

In summary, a transaction cost perspective of JV choice implies that the critical dimension of a JV is its resolution of high levels of uncertainly over the behavior of the contracting parties. When the assets of one or both parties are specialized to the transaction and the hazards of joint cooperation are outweighed by the higher production or acquisition costs of 100 % ownership.

2.4.2.4 Strategic Behavior

An alternative explanation for the use of JVs steam from theories on how strategic influences the competitive positioning of the firm. The motivations to JV for strategic reasons are numerous. Through transaction cost and strategic behavior theories share several commonalties, they differ fundamentally in the objectives attributed to firms.

Transaction cost theory posits that firms transact by the mode which minimizes the sum of production and transaction costs. Strategic behavior posits that firms transact by the mode which maximizes profits through improving a firm's competitive position vis-à-vis rival. A common confusion is treating the two theories as substitutes rather than as complementary (Kogut 1988a).

In fact, given a strategy to JV, for instance, transaction cost theory is helpful in analyzing problems in bilateral bargaining. But the decision itself to JV may come from profit motivations and, in fact, may represent a more costly, through more profitable,

alternative to other choices. The primary difference is that transaction costs address the costs specific to a particular economic exchange, independent of the product market strategy. Strategic behavior addresses how competitive positioning influences the asset value of the firm.

Kogut (1988a) argues that every model of imperfect competition which explains vertical integration is applicable to JVs, from tying downstream distributors to depriving competitors of raw materials and to stabilizing oligopolistic competition (i.e. transaction cost explanation). Absolutely, not every motive for collusive behavior is contrary to public welfare. Where there are strong network externalities, such as in technological compatibility of communication services, joint research and development of standards can result in lower prices and improved quality in the final market. Research JVs which avoid costly duplication among firms but still maintain downstream competition can similarly be show to be welfare-improving.

On the other hand, many JVs are motivated by strategic behavior to deter entry or erode competitions. Vickers (1985) analyzes JVs in research as a way to deter entry through preemptive patenting. In oligopolistic industries it might be optimal for the industry if one of the firms invested in patentable research in order to hinder entry. He shows that, for small innovations, a JV is an effective mechanism to ensure the entry-deterring investment. For large innovations it is in the interest of each firm to pursue its own research, for the expected payoff justifies the costs. More generally, Vernon (1983) sees JVs as a form of defensive investment by which firms hedge against strategies uncertainty, especially in industries of moderate concentration where collusion is difficult to achieve despite the benefits of coordinating the interdependence among firms.

Previous industry studies have discovered some support that JVs are a form of strategic behavior to increase market power. Fushfeld, (1958) discovers 70 JVs in the iron and steel industry, 53 of which are supply agreements among firms within the industry. More prominently, he discovers that the JVs created two industrial groups, in addition to U.S. Steel. Berg, (1977) examine for the impact of JVs firm rates of return in

the chemical industry with a rich data set. Controlling for other variables they discover that firms which have engaged in one or more JVs earned lower rates of return. Based on this discovery they argue that, since most JVs in this industry involve some form of technological exchange, upstream ventures do not increase the market power of the participants. On the other hand, Berg and Friedman (1978) admit that failing firms engage in JVs in order to stabilize competition.

Pate, (1969) investigated 520 domestic JVs during 1960-1968 and found that over 50 % of the parents fit in to the same digit SIC level and *80 % were either horizontally or vertically related.* Similar results are found by Boyle, (1968) for 276 domestic ventures and by Mead, (1976) who, after examining 885 bids for oil and gas leases, finds only 16 instances where the JV partners compete on another tract in the same sale. Thus, the Pate, Boyle, and Mead studies all conclude that JVs are motivated by market power objectives.

Pfeffer, (1976a) examine more directly the motivation of market power by testing transaction patterns across industries and the degree of industries concentration. Out of 166 JVs, 55 % are between parents from the same industry. They detect that parents from industries which have high exchange of sales and purchase transactions, and which are technology-intensive, are inclined to have more JVs. They also observe that JVs occur more frequently when the two parents are from the same industry of intermediate concentration. Since it is beneficial, through difficult, to collude in industries of intermediate concentration, they conclude that JVs are used to reduce uncertainly when oligopolistic rivalry is difficult to stabilize.

Duncan, (1982) divides his sample as to whether the parents are from the same three digit SIC industry and to whether the JV and the parents from the same industry. He detects that, at the three-digit level, ventures with parents from different industries are more prevalent (73 % of the sample). He discovers that non horizontal pairings between parents and the venture are negatively to industry rates of returns. However, he observes

support for higher industry rates of return when there is a horizontal relationship between the parents, suggesting that market power objectives may be the objective for these cases.

In summary, a strategic behavior perspective of JV choice suggests a JV can be examined as device for maximizing profits through improving a firm's competitive position vis-à-vis rivals.

2.4.2.5 Organization Knowledge and Learning

Kogut, (1988a) argues that transaction cost and strategic motivation explanations provide compelling economic reasons for JVs. There are other explanations outside of economic rationality. Organization knowledge and learning motivation explanation views IJV as a means by which firms learn or seek to retain their capabilities.

In this view, firms consist of knowledge base, or what McKelvey, (1983) calls *'comps'*, which are not easily diffused across the boundaries of the firm. IJVs are, then, a vehicle by which, to use the often-quoted expression of *'tacit knowledge'* is transferred, (Polanyi, 1967). Other forms of transfer, such as through licensing, are ruled out-not because of market failure or high transaction costs as defined by Williamson and others, but rather because the very knowledge being transferred is organizationally embeded.

Kogut identifies this perspective with a transaction cost argument, even though the explanatory factors are organization and cognitive rather than derivatives of opportunism under uncertainty and asset specificity. An example of this confusion is the explanation for IJVs, commonly adopted as a form of transaction cost theory, that the transfer of know-how in the market place is severely impeded by the hazards which attend pricing of information without revealing its contents. Because knowledge can be transferred at zero marginal cost the market fails as sellers are unwilling to reveal their technology and buyers are unwilling to purchase in the absence of inspection.

In this perspective, a JV is motivated if neither party owns each's technology or underlying *'comps'* nor understands each other's routines. On the contrary, Nelson,

(1982) state that firm may choose to JV in order to retain the capability (or what they call '*remember-by-doing'*) of organizing, a particular activity while benefiting the superior production techniques of a partner. Even if a supply agreement were to operate at lower production and transaction costs, a firm may select a more costly JV in order to maintain the option, although at a cost to exploit the capability in the future. What drives the choice of JVs in this situation is the difference in the value of options to exploit future opportunities across market, contractual, and organizational modes of transacting.

Berg, (1981) investigate more explicitly the relationship between industry rates of industry returns, JV incidence and potential market power. Their sample contains over 300 ventures (most at the three-digit level) and is divided into JVs which are and not formed for knowledge-acquisition. Controlling for other variables, and correcting for auto correlation in the data, they detect that *'industry rates of return are negatively related to knowledge-acquisition JVs and positively related to non-knowledge acquisition ventures'.*

They reach a conclusion on this basis that knowledge-acquisition ventures do not enhance the market power of the firm, for the benefits of market coordination would be immediate whereas the payoff to R&D is long-term. No control is built for structural variables, such as concentration, to test for other market power effects. Their results are also consistent that JVs are likely to be preferred to transfer organizational knowledge as opposed to achieving market power.

In summary, an organizational knowledge and learning perspective of JV choice indicates that a JV is encouraged under two conditions; one or both firms desire to acquire the other's organizational know-how; or one firm wises to maintain an organizational capability while benefiting from another firm's current knowledge or cost advantage.

2.4.2.6 Resources Dependence

Transaction cost and strategies motivation explanations furnish imperious economic reasons for JV. Organizational knowledge and learning motivation explanation

views JV as a means by which firms learn or seek to retain capabilities. As alternative explanation for the use of JVs stems from resource dependence perspective.

Resource dependence motivation views JV as a means by which firms acquire resources in order to survive in their environments. This perspective builds on the original open systems model of resource procurement but adds an exchange perspective that suggests organizations enter partnerships when they perceive critical strategic interdependence with other organizations in their environment (Levine 1961; Aiken 1968; Pfeffer 1976:b), in which one organization has resources or capabilities beneficial to but not possessed by the other.

According to Pfeffer and Salancik (1976a; 1978), organizations survive to the extent that are effective. The effectiveness of an organization is its ability to create acceptable outcomes and actions. It reflects both an assessment of the usefulness of what is being done and of the resources that are being consumed by the organization. Their effectiveness derives from the management of demands, particularly the demand of interest groups upon which the organizations depend for resources and support. The key to organization survival is the ability to acquire and maintain resources. This problem would be simplified if organizations were in complete control of all the components necessary for their operation. However, no organization is completely self-contained. Organizations are embedded in an environment comprised of other organizations. They depend on those other organizations for the many resources they themselves require. Organizations are linked to environments by federations, associations, customer-supplier relationships, competitive relations, and a social-legal apparatus defining and controlling the nature and limits of these relationships. Organization must transact with other elements in their environment to acquire needed resources. The constraint on behavior result from situations of asymmetric interdependence when there exists the discretion to control resources and enforce demands. The organization will tend to be influenced more the greater the dependent on the external organization, or alternatively the more important the external organization is to the functioning and survival of the organization.

The most direct method for controlling dependence is to control the source of the dependence. Social coordination of interdependent actors is possible as a means for managing mutual interdependence. Pfeffer and Salancik (1976a; 1978) argue that the development of coordination among organizations derives from the same requirements for controlling interdependence. When situations of exchange and competition are uncertain and problematic, organization attempt to establish linkages elements in their environment and use these linkages to access resources, to stabilize outcomes, and to avert environmental control. According to them, linkages to other organizations provide four primary benefits to organizations in their activity of managing environmental interdependence. First, a linkage to another organization provides information about the activities of that organization which may impinge on or affect the focal organization. Second, a linkage provides a channel for communicating information to another organization on which the focal organization depends. Third, a linkage and the exposure it provides is an important first step in obtaining commitments of support from important elements of the environment. The fourth result of inter-organizational linkage is that is has a certain value for legitimating the focal organization.

If communication among organization is a necessary ingredient for achieving coordinated behavior, then JVs which facilitate information exchange are likely to arise in the organization field. Pfeffer and Salancik (1976a; 1978) argue that JVs are mechanisms for achieving coordination among organizations through a sharing of information and resource commitments. JVs are another form of inter-organization relationships. If the principle problem organizations face is interdependent, then JVs are undertaken to reduce uncertainty and promote stability in the environment. IJV are likely to evolve between organizations for which the cooperative exchange is mutually reinforcing. Organizations will interlock around JVs which coordinate otherwise interdependence and are, therefore, primarily exchanges which reduce uncertainty about resource transactions.

In summary, a resources dependence of JV choice indicates that a JV can be analyzed as mechanisms for achieving inter-firm coordination and can predicted by

considerations of resources interdependence, competitive uncertainty, and conditions that make various forms of interdependence more or less problematic.

2.5 The Summary of Literature Review

This chapter review the literature behind the motive of Foreign Direct Investment (FDI) in ASEAN regional and Thailand country in particular. The literature reline on two approaches are as *'how a firms compete abroad?',* and *'why do foreign firm exist?'* The first approach was explain by international capital theory, industrial organization theory, product life cycle theory and eclectic paradigm theory. The second approach was explain by internationalization theory and its process to explain how foreign firm choose the mode of internationalization and decide to exist in particular country. These are support by the four theoretical perspectives of transaction cost, strategic behavior, organizational knowledge and learning, and resource dependence provide distinct overlapping explanations for JV behavior. Transaction cost analyzes JV as an efficient solution to the hazards of economic transactions. Strategic behavior places JV in the context of competitive rivalry and collusive agreements to enhance market power. Transfer or organizational skills view JV as a vehicle by which organizational knowledge is exchanged and imitated. Finally resource dependence concerns JV as a means by which firms control critical strategic inter-dependence with other organizations in their environments. Thus, the theory of trade are summarizing in the Table 2.9-2.12 in the following section below;

Table 2.9: Summary the Theory of International Trade (1)

Theory/Theoretical Approach	Determinants	Authors/Year
Heckscher-Ohlin Model/ MacDougall-Kemp Model	- Higher return on investment, lower labour costs, exchange risk	Heckscher & Ohlin, (1933); Hobson (1914); Jasay; (1960); MacDougall (1960), Kemp (1964); Aliber (1970)
Portfolio theory	- Portfolio refer to investment with no control over the operating entity. - Portfolio attracted to countries with higher interest rate. - FDI refer to control over the subsidiary.	Hymer, (1960; 1976)
Industrialization	- Ownership benefits (product differentiation/ technology), economies of scale, government incentives, special markets skills, retail price	Hymer, (1976); Kindleberger, (1969)
Location theory	- Product in global market - Host country policies, economic fundamentals, firm strategy	Feinberg & Keane, (2001)
Product differentiation	- Imperfect competition	Caves, (1971)
Oligopoly markets	- Following rivals, responding to competition in domestic market	Knickerbocker, (1973)
Product life cycle	- Production function characteristics - (growth, maturity and decline)	Vernon, (1966)
Behaviors theory	- Fear of loss of competitive edge, following rivals and increased competition at home	Aharoni, (1966)
Internalisation	- Market failures/ inefficiencies - Firms choose FDI when transaction costs are higher than internalization cost - Industrial specific, nature of product - Region-specific, geographic and social characteristics of regions - Nation specific such as political, fiscal - Firm specific factors such management skill	Buckley & Casson (1976)
	- To increased ability to control and plan production flows of crucial inputs. - Exploitation market power by discriminatory pricing. - Avoidance bilateral market power. - Avoidance uncertainties in the transfer of knowledge between parties. - Avoidance potential government intervention.	Buckley, (1985)
	- Global network, distribution /production facilities behind the tariff of host countries. - Ability to make full use of patent systems - Economics of scale & after-sales service. - Increase in the value of brand names in different markets - Transfer pricing and tax havens. - Economies of scale in fund raising. - The foreign exchange markets. - Political influence in both source and host countries.	Hamada, (1974)

Source: Compiled by the authors.

Table 2.10: Summary the Theory of International Trade (2)

Theory/Theoretical Approach	Determinants	Authors/Year
Internalisation	- Know-how (leads to horizontal internalisation) - Market failures (leads to vertical internalisation)	Hennart, (1982, 1991); Teece, (1981, 1985), Casson, (1987)
Internationalization	- Export department/ agent & sale office. - Control sale office subsidiaries by international department	Stan, (1981); Igal, (1982)
	- Firms attitude influence actual behavior (international venture)	Kindleberger, (1969)
	- Firms continue to internationalization when their increase exposed to offer the demand and extend to operation.	Vernon, (1996)
	- To examine *'why firms start exporting, they assume that, because of lack of knowledge about foreign countries and a propensity to avoid uncertainty'* - Firms starts exporting to neighbor countries or countries that are comparatively well-know and similar with regard to business rated on three criteria: marketing attractiveness, risk, and competitive advantage.	Johanson & Wiedersheim-Paul, (1971)
	- Indirect exporting - Active exporting, licensing and joint equity investment in foreign manufacture - Full-scale multinational marketing production	Franklin, (1979)
	- The important for technology buyers to - (a) develop a minimum level of technical competence; - (b) know their needs, and - (c) consider alternative modes such as JV	Killing, (1980)
	- The main advantage of licensing is that it allows immediate entry without the start-up costs of setting up production, distribution and so on. The main disadvantages are that earnings are limited to the licensing fee, and that the proprietary technology must give up to the licensing.	Grosse, (1989)
	- Franchising property right approach - Residual decision rights in franchising networks - Intangible knowledge assets between the franchiser and franchisee.	Green, (1993); Josef, (2003); Rajib & Sanyal, (2001)
	- Subcontracting, OEM, ODM, OBM - Subcontracting is made typically in term of yearly agreement between subcontracting firm and its subcontractors. - Subcontract minimize cost with maximize delivery reliability.	Sammet & Kelley, (1980); Bertrand & Sridharan (2001); Yan, (1999); González-Díaz, Arruñada, & Fernández, (2000)
	- Venture capital - The equity investment/ venture capitalist - The equity of the proposed projects, including the competences of the management term.	Bannock, (1991); Dixon, (1991); Roberts, (1991); Bygrave & Timmons, (1992); Murray, (1995)

Source: Compiled by the authors

Table 2.11: Summary the Theory of International Trade (3)

Theory/Theoretical Approach	Determinants	Authors/Year
Internationalization	- Foreign Direct Investment (FDI) - Wholly-owned subsidiaries - What is seen in the real phenomena is that joint ventures, not wholly-owned subsidiaries are dominant ownership pattern of MNCs in developing countries.	Knickerbocker, (1985); Teece, (1980); Beamish, (1988); Hennart, (1988)
	- Transaction cost theory - FDI horizontal investments (knowledge/goodwill) - FDI vertical investments (backward and forward integration) - Freestanding firms (no particular national alliance). - Thus, he has developed the transactions cost theory to explain such occurrences as joint ventures, contracts, and other forms of investment and counter-trade.	Hennart, (1990; 1988)
Transaction cost theory	- Transaction cost theory refer to expenses incurred for writing and enforce contract - Firm share ownership with other to achieve lower production cost via internal firm's development. - Downstream distributors to depriving competitors of raw materials (i.e. transaction cost explanation).	Kogut, (1988a) Williamson, (1985)
	- The *'scale and link'* JVs, such as forward or backward vertical integration and horizontal expansion.	Hennart, (1988)
Strategy Behavior Theory	- Firms transact by the mode which maximizes profits through improving a firm's competitive position rival. - Strong network externalities in technological compatibility of communication services. - Joint research and development can make lower prices and improved quality in the final market. - JVs try to avoid costly duplication among firms but still maintain downstream competition.	Kogut, (1988a)
	- Motive by strategic behavior to deter entry or erode competitions - JV is an effective mechanism to ensure the entry-deterring investment (small innovations). - Firms pursue its own research, for the expected payoff justifies the costs (large innovations).	Vickers, (1985)
	- JVs as a form of defensive investment which firms hedge against strategies uncertainty. - Stabilize competition.	Vernon, (1983) Berg & Friedman, (1978)
	- The 80% of IJV *were either horizontally or vertically related.* - JVs are motivated by market power objectives.	Pate, (1969); Boyle, (1968); Mead, (1976)
	- The non-horizontal paring between parent and the venture are negatively to industry rate of returns. - The horizontal relationship between the parents are positively to industry rate of returns. - Firm seeking to retain their capability.	Duncan, (1982); Kogut, (1988s)

Source: Compiled by the authors

Table 2.12: Summary the Theory of International Trade (4)

Theory/Theoretical Approach	Determinants	Authors/Year
Organization knowledge and learning	- The *comps'*, which are not easily diffused across the boundaries of the firm. - IJVs is a vehicle which often-quoted expression of *'tacit knowledge'* - Firm may choose JV in order to retain the capability (or what they call '*remember-by-doing'*)	McKelvey, (1983); Polanyi, (1967); Nelson, (1982)
	- Knowledge-acquisition ventures do not enhance the market power of the firm, for the benefits of market coordination would be payoff to R&D for long-term.	Berg, (1981)
Resource dependence Theory	- JV firms acquire resources in order to survive in their environments. - Resource procurement adds an exchange perspective that suggests organizations enter partnerships when they perceive critical strategic interdependence with other organizations in their environment	Levine, (1961); Aiken, (1968); Pfeffer, (1976:b)
	- Organization linked to environments by federations, associations, customer-supplier relationships and social-legal apparatus. - IJVs are mechanisms for firm's coordination via a sharing of information and resources commitment.	Pfeffer & Salancik (1976a; 1978),
Eclectic paradigm (OLI – Ownership, location, internalisation	- Benefit of owning productive processes, patents, technology, management skills	Dunning (1977, 1979)
	- Advantage of locating in protected markets, favorable tax systems, low production and transport costs, lower risk of copying technology, quality control	
New Theory of Trade	- Market size	Dixit & Grossman, (1982); Sanyal & Jones, (1982); Krugman,(1983); Helpman, (1984, 1985); Markusen (1984); Ethier, (1986); Horstmann & Markusen, (1987, 1992); Jones & Kierzkowski, (2005); Brainard, (1993, 1997); Eaton & Tamura, (1994); Ekholm, (1998); Markusen & Venables (1998, 2000); Zhang & Markusen (1999)
	- Transport costs	
	- Barriers to entry	
	- Factor endowments	
Institutional approach	Financial and economic incentives	Root & Ahmed, (1978); Bond & Samuelson, (1986); Black & Hoyt, (1989); Grubert & Mutti, (1991); Loree & Guisinger, (1995); Haaparanta (1996); Devereux & Griffith (1998); Haufler & Wooton, (1999); Haaland & Wooton, (1999, 2001); Mudambi, (1999); Barros & Cabral (2001); Hubert & Pain (2002), Feath, (2009)
	Corruption	
	Political variables	
	Tariffs	
	Tax rate	

Source: Compiled by the authors.

CHAPTER 3

RESEARCH METHODOLOGY

This chapter discusses the overall research design, methodology and the relational for documentary research and qualitative research techniques. The data used in this study were collected from secondary data which came from the following sources are as statistic data provided by Bank of Thailand (BOT); Board of Investment (BOI), Thailand; Asian Development Bank Institute (ADBI), Tokyo; Thailand county report and business news. Each of these data sources provided the specific types of information which enable to contributing and supporting the research objectives and research proposition of the study empirically.

3.1 Research Design

This study using multiple data sources which mainly come from quantitative and qualitative data. The theoretical content approach was used to elaborate of research questionnaire and structure-interview of the study. A documentary research and qualitative research techniques were used to analysis research preposition in this study.

The data analysis of this study is based on *'depth interview data, following by secondary data analysis and theoretical analysis approach, not statistical consideration'*. The purpose for using multiple source of data analysis is to maximize information for significant support of research objectives and confirm the research finding by using interview data analysis. Thus, the research design of the study is represents in the following diagram below;

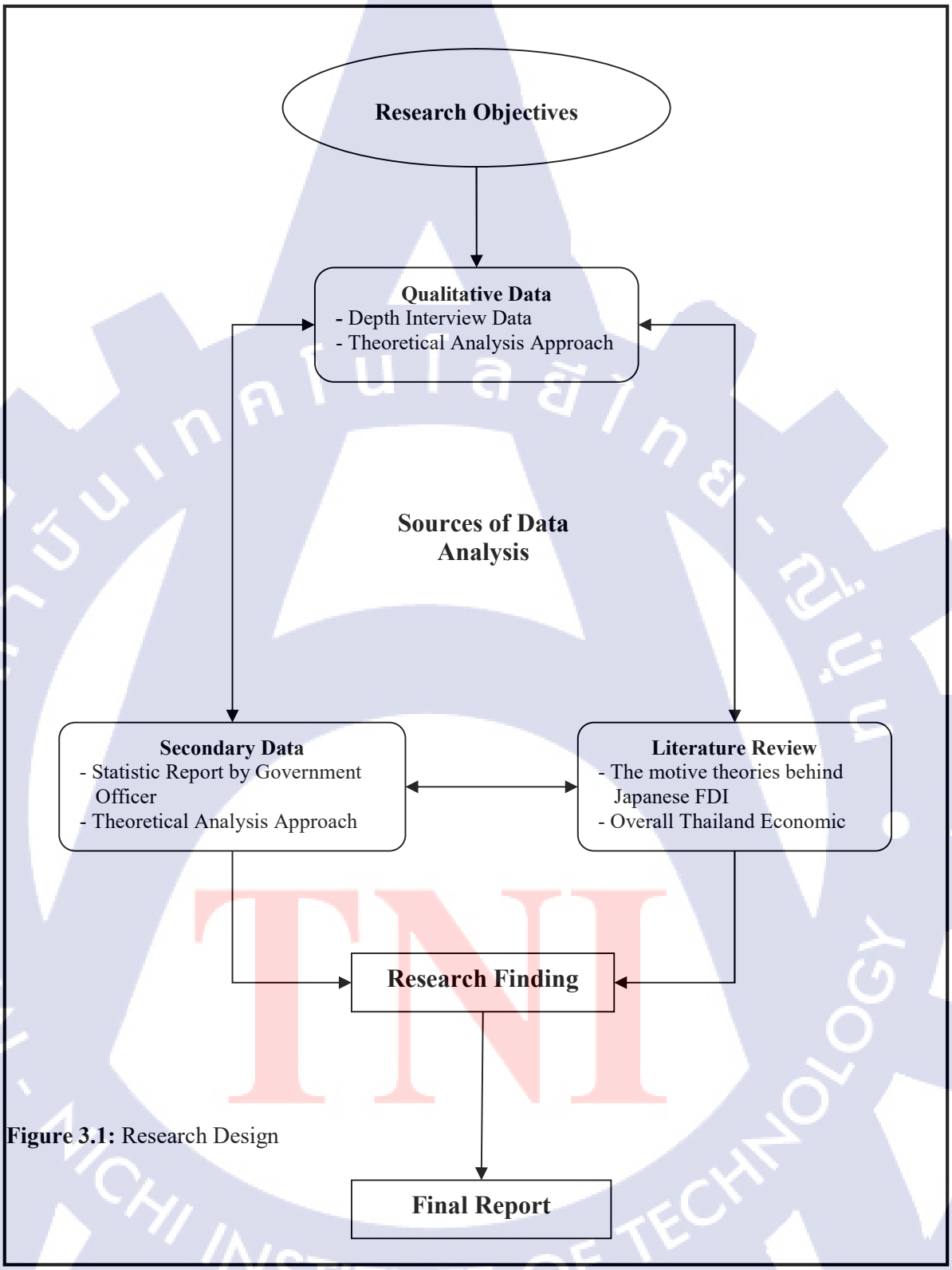
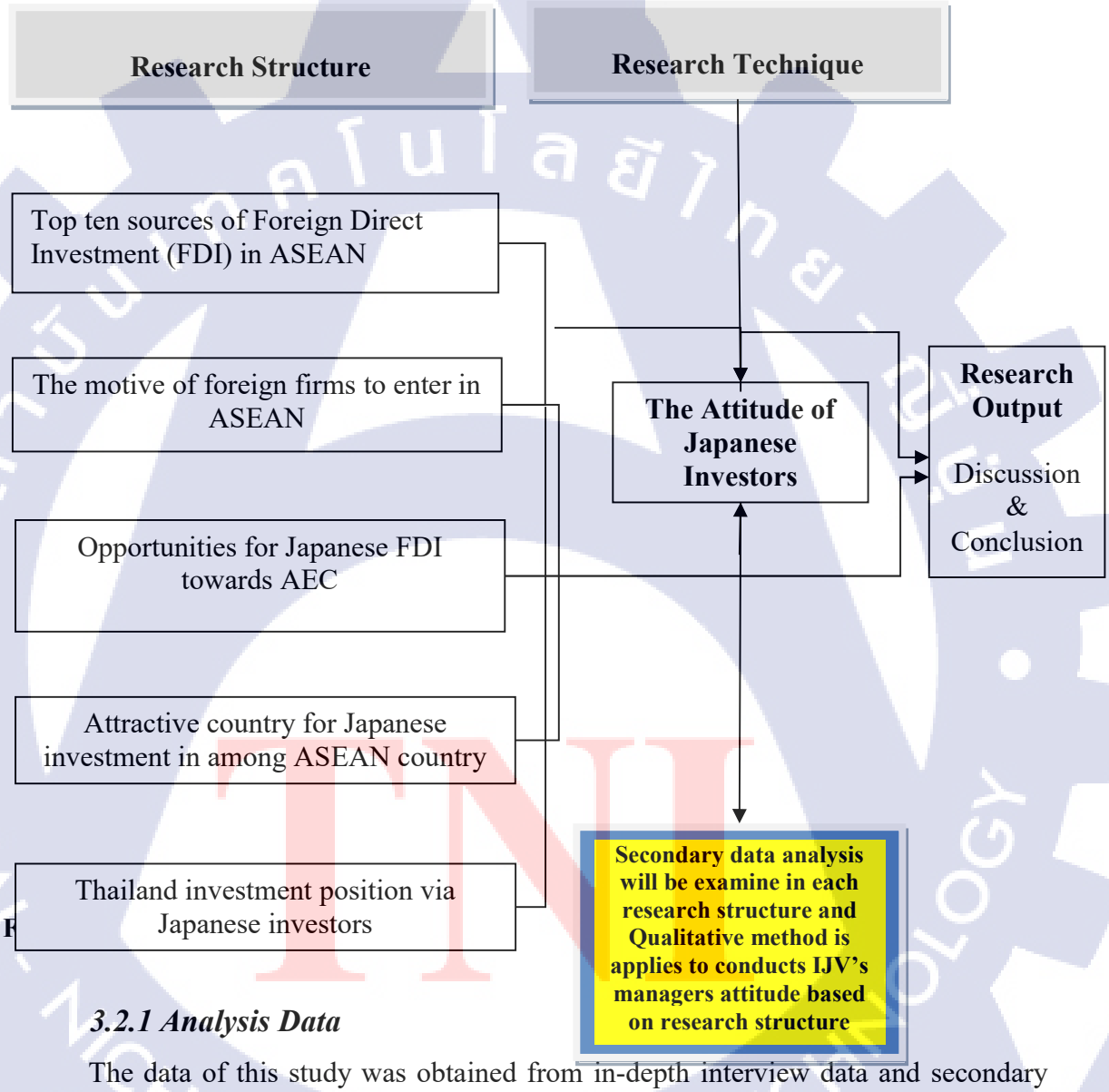


Figure 3.1: Research Design

3.2 Research Framework

The research framework of this study elaborated on documentary analysis and qualitative method conducted from government statistics offices and Japanese investor interview as exhibited in Figure 3.2 below.



3.2.1 Analysis Data

The data of this study was obtained from in-depth interview data and secondary data which came from the following sources such as belows;

1. Statistic data provided by Bank of Thailand (BOT)

2. Statistic data provided by Board of Investment (BOI), Thailand
3. Thailand Ministry of Commerce http://www.moc.go.th/
4. Asian Development Bank Institute (ADBI), Tokyo www.econstor.eu
5. Thailand county report www.eiu.com
6. Business news www.bangkokpost.com
7. The ASEAN Secretariat
8. World Economic Forum
9. Japanese Chamber of Commerce (JCC)
10. The Japan External Trade Organization (JETRO)

Once documentary analysis is conducted, personal interviews are followed up on the research objectives. The content of the interview data is back up by theoretical approach. Thus, this study is scope on the overview of Japanese investment in the form of MNEs and IJVs business strategy and the Japanese investment trend towards ASEAN countries.

3.2.2 Sampling Size

The sampling of the study is based on the president, executive vice president (EVP) and Japanese senior managers in Thailand subsidiaries across several business types. The companies name and address were listed from Thailand factory directory year book 2016-2017. In-depth interview method were make both in Japan headquarter and Thailand subsidiaries. Moreover, The Japan External Trade Organization (JETRO) and Embassy of Japan are also involved in the sample of the study. The sample of the study will be classified and summarizing in the following Table 3.1 Research Sampling Selection below;

Table 3.1: Research Sampling Selection

No.	Interviewee	Type of Business	Up stream	Manufacturing/ Production	Down stream	Location
1	General Manager, Business Strategy Development	▪ Electronic distributor ▪ Simi Conductor		✓	✓	Headquarter Tokyo, Japan
2	Vice Chairman	▪ Snack Food		✓	✓	Bangpoo

						Industrial, Samutprakarn
3	Managing Director	▪ Air condition parts ▪ Brass parts for Air conditioner	✓			Patumthani
4	General Manager	▪ Machinery &Tooling ▪ Mold Business	✓			Bangkok
5	Regional Business Affairs	▪ OEM Automotive System & Components		✓		Samutprakarn
6	Executive Vice President (EVP)	▪ Precision Molds Plastic	✓			Samutprakarn
7	Managing Director	▪ Mold Business ▪ Robotic System	✓			Bangkok
8	President	▪ Machinery and Tooling ▪ Mold Business	✓			Bangkok
9	Managing Director	▪ Logistic			✓	Bangkok
10	Managing Director	▪ Aluminum distributor ▪ Copper, Brass ▪ Stainless Steel	✓			Lad Krabang Industrial Estate, Bangkok
11	Executive Vice President Director	▪ OEM ▪ Trading Company		✓	✓	Bangkok
12	President	▪ Chemical	✓			Samutprakarn
13	General Manager Administration	▪ OEM automotive		✓	✓	Rojana Industrial Ayutthaya
14	Senior Investment Advisor	▪ JETRO, Japan Government	←	—	→	Bangkok
15	Commercial Attaché	▪ Commercial Attaché, Japan Embassy,	←	—	→	Bangkok

Source: Self Interview

3.2.3 Research Instrument

The interview structure was adapted from Coa Minh Tri, (2012), he made in-depth face to face interview with seventy five staffs from different management level at seven success international joint venture (IJVs) in Vietnam. The interview guide included a wide rank of open-end questions that will use to collecting data (see more detail in appendix A).

The study conducted the interview data from one Japanese headquarter in Tokyo, Japan. There are twelve Japanese subsidiaries in Thailand and other two organization concerned to Japanese business. JETRO and Embassy of Japan were conducted

interviewee to cover all Japanese investment and its opportunities in Thailand both in economic level and organization perspective.

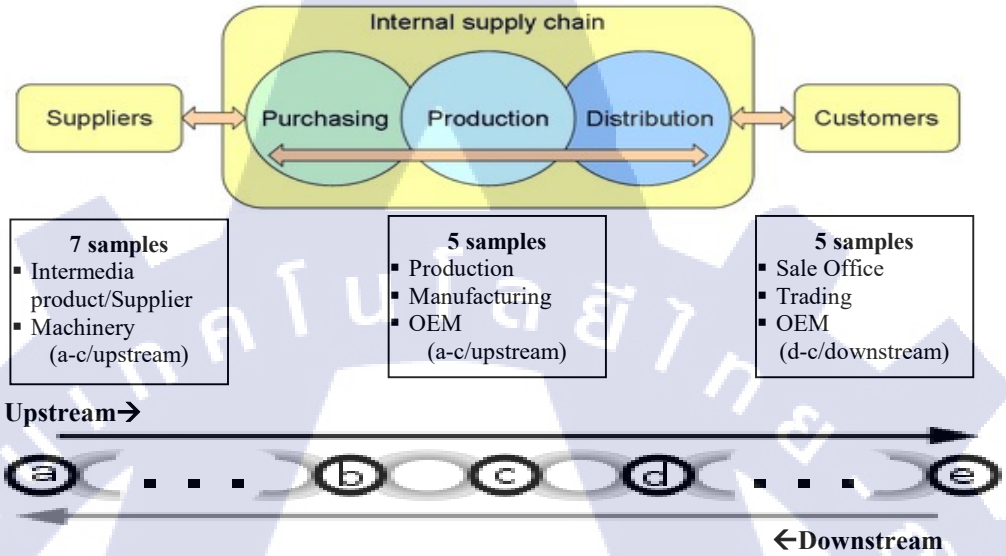


Figure 3.3: Sampling Selected based on Supply Chain System
Source: Modifined from Chen Paulraj, (2004)

The study selected specific sampling unites from five parts of supply chain are such as (1) suppliers (2) purchasing (3) production (4) distribution and (5) customers. This procedure involved raw material, component suppliers, manufacturers, retailers, wholesalers/distributors and final customer (Chen & Paulraj, 2004). Figure 3.3 shows the logistic suppliers of raw material requiring to purchasing and manufacturing production (a-c called upstream), in other direction, distributor and customer (d-e called downstream).

Thus, the principle fundamental to selecting sample of the study reline on the direction of *'upstream'* and *'downstream'* business (refer to Figure 3.3). The type of business units will be selected follow up by industrial location (refer to Table 3.2). Furthermore, JETRO and Japanese Embassy were selected to clarify the overall performance and opportunities of Japanese business in Thailand. Therefore, the sample of the study, location and type of businesses are represented in the Table 3.1: Research Sampling Selection;

Analyzing of secondary data is the most appropriate methods to examine Thailand economic position outlook towards ASEAN Economic Community (AEC) and personal interview is the most reliable methods to verify the trend of Japanese investment through the lens of Japanese investor. The *'parallel mixed analysis technique'* of secondary and interview methods was adapted in the study. The interview data was coded by using theoretical content analysis approach which represent in Table 2.9 to 2.12 which reline on research objectives (Lincoln & Guba, 1985; Taylor & Bogdan, 1984).

Hence, by utilizing of documentary research and news publishing enable the study to go through Thailand investment position and the trend of Japanese investment inflows in among ASEAN regions. Personal interview allow the study to go through actual content of Japanese motive in IJV formation, ASEAN attractive countries through the lens of Japanese investor. These objectives will be collected by personal interview from total fifteen organization both in Japan and Thailand (refers to respondent profile in Table 3.2).

3.2.4 Data Collection Processes

To be well preparing of collecting data processes, head office director, president and top manager were originally contracted by telephone to refine the purpose of the study. Directly, follow up by a cover letter to inform an information via email to each respective director, president and manager. After a week, the interview dates will be follow-up by telephone and confirm by e-mail. The estimate time for interview duration are expected about 30 to 60 minutes up on the greater information giving by the interviewee. To manage effective interview and time consumption, essential personal information such respondent's name, nationality, present position, functional department and general responsibility were received before make up an interview. Bangkok metropolis and perimeter is the target location for twelve Japanese subsidiaries in Thailand and one Japanese headquarter in Tokyo city is the target location for this research. This is because of Tokyo is the most economically dynamic metropolis in

Japan. Moreover, JETRO and Embassy of Japan are involved in the sampling of the study. Thus, the total number of interviewee are summarized in Table 3.2 below;

Table 3.2: Sampling Interviews

Date	Theme of interview	Institution	Interviewees	Type of Industry
24 Oct 2016	The Performance of Japanese Subsidiaries in ASEAN and Thailand	Shinagawa Intercity Tower C, 2-15-3, Konan Minato-Ku, Tokyo 108-6290 Japan	General Manager, Business Strategy Development	▪ Electronic distributor ▪ Simi Conductor
8 May 2017	Japanese FDI, ASEAN	Paholyothin Kong Luang Patumthani	Managing Director	▪ Air condition parts
12 May 2017	Japanese FDI, ASEAN Thailand Economic Position	JETRO Bangkok Rajadamri Rd., BKK	Senior Investment Advisor	▪ Japan External Trade Organization (JETRO)
7 Aug 2017	Japanese FDI, ASEAN	Bangpoo Industrial Estate, Samutprakarn	Vice Chairman	▪ Food Industry
11 Aug 2017	Japanese FDI, ASEAN	Pattanakarn Road, Suanluang, BKK	President	▪ Machinery and Tooling ▪ Mold Business
23 Aug 2017	Japanese FDI, ASEAN and Thailand Opportunities	Bangna-Trad Rd, KM. 27.5, Bangbo, Samutprakarn	Regional Business Affairs	▪ OEM Automotive System and Components
24 Aug 2017	Japanese FDI, ASEAN	Bangsaothong, Samutprakarn	Executive Vice President (EVP)	▪ Precision Molds Plastic
30 Aug 2017	Japanese FDI, ASEAN	Pattanakarn Road, Suanluang, BKK	Managing Director	▪ Mold Business ▪ Robotic System
12 Sep 2017	Japanese FDI, ASEAN	Chalongkring, Latkrabang, BKK	Managing Director	▪ Copper, Brass ▪ Stainless Steel
13 Sep 2017	Japanese FDI, ASEAN	Ploenchit Rd., Patumwan, BKK	Managing Director	▪ Logistic
14 Sep 2017	Japanese FDI, ASEAN	Rama 9, Rd., Suanluang, BKK	General Manager	▪ Machinery Mold Business
19 Sep 2017	Japanese FDI, ASEAN	Asoke-Dindaeng Rd., BKK	Executive Vice President Director	▪ OEM automotive
22 Sep 2017	Japanese FDI, ASEAN	Bangpoo Industrial Estate, Samutprakarn	President	▪ Chemical
25 Sep 2017	Japanese FDI, ASEAN	Rojana Industrial Ayutthaya	General Manager Administration	▪ OEM automotive
2 Oct 2017	Japanese FDI, ASEAN Thailand Economic Position	Witthayu Rd., Lumphini, Pathumwan BKK	Commercial Attaché	▪ Embassy of Japan

Source: Self Interview

CHAPTER 4

RESULT OF THE STUDY

This chapter will be representing the research sampling profile and the finding result of the study will be reline on five research objectives. In each objective was complemented in difference methodology. The secondary data, theoretical support and depth interview method will be represent based on the objectives are such as in the Table 4.1 in the following section below;

Table 4.1: The Objective and Methodology of the Study

No.	Objective Statement	Methodology	Data	Source/Reference
1	To explore top ten sources of FDI Inflows to ASEAN	▪ Qualitative	Secondary data	ASEAN Investment Report, (2016)
2	To explore the motive factors for Japanese FDI in ASEAN	▪ Naturalistic in term of their original grounding theory in the social basic science. ▪ Theory and technique associate with naturalistic. ▪ Unstructured Interview	Primary data Secondary data	Lincoln & Guba, (1985); Taylor & Bogdan, (1984); Westbrook, (1994)
3	To explore the opportunities of Japanese FDI towards AEC	▪ Qualitative ▪ Depth interview ▪ Structure Interview ▪ Unstructured Interview	Primary data	Lincoln & Guba, (1985); Taylor & Bogdan, (1984); Westbrook, (1994)
4	To explore the attractive countries for Japanese investment in among ASEAN countries.	▪ Qualitative ▪ Depth interview ▪ Structure Interview ▪ Unstructured Interview	Primary data Secondary data	Lincoln & Guba, (1985); Taylor & Bogdan, (1984); Westbrook, (1994)
5	To explore of Thailand investment position and Thailand location attractive towards Japanese investor.	▪ Analysis of secondary information ▪ Qualitative	Primary data Secondary data	Bank of Thailand (BOT) Board of Investment, Thailand, (BOI)

Source: Author's Research Design

4.1 The Research Study Sampling Profile

The sampling profile of the study are presented in the Table 4.2 in such below;

Table 4.2: Sampling Profile

Company Profile	Interview Position	Year of Work	Year of Establish	Nationality Shareholder	Business Type	Registered Capital (Mil. Baht)	No. of Employee	No. of expatriate	Productivity
H1 **Tokyo Japan**	General Manager, Business Strategy Dep.	> 10	1917	Japan 100%	Electronic distributor Simi Conductor optical instruments	65,476 million Japanese Yen	-	-	-
S1	Vice Chairman	16	1980	Japan 90% Thai 10%	▪ Manufacture and sale snack foods	18	324	2	80% domestic 20% export
S2	President	3	1995	Japan 90% Thai 10%	▪ Air condition parts ▪ Value parts	25	125	2	80% Indirect export 20% export
S3	President	>10	2004	Japan 100%	▪ Machinery and Tooling ▪ Mold Business	100	50	None	100% Import Japan
S4	Regional Business Affair	>10	2007	Japan 100%	▪ OEM ▪ Automotive Service Parts and Accessories	752	349	>6	>80% domestic >20% export
S5	Executive Vice President	>20	1996	Japan 100%	▪ Precision Molds, Plastic ▪ Injection Parts ▪ Assembly Part	212	160	>2	>80% domestic >20% export
S6	Managing Director	> 10	1985	Japan 100%	▪ Mold Business ▪ Robotic System ▪ Factory Automation	10	76	>3	100% Import Japan
S7	General Manager	3	2003	Japan 100%	▪ Machinery Mold Business	15	41	>3	100% Import Japan
S8	Managing Director		1990	Japan 90% Thai 10%	▪ Logistic	10	41	>3	80% domestic 20% export
S9	Managing Director	<10	2008	Thai 90% Japan 10%	▪ Aluminum distributor ▪ Copper, Brass ▪ Stainless Steel	80	160	Non	>80 % domestic <5 % export
S10	Executive Vice President	> 10	1957	Japan 90% Thai 10%	▪ OEM JV ▪ Trading Company	529	60	>3	50% domestic 50% export
S11	President	3	1979	Japan 49% Thai 51%	▪ Chemical ▪ Automobile assemble	28	750	>2	100% domestic
S12	General Manager	>10	1993	Japan 100%	▪ OEM Automotive	5.46/ Million Baht	2,500	>3	50% domestic 50% export
JETRO	Senior Investment Advisor	<10	1985	Japan Government	▪ Promoting Japan Outward Investment	-	-	-	-
Japan Embassy	Commercial Attaché'	>10		Japan Government	▪ Promoting Japan Outward Invest ▪ Monitoring Thai-Japan Invest. Policy	-	-	-	-

Source: Author's Research Design

*Note H = Headquarter, S = Subsidiary

4.2 Foreign Direct Investment (FDI) Inflow to ASEAN

Objective 1: *To explore top ten sources of FDI to ASEAN*

To examine this objective, this chapter divided the research finding with documentary results in two parts such as below;

4.2.1 The 10th Sources of FDI in ASEAN Regional

The Association of Southeast Asian Nation (ASEAN) is composed with 10 countries are such as Brunei Darussalam, Cambodia, Lau PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Indonesia and Vietnam. ASEAN was established in 1967 with multiple goals-accelerating economic growth, social progress and culture development in the region under the principles of the United Nations Charter (Biswa Nath, 2009). ASEAN's goal is to change this regional into a stable, prosperous and highly competitive region with equitable economic development, reduces poverty and social economic disparities (ASEAN, 2016).

The purpose of ASEAN Economic Community (AEC) blueprint 2015 aim to integrate the ten national members into a single market and production base through ***'free flow of goods, services, investment, skilled labour and free flow of capital'.*** As to enhance a competitive economic development in this region by generated ***'free trade area (FTA) comprehensive and economic partnership agreements'***. AEC attempt to create a business-friendly and innovation-support regional environment through adaption of common frameworks, standards and mutual co-operation across many areas such as in agriculture and financial service, and in competition policy, intellectual property rights and consumer protection. These are supported the improvements in transport connectivity and other infrastructure networks. AEC also attempt to achieve equitable economic development through creative initiatives that encourage small and medium enterprises (SME) to participate in this region and global value chains. Moreover, AEC focused efforts to build the capacity of newer ASEAN members (CLMV countries) to ensure their effective integration into the economic community (ASEAN Secretariat, 2015). These AEC blueprint will be fully integrate this regional into the global economy. Thus, no spectacle that ASEAN become an attractive destination through the lens of international investors.

ASEAN region is attractive due to several supporting factors are such as the population of over 630 Million people, this potential market larger than European Union and North America. ASEAN economy has combined GDP of 2.4 trillion US$ and it is the 3rd fastest growing in Asia economy after two economic Giants-that are China and India (refer to Figure 2.6: ASEAN GDP Compared to other Major Asia Pacific Economic). The fast growing economic in ASEAN region is projected to average 5-6% in 2018 and forward, this is push by Philippines and CLMV countries whereby GDP growth 6-8% annually. These issues are supported by ASEAN key policy area (refer to Table 2.5: Progress in Emerging Asia's integration in Key Policy Areas).

Exploring the statistics record by World Bank Report, (2017), the regional and countries attractive huge among of FDI were European Union is the 1st with value of 566,234 Million US$ follow by USA is the 2nd value of 391,104 Million US$, East Asia included Japan and China is the 3rd with value of 260,033 Million US$, UK is the 4th with value of 253,826 Million US$ and China is the 5th with value of 133,700 Million US$, ***Japan is the 6th with value of 11,388 Billion US$,*** following by ***Republic of Korea is 7th with value of 10,827 Billion US$***. Australia is the 8th with value of investment worthy 48,190 Million US$, India is the 9th worthy 44,486 Million US$ and the 10th is Canada with value of investment worthy 33,721 Million US$ (refer to Table 4.2: FDI Inflows by Region and Major Economic Countries). These are the major region and country plays a significant role and economic activities in global trading.

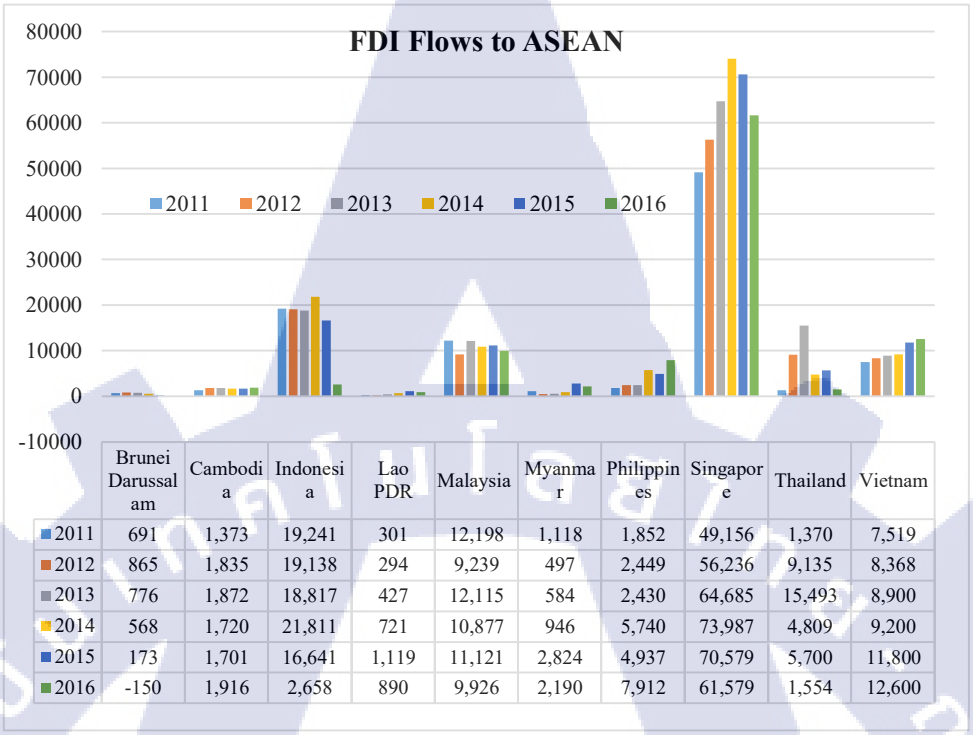
In South-East Asia, declining flows to Indonesia, Singapore and Thailand weighed on aggregate FDI inflows, whereas low-income economies (CLMV) continued to perform well (refer to Table 2.6: ASIA Real GDP). ***FDI flows to the 10 economies in South-East Asia dropped by 20 %, to 101 Billion US$ in 2016*** (refer to Figure 4.1: FDI Flows to ASEAN Region). Singapore, one of the economies most dependent on developments in the global economy, as a hub for foreign MNEs' regional headquarters, recorded ***13 % decline in FDI inflows, to 62 Billion US$.*** Malaysia the second largest recipient in ASEAN in 2016, ***declined by 11 % to 10 Billion US$ in the face of economic uncertainties.***

Table 4.3: FDI Inflows by Region and Major Economic Countries

Country/ Region	FDI Inflows (value in Million US$)					
	2011	2012	2013	2014	2015	2016
European Union (EU28)	435,139	491,644	336,811	256,613	483,839	566,234
United Kingdom (UK)	42,200	55,446	51,676	44,821	33,003	253,826
USA	229,862	199,034	201,393	171,601	348,402	391,104
ASEAN	94,866	108,095	126,148	130,428	126,639	101,099
Brunei Darussalam	691	865	776	568	173	-150
Cambodia	1,373	1,835	1,872	1,720	1,701	1,916
Indonesia	19,241	19,138	18,817	21,811	16,641	2,658
Lao PDR	301	294	427	721	1,119	890[B]
Malaysia	12,198	9,239	12,115	10,877	11,121	9,926
Myanmar	1,118	497	584	946	2,824	2,190
Philippines	1,852	2,449	2,430	5,740	4,937	7,912
Singapore	49,156[b]	56,236[b]	64,685[b]	73,987[b]	70,579[b]	61,579[b]
Thailand	1,370	9,135	15,493	4,809	5,700	1,554
Vietnam	7,519	8,368	8,900	9,200	11,800	12,600
East Asia	223,789	212,357	221,275	257,487	317,796	260,033
Japan	-1,758	1,732	2,304	10,612	-2,250	11,388[b]
China	123,985	121,080	123,911	128,500	135,610	133,700
Republic of Korea	9773[b]	9,496[b]	12,767[b]	9,274[b]	4,104[b]	10,827[b]
Australia	58,908	59,552	56,303	40,328	19,477	48,190
India	36,190	24,196	28,199	34,582	44,064	44,486
Canada	39,669	43,111	69,397	59,062	41,512	33,721
New Zealand	4,238	3,659	1,862	2,529	-337	2,292
Pakistan	1,162	859	1,333	1,867	1,289	2,006

Source: World Investment Report, (2017)

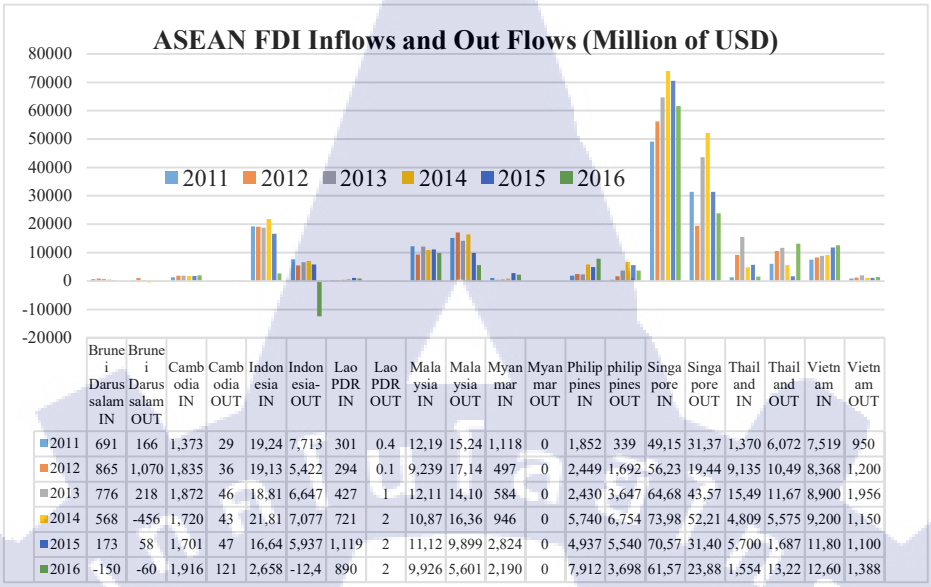
Despite an increase in cross-border M&A sales. Thailand and Indonesia also saw their FDI inflows plunge, due to sluggish cross-border M&A sales and significant divestments by foreign MNEs. In Indonesia, large negative equity inflows in the fourth quarter dragged total FDI inflows to $3 Million. In contrast FDI flows to the Philippines the third largest recipient in the sub region increased by more than 60 % to a new high of US$ 8 Million in 2016 (see more detail in Table 4.3: FDI Inflows by Region and Major Economic Countries and Figure 4.1: FDI Flows to ASEAN Regional).



	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
2011	691	1,373	19,241	301	12,198	1,118	1,852	49,156	1,370	7,519
2012	865	1,835	19,138	294	9,239	497	2,449	56,236	9,135	8,368
2013	776	1,872	18,817	427	12,115	584	2,430	64,685	15,493	8,900
2014	568	1,720	21,811	721	10,877	946	5,740	73,987	4,809	9,200
2015	173	1,701	16,641	1,119	11,121	2,824	4,937	70,579	5,700	11,800
2016	-150	1,916	2,658	890	9,926	2,190	7,912	61,579	1,554	12,600

Figure 4.1: FDI Flows to ASEAN Regional (value in Million US$)
Source: World Investment Report, 2017

Figure 4.1 shows the FDI inflows to Myanmar, a major LDC in the region, decreased to 2.2 Billion US$ in 2016. Telecommunication became the largest industry absorbing FDI, accounting about 47% of inflows in the fiscal year 2016/2017, followed by manufacturing, hotel and construction. Recent foreign investment projects in the manufacturing sector targeted labor-intensive industries such as garments, footwear and electronic assembly inflows to Vietnam rose by 7 % to a new record of 13 Billion US$. That country is becoming a major electronics manufacturing center in the region, attracting projects from other developing economies, including the Republic of Korea and ASEAN members such as Singapore and Malaysia. MNEs from these countries are benefiting from trade liberalization, low production costs, a relatively stable regulatory environment and tax incentives (World Investment Report, 2017).



	Brunei Darussalam IN	Brunei Darussalam OUT	Cambodia IN	Cambodia OUT	Indonesia IN	Indonesia-OUT	Lao PDR IN	Lao PDR OUT	Malaysia IN	Malaysia OUT	Myanmar IN	Myanmar OUT	Philippines IN	philippines OUT	Singapore IN	Singapore OUT	Thailand IN	Thailand OUT	Vietnam IN	Vietnam OUT
2011	691	166	1,373	29	19,24	7,713	301	0.4	12,19	15,24	1,118	0	1,852	339	49,15	31,37	1,370	6,072	7,519	950
2012	865	1,070	1,835	36	19,13	5,422	294	0.1	9,239	17,14	497	0	2,449	1,692	56,23	19,44	9,135	10,49	8,368	1,200
2013	776	218	1,872	46	18,81	6,647	427	1	12,11	14,10	584	0	2,430	3,647	64,68	43,57	15,49	11,67	8,900	1,956
2014	568	-456	1,720	43	21,81	7,077	721	2	10,87	16,36	946	0	5,740	6,754	73,98	52,21	4,809	5,575	9,200	1,150
2015	173	58	1,701	47	16,64	5,937	1,119	2	11,12	9,899	2,824	0	4,937	5,540	70,57	31,40	5,700	1,687	11,80	1,100
2016	-150	-60	1,916	121	2,658	-12,4	890	2	9,926	5,601	2,190	0	7,912	3,698	61,57	23,88	1,554	13,22	12,60	1,388

Figure 4.2: ASEAN FDI Inflows and Outflows (value in Million US$)
Source: World Investment Report, (2017)

Singapore and Indonesia dragged down outflows investment from South-East Asia, thus, FDI outflows from the sub-region dropped by 36% to 35 Billion US$ (World Bank Report, 2017). Singapore investment outflows leading outward investing economy in ASEAN, fell by 24 % to 24 Billion US$ as the regional investment hub was affected by uncertainty in the global economy. FDI flows from Indonesia turned negative, at -12 Billion US$, owing to equity divestments (see more detail in Figure 4.2: ASEAN FDI Inflows and Outflows).

Malaysia FDI outflows, fell sharply by 43% to 6 Billion US$. The country has a strong position in outward investment in the primary sector, particularly in oil and gas; the oil price decline that started in 2014 has led to a continued fall in its outward FDI, now at its lowest level in a decade. ***Thailand, in contrast, diverged from the general decline, with outflows surging by nearly seven times to a historical high of 13 Billion US$, driven by sizeable Greenfield investments in neighboring countries.*** This is the positive effect gain from AEC integration.

4.2.2. Japanese FDI in ASEAN and its Activities

The share of the top 10 investors in ASEAN rose from 71% in 2014 to 75% in 2015 (ASEAN investment report, 2016). Similarly to ASEAN Secretariat, (2016) reported the intra-ASEAN investment remained the largest source of FDI flows, despite the investment value has little decline -1.5% in 2015 worthy 21,938.5 Million US$. The seven member states received higher level of intraregional investment are as Malaysia, Philippines, Thailand, and CLMV countries. Japan is the 3rd largest investor after intra-ASEAN countries and European Union (EU28) worthy 17,324.20 Million US$. Despite, in 2013 Japanese FDI inflows achieved to 24,750.20 Million US$ before jump down to -36.6% worthy 15,698.7 Million US$ in 2014 and get recover by 10.4% in 2015. In other hand, intra-ASEAN FDI in 2014 has improve by 13% from previous year, worthy 22,265.8 Million US$ (refer to Figure 4.3).

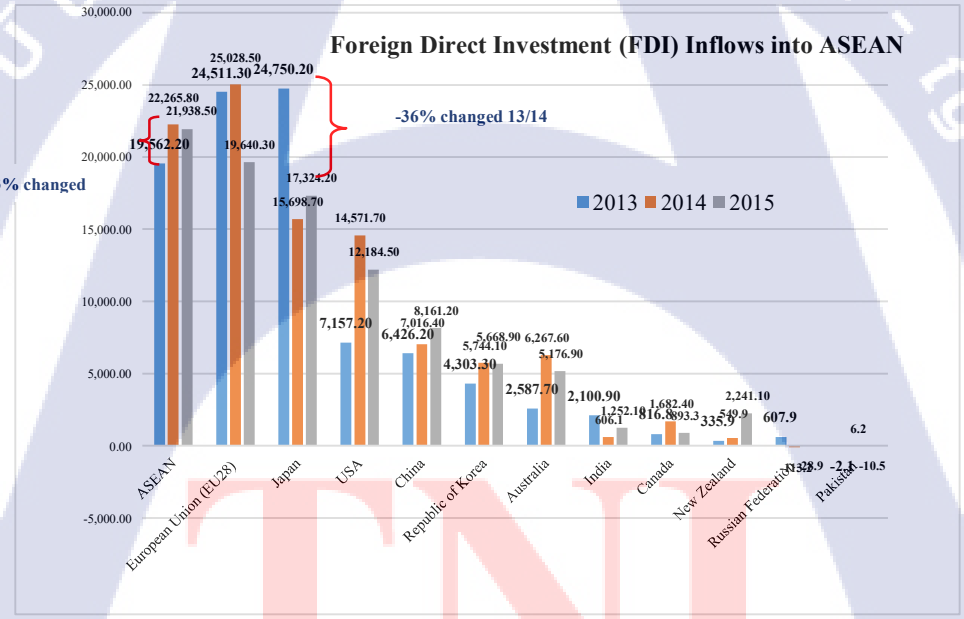


Figure 4.3: Foreign Direct Investment (FDI) Inflows in ASEAN Regions (Million US$)
Source: ASEAN Foreign Direct Investment Statistics Databases as of 3 June 2016
Data is compiled from submission of ASEAN Central Banks and National Statistical Offices through the ASEAN working Group on International Investment Statistics (WGIIS).

According to ASEAN investment report, (2016), FDI flows to three economic sectors primary in manufacturing activities rose significantly by 61%, from 18 Billion US$ in 2014 to 29 Billion US$ in 2015. However, flows to the services industries declined by 21 %, to 79 Billion US$ – dragged down by a fall in FDI in finance. With

the exception of infrastructure-related industries such as electricity, transportation and storage, and information and communication, most other services industries saw a decline in inflows. Investments into the primary industries (i.e. largely in agriculture, forestry and mining) were flat, at the same level as in 2014 (12 Billion US$).

FDI from different economies dominated in different industries in ASEAN. As in 2014, three industries accounted for share of FDI share such as 33% in finance and insurance activities, 24% in manufacturing and 9% in wholesale and retail trade (refer to Table 4.4: FDI Flows in ASEAN Classified by Major Countries and Major Industrial). In agriculture, forestry and fishery, 84 % of FDI flows came from within ASEAN. FDI in extractive industries was dominated by European Union and ASEAN investors. Japan, ASEAN, the Republic of Korea and the European Union, in that order, accounted for 64 % of total FDI inflows into the manufacturing industry in 2015.

In 2015, three service industries were the primary recipients are as finance and insurance activities worthy 39,322 Million US$, wholesale and retail trade worthy 11,188 Million US$ and real estate worthy 9,207 Million US$. More than 54% of investment in finance and insurance last year came from five economies are as United States (22%), China (9%), ASEAN (9%), Australia (8%) and Japan (6%). Australia, the European Union and Japan were the largest investors in wholesale and retail trade activities. Together they accounted for the majority share of FDI flows into this industry. In real estate, ASEAN (30%), China (20%) and Hong Kong, China (6%) were the major sources of investment. FDI flows from different economies are highly concentrated in one or two key industries, and there are differences between major investors and the industry concentration of their investment (refer to Table 4.4: FDI Flows in ASEAN Classified by Major Countries and Major Industrial).

Japanese FDI flows in ASEAN remained highly concentrated in manufacturing activities. ***Japanese FDI flows in the region last year were in manufacturing, which rose from 6.9 Billion US$ in 2014 to 8.4 Billion US$ in 2015, approximately 48% of total investment inflows.*** United States MNEs were active investors in finance, with 70% of United States FDI flows in the region in this

industry alone. United States FDI in finance rose by 70%, to 8.6 Billion US$ in 2015. More than 75% of the European Union's FDI in the region last year was in services. See more detail in Figure 44: Japan Investment (value in Million US$)

Table 4.4: FDI Flows in ASEAN Classified by Major Countries and Major Industrial

Industrial (value in Million US$)	ASEAN		Japan		United States		EU	
	2014	2015	2014	2015	2014	2015	2014	2015
Agriculture, forestry & fishing	4,101	4,079	72	56.3	-21	9	332	138
Mining & quarrying	1,127	1,037	816	791	-876	397	1,667	1,614
Manufacturing	6,257	5,118	6,941	8,394	-129	905	1,889	2,482
Electricity, gas, steam & air conditioning supply	24	345	17	188	8	18	110	-155
Wholesale & retail trade; repair of motor vehicles & cycles	1,099	1,043	1,365	2,221	6,291	273	2,387	4,551
Transportation & storage	397	303	190	390	68	51	675	234
Information & communication	-799	1,113	174	161	30	22	350	274
Financial & insurance activities	5,928	3,584	5,132	2,544	5,040	5,594	11,540	705
Real estate activities	4,407	2,751	494	130	485	425	512	511
Other services	-1,469	376	-283	2,033	2,128	782	4,829	8,788
Others/unspecified	742	2,395	328	483	1,375	709	228	520
Total	22,134	22,149	15,705	17,395	14,748	12,191	24,989	19,666

Source: ASEAN Secretariat, ASEAN FDI database, ASEAN Investment Report, (2016)
[a] Includes data suppressed for confidential reason

Intra-ASEAN investment was dominated by two key industries such as manufacturing and agriculture (forestry and fishery) which accounted for 58% of intra-regional investment. This is show the significant role of intra-ASEAN investment concerned on manufacturing sectors that are contributing ASEAN economic growth. ***As of this point, ASEAN seem to be improving an innovation from OEM (Original Equipment Manufacturing) to ODM (Original Design Manufacturing).*** See more detail in Figure 4.4: Intra-ASEAN Investment (value in Million US$)

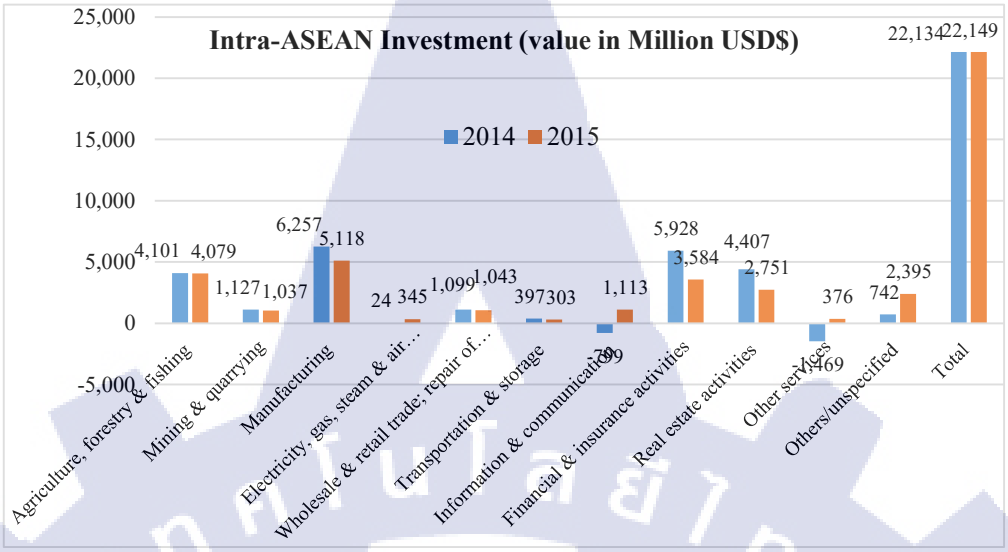


Figure 4.4: Intra-ASEAN Investment (Value in Million US$)
Source: ASEAN Secretariat, ASEAN FDI database, ASEAN Investment Report, (2016)
[a] Includes data suppressed for confidential reason

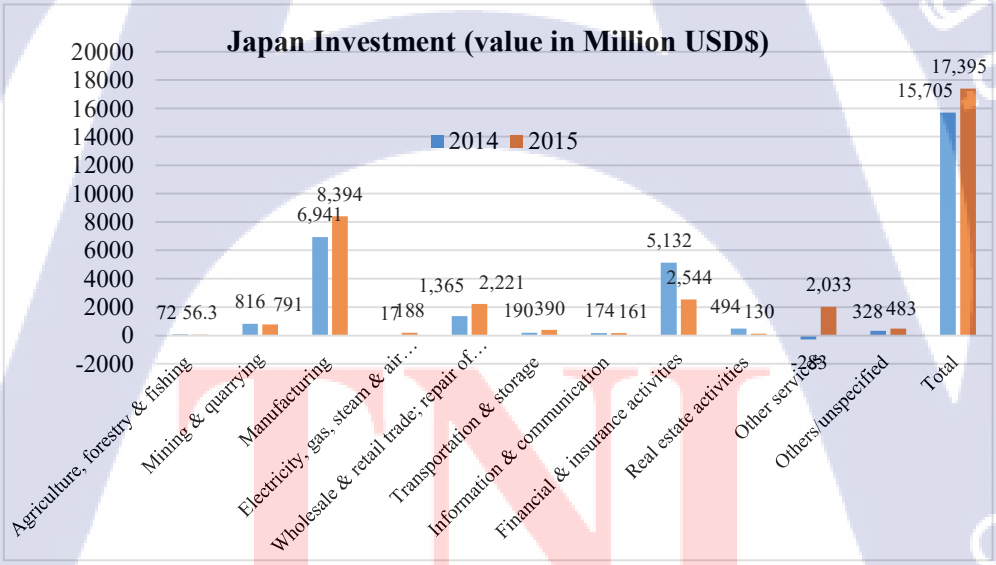


Figure 4.5: Japan Investment (value in Million US$)
Source: ASEAN Secretariat, ASEAN FDI database, ASEAN Investment Report, (2016)
[a] Includes data suppressed for confidential reason

Foreign MNEs continued to expand their operations in ASEAN to make a stronger global value chain (GVCs) in a particular host-country or across the region. MNEs from major economies such as the European Union, Japan and the Republic of

Korea have also deepened ASEAN's participation in GVCs. For instance, 50% of Samsung's mobile phones today are produced by its operations in Vietnam. Seagate, which already has operations in other ASEAN member states, opened 100 Million US$ research and development (R&D) center in Singapore in 2015 to focus on the development of 2.5-inch small-form-factor hard drives, hybrid drives, firmware, software and other technologies.

Japanese companies continued to strengthen their presence in the region with some 17.4 Billion US$ in FDI inflows in 2015 as compared with only 15.7 Billion US$ in 2014 (refer to Figure 4.5: Japan Investment). Along with significant Greenfield investment projects in the region, Japanese companies are also entering the ASEAN market using the M&A channel. In automobile manufacturers, Japanese is the largest producers and their continued to expand the capacities and operations in the region in 2015–2016, with the establishment of new production plants (refer to Table 4.5).

Table 4.5: Japanese Automobile Manufacturers: Major Investment in and After AEC-2015

Company	Host Industry	Remarks
Toyota	Indonesia	Second passenger car engine plant in Karawang, West Java started operation in March 2016
Daihatsu	Indonesia	Extended production line for passenger car engines at its Astra Daihatsu Motor plant in 2015 (total investment cost estimated at $217 million)
	Malaysia	Constructed $147 mullion engine production plant in Negeri Sembilan Expects to start full operations at $476 million new plant four-wheeled vehicles in Prachinburi in 2016
Honda	Thailand	Plants to construct in 2017 $47 million automobile test course in the same province
Isuzu	Indonesia	Started operation of $132 million new commercial vehicle plant in Karawang West Java, in 2015
Mazda	Thailand	Started mass production of transmissions in 2015 at its new established transmission plant in Chonburi
	Philippines	Opened a manufacturing plant in Santa Rosa, Laguna, in 2015, which it acquired from Ford Motors in 2014
Mitsubishi Motors	Indonesia	Ground breaking ceremony held for the construction of a new manufacture plant in Bekasi. The new plant is expected to start operation in 2017
Suzuki	Indonesia	Opened a new four-wheeled vehicle manufacturing plant in Bekasi in 2015
	Myanmar	Started construction of a second vehicle plant

Source: Company Press Releases and Japan Automobile Manufacturers Association
Note: up to march 2016 cited in ASEAN Investment Report, (2016)

Table 4.5 shows the evident of Japanese investments expansion in the region have also attracted other parts and components manufacturers, including non-Japanese companies, to invest and expand in the region. It is proved that Japanese auto parts manufacturers also continued to expand their activities in ASEAN with investment in new plants, expansion of production capacities of existing production lines and diversification activities (refer to Table 4.6).

Table 4.6: Japanese Auto Part Manufacturers: Expansion of Operation in ASEAN 2015-16

Company	Investment status	Production items	Main customers	Remarks
		Indonesia		
Hitachi Automotive Systems	New	Automotive systems	Final products produced are transferred to affiliates of Hitachi	Production due to start in 2016
		Lao People's Democratic Republic		
Toyota Boshoku	New	Interior parts	Supply to group affiliates in the region	New company in 2015 in Lao People's Democratic Republic. The new plant to produce seat covers for 200,000 vehicles yearly
		Malaysia		
Daihatsu Motor Co Ltd	New	Engines	Affiliates in ASEAN	Opened a new engine plant, with a local partner, in Malaysia in 2016
		Philippines		
Tokai Rika Toyota	Expansion	Automotive switches and shift lever control	OEM in ASEAN, North America and Europe	Expanded plant in the Philippines, started in late 2014, to increase capacity by 50% by 2017
Furukawa Denshi	New	Automotive coils	Subcontractor to mainly Chinese companies	Started production in 2016 in the Philippines; plans to further increase capacity by 2017
		Thailand		
Aisin AW	New	Automatic transmissions	Toyota. The company aims to expand to other Japanese OEMs (e.g. Isuzu and Mitsubishi) in Thailand and export to other ASEAN countries	The company is building an automatic transmission plant, which is to start production in 2017
Daido Steel	New	Forged transmission parts	Target automotive OEMs and other customers in Thailand	Started production in 2016
Toray Hybrid Cord	New	Fibre materials for timing belts	Target customers based in Thailand	Established a sales office in 2015 in Thailand. Plans to establish a plant in the region within two years
Nitta	New	Hose and tube products	Target customers in ASEAN	Plant started operation in 2016
Shin-Etsu Chemical	Expansion	Silicon monomers	Car makers, predominantly in Japan, but aims to diversify customer base	Expansion of Thai plant by 2017
Sumitomo Rubber Industries	Expansion	Tyres	Automotive OEMs in Thailand	Expanded tyres production in 2016
Asahi Tec	Expansion	Aluminium wheels	Most products are targeted at Japanese OEMs in Thailand	Expanding its aluminium plant in Thailand
Oiles Corporation	Expansion	Bearings	Car makers, predominantly in Japan	Expanded production in 2016
Sanyo Special Steel	Diversification	Formed bearing materials	Customers in Thailand	Established a new subsidiary in 2015
NGK	Diversification	Ceramics for exhaust gas purifiers	Customers in Thailand and ASEAN	Established new subsidiary in Thailand in 2015 with a plant ready for production in 2018
		Viet Nam		
Asahi Glass Co Ltd	Expansion	PVC production	Customers based in ASEAN	Expanded production capacity in 2015 and 2016
Yokowo Co Ltd	Expansion	Antenna and relay cords	---	Plans to expand in the host country in 2016

Source: Company Press Releases and Japan Automobile Manufacturers Association
Note: up to march 2016 cited in ASEAN Investment Report, (2016)

Based on the data in Table 4.5 shows that in 2016, Aisin AW, Daido Steel and Toyo Advanced Technology, established their first production facilities in the region. ***Similarly, Denso and Toyota Tsusho established a joint venture in Thailand to develop automotive software.*** Having started production of conveyor belts in July 2015 at the Rayong (Thailand) manufacturing facility, Bridgestone announced the establishment of a joint venture with PT Astra Otoparts in Indonesia to manufacture anti-vibration rubber products for automobiles and open fleet points or service outlets in Vietnam. Sumitomo Electric established a branch in Myanmar in 2015 and announced plans in 2016 to expand in Indonesia

In Thailand Sanken Electric opened a sensor chips plant in 2015 worthy 68 Million US$. In Malaysia 2015, Toshiba opened a manufacturing facility for diagnostic imaging systems in Penang. During 2015–2016, it won contracts in the region to supply equipment for the development of power stations in Indonesia and Myanmar, rolling stock for a mass rapid transit system in Thailand and other equipment, including automated systems, in Singapore. Toshiba announced plans to invest 1 Billion US$ in ASEAN between 2015 and 2019. Other Japanese companies also increased their investment in the CLMV countries in 2015 (see Vietnam in Table 4.6: Japanese Auto Part Manufacturers: Expansion of Operation in ASEAN 2015-16). Komatsu opened its first production plant to produce components of power generators, and construction and mining equipment in Myanmar. Kubota is building an 8.2 Million US$ assembly plant and established a sales and service center at the Thilawa SEZ, and Foster Electric opened a factory to produce audio equipment and car stereos in the same host country (ASEAN Investment Report, 2016).

The majorities of Japanese investment are engaged in manufacturing and automotive industries, this type of industry are deep led in global value chain (GVCs) in ASEAN region. As of the data reported by Japanese Automobile Manufacturers Association (see in Table 4.5: Japanese Automobile Manufacturers: Major Investment in and After AEC-2015), show the major Japanese car maker in automobile industries such as Toyota, Daihatsu, Honda, Isuza, Mazda, Mitsubishi Motors and Suzuki. The Japanese car producers are expanding their horizontal investment in Indonesia, Thailand, Malaysia, Philippines and Myanmar to fulfill of domestic demand and

exporting to intra-ASEAN region. Since the car maker leader located their investment in these particular ASEAN countries. Consequence, Japanese MSMEs were established to supplied automobile assemblies to these car maker, such as Japanese new investment in Lao produce of interior parts (labour intensive) supply to group Japanese affiliates in ASEAN region (see more detail Lao investment status in Table 4.6: Japanese Auto Part Manufacturers: Expansion of Operation in ASEAN 2015-16). In Thailand, there are several new Japanese project in automobile assemblies. Most of them were in the first and second tire to supply directly to Japanese OEMs are as Toyota, Isuzu and Mitsubishi in Thailand and export to other ASEAN countries. These are the evident reported to confirmation that ***'ASEAN region is still attractive and competitive in the view of Japanese investor'***. In particularly, Thailand still attractive host country whereby Japanese investor trend to investment for a long-term orientation (refer to Thailand investment status in Table 4.6). This study will be investigating the opportunities of Japanese investment in Thailand in the next section.

4.3 The Motive Factors for Japanese FDI in ASEAN

Objective 2: To explore the motive factors for Japanese FDI in ASEAN

This study are collected qualitative data interview from Japanese subsidiaries in Thailand. ***Thus, the results of the study are mainly explaining the motives of Japanese firms engaged in Thailand as one of the ASEAN countries.***

This study use a review of the theoretical approaches to verified the motive of Japanese FDI in ASEAN region. The president, vice president, managing director, advisor and key person of fifteen organization were interviews without structured interview. The interviewer were questioned about companies' history and their performance in Thailand during established of AEC-2015 and after. *Thus, the study results will be expressive their perception about ASEAN economic in general and Thailand economic in particular.*

The finding analysis by using theory and technique associate with naturalistic then categorized in term of their original grounding theory in the social basic science (Westbrook, 1994; Lincoln & Guba, 1985; Taylor & Bogdan, 1984).

Based on the interview data, one Japanese headquarter in Japan, twelve Japanese subsidiaries in Thailand, JETRO and Embassy of Japanese. The holistic motive of Japanese FDI in ASEAN (Thailand) will be summarizing in the following section.

4.3.1 Japanese Headquarter in Tokyo, Japan (Motive Perspective)

Based on the data interview conducted with general manager, business strategy development, headquarter in Tokyo, Japan. The overall company subsidiary performance in Thailand considered satisfy. Thailand market is quite unique and attractive as compare to China and ASEAN countries. This is because of Thai purchasing power is high, strong of logistic system and distribution channel. Thus, the motive of company subsidiary performance in Thailand will be summarized in the Table 4.7 below;

Table 4.7: The motive of Japanese Subsidiaries via Japanese Headquarter Perspective

No.	Interview Position	Type of Industry	Theme of interview	The motive of FDI in ASEAN (Case of Thailand)	Theoretical Approach	Source
H1	General Manager, Business Strategy Development	Electronic distributor Simi Conductor	The Performance of Japanese Subsidiaries in ASEAN and Thailand	▪ Economic of scale & after-sale service ▪ Increase the brand value in different marker ▪ Product function characteristics in maturity state ▪ Innovation in global market ▪ To be competitive in global market ▪ Increase market share in global market ▪ Access to local suppliers and customer ▪ Market size and factors endowment	▪ Internalization ▪ Product life cycle ▪ Strategy Behavior Theory ▪ Resources based view theory ▪ Location theory ▪ Eclectic paradigm (OLI-Ownership, Location, Internalization) ▪ New theory of trade	▪ Hamada, (1974) ▪ Vernon, (1966) ▪ Kogut, (1988a) ▪ Ekeledo & Sivakumar, (2004) ▪ Feinberg & Keane, (2001) ▪ Dinning, (1993) ▪ John & Kierzkowski, (2005)

Source: Primary interview data
*Note: The sampling of the study was collected in Tokyo, Japan (October, 2016)

Table 4.7 shows the several motive of Japanese subsidiaries in ASEAN and Thailand as the case of the study. The company considering the potential ASEAN

countries in two location are as Thailand and Vietnam. The motive in these countries mainly due to market power and development which leading to increase market share, reduce competition, enable product diversification and facilitate international explanation.

ASEAN region specific location advantage such as market size over 600 million population with attractive huge among of FDI worthy 136 Billion US$ in 2014. Thus, this make ASEAN become ***'a world class investment destination'*** of foreign investor around the word. The young population over 22 Million people with GDP growth 6.7% in Vietnam become attractive factor to driven regional economic growth (ASEAN Secretariat, 2016). Despite, Thailand GDP at current market price and GDP per capital are higher almost triple time as compare to Vietnam. **This is make Thailand more competitive and company chooses Thailand for our production based over 60% of global market share,** ***he said, General Manager, Business Strategy Development , Headquarter Tokyo, Japan (H1).***

4.3.2 Japanese Subsidiaries in Thailand (Motive Perspective)

There are twelve sampling were selected in the study, these Japanese subsidiaries are from cross industries sectors such as food industry (S1), metal industry (S2,S9), machinery and tooling (S3,S6,S7), automobile OEM (S4,S10,S12), automobile assembly (S5), logistic (S8), and chemical industry (S11) (refer to Table 4.8). ***These selected sampling are from the upstream to downstream in supply chain system in order to represent the holistic picture of Japanese FDI Thailand*** (refer to Figure 3.3: Sampling selected based on supply chain system). Thus, this study conducted the interview data from twelve Japanese subsidiaries in Thailand across several business types such as exhibited in Table 4.8: The motive of Japanese Subsidiaries in Thailand)

Based on Table 4.8 show the motive of Japanese subsidiaries in Thailand manufacturing sectors. The motive subsidiaries are different based on the company characteristic and business types. Most of Japanese subsidiaries engaged in Thailand were explaining by strategic behavior theory, internalization and internationalization (see more detail in Table 4.8: The motive of Japanese Subsidiaries in Thailand). The

opportunities of these Japanese subsidiaries to do business in ASEAN and Thailand will be examine in the next objective discussion.

Table 4.8: The motive of Japanese Subsidiaries in Thailand

No.	Interview Position	Business Type	The motive of FDI in ASEAN (Case of Thailand)	Theoretical approach	Source
S1	Vice Chairman	Manufacture and sale snack foods	▪ Increase volume of sale ▪ Reduce transaction cost ▪ The horizontal investment ▪ Access to natural resource	▪ Internalization ▪ Strategic behavior theory ▪ Location theory	▪ Hennart, (1988) ▪ Kogut, (1988a) ▪ Feinberg & Keane, (2001)
S2	Managing Director	Air condition parts Value parts	▪ Indirect export ▪ Reduce transaction cost ▪ Access to natural resource ▪ Access to local suppliers and customer	▪ Internationalization ▪ Transaction cost theory ▪ Location theory ▪ Strategic behavior theory	▪ Franklin, (1979) ▪ Kogut, (1988) ▪ Feinberg & Keane, (2001)
S3	President	Machinery &Tooling Mold Business	▪ Facilitate international expansion	▪ Strategic behavior theory	▪ Kogut, (1988) ▪
S4	Regional Business Affair	OEM Automotive Systems and Components Automotive Service Parts and Accessories	▪ To deter entry or erode competitions ▪ Innovations ▪ Reduce cost by globalizing supply chain ▪ Horizontally and vertically ▪ Market power objectives	▪ Strategic behavior theory	▪ Vickers, (1985) ▪ Pate, (1969) ▪ Boyle, (1968) ▪ Mead, (1976)
S5	Executive Vice President	Precision Molds, Plastic Injection Parts Assembly Part	▪ Reduce cost by globalizing supply chain. ▪ To deter entry or erode competitions ▪ Access to local suppliers and customer	▪ Strategic behavior theory	▪ Kogut, (1988) ▪ Feinberg & Keane, (2001)
S6	Managing Director	Mold Business Robotic System, FA	▪ Facilitate international expansion	▪ Strategic behavior theory	▪ Kogut, (1988) ▪
S7	General Manager	Machinery Mold Business	▪ Facilitate international expansion	▪ Strategic behavior theory	▪ Kogut, (1988) ▪
S8	Managing Director	Logistic	▪ Facilitate international expansion	▪ Strategic behavior theory	▪ Kogut, (1988) ▪
S9	Managing Director	Aluminum Copper, Brass Stainless Steel	▪ Access to natural resource ▪ Access to local suppliers and customer	▪ Location theory ▪ Strategic behavior theory	▪ Kogut, (1988) ▪ Feinberg & Keane, (2001)
S10	Executive Vice President (EVP)	OEM JV Company Trading Company	▪ To deter entry or erode competitions ▪ Reduce cost by globalizing supply chain ▪ Horizontally and vertically ▪ Market power objectives	▪ Strategic behavior theory	▪ Kogut, (1988)
S11	President	Chemical Automobile assemble	▪ Patents, technology ▪ Innovations ▪ R&D intensity	▪ Eclectic paradigm (OIL-Ownership, Location, Internalization)	▪ Dinning, (1977;1979)
S12	General Manager	OEM Automotive	▪ To deter entry or erode competitions ▪ Reduce cost by globalizing supply chain ▪ Market size ▪ Horizontally and vertically ▪ Market power objectives ▪ R&D intensity	▪ Strategic behavior theory ▪ Eclectic paradigm (OIL-Ownership, Location, Internalization) ▪ New theory of trade	▪ Kogut, (1988) ▪ Dinning, (1977;1979) ▪ Markusen & Venables (1998, 2000);

Source: Primary interview data

*__Note:__ The sampling of the study was collected in Thailand (August-September, 2017)

4.3.3 Japanese Government Officer in Thailand (Motive Perspective)

The study conducted interview data with Japanese government officers in Thailand then analysis based on theoretical approach as exhibited in Table 4.9 below;

Table 4.9: Japanese Government Officer Perspective

No.	Interview Position	Business Type	The motive of FDI in ASEAN (Case of Thailand)	Theoretical approach	Source
JETRO	Senior Investment Advisor	Promoting Japan Outward Investment	▪ Location specific ▪ Access to local suppliers and customer ▪ Acquire resources in order to survive in business environment ▪ Technology and parents	▪ Internalization ▪ Resources dependent theory ▪ Strategic behavior theory ▪ Eclectic paradigm (OIL-Ownership, Location, Internalization)	▪ Hennart, (1988) ▪ Urata, (1998) ▪ Dinning, (1992) ▪ Kogut, (1988)
Japan Embassy	Commercial Attaché'	Promoting Japan Outward Investment Monitoring Thai-Japan Investment Policy	▪ Location specific ▪ Access to local suppliers and customer ▪ Acquire resources in order to survive in business environment ▪ Technology and parents	▪ Internalization ▪ Resources dependent theory ▪ Strategic behavior theory ▪ Eclectic paradigm (OIL-Ownership, Location, Internalization)	▪ Hennart, (1988) ▪ Urata, (1998) ▪ Dinning, (1992) ▪ Kogut, (1988)

*__Note:__ The sampling of the study was collected in Thailand
JETRO, (May, 2017) and Japan Embassy, (October, 2017)

Table 4.9 examine the motive of Japanese FDI via the perspective of JETRO, senior investment advisor and Japanese Embassy in Thailand, commercial Attaché. They identify that location specific advantage is the most important motive of Japanese FDI in Thailand (see more detail in Table 4.9).

4.4 The Opportunities for Japanese FDI towards AEC

Objective 3: To explore the opportunities of Japanese FDI towards AEC

This study are collected qualitative data interview from Japanese subsidiaries in Thailand. ***Thus, the results of the study are mainly explaining the opportunities of Japanese firms engaged in Thailand as one of the ASEAN countries.***

4.4.1 Japanese Headquarter in Tokyo, Japan

(Opportunities Perspective)

The largest Japanese headquarter in electronic company main products digital camera, technology sensor and so on. The global share market 60% produced from Thailand and 40% from China. Sale offices are all over the world such as in Asia included Singapore, Hong-Kong, Taiwan, Indonesia and Malaysia etc. They are appointed local manager subordinate in Thailand subsidiaries both manufacturing and sale offices. In their perspectives view Thailand as the successful business location as they given the supported reasons in such Table 4.10 below;

Table 4.10: Interview data finding determining motive of Japanese subsidiary in Thailand

No.	Statement	Results
1	Why do you selected Thailand?	1) The domestic consumption is rather mutuality and comprehensive. 2) The majority of Thai population is in new aging generation which is the company target customer. 3) We look for other production line to supply Thai customers demand. 4) In the last quarter of 2011, our manufacturing was effected by folding crisis this cause about 5 to 6 months non-production. The production still continues in China, however, even though the product is different from Thailand.
2	What is your perception about Thailand market?	We established the company in 1996, Thailand market is challenging successful in some particular product such as mobile camera and lens.
3	What is the successful criteria of your company?	1) Thai population with high purchasing power 2) Attractive product 3) Distribution channel and logistic system 4) Stability of production such as price competitiveness 5) Marketing division in sale office such as Singapore
4	Do you satisfy with Thailand market?	The Thailand subsidiary is highly satisfy. Thailand market is quite unique and attractive as compare to China and ASEAN countries.
5	How do you perceived about Thailand performance during 2015 to 1st of 2016?	The performance of subsidiary in Thailand during 2015 to 1st of 2016 is medium to low due to Thailand market growth is mutually in digital products.

Source: Primary interview data

*Note: The sampling of the study was collected in Tokyo, Japan (October, 2016)

4.4.2 Japanese Subsidiaries in Thailand (Opportunity Perspective)

Table 4.11: The Opportunities of Japanese Perspective in Thailand Subsidiaries

No.	Interview Position	Nationality Share-holder	Business Type	Is Thailand still competitiveness?	Attractive industry (Opportunity)	Company activities development	The benefit gain from AEC-2015
H1 Tokyo	General Manager, Business Strategy Development	Japan 100%	▪ Electronic distributor ▪ Simi Conductor ▪ Optical instrument	✓	▪ Simi conductor	▪ R&D	▪ FTAs
S1	Vice Chairman	Japan 90% Thai 10%	▪ Manufacture & sale snack foods	✓	▪ Horizontal	▪ Automatic system/distribution center ▪ Localization	▪ Not clear
S2	President	Japan 90% Thai 10%	▪ Air condition parts ▪ Value parts	✓	▪ Horizontal	▪ Increase production capacity	▪ Not clear
S3	President	Japan 100%	▪ Machinery and Tooling ▪ Mold Business	✓	▪ High value chain in automobile industry ▪ OEM ▪ *Plastic injection molding grow fast, 90%*	▪ One stop service center ▪ After sale service center ▪ Technical center ▪ Turnkey facility	▪ Not clear
S4	Regional Business Affair	Japan 100%	▪ OEM Automotive Systems and Components ▪ Automotive Service Parts & Accessories	✓	▪ Investment in EV ▪ Thailand as production based for exporting automotive intra/extra-ASEAN	▪ Innovation & adaptability technology ▪ Increase company production capacity annually	▪ *Liberalization* of goods & services ▪ *Globalization* ▪ FTAs ▪ Rule of Origin (ROO)
S5	Executive Vice President	Japan 100%	▪ Precision Molds, Plastic ▪ Injection Parts ▪ Assembly Part	✓	▪ Automobile	▪ In product injection parts like speedo meter, bracket	▪ Not clear
S6	Managing Director	Japan 100%	▪ Mold Business ▪ Robotic System ▪ FA	✓	▪ Automobile ▪ Aerospace	▪ Punctual delivery time ▪ Localization	▪ Not clear in practical
S7	General Manager	Japan 100%	▪ Machinery Mold Business	✓	▪ Automobile ▪ Agriculture	▪ Service center	▪ FTAs (Import Singapore)
S8	Managing Director	Japan 90% Thai 10%	▪ Logistic	✓	▪ Logistic	▪ Logistic service	▪ FTAs
S9	Managing Director	Thai 90% Japan 10%	▪ Aluminum ▪ Copper, Brass ▪ Stainless Steel	X	▪ Service sector	▪ Seeking for JV capital	▪ Not clear in practical
S10	Executive Vice President (EVP)	Japan 90% Thai 10%	▪ OEM JV ▪ Trading Company	✓	▪ Automobile ▪ Aerospace ▪ Medical robot ▪ Service sector	▪ Localization	▪ Not clear in practical
S11	President		▪ Chemical ▪ Automobile assemble	✓	▪ Chemical	▪ R&D ▪ Patent ▪ QC	▪ FTAs
S12	General Manager	Japan 100%	▪ OEM Automotive	✓	▪ Automobile & auto-Assembly	▪ R&D ▪ Courtyard car	▪ No significant change & benefit

Source: Primary interview data

*__Note:__ The sampling of the study was collected in Thailand (August-September, 2017)

Table 4.11 show the overall opportunities of Japanese headquarter and their subsidiaries in Thailand. The finding shows that the largest electronic producer of

Japanese headquarter office in Tokyo, Japan satisfied with overall Thailand subsidiary performance. The Japanese subsidiaries in Thailand are satisfied with their performance approximately 75% (11 firms), only 25% (1 firms) not achieved the target due to less profitable. There are 4 firms (33%) gain benefit from AEC-2015 while other 6 firms have not seen the clear benefit gain from AEC-2015. The research sampling (S12) perceived of non-significant change before and after AEC-2015.

In food industry (S3), has an opportunities to growth on Thailand modern trade market. In Thailand, the convenience stores have shown the highest rate of growth, there is very clear leader namely 7-Eleven which runs of 9,500 outlets across the country. As of this contributing to our consumer product (snack food) growth ratio in Thailand. The high value chain in automobile industry also support OEM, trading companies (S4, S5, and S10 & S12), chemical industry (S11) and logistic (S8). The machinery, tooling, robotic and mold business firms (S3, S5 and S6) are supporting the demand growth of these industries whereby the trend of high technology and robotic system are coming to in place of labour intensive.

In this part of research will be represented the interview data based on the content of ***'the opportunities of Japanese FDI towards AEC'***. There are twelve executives of Japanese subsidiaries in Thailand were given their attitudes and further investment perspective in the following sectors below;

The first company we have make an interview is located from food industry sector (S1), this company is the joint venture company between Thai-Japan firms. The parent company was established in 1949 at Hiroshima, Japan. The company started strives to produce quality food products which are highly nutritious, flavorful and affordable. They have been doing an extensive research and development facilities are constantly searching the world over for sources of new and unique raw materials from the land and sea to produce healthful and nutritious food products, without sacrificing flavor.

The subsidiary company in Thailand was established on January 15, 1980. The major product is prawn cracker, sale by using local brand for domestic market.

Besides manufacture and export finished product toward Asia region for example Singapore. From time to time, the company dedicate and strive to the development of nutritious and delicious products for their valued consumers as undertake the parent company mission as *"providing nutritious benefits to the world"* to serve consumers' need.

Vice Chairman of this food company said that ***"Thailand is a good choice in ASEAN due to their location advantage, the overall Thailand business environment rather competitiveness in term of development country and gross domestic product (GDP) as compare to Thailand neighboring countries like Cambodia, Lao PRD, Myanmar and Vietnam (CLMV)".***

Our company sale office in Singapore, re-export finish product to all ASEAN countries. The major export countries are United State of America (USA) sale volume approximately 40%. The rest we export to Singapore, Hong-Kong, Philippine, Taiwan, Vietnam and Malaysia. In case of Malaysia country, we have plan to investment new manufacturing in five years planning orientation. For Thailand, we tend to maintain the degree of investment, since we have manufacturing in Samutprakarn for 6,400 square meters. The next to our manufacturing is empty land scale about 3,200 square meters, this land we plan to build a new plant if we have gain more domestic consumption and higher volume of sale.

In term of company profitability, he said that Thailand location still generate profitability, about 10% of net profit we make a dividend to our company shareholders and the rest profit provided for company further investment. Then the researcher was questioned about ***"how do you thing about Thailand economic and business environment?"***

The Vice Chairman given the idea that, in my perspective ***"Thailand economic perspective still stable and business environment enable to making profitable".*** Since, our company marketing department doing sale strategy into two business line (1) modern trade market and (2) traditional trade market. For our company, we much more reline on modern trade strategy market such as Big-C,

Lotus, department stone and convenience stores are effectively. In contrast, traditional market such as mom and pop shops, local supermarkets has less consumption. As of this point, to make a clear understanding of modern trade strategy, thus, Table 4.12 below will shows the store format of modern trade.

Table 4.12: Store Format of Modern Trade

	Department Store	Discount Store / Hypermarket / Super Center	Supermarket	Convenience Store	Specialty Store
Product categories	various: fashionable, high quality / guarantee	consumer goods, basic quality	consumer goods, fresh foods	consumer goods, prepared foods, small size	personal care products, own brand
Target consumer	middle-upper	lower-middle / grocery	middle-upper	those favoring convenience	middle-upper
Supplier	domestic, foreign, brand name	domestic	domestic	domestic	domestic, foreign
Stock inventory	60-90 days	30-45 days	10-15 days	15-20 days	30 days and 7 months for import stuff
Pricing	more expensive than others	low price / wholesale price	mixed pricing	higher than discount store and supermarket	similar level to department store
Key Player	Central, The Mall, Robinson	Tesco Lotus, Big C	Tops, Home Fresh Mart, Foodland	7-Eleven, Family Mart	Watson, Boots, Supersports

Source: Bank of Thailand (BOT), compiled by Krungsri Research

Based on Table 4.12 (Store Format of Modern Trade) shows the functioning and categorized of modern retail trade are such as following;

1) ***Department stores*** are the largest retail units which retail higher quality goods, both domestically produced and imported and sell at higher price points than goods in discount stores. Department stores are usually found in city centers, their design works to highlight visual appeal and they are typically staffed with assistants who help to advise and assist shoppers. Central and Robinson are major operators in this mold.
2) ***Discount stores/hypermarkets/supercenters*** are large-scale retailers which sell primarily to lower- and mid-level consumers. Outlets may be found in both city centers and on the edges of urban areas and the stock range typically emphasizes value and low price. These types of outlets operate distribution centers. In this group, Big C, and Tesco Lotus are the main players.

3) ***Supermarkets*** focus on the distribution of foods (e.g. meats, fruit and vegetables, and readymade) and household consumer goods. Businesses may either operate free-standing retail units (e.g. Foodland) or be found in department stores (e.g. Tops Supermarket and Home Fresh Mart).

4) ***Convenience stores*** are small retail units which are rising in popularity, taking market share from older style retailers. Consumers prefer modern outlets which carry a wide range of stock and which are conveniently located in or near communities. 7-Eleven and Family Mart are notable examples of this type of store.

5) ***Specialty stores*** are found in large communities and retail higher quality and higher priced goods, including the retailer's own brands. Boots, Watsons, and Super Sports are examples here.

In the past, Thai retail sector was dominated by small, family-run grocers which obtained stock from middlemen and distributors call traditional trade. Recently, the situation has changed considerably and large-scale operators are less dependent on wholesalers as they now own extensive branch networks and are able to occupy favorable bargaining positions when negotiating with producers and wholesalers such as Big C (63% France); Tesco Lotus (98% British), Macro (90% Dutch) and convenience stores. In retail sector Thai government allowed foreign investors to hold more than 50% shares in some Thai business. Consequence, this has shifted the dial considerably on modern trade, and so traditional trade continues to decline, but has declined probably around 5-6% over the last five years (Krungsri Research, May 2017).

Retailers	Outlets				
	2012	2013	2014	2015	2016p
7-Eleven	6,822	7,429	8,127	8,727	9,500
Lawson 108	600	540	531	446	498
Family Mart	764	1,048	1,060	1,080	1,130
Lotus Express	1,071	1,305	1,421	1,471	1,477
Mini Big C	126	278	316	391	473
Tops Daily	119	15	24	51	75
MaxValu Tanjai	32	40	47	48	53
Others	2,347	2,341	2,037	2,078	2,119
Total	11,881	12,996	13,563	14,292	15,325

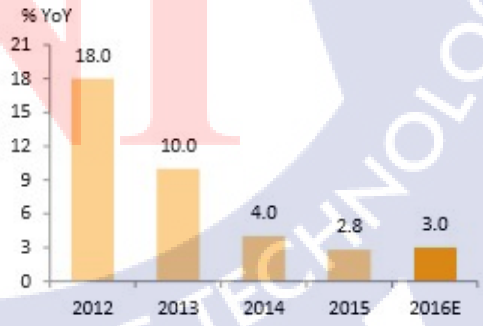


Figure 4.6: Convenience Store Outlets in Thailand & Sales Growth of Convenience Store
Source: Compiled by Krungsri Research, May 2017

Convenience stores have shown the highest rates of growth in investment of all modern trade store formats and have also taken the greatest market share from traditional retailers. 7-Eleven (part of the CP Group), Thai operators from other retail businesses (such as Lotus Express, Mini Big C and Tops Daily) who engage in standalone shops and outlets in petrol stations in order to support demand from travelers and people in communities such as Lotus Express with Esso and Mini Big C with Bangchak.

Foreign businesses including 1) Lawson, from Japan, which is engaging in joint ventures with Sahapat, a major Thai manufacturer of consumer goods and in 2012. Lawson took over Sahapat's chain '108 Shop'; and 2) Aeon, another Japanese venture, has joined with MaxValu Tanjai, to distribute ready-made meals and distinguishes itself from the competition by offering imported Japanese items around a fifth of its total range. Based on Figure 4.6, a competition in the convenience store market is reasonably high but there is a very clear market leader, namely 7-Eleven, which runs 9,500 outlets across the country (some of which are franchises). Market leaders here enjoy advantages from being able to negotiate with suppliers from a position of strength, thus, lowering costs. In 2016, Thailand was home to 15,325 convenience stores nationwide, up from 14,292 in 2015 and become 15,325 in 2016. Despite all of the above, growth rates have slowed since 2013. Data from the Thai Retailers Association showed that for 2011-2013, growth averaged 13.3%, for 2014-2015 it was 3.4%. For 2016, Krungsri Research estimated that the rate of growth was only 3.0% (Figure 4.6). Thus, this shift towards modern trade and convenience stores (lead by 7-Eleven, Family Mart, Lotus Express, 108 shop & Lawson) has created more consumption demand for this sample food industry company who produced *snack such as prawn cracker, potato fries, green pea snack, corn snack and sweet corn flavored.*

The second company was established 1995 and since then it already passed 21years (S2). During this period, we had various difficulties, however, fortunately we could manage them. This is just because of good support of our royal customers. Since we started our company, good quality, and punctual delivery time were a top priority over other matters. We will succeed this important company policy. In these

months, we are investing a certain amount of money actively to increase our production capacity and to educate our employees.

The company major products are brass part manufacturer for air condition, company function: product selling in domestic market. We using major material like brass from supplier in Thailand market. Our major customer/buyer are as Daikin, Mitsubishi, Sambo Shindo and other client for totally 124 companies. Our production mainly 20% for export orientation and other 80% for indirect export. The net profit is about 3-5%, which we consider satisfy and expected to increase the volume of sale to earn more profit, *he said, president of the company (S2).*

The firms S3 is a manufacturing distributor about machinery and tooling. The first branch company was established in 1937 (80 years), Tokyo Japan. To meet the machining demand of the fast growing Asia market, the world headquarters of Milling Machine Company, in Asia was set up to fill the need of an Asian headquarters to better manage the Asia business and to serve their customers in the region more effectively. Due to the strategic position of Singapore geographically and economically within Asia, The mother company in Tokyo choose ***'Singapore'*** as its Asia headquarter affiliate to cover and monitoring the China, India, Thailand, Indonesia, Vietnam, Philippines, Malaysia and Singapore market.

Figure 4.7: Asia Regional Map

Japanese affiliate in Asia developed into a fully integrated manufacturing company, incorporating Research and Development (R&D), engineering production

and business administration under one roof. Advanced processing, manufacturing and assembly are the key integral functions of our enterprise. Asia branch produces the F- and E-series milling machines as well as the EDAF- and EDGE- electrical discharge machines and DUO-series and newly launched U3 wire electrical discharge machines on site.

The affiliate in Asia is the company's business philosophy to combine the skills of its highly qualified people with a customer-orientated focus. Above all, our core competences lie in our R&D department, the high level assembly skills of our employees, the complete turnkey solutions we offer to our customers and last but not least, the continuous training of our people. Close to 500 employees in the Singapore headquarters, together with another 700 employees in the various Asia branches contribute to the success of affiliate in Asia, ensuring that affiliate in Asia continues to grow as a leader in the global machining business.

In Thailand, the company affiliated was established in 2004 with 100 Million Baht of registered capital. The President said that *"our company is one stop service unite cover all machinery and after sale services".* In 2015, we built out a new office with an investment of 600 Million Baht, the capacities area use of 1,600 square meters.

The reason behind this investment cause by demanding high-technology machinery in Thailand domestic market. Our new company office providing *technical center*, *reception & seminar, turnkey facility,* these section are performing multi-functional services such as (1) machinery exhibition (2) skill technique (3) training center: to increase the performance of mold technician and educated of new technology arrival. He also said that in Thailand there are only two institution offer a vocational certificate program for mold technician namely **Pathumwan Institute of Technology and Rajamangrala University Phra Nakhon.** Thailand labour market are still lack of mold technician as compared to demand from domestic and international companies. For instant, in Japan mold technician cost about 8-10 US$/hour, in Germany cost about 40-50 €EUR/hour, which consider high-technical

skill value. This is a problem for Thai enterprise to training a worker become high skill labour.

Figure 4.8: Automobile Parts and Components (Author's adaptation)
Source Picture: http://www.myplasticmold.com/automotive-plastic-mold

Making an understanding about mold machinery and tooling, the company President given a general example about mold machineries are classified in the following such as (1) diamond mold; (2) plastic mold; (3) aluminum mold and (4) steel mold. These mold are produce automotive parts, components –such as plastic parts, metal parts, aluminum parts, raw material suppliers, which fulfil mainly quality and volume conditions of 2-Tier suppliers, some suppliers for 1-Tier suppliers. These automobile parts needed high precision mold which provided by our company (see more in Figure 4.8: Automobile Parts and Components).

The president of company S3 explain that *"generally, our company doing business in three types are as (1) packaging; (2) part manufacturing and (3) aerospace"*. In part manufacturing refer to high precision and surface of automobile parts, electronic parts, steal parts, piston rod etc. For the large size of auto part like car bumpers, fenders, hoods, grilles, doors, back seats, front covers, the injection molds are need to be made in large size as well. This would require the injection mold makers to invest on large size machines. Complex surface need to be machined by high speed and high precision CNC. Mold flow analysis is highly recommended in pre-design stage. For a long melt flow auto parts like car bumpers and grilles, application of mold flow analysis can provide the optimum gating solution and

minimize injection molding cycle, multiple hot nozzles are employed frequently. Thus, mold machinery is the upstream industry, a high precision of auto part mold can produce a good workpiece move to the downstream section. Our affiliate in Europe, supplied mold to Mercedes Benz, Ford, BMW, in Korea supplied to Hyundai and Kia.

"What are the opportunities for Japanese companies to do business in Thailand?"

In 2015, Thailand automobile production capacity is approximated to be 3.66 million units (inclusive of planned capacity expansions announced by automakers), while actual production amounted to 1.92 million units which was the world's 12th rank (refer to Figure 4.9: International Organization of Motor Vehicle Manufacturers), and ASEAN's no.1 (OICA, 2015 cited in Krungsri Research, July, 2016). **'Pick-ups Car'** *represented as Thailand's top product champion by major manufacturers like Toyota, Mitsubishi, Isuzu, GM, Ford and Nissan who have invested in Thailand to set up their manufacturing hub for exports.* The 1-ton pickups car representing about 50-55% of total Thailand automobile production. Passenger car accounts for 45-50% share. The prominent product segment is the eco-car which has benefited from government's investment promotion. In other commercial vehicles include trucks, buses and vans.

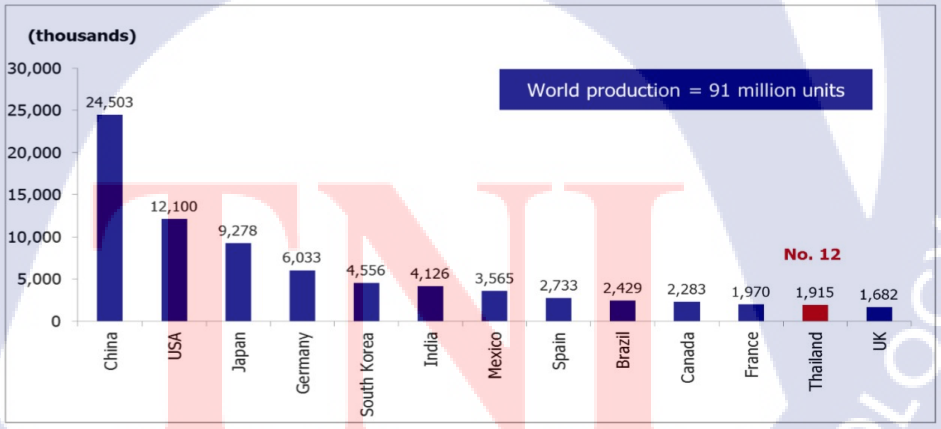


Figure 4.9: International Organization of Motor Vehicle Manufacturers (OICA)
Source: Thailand Data from TAIA (Update 3/03/2016)

In total, they contribute 1-2% of total production. In 2015, there were 91 million vehicles production worldwide, electric vehicles (EVs) remain only a small portion of the total market (0.15%). There were 91 million vehicles production

worldwide in 2015. Global EC sales totaled roughly 1.26 million units in 2015 (refer to Figure 4.9: International Organization of Motor Vehicle Manufacturers-OICA).

Thailand automotive industry has increasingly relied on the export market, which has outpaced the domestic market since 2008. Main markets are those in nearby regions such as ASEAN, Australia, and the Middle East. However, market structures of each automobile segment produced in Thailand are different from each other. About 60-70% of passenger car production are exported, while the proportions for 1-ton pickups and other commercial car is 55-65% and 35-40%, respectively.

Table 4.13: Thailand's Motor Vehicle Production by Unit, 2010-2016

	2010	2011	2012	2013	2014	2015	2016
Passenger Car	554,387	573,987	957,623	1,066,647	742,748	761,346	805,033
Commercial Car	24,158	20,608	43,842	55,440	23,695	-	-
One-ton Pickup	1,066,759	899,200	1,452,252	1,332,913	1,114,778	1,151,656	1,139,384
Total	**1,645,304**	**1,457,795**	**2,453,717**	**2,455,000**	**1,881,221**	**1,913,002**	**1,944,417**

Source: Thai Automotive Institute, (2017)

According Thai Automotive Institute, the number of Thailand's car production reached to 2,453,000 units in 2012 and 2013, an increase of 40.5%, both car production and sales in Thailand are the largest in ASEAN. *"Along with the Thailand automobile industry booming, plastic injection molding for auto parts are growing fast, 90% of automotive parts are produced by injection molds, this is a huge market for Japanese mold making factories", the president of mold machinery said (S3).*

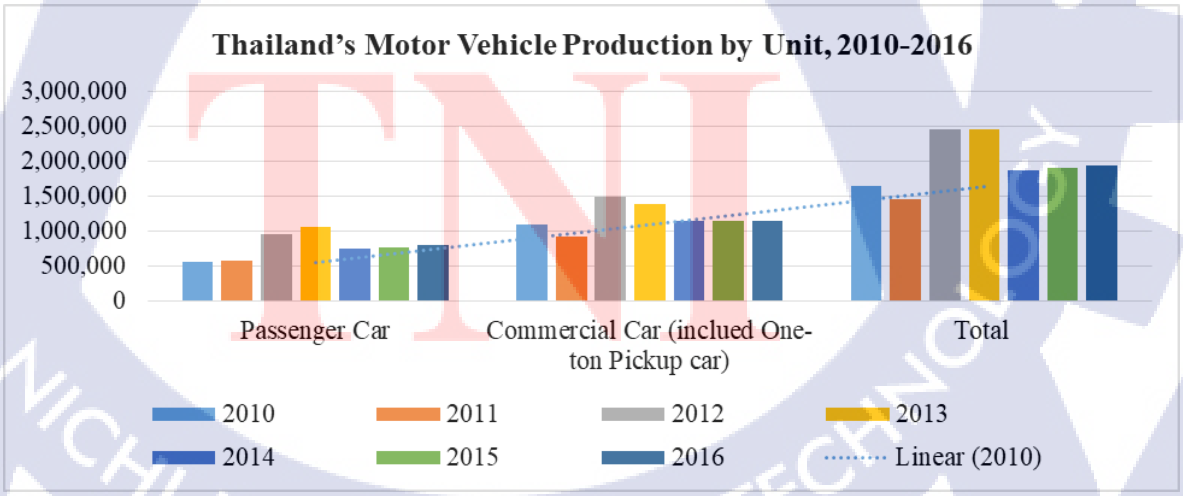


Figure 4.10: Thailand's Motor Vehicle Production by Unit, 2010-2016
Source: Thai Automotive Institute, (2017)

The company S4 is one of the largest OEM automotive systems, automotive service parts and components for major automakers. The company global network are locate in several regional around the world as detail exhibited in Table 4.14 below;

Table 4.14: Company (S4) global network

Regional	Location (Sites)	Employees (People)	Revenue (US$ Billion)
Global	191	154,439	40.4
Japan	63	67,601	23.9
North America	20	22,325	9.6
Europe	35	16,312	5.1
Asia	59	45,125	10.2
South America/Other	6	3,130	586.6 Million

In Japan company S4 located in 63 sites worth 23.9 Billion US$ and employment 67,601 people. In ASEAN+6 located in 59 sites worth 10.2 Billion US$ and employment 45,125 people. Bases on the research sample, we make an interview with Regional Business Affairs of company subsidiaries in Thailand (S4) as the ***'Regional headquarters for Asia'***. This subsidiaries (S4) was established in 2007 with registered capital 752 Million Baht and the employment of 349 people. The business type is design and development of automotive components.

In ASEAN perspective, company (S4) have located in Singapore 2 subsidiaries (Sg1-Sg2), Thailand with 9 subsidiaries (T1-T9), Indonesia 7 subsidiaries (I1-I6), Philippines 2 subsidiaries (P1-P2), Vietnam 2 subsidiaries (V1-V2), Cambodia 2 subsidiaries (C1-C2) and Myanmar 1 subsidiaries (M1) (refer to Table 4.15: Company D Subsidiaries in ASEAN Regional). Based on the company profile, Thailand (T2) was established in 1972 as the first subsidiary in ASEAN producing electrical automotive components, car air conditioners, magnetos for motorcycles and spark plugs. In 1975 or 3 year after Thailand the second subsidiaries in ASEAN was established manufacturing in Indonesia to producing air conditioners, radiators, spark plugs and filters.

Thailand location seem as the production base of company (S4) which located of 9 subsidiaries and T-1 is the Regional headquarters for Asia. There are 4 manufacturing (T4-T8) were established in 2002 to produce fuel injection system products (T4), manufacture of oil filters (T5), sale of automotive components (T6) and manufacturing relays and flashers (T7). Recently, in 2012 company S4 has

located manufacturer car air conditioner hoses and pipes at Pinthong industry estate Chonburi province. Thailand subsidiaries consider large business enterprise started from 200 up to 3,000 employee.

Table 4.15: Company S4 Subsidiaries in ASEAN Regional

Asia	Sub.	Est.	Employee	Business types
Singapore	Sg-1	1998	120	Regional headquarters for Asia, Sale of aftermarket products
	Sg-2	2016	-	Product design for Rockwell Automation
Thailand	**T-1 (S4)**	**2007**	**337**	**Regional headquarters for Asia** Design and development of automotive components
	T-2	1972	3,485	Manufacture electrical automotive components, car air conditioners, magnetos for motorcycles, and spark plugs
	T-3	1987	137	Manufacture and sale of dies and jigs for automotive equipment
	T-4	2002	2,982	Manufacture fuel injection system products (fuel pumps and injectors)
	T-5	2002	825	Manufacture oil filters
	T-6	2002	135	Sale of automotive components
	T-7	2002	183	Manufacture relays and flashers
	T-8	2003	780	Manufacture fuel pump modules and diesel fuel filters
	T-9	2012	237	Manufacture car air conditioner hoses and pipes
Indonesia	I-1	1975	2,299	Manufacture, sale car air conditioners, radiators, spark plugs & filters
	I-2	2004	148	Manufacture, sale of automotive components & after-sale service
	I-3	2011	1,869	Manufacture, sale of compressors for car air conditioners
	I-4	1997	2,584	Manufacture power window regulator motors and electric fan motors
	I-5	1997	209	Manufacture horns
Malaysia	I-6	1980	1,363	Manufacture, sale of car air conditioners, automotive components
	I-7	1995	812	Manufacture wiper arms and wiper blades
Philippines	P-1	1995	1,681	Manufacture and sale of instrument clusters and car air conditioners
	P-2	2005	310	Design and development of software
Vietnam	V-1	2001	3,648	Manufacture and sale of air flow meters, VIC actuators, and other engine-related products
	V-2	2008	2,226	Manufacture automotive sensors and solenoid valves
Cambodia	C-1	2013	106	Manufacture sensor components for ignition magnetos
	C-2	2013	19	Repairing vehicles, selling related components, and providing its certified stores with technical guidance and managerial support
Myanmar	M-1	2013	56	Manufacture of small motor components for vehicles

Note: Data as of March 31, 2017

Particularly, in manufacturing electrical automotive components, car air conditioners, magnetos for motorcycles, and spark plugs (T2) have produced a major core automobile production in Thailand with register capital 2,816 Million Baht and employment of 3,485 people. Similarly, in 2001 company S4 established manufacturing of air flow meters, VIC actuators and other engine-related products in Vietnam (V1) with 3,648 employment. Moreover, in 2008 was established manufacturing of automotive sensors and solenoid valves (V2) with 2,226 employment. Obviously, Company S4 made decision to locate a large production sites in Vietnam (refer to Table 4.15: Company S4 Subsidiaries in ASEAN Regional).

What are the opportunities of Japanese FDI towards AEC?

According to ASEAN Economic Ministers Meeting (AEM) held in August 2006, Kuala Lumper, Malaysia agreed to develop *'a single and coherent blueprint for advancing the AEC by identifying the characteristics and elements of the AEC by 2015 consistent with the Bali Concord II with clear targets and timelines for implementation of various measures as well as pre-agreed flexibilities to accommodate the interests of all ASEAN Member Countries'.*

At the 12th ASEAN Summit in January 2007, the leaders affirmed their strong commitment to accelerate the establishment of an ASEAN Community by 2015 as envisioned in the ASEAN Vision 2020 and the ASEAN Concord II, and signed the Cubu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015. **In particular, the leaders agreed to hasten the establishment of the ASEAN Economic Community by 2015 and to transform ASEAN into a region with free movement of goods, services, investment, skilled labour and free flows of capital.**

ASEAN Economic Community (AEC) was introduce as the blueprint of '**single market and production base'** shall comprise five core elements *(i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) freer flow of capital; and (v) free flow of skilled labour.* Free flow of goods is one of the principal means by which the aims of a single market and production base can be achieved. A single market for goods and services will also facilitate the development of production networks in the region and enhance ASEAN's capacity to serve as a global production center or as a part of the global supply chain. According to the manager of Regional Business Affair, company S4 explain ***"FTA (Free Trade Area) refer to eliminated tariffs on all tariff lines at 0% by 2018 among ASEAN countries, despite, our company using the benefit of FTA since 2010, thus, we have not seen much change about the benefit that we could gain after AEC 2015"****, he said*. However, FTA come out with rules of origin which refer to ***"originating material of a party"*** means an originating goods of a party which is used in the production of another good in the

party, including that which is considered as an originating material of the party pursuant to Article 29.

Furthermore, the motive reason for Japanese investor to locate in Thailand and ASEAN countries is not only for using the benefit of AEC. In practice, foreign investors considering on national population and purchasing power of each particular countries. *In my opinion,* ***AEC is the sign of liberalization in ASEAN region to notice the rest of the world that we are ready to welcome foreign investors come to the hub of new emerging economic development regional,*** *he said, the manager of Regional Business Affair, company S4*

The AEC will establish ASEAN as single market production based, more dynamic and competitiveness with new mechanisms and measures to strengthen the implementation of existing economic initiatives; accelerating regional integration in the priority sectors; facilitating movement of business persons, skilled labour and talents. The AEC generate an opportunities for internal and external regional companies to gain the benefit from largest population of 628.9 million, this is approximately about 8.7% of world population. The GDP at current market price was 2.4 trillion US$, world GDP was 3.3%, GDP per capital 3,866.8 US$, GDP growth at constant price 4.7%. These are the indicators to confirm the effectiveness growth of ASEAN regional (refer to Table 4.16: ASEAN Regional Profile and Trade in Goods).

Total trade within ASEAN worth 2,270 US$ Billion, rate of growth of ASEAN 10.2%, rate of growth of export 8.6% and import 12%. The AEC generate share of 21.4% intra-ASEAN trade and total trade balance worth 93.92 Billion US$ as of June 2016. The total FDI inflows in ASEAN worth 119,974.8 US$ Million, rate of growth in FDI inflows 7.7% and share of intra-ASEAN FDI approximately 18.5%. These are the potential competitive indicators of ASEAN economic integration. Thus, the higher potential of ASEAN countries in AEC could generate Regional income, GDP and lead to high consumption of durable goods such as demand growth in automobile industry whereby most of car makers and car assemble belong to Japanese business. Moreover, the total ASEAN road vehicles were 317.4 per 1,000 population, particularly in Vietnam road vehicles were 17.9 per 1,000 population while the GDP

growth at 6.7% constant price. These are the attractive opportunity of these Japanese FDI toward ASEAN regional. As of this point, supported by the interview data that ***"the growth of AEC generate ASEAN countries income with the high demand of car consumption, especially in Vietnam whereby occupancy rate of passenger car still low"*** *he said, the manager of Regional Business Affair, company S4.*

Table 4.16: ASEAN Regional Profile and Trade in Goods

REGIONAL PROFILE		TRADE IN GOODS	
Land Area (Million Sqkm)	4.5	Total Trade (US$ Billion)	2,269.9
Population (Million)	628.9	Total Trade as % GDP	93.3
Population Density (persons per sqkm)	140.1	ASEAN +3 Total Trade (US$ Billion)	8,463.4
Population as % World Population	8.7	ASEAN +3 as % of World Trade	25.5
ASEAN+3 Population (Million)	2,181.1	ASEAN +6 Total Trade (US$ Billion)	9,593.9
ASEAN+3 as % World Population	30.2	ASEAN +6 as % of World Trade	28.9
ASEAN+6 Population (Million)	3,502.5	Ratio of Trade Compared with 5 years ago (%)	1.1
ASEAN+6 as % World Population	48.5	Rate of Growth of ASEAN Trade (%)	(10.2)
GDP at Current Market Prices (US$ Trillion)	2.4	Rate of Growth of Export (%)	(8.6)
GDP as % of World GDP	3.3	Rate of Growth of Import (%)	(12.0)
GDP per Capita (US$)	3,866.8	Share of Intra-ASEAN Trade (%)	24.1
GDP Growth at Constant Price (%)	4.7	Share of Intra-ASEAN Trade 5 Years ago (%)	25.4
ASEAN+3 GDP (US$ Trillion)	18.9	Trade Balance (US$ Billion)	93.92
ASEAN+3 as % of World GDP	25.9	Trade Balance with China (US$ Billion)	(77.59)
ASEAN+6 GDP (US$ Trillion)	22.4	Trade Balance with Japan (US$ Billion)	(10.41)
ASEAN+6 as % of World GDP	30.6	Trade Balance with ROK (US$ Billion)	(30.51)

Sources: ASEAN Statistical Leaflet Selected Key Indicators (2016)
ASEAN Secretariat, UNCTAD, UNICT

Notes:
- ASEAN+3 covers China, Japan and Republic of Korea
- ASEAN +6 cover ASEAN+3, Australia, New Zealand and India
- GDP data as of 1 July 2016
- Trade data as of 23 August 2016
- Foreign Direct Investment as of 30 June 2016

'Free flow of goods' is one of the strategy used by AEC to attractive of foreign investors, means by which the aims of a single market and production base can be achieved. A single market for goods and services will also facilitate the development of production networks in the region and enhance ASEAN's capacity to serve as a global production center or as a part of the global supply chain. Through ASEAN Free Trade Area (AFTA), ASEAN has achieved significant progress in the removal of tariffs. However, free flow of goods would require not only tariffs. However, free flow of goods would require not only zero tariffs but the removal of non-tariff barriers as well. In addition, another major component that would facilitate free flow of goods is trade facilitation measures such as integrating customs procedures, establishing the ASEAN Single Window, continuously enhancing the Common Effective Preferential Tariffs (CEPT), **Rules of Origin (ROO)** including its Operational Certification Procedures and harmonizing standards and conformance procedures.

Despite, the Rules of Origin (ROO) become the limitation for free flow of goods within ASEAN and its partners trade as such *'originating goods status'* must be calculate by Regional Value Content (RVC). **The RVC must equal at least 40 % of the free-on-board (F.O.B)** value of the good before it can be considered as an originating good under the FTAs ROOs. The direct and indirect formula calculation is performed according to the following equation;

Thus, FTAs is not just eliminate tariffs, they also address behind-the-border barriers that impede the *'flow of goods and services'* between parties, encourage investment, enhance competitiveness of Thailand exports in the partner market and add to the attractiveness investment destination (refer to Figure 4.11).

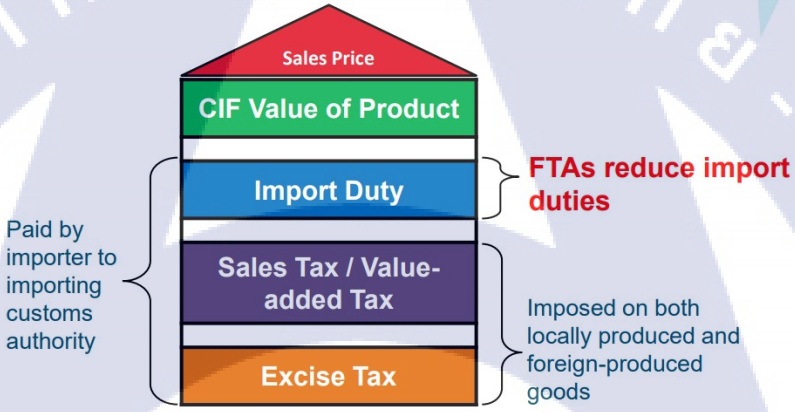


Figure 4.11: Trade in Goods Benefits
Source: Lee, (2012)
*__Note:__ CIF = Cost Insurance and Freight

Table 4.17: Thailand is the Party to FTAs with Japan

	ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP)
Parties	▪ ASEAN-Japan countries (Singapore, Malaysia, Indonesia, Philippines, Brunei, Thailand, Cambodia, Laos, Myanmar & Vietnam) and Japan
Coverage	▪ **Trade in Goods** ▪ Other Chapters are still under negotiations
Flow of Goods Back-to-Back Arrangement or Third Party Invoicing	▪ Yes
Rule of Origin (ROO)	▪ Wholly Obtained ▪ General Rule ▪ Product Specific Rules
Preferential Certificate of Origin (PCO)	▪ From AJ (Cert Type 25) ▪ Back-to-Back AJ (Cert Type 26)

Source: Lee, (2012)

According to the interview, the manager of Regional Business Affair, company (S4) explain that ***"our company gain the benefit of FTAs through the***

adoption of common Rules of Origin (ROO) at minimum 40% local content", he said. As of the example in the Figure 4.12, Indonesia gain the benefit from FTAs while not significant in Thailand due to Singapore local content less than 20%. Thus, car maker more preferable to import automobile parts within ASEAN countries.

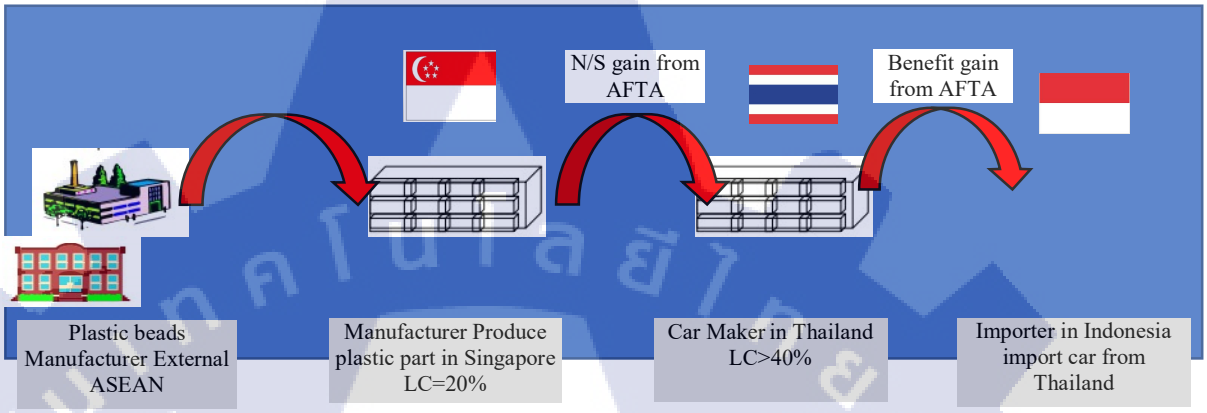


Figure 4.12: Rules of Origin (ROO)
Source: Self Adapted

AFTAs can increase Thailand productivity and contribute to higher GDP growth by allowing domestic businesses access to cheaper inputs, introducing new technologies, and fostering competition. FTAs promote regional economic integration and build shared approaches to trade and investment, including through the adoption of common rules of origin and through broader acceptance of product standards. Giving the example, by using the benefit of FTA via ROO Thailand export car and auto parts to Indonesia at 0% exist tax. Thus, ***"FTA motive Japanese FDI and car auto maker to localization plants in Thailand"***, *data bases on the interview of Regional Business Affair manager, company S4*

Company S5 is one of the large Japanese manufacturing in automobile assemble. The company operate since 1996 with recently registered capital 212 million baht. The company business description on production and sales for precision mold, mold parts, plastic injection parts. Production line on precision mold, mold parts, plastic injection parts for automotive, electronics and others. The company product supply to our customer in several business types such as car marker

Mitsubishi Motors, Nissan, Anippo, TSC: Thai steel cable, Autotec, Panasonic and Kamaya etc.

The company history in brief established in 1996 as the International Joint Venture (IJV) classified by 40% own by Japanese partner (mold maker company) and 60% own by Thailand partner (local injector company). In 2000 the company manufacture relocated to Bangplee Industrial Estate. In 2004, the company achieved accreditation Quality Management System ISO/TS 16949:2002. In 2006, the company established R&D Center building and achieved accreditation environment management system ISO 14001:2004. In 2012, IJV transferred automotive connector business to Japanese partner then they change the majority of shareholder to Japanese partner and also changed company name. In 2014, Thai partner sold all 100% shares to Japanese partner.

The company S5 is the leading manufacturer of precision mold in Thailand for more than 20 years. They takes pride in exceeding customer's expectations by delivering quality products at competitive prices with personalized customer support that is unmatched by the competition. The company operation performance enable to exceeding customers' expectations, by building a quality product at a competitive price with on-time deliveries, and continued customer support. The company quality management is comprehensively documented in a number of quality manuals and process statements. Our production facilities are certified according TS16949. Numerous successful quality audits and awards from both customers and public authorities bear witness to the success of our quality efforts. These are the key success factors to do business in Thailand.

In 2015, the company sales classified by segment are such as 46% injection, 19% connector (part connector), 19% mold, rubber (wire seal) 5%, harness 5% and 6% trading. Despite, in 2016 harness part such as back sonar sensor harness disappear in forecast sales this may replace by *new product injection part such as speedo meter and bracket.*

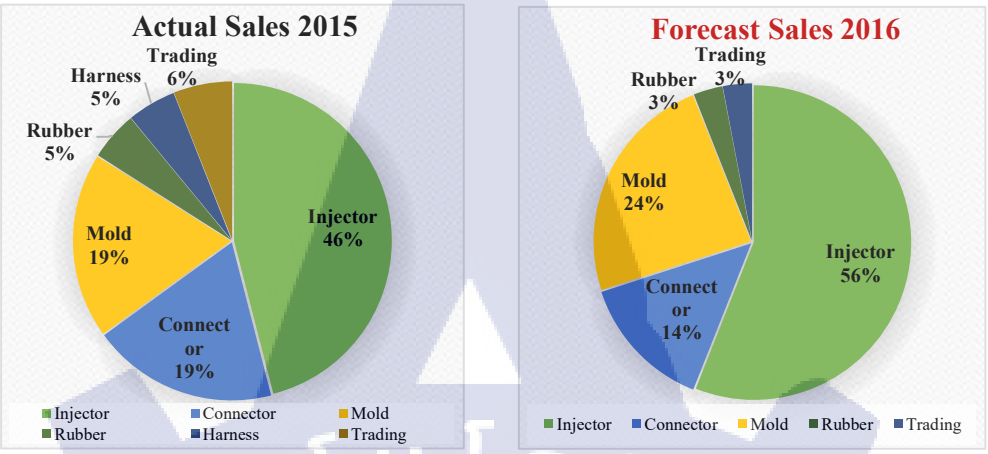


Figure 4.13: Sales by Segment
Source: Company E Annual Reported, (2016)

What is a difference between before (Dec 2015) and after (Jan 2016) AEC?

According to Executive Vice President (EVP), Company S5 who has been working in Thailand precision mold business over 20 years. *"In my opinion I have not seen any much more difference than before, however, the market become larger than before",* he said. Moreover, AEC leading us to find out new business opportunity due to contact with ASEAN countries easier than before.

The company (S6) headquarters in Oshino-mura, Yamanashi Perfecture, Japan established in 1972. The headquarters is located in its forestland spanning 1.7 million square meters at the foot of mountain Fuji. The company business units are robot laboratory, robot system division and robot domestic sales division/oversea sales division. The company subsidiaries are located mainly in three regional such as America, European and Asia. In Asia region such as in China located in Beijing and Changhai, Korea, Taiwan, India, Thailand, Malaysia, Indonesia, Singapore, Philippines and Vietnam. Particularly, the subsidiary in Bangkok Thailand is provided CNC (computer control system), robot system and robomachine sales and services and laser services.

The managing director (MD) in Thailand subsidiary who have been working in Thailand over 14 years explained that *"our company own market share 75-80% in Japan",* (the rest about 17% belong to Mitsubishi). In globally share market about

63% belong to us and 23% belong to Cement (Germany) and so on. Thus, this company consider the largest in global market leader of robot system.

Based on the company technology we have three division are as factory automation (FA), robot machine and injection mold (plastics mold). In mold division we have lot of customer whereby our parts is smaller and precise to use in FA. The company manufactures all of its products in the highly automated factories located at headquarters as well as in Tasukuba and Hayato. Thus, our company import 100% robot machine from Japan because all the robot produce in Japan manufactures.

For instant, the robot factory has capacity to produce 5,000 robots a month. The automated assembly systems with a large number of our intelligent robots assembly robots which continuously undergo tests and inspection in the testing area. In this year 2017 we increase capacity to 6,000 robots a month and for the next year will achieve the number of 11,000 robots a month in 2018. In Thailand we sold about 300-400 robots annually, our client are mainly from automobile industry, food industry and medical industry. For medical industry mostly required precision mold fix for the medical equipment and the hospital is the end user. The sale volume in Thai market is rather small portion which we are not yet satisfied, actually, in fact the potential of Thailand market can go to 500-600 robots annually. Despite, getting a profit in Thailand quite hard due to high competition in this business.

What are the opportunities of Japanese firm in ASEAN and Thailand?

To compare with Thailand and Malaysia, Malaysia is more technological in medical industry and aerospace while Thailand still in tag along behind. There are demand in Thailand domestic automobile market and also export to oversea market. Japanese use the benefit of Thailand location advantage and natural resources for their exporting production based to oversea market.

Since the Japanese business community is here (in Thailand), the strong logistic system and punctual delivery time are stable. This contributing to Thailand business performance and reputation that can't erode by other ASEAN nation's competition, specially, in automobile industry. Despite, to be localization Japanese

company should be transfer their technology to Thai local business. By technology transfer and management knowhow will be enable the local firm to generate their own innovation that would be a benefit to domestic customer to get new product at cheaper price. As of this BOI needs to assists by using regulation support.

What are the benefit your company gain from AEC-2015?

Since the liberalization of AEC 2015, we expected to gain the facilities of free flows of goods, service, money, technology and transportation in among ASEAN countries. In practice, these expectation still not liberalization, so, what we visualizing is transportation infrastructure (road/ bullet train) that they connecting road all around border areas. In my opinion, AEC liberalization still limited, particularly on visa (Thailand to Myanmar still needs entry visa), tax barrier still existed that is hard to eliminate. In reality, if Thailand want to export automobile parts to Malaysia that means Thailand will be a take a share market from existed local producer. These are the issues causing difficult to AEC liberalization.

The AEC may change the trend of investment whereby the investor may changing their expected location to export and gain more market share. The type of our business is sale robots to the manufacturing in domestic country so we are not concerned on exporting. In Thailand market we doing after sale service business to maintain automatic machine. For the nearly future, we plan to established subsidiary in Myanmar to curve with demand in manufacturing sector growth. These are the opportunities that our company can curve with, *he said, managing director S6.*

During flooding crisis in 2011, about 6,000 machines were damaged, that time manufacturing sector in Thailand are suffering a lot of production problem with this disaster. They have spent large amount of money to get repairing these machine and also buy the new one if still belong to insurance.

The company (S7) was found in August 2003, we have been providing total solutions to customers in Thailand where industries are growing rapidly. More than just a supplier of machine tools. The company also committed to providing customer

with value-added technical solution. The company subsidiaries were located in EU, Singapore and China.

In South-East Asia, the company headquarter and manufacturing located in Singapore. Singapore headquarter was import parts to combine a machine from Japan mother company. There are subsidiaries under the supervising of Singapore headquarter such as Thailand, Malaysia, Indonesia and Vietnam. These countries are import mold machine from Singapore. In Thailand the head office in Bangkok and service center (engineering and repairing units) in Sriracha Chonburi.

In 2003, we decided to enter Thailand market due to Japanese customers (suppliers in manufacture sectors) located here and also we get loyalty Thai company customer. However, in recently, we have not seen much new comer investors from Japan due to highly competitive in Thailand. Most of new investment (horizontal & vertical investment) came from exist market player in Thailand.

What are the opportunities of Japanese firm in ASEAN and Thailand?

Thailand manufacturing sectors are in the mature stage, then the government and business man are seeking in other business sector like aerospace to increase national value added. In doing so, our company already done on these particular business like aerospace, medical robots and medical tools via intensive support by Thai government. The company try to move to this type of industry whereby our client trend to increase.

The company subsidiaries in ASEAN are located in Singapore, Thailand, Vietnam, Malaysia, and Indonesia. For the future investment (long-term) we plan to open a new subsidiary in Myanmar because of market potential in automobile and agriculture industry. However, we are not ready to entry Myanmar in nearly further cause by social instability and unfamiliar with local market. That is we needs time to learn with this market.

Moreover, since 2016, the company sale volume has increase about 30% which we are satisfied with the performance. In the nearly future, we will increase

capacity of service units in Chonburi to curve with the demand, *he said, the general manager S7.*

The company (S8) was established in 1 8 9 5 , the business activities are basically based on warehouse, stevedore, and transportation and so on. The company strength expertise to handle logistic on automotive industry, chemical and retails business. *"We have only one subsidiaries in Thailand and we are satisfied with our annually profitable", he said, managing director S8.*

The performance of our subsidiary in Thailand consider in the medium level. Despite, Thailand economic has been decline but our company always getting new customer in Thailand. Our company gain benefit from AEC in such matter are as customs deregulation, free trade areas (FTA) and facilitate in among boarder transportation. Thus, as of this, our company gain an opportunities for expand our logistics services to ASEAN countries*, he said, managing director S8.*

The company (S9) was established in February 5, 2002 before move to Lad Krabang industry estate. This company is one of the fastest growing company in Thailand that trades in ferrous and non-ferrous metals. The company vision is to serve tailor made material and logistic solution to our customers in Thailand and South-East Asia region.

"Our company international corporation imports aluminum, copper, brass, stainless and steel materials worldwide". We are number one priority to strive continuously searching for the best quality and quantity that fulfills to our customer demands, *he said, managing director S9.*

In my opinion, the trend of Japanese investment in ASEAN arise when the large car maker are established in ASEAN such as Toyota, Honda then there would be a large number of MSMEs firms set up to suppliers automotive parts to these car makers plants in those particular countries. Thus, the important point is '***how to promote these companies to invest',*** by offering special investment intensive policy and so on, *he said, the managing director S9.*

The aluminum parts we imported from China, Korea, Malaysia and Japan (10%) and distribute in domestic market. Our major client is minibar (a minibar is a small refrigerator from absorption cooling unit to compressor). The company has joint business counterparts (Joint Capital) in Malaysia, Philippines, Vietnam and Singapore (service center). We started to export (a very small number) to ASEAN countries such as Malaysia Singapore and Philippines in 2008 until present. However, we focus in domestic market rather than international market. ***The overall company profitability is about 3% whereby we have not seen clear picture of Thailand and ASEAN opportunity in AEC-2015,*** *he said, the managing director S9.*

The company S10 was established in 1957, located in Bangkok office, Amata Nakorn industrial estate and Hemaraj eastern seaboard industrial estate. The company activities on imports, exports, brokerage, processing product, services, trading and retailing in Thailand and worldwide. The organization structure divided into several division and sub-department are such as below;

Metal division: metal planning dept., steel products sales dept., steel raw material & recycle dept., non-ferrous metal dept. **Machinery division, and global parts & logistics division:** global part dept., industrial materials & auto parts dept., accessory business development dept., automotive parts depts., G.S. logistic assembly dept., techno park dept., global parts & logistics management dept. **Chemical & electronics division:** chemical planning dept., chemical dept.1-2. **Food and consumer services division:** food & CS planning dept., food & consumer services dept. **Automotive division:** automotive dept. **Administrative division:** HR dept., GA dept., IT dept., accounting dept., finance dept., corporation planning & RM dept., logistic compliance management dept., safety & environment dept., internal audit dept.

The company structure are classified into several department concerned to automobile industry. The company S10 cross ownership by using joint venture strategy (JV) with the local supplier in each department, ***this is called vertical investment***. The main customer are Toyota motor Thailand Co., Ltd; Hino Motors manufacturing (Thailand) Ltd.; Isuzu Motors Co., Ltd.; Mitsubishi Motors Co., Ltd.,

Denso (Thailand) Co., Ltd.; Denso oversea (India, Malaysia, China etc.); PT. Koyo Jaya Indonesia. ***There are over thousand customer both domestic and international markets,*** *he said, Executive Vice President Director (EVP) S10.*

Our company is OEM Joint Venture firm mainly doing business in importing and exporting automobile parts and domestic logistic. The major exporting destination countries are as Indonesia, Malaysia, Philippines, India and South-Africa etc. ***Since the established of AEC in 2015, we have not seen any significantly changed in our business. The FTAs (Free Trade Agreement) come out with several condition so we still keep paying customs duty for import and export product like before AEC,*** *he said, Executive Vice President Director (EVP) S10.*

The company S11 was established in 1979 as the expert of pre-treatment, rust preventive and heat treatment business which is the important function for enhancing quality of product. From the beginning to nowadays this company has experienced in these fields of business and constantly attended to the research and development focusing in environmentally-friendly technology which meets with the customer requirement as well.

The company subsidiaries were located in 3 main industrial estates to support our customer. Namely; (1) Bangpoo Industrial Estate; (2) Gateway City Industrial Estate; and (3) Hemaraj Eastern Seaboard Industrial Estate. In doing so, the company operates in 3 main businesses that is (1) chemical business involves with pre-treatment chemical and rust preventive products; (2) heat and surface treatment service for various metals; and (3) Thai technical center provides the analysis and technical support regarding chemical and metallurgical field.

"I have been working in Thailand for 2 years, before I come to Thailand I am scare about military government. When I reach to this country I fell that Thai society has well organized and Thailand economic direction getting in the right track", *he said, the president S11.*

After flooding crisis in 2012, the company trend to focus more on research and development (R&D) by established laboratory and technology centers in 2013; in the

year after established new surface treatment plant in 2014. For the further investment, we plan to invest on research development in production after consulting an agreement with our parent company in Japan. Recently, we co-research with Thai university in object to improve production capacity and quality control. Our research budget approximately 5% of total sale volume (2% exclude researcher salary). The production capacity, we using full-time and part-time employee classified by divisions. The major raw material we using localization and about 10% import from Japan.

Any different benefit and opportunities before and after AEC?

There are non-significantly difference before and after AEC-2015. We are using the benefit of FTAs from import chemical material for production. We are doing two type of chemical business such as chemical production and chemical in automobile industry. In chemical product our competitor is Nippon Pain which consider the huge company, while in automobile chemical we are rather huge company due to MSMEs and Thai SMEs engaged in local share market*, he said, the president S11.*

The company S12 was established in 1964, its activities starting with the sale of imported motorcycles and power products (multi-purposed engines). Its first manufacturing plant was at the Bang Chan Industrial Estate. In 1984, the plant was relocated to Ayuthaya province. In 2008, the company (S12) increased its investment in Thailand with the opening of a second factory. Although company S12 involvement in the Thai automotive industry started later than other manufacturers, in just 3 decades it has achieved great success. The company S12 has many dealers located in almost every province in Thailand. This is intended to provide company's customers with the broadest service coverage and meet the fast-changing demands of consumers.

Presently, the company S12 automobile plant at Rojana Industrial Park, Ayuthaya province, not only manufactures vehicles for sale domestically, but is also

the production base for global exporting. This production base greatly aids in bringing much needed revenue to the country.

The first question was started by, "*What about your export ratio?"* Our company export auto parts and finish car or complete body 50% and 50% auto parts of sale volume. The domestic sale volume 50% and international sale volume 50%. Few years ago domestic consumption has little slightly down then lead to increase in export ratio, *he said, the general manager administration S12.*

Do your company gain the benefit and opportunities from AEC?

Actually, our company has run the benefit of FTAs with Australia as the major export destination while we didn't gain the benefit of FTAs in ASEAN counterparts. However, the established of AEC has no any significant change in our business. The free flows of goods and service has not clear such as labour liberalization. In Thailand, we have problem on unskilled labour (maids), for skilled labour we are in the competitiveness position. Thus, there are no any significant change before and after AEC, *he said, general manager administration S12.*

As of the research finding based on twelve Japanese subsidiaries in Thailand which located in Thailand over 10 years and more than several decade. It's indicated that Thailand still attractiveness in term of location advantage, production resources and customer demand. Thus, Thailand manufacturing sector has an opportunities to growth, as long as, these firms attempt to increase of their investment and transformative of labour intensive to high technology (robotic system). Moreover, they are changing the organization structure by using localization strategy to be competitiveness in ASEAN region and worldwide.

4.4.3 Japanese Government Officer in Thailand (Opportunity Perspective)

After conducting interview data from Japan headquarter company in Tokyo Japan and twelve Japanese subsidiaries in Thailand. Then these data will be back up by Japanese government office in Thailand such as JETRO and Embassy of Japan in Thailand.

The study conducted interview data with Japanese government officers in Thailand then analysis based on theoretical approach as exhibited in Table 4.18 below;

Table 4.18: Japanese Government Officer Perspective

No.	Interview Position	Business Type	Is Thailand still competitiveness?	Attractive industry (Opportunity)	The overall Thailand Economic
JETRO	Senior Investment Advisor	Promoting Japan Outward Investment	▪ Yes	▪ Large number of Japanese Large, Medium and Small size ▪ Growth of service sectors such as travel service ▪ After sale service ▪ Aftermarket business	▪ Attractiveness
Japan Embassy	Commercial Attaché'	Promoting Japan Outward Investment Monitoring Thai-Japan Investment Policy	▪ Yes	▪ Eastern Economic corridor (EEC) ▪ First choice destination of Japanese investors.	▪ Attractiveness

*__Note:__ The sampling of the study was collected in Thailand
JETRO, (May, 2017) and Japan Embassy, (October, 2017)

The research finding of Japanese government office in Thailand will be representing in the following sections.

Japan External Trade Organization (JETRO)

JETRO Bangkok, has positioned itself as a major JETRO branch among some 80 JETRO overseas offices, and as a coordination center among offices located in Thailand and Asia Regional. Underlining of the third pillar, JETRO's office in Bangkok established in 1959, it's has played a prominent role in sustaining and strengthening bilateral trade and investment between Thailand and Japan. *Over the past three decades, JETRO Bangkok has contributed to increasing Thai exports to the Japanese market and to creating awareness of the attractiveness of the investment environment in Thailand on the part of Japan's business community.* Thus, JETRO Thailand is committed to helping Japan SMEs continue to be a trusted Thailand economic partnership. There are several functioning of JETRO Bangkok are such as the following;

Firstly, working with Thai companies to helping them strengthen industrial competitiveness, as well as export markets, upgrade business-related systems and nurture human resources.

Secondly, supporting Japanese enterprises, especially SMEs, to build stronger business ties in ASEAN, China, India and the rest of East Asia, with the aim of further revitalizing the Japanese economy.

Thirdly, facilitating the business of Japanese companies in these countries, by working with governments in the region to improve investment environment and intellectual property protection.

Forth, facilitating a globally competitive investment environment and identifying Japan's attractiveness as an investment destination and promoting this to foreign investors.

Finally, contributing to promoting an Asian economic zone underpinned by a free trade and investment framework.

Act up on the JETRO functioning, the study have been interviewed Senior Investment Advisor, Director of Investment Cooperation Department, JETRO Bangkok. He said that JETRO Bangkok, is a non-profit organization, we are willing to provide the information/investment report for support Japan SMEs business in Thailand. For the start-up business please **"Talk to JETRO first"**, we providing a multifaceted support, including one-stop-services for bilateral and multi-lateral Thai-Japan economic partnership agreements (EPAs).

JETRO is the one stop service for Japanese investors who are seeking for outflows investment. Despite, Japanese SMEs are enjoy using labour intensive whereby unskilled labour available at cheap price in CLMV countries. As the result, some of Japanese SMEs in Thailand expanding their subsidiaries started from the connecting Thai-Lao border area such as Nong Khai province to use of cheap labour in Lao and re-entry to Thailand. Recently, the trend of Japanese investment in Thailand are more oriented in service sectors such as travel service (HIS), after sale

service and repair business trend to increase since AEC-2015 *he said, Senior Investment Advisor, Director of Investment Corporation Department, JETRO Bangkok, Business Support Center in Thailand.*

Embassy of Japan in Thailand

To support the overall Thailand investment opportunities, commercial attaché, embassy of Japanese in Thailand were asked in the specific content below;

What about the trend of Japanese investment in Thailand? And;

Is Thailand country economic still attractive via the perspective of Japanese investment?

The overall Thailand economic still attractiveness and there are many opportunities to do business in Thailand by supporting of Eastern Economic Corridor Development Projects, *he said, commercial attaché, embassy of Japan in Thailand.*

Eastern Economic Corridor (EEC), pitting Thailand 4.0 in action via area-based development. Thailand industrial policies moving toward new technology with inclusive growth by target on five new industries namely (1) robot for industry: upgrade two existing (1.1) automobile for the future and; (1.2) smart electronics; (2) Medical industry focus on high-income tourism and healthcare tourism; (3) bio energy and chemical upgrade two existing (3.1) agricultural and bio technology and; (3.2) processed food industry. These industries will be supporting by digital economic (refer to Figure 4.14)

Figure 4.14: East Economic Corridor (EEC)
Source: Ministry of Industry, February 2017
http://www.boi.go.th/upload/EEC%

The beginning of the Thailand's Industrialization, the first industrial clusters for exports: textiles, electronics, automobiles. The first energy and petrochemical complex Maptaput: refinery, gas separation plant, plastic and chemical. The first integrated infrastructure for industrial needs Leam Chabang seaport, motorway, and double track railway.

As of ECC development project, Thailand expected to be highly successful and famous destination for FDI. Exports expected to raise 12%, industry grew 12%, and economy grew 7% per annum during the first 20 years (Ministry of Industry, February 2017). There are target industries exhibited in Figure 4.15 below;

Figure 4.15: Target Industries in East Economic Corridor (EEC)
Source: Ministry of Industry, February 2017
http://www.boi.go.th/upload/EEC%

The opportunities of Japanese investors in ASEAN

EEC is the best strategic location of the region to attractive a large of FDI to AEC in general and Thailand in particular. It will represent the largest investment projects in ASEAN in term of budgets and area. Combined GDP of East Asia, ASEAN, India region represents 1/3 of world's GDP, gate way to Asia reaching more than half of world's population (refer to Figure 4.16).

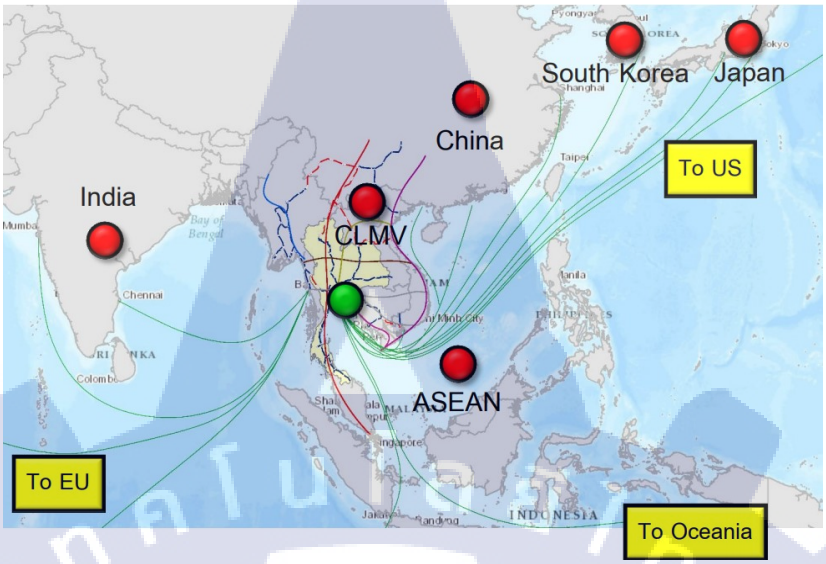


Figure 4.16: East Economic Corridor (EEC)
Source: Ministry of Industry, February 2017
http://www.boi.go.th/upload/EEC%

Based on Thailand location is located in the middle (see Figure 4.16), it is more competitive advantage location for MNEs and Japanese companies used Thailand as production based to export commodities (such as product from target Industries in EEC in Figure 4.13) to ASEAN regional, *he said, commercial attaché, embassy of Japan in Thailand.*

According to commercial attaché, he explain that Thailand is the first choice destination via the Japanese investor perspective. This is because of a large number of suppliers in Thailand automobile supply chain which they have been located in Thailand over than 60 years. The long impressive history of Thai-Japan trading which has no any other ASEAN nations are similar.

Thus, Thailand still competitiveness by several supporting reason. As of the Thailand 4.0 smart technology with smart people. Thailand needs to improve the capacity, product innovation to match with the real demand based on the Thailand road map (refer to Figure 4.14 and 4.15). With all these routes Thailand enable to improve the national gross domestic product (GDP) and make a result to overcome middle income trap.

4.5 To Explore the Attractive Countries for Japanese Investment in ASEAN Region

Objective 4: To explore the attractive countries for Japanese investment in among ASEAN countries.

Table 4.19: The Attractive Countries in ASEAN

No.	Interview Position	Nationality Share-holder	Business Type	Attractive Countries in ASEAN	Trend of Investment (Recently)	Investment Position in Thailand	Thailand Economic Performance
S1	Vice Chairman	Japan 90% Thai 10%	▪ Manufacture & sale snack foods	▪ Thailand ▪ Malaysia ▪ Indonesia ▪ Vietnam	▪ Plan invest Malaysia in 5 years	▪ Maintain degree of investment	▪ Profitable
S2	President	Japan 90% Thai 10%	▪ Air condition parts	▪ Philippine	▪ Horizontal	▪ Good supplier ▪ Royal customer	▪ Profitable
S3	President	Japan 100%	▪ Machinery & Tooling ▪ Mold Business	▪ Thailand ▪ Indonesia ▪ Philippines ▪ China ▪ ASEAN+3	▪ New office investment 600 Mil Baht in 2015 (S3) ▪ Eco-car/ Suzuki has invested 10 Bil. Baht	▪ Bargaining power of Japanese firms in Thailand ▪ Internal & external trade policies effected on Thailand export volume (see detail in report) ▪ Strong logistic	▪ Profitable
S4	Regional Business Affair	Japan 100%	▪ OEM Auto Systems & Components ▪ Automotive Service Parts & Accessories	▪ Vietnam ▪ Indonesia ▪ Myanmar* ▪ Cambodia*	▪ In 2013 new invest Myanmar& Cambodia	▪ AEC generate Thailand with high demand of car consumption ▪ Thailand production platform on export	▪ Profitable
S5	Executive Vice President	Japan 100%	▪ Precision Molds, Plastic ▪ Injection Parts ▪ Assembly Part	▪ Thailand ▪ Indonesia ▪ Philippines	▪ Our parent established new plants Indonesia ▪ Needs BOI supported	▪ Thailand economic in a good health and secure	▪ Strong Profitable
S6	Managing Director	Japan 100%	▪ Mold Business ▪ Robotic System ▪ Factory Automation	▪ Thailand ▪ Myanmar	▪ Thailand is 1st choice destination in ASEAN	▪ *Thailand strong logistic system can't be erode by other ASEAN.*	▪ Profitable
S7	General Manager	Japan 100%	▪ Machinery Mold Business	▪ Thailand ▪ Myanmar	▪ New invest from exist player	▪ High competitive in Thailand market	▪ Profitable
S8	Managing Director	Japan 90% Thai 10%	▪ Logistic	▪ Vietnam ▪ Myanmar	▪ Logistic	▪ Thailand location advantage	▪ Profitable
S9	Managing Director	Thai 90% Japan 10%	▪ Aluminum ▪ Copper, Brass ▪ Stainless Steel	▪ Vietnam	▪ Electronic industry in Vietnam	▪ Thailand is the maturity in manufacturing sector	▪ Less Profitable
S10	Executive Vice President (EVP)	Japan 90% Thai 10%	▪ OEM JV ▪ Trading Company	▪ Indonesia ▪ India (ASEAN+3)	▪ Medical robot ▪ Service sectors	▪ Eastern Economic Corridor (EEC)	▪ Profitable
S11	President	Japan 49% Thai 51%	▪ Chemical ▪ Automobile assemble	▪ Thailand ▪ Vietnam	▪ Automobile ▪ Chemical invest 2014	▪ New investment in Hemaraj Eastern ▪ Seaboard Industry Estate	▪ Profitable
S12	General Manager	Japan 100%	▪ OEM Automotive	▪ Indonesia ▪ Thailand ▪ CLMV	▪ Automobile ▪ R&D ▪ Localization	▪ Thailand competitiveness	▪ Profitable

Source: Primary interview data

*__Note:__ The sampling of the study was collected in Thailand (August-September, 2017)

This study are collected qualitative data interview from Japanese subsidiaries in Thailand. ***Thus, the results of the study are mainly explaining the attractive countries for Japanese Investment in ASEAN via the Japanese firms engaged in Thailand.***

Regarding to ASEAN Economic Community (AEC), the question was asked vice chairman of manufacturing and sale snack foods (S1). *"What are the benefit of your company gain from AEC?"* The Vice Chairman said that *"we have not clear about the benefit from AEC due to we are using localization material in Thailand"*. Despite, we have an opportunities to gain large sale volume from ASEAN via exporting strategy. The interesting market in ASEAN are such as Thailand, Malaysia, Indonesia and Vietnam. This is mainly considered by national population and GDP at current price while CLMV group (Cambodia, Lao PDR, Myanmar and Vietnam) not a company target due to low-income and less developed countries. However, the company gain more profitable after AEC in 2015 due to high export volume while import duty become at zero (0%).

The president of company S2 given the opinion that Thailand is prominent investment destination contribute by market size, logistic system, infrastructure and social environment. Despite, we have no plan to exploding plants at the moment but we increase our production capacity annually. The employ rate for our staff in production line are over 10,000 Baht/month, and plus over time (OT) they could earn about 15,000 Bath or above.

In our company business type, we are interesting in Philippine country due to young population attractive that guarantee lack of labour problem will not be happened. The wage in Philippines is about 200 US$ while in Thailand reach to 400 US$, approximately. As of this point make Philippine more attractiveness. ***However, we are satisfied to stay in Thailand as there are several advantage factors to supported our business and the most important is our major client are here. That make sure that Thailand still a good choice for Japanese investment destination, he said, president of the company S2.***

The next part we were questions about *"what are the attractive countries in ASEAN via the perspective of Japanese investors?"* In case of Thailand country, Japanese investors are the major player in Thailand business environment. This is seem like Thai's government has play attention and continuous supported Japanese investment inflows. As of this point, Japanese companys gain a benefit of high bargaining power with all stakeholder in Thailand, *he said, the president of mold machinery company (S3).*

Despite, Thailand flooding disaster in the last quarter of year 2011, The World Bank has estimated 1,425 Trillion Baht (US$ 46.5 billion) in economic damages and losses due to flooding, as of 1 December 2011 (Masahiko & Upmanu, 2015; World Bank, December 2011). Most of this was due to the manufacturing industry, as seven major industrial estates were inundated in water as much 3 meters (10 feet) deep during the floods (Mydans Seth, October 2011). Disruptions to manufacturing supply chains affected regional automobile production and caused a global shortage of hard disk drives which lasted throughout 2012. As the outcome of this situation, Japanese business man still be suspicious about Thailand flood prevention plan. Some of them has invested new plan in Eastern Seaboard industry estate, *the president of mold machinery company said (S3).*

Thailand automotive sales in the country reach to 1.4 million units in 2012 (see more detail in Figure 4.17). This is cause by several factors such as recovery of auto-makers from flood crisis, the unanswered demand from last year 2010, the ***'Thai government's first car buyer program'***. As of the large number of new vehicle lunches since last 2010 year, including all new pickup trucks from Chevrolet, Isuzu, Ford and Mazda, as well as eco-cars from Suzuki and Mitsubishi. Japanese small-car expert Suzuki has invested 10 Billion Bath in its eco-car programme, with production of the Swift taking place at its new plant in Rayong. Production capacity is claimed at 100,000 units per year, and approximately 50% of production were exported (Kanittha Panthong, 2012).

In 2012, after Thailand flooding disaster, the number of automobile production capacity has launched up to 2.67 million units (refer to Table 4.20: Automotive

Production Capacity 2012). According to the data record by Thailand Automotive Industry, (2012) show the major auto maker such as Toyota produced passenger car 250,000 units and pickup truck 450,000 units, following by Mitsubishi produced passenger car 150,000 units and pickup truck 250,000 units. Suzuki is the major largest eco-car producer 135,000 units (see more detail in Table 4.20).

Table 4.20: Automotive Production Capacity 2012

Factory	Passenger Car	Pick Up Truck	Others	Total
Toyota	250,000	450,000	-	700,000
Mitsubishi	150,000	250,000	-	400,000
Auto Alliance	150,000	150,000	-	300,000
Nissan	140,000	100,000	-	240,000
Honda	240,000	-	-	240,000
Isuzu	-	200,000	20,000	220,000
Ford	200,000	-	-	200,000
General Motor	40,000	120,000	-	160,000
Suzuki	135,000	-	-	135,000
Others	50,000	10,000	20,000	80,000
Total	1,355,000	1,280,000	40,000	2,675,000

Source: TAI, Feb (2012)

In the last quarter of year 2011, flooding crisis impact car production raise down to 1.5 before booth up to 2.5 in 2012. Thailand automotive production inflated demand from 1st car tax rebates reach up to 2.5 million units in 2012 to 2013. In 2014, Thailand domestic demand was decline (-22%) after the end of 1st car rebate 900,000 units. In 2015, automobile industry driven by pull-ahead demand of pickup car and eco-car export in Q4 of 2015. In 2016, weak domestic sale from hikes and low rural income, pickup car and new model exports (refer to Figure 4.17: Thailand Automotive Industries Output-Export-Sale 2011-2016).

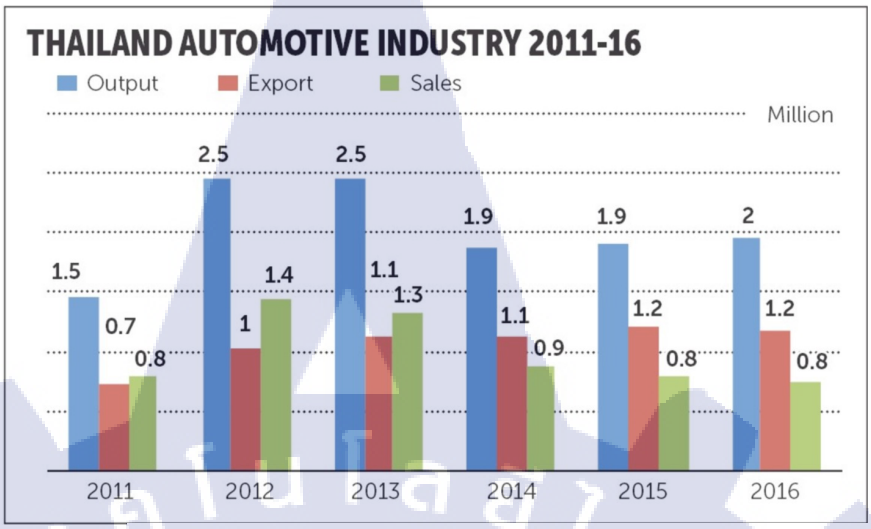


Figure 4.17: Thailand Automotive Industries Output-Export-Sale 2011-2016
Source: Federation of Thai Industries, Bangkok Post 5 Jan 2017

In 2016, Toyota was the major player auto maker which dominate 31.8% following by Isuzu 18.7% and Honda 14.2% market share in Thailand. Mazda and Suzuki has increase sale volume 12.4% and 6.3% respectively.

Table 4.21: Car Sale from Jan to December 2015-2016

Carmakers	2016	2015	Change %	Share
▪ Toyota	217,046	237,439	▼8.6	31.8
▪ Isuzu	127,654	124,292	▲2.7	18.7
▪ Honda	97,000	99,635	▼2.6	14.2
▪ Mitsubishi	48,789	50,018	▼2.5	7.2
▪ Mazda	38,043	33,838	▲12.4	5.6
▪ Nissan	37,566	44,851	▼16.2	5.5
▪ Ford	35,952	31,233	▲15.1	5.3
▪ Suzuki	19,887	18,711	▲6.3	2.9
▪ Chevrolet	12,671	15,152	▼16.4	1.9
▪ Mercedes-Benz	10,439	10,072	▲3.6	1.5
▪ BMW and Mini	7,076	7,651	▼7.5	1.0
▪ Others	29,807	25,276	▲17.9	4.4
Total	**681,930**	**698,168**	▼2.3	**100.0**

Source: Toyota Motor Thailand, Bangkok Post 5 Jan 2017
https://www.pressreader.com/thailand/bangkok-post/20170105/282033326872111

In 2015-2016, over 50% of automobile production are for export orientation and Australia is Thailand vehicle top destination market worth 183,642 million baht or 19.9% of global market share. Indonesia was the second top destination of Thailand vehicle export market in 2011 up to 2014. Despite, in 2015-2016, the second top destination Thailand vehicle export market become Philippines sale volume worth 70,186 million baht in 2015 and 81,826 million baht in 2016, respectively. In 2015,

the new replacement of Thailand second top destination have changed from Indonesia to Philippines could be explain by several reasons such as ***(1) sluggish domestic demand up to -13%, cut fuel subsidy in Q4 2014, slow economic growth, low commodity prices, depreciating currency and rise unemployment rate.*** Moreover in 2017, new Mitsubishi plant start production and in medium and long term, Mitsubishi and Toyota are expand their investment and exports, thus, replacing import from Thailand (Titikorn, 2016). As of these reasons play an impact on Indonesia imported vehicle from Thailand.

In case of Philippines increase a number of import vehicles from the 6th ranked become 2rd of Thailand export destination. The number of export volume has booth to Philippines cause by Philippines booming service sector (labor intensive industry) and strong remittance inflow drove vehicle demand. Toyota and Mitsubishi contributed up to 70% of production. Specially, an increase of 19% domestic sale in 2015 were supported by imports (Titikorn, 2016).

Base on the interview, president of mold machinery company said ***"1-ton pickup car is the Thailand Championship export product to ASEAN, South-Asia and Middle-East Asia"***, (refer to Table 4.22: Top 10 Thailand's Vehicle Export Destination in 2011-2016).

Table 4.22: Top 10 Thailand's Vehicle Export Destination in 2011-2016

No	Country	Thailand's Vehicle Export Destination 2011-2016 (mil baht)											
		2011	%	2012	%	2013	%	2014	%	2015	%	2016	%
1.	Australia	77,797[1]	15	115,204[1]	16	133,642[1]	18	127,594[1]	16	158,381[1]	18	183,642[1]	19.9
2.	Indonesia	61,428[2]	12	92,715[2]	13	74,164[2]	10	64,534[2]	8.2	50,267[4]	5.8	53,357[3]	5.8
3.	Japan	37,832[3]	7.4	51,232[3]	7.2	40,520[5]	5.5	42,224[6]	5.4	43,455[6]	5	45,463[4]	4.9
4.	Malaysia	33,639[4]	6.6	48,796[4]	7	46,172[3]	6.3	51,063[4]	6.5	49,410[5]	5.7	44,583[5]	4.8
5.	Philippines	21,783[6]	4.3	30,743[6]	4.3	36,599[6]	5	49,528[5]	6.3	70,186[2]	8	81,826[2]	8.9
6.	Saudi Arabia	25,742[5]	5	38,654[5]	5.5	45,978[4]	6.2	51,979[3]	6.6	51,095[3]	5.9	39,896[6]	4.3
7.	South Africa	15,701[7]	3	19,104[8]	2.7	24,621[7]	3.3	21,757[8]	2.8	23,679[9]	2.7		
8.	UAE	12,958[8]	2.5	20,642[7]	2.9	24,156[8]	3.3	25,149[7]	3.2	22,959[10]	2.7		
9.	Oman	-	-	16,116[9]	2.3	15,917[9]	2.2						
10.	Brazil	-	-	14,461[10]	2								
11.	Russia	11,875[9]	2.3										
12.	Chili	9,531[10]	1.9										
13.	Vietnam	-	-					16,777[10]	2.1	25,217[8]	2.9	34,264[7]	3.7
14.	Lao PRD					14,377[10]	1.9						
15.	USA							20,216[9]	2.6			31,058[9]	3.4
16.	Mexico									26,864[7]	3.1	32,995[8]	3.6
17.	New Zealand											27,498[10]	3

Source: The Ministry of Commerce, (2017)

It's interesting to point out that in 2013, the vehicle demand of Lao PRD worth 14,377 million bath, approximately 1.9 of Thailand export share market. Is this

the phenomenal outcome of ***'Thai government's first car buyer program?*** Since the last sale volume in 2013, there is no vehicle demand from Lao PRD. We assume that the vehicle demand in 2013 was the second hand cars whereby the customer replace their old car with eco-car supported by the government. The demand may arise in 2018 after five year brought of these cars.

According to Surapong Paisitpatanapong, a spokesman for Federation of Thai Industries (FTI) automotive club, says the export sector is becoming a key concern, as economic conditions in many countries, particularly for those relying heavily on oil sales, have yet recover. The FTI forecasts Thailand's vehicle exports will probably stay flat in 2017 at about 1.2 million units. *"Thailand's vehicle shipments remain affected from an economic downside, notably in the Middle East, which is one of the key destinations for pickup trucks"* he says. This is because the economic situation in this region is in the serious case because of civil wars and low oil prices. Thus, the proportion of vehicle exports to Middle East to fall to 26% in 2015 and 14% in 2016 (Piyachat Maikaew, 2017).

According to Surapong Paisitpatanapong, exports to Africa are in the troublesome after the South Africa government has vowed to make more vehicles locally. The outcome of this policy has impacts on vehicle imports from Thailand in 2017. This impact may *"drag down the Thailand country's production in the near further"*, he said. Thus, in the nearly further Thailand of Japanese opportunities to doing business in Thailand, Asia and Oceania, remain in good shape for long-term vehicle exports (refer to Table 4.22**:** Top 10 Thailand's Vehicle Export Destination in 2011-2016). Moreover, Indonesia and Philippines are still strong highest economic growth in ASEAN region which Thailand can penetrate of motor vehicle (refer to Figure 4.18: Thailand, Indonesia and the Philippines-Fast Growing Markets).

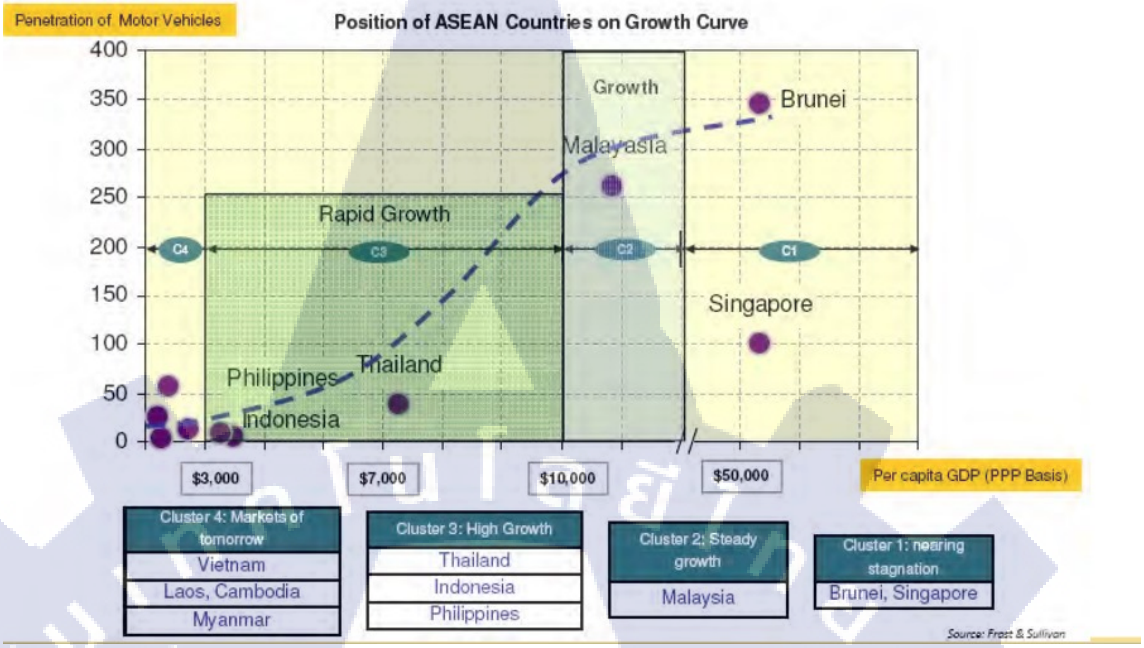


Figure 4.18: Thailand, Indonesia and the Philippines-Fast Growing Markets
Source: ASEAN-The Frontier, Frost & Sullivan cited in Duangjai Asawachintachit, Sep, (2012)

The company S4 was asked about *"What is the attractive and potential in among ASEAN countries and external ASEAN?"* In perspective of foreign direct investment (FDI) inflows in ASEAN, Vietnam was top of host receipt FDI in 2015 worth 11,800 Million US$, rate of growth in FDI inflows 18.2% (refer to Table 4.23: Foreign Direct Investment (FDI) Inflows in ASEAN). To make a comparative between Thailand and Vietnam, internet subscriber (per 100 person) in Vietnam was 52.7% and Thailand 39.3%. Moreover, total road vehicles per 1,000 population in Vietnam was lowest in ASEAN countries at 17.9%, lower than Cambodia (25.9%) and Myanmar (85.7%). As of this point, ***"this is an opportunities for Japanese investment to do business in Vietnam",*** *he said, the Regional Business Affairs of Regional headquarters for Asia (S4).*

Moreover, Myanmar and Cambodia are also still have a low rate of road vehicles per 1,000 population due to low consumption demand. Thus, mostly customers are imported finished car from Thailand. Underdevelopment of financial systems in these countries cause on low consumption demand in automobile markets.

Thus, most of customers need to pay car by cash. As of this point, these are more opportunities for automobile business to growth in these particular countries.

The Regional Business Affairs Manager of Regional headquarters for Asia (S4) explain that ***"we have sites new location in Cambodia in 2013 and Myanmar, one of the reason behind the motive of new subsidiaries in these countries is Thailand minimum wages are trend to growth up to 300 Baht/Day".*** In the face, Thailand still have competitive advantage on high skill labour while Cambodia and Myanmar available at skill and non-skill labour. *For example, some automobile parts are using labour incentive such as magneto part, we export raw material to Cambodia and re-import to Thailand, this is the way of globalization by using the benefit of AEC, he said.* Despite, we must very careful about automobile assembly during production process in Thailand to gain of 40% ROO before we export to third parties. The major export countries for our company is ASEAN countries, Asia (China) and Oceana.

Table 4.23: Foreign Direct Investment (FDI) Inflows (US$ Mil.) in ASEAN

	Total FDI Inflows (US$mn)	Rate of Growth in FDI Inflows (%)	Share of Intra-ASEAN FDI (%)	Tourist Arrival (000)	Rate of Growth in Tourist Arrival (%)	Share of Intra-ASEAN Tourist Arrival (%)	Share of Tourist Arrival from the Plus 3 (%)	Share of Tourist Arrival from USA (%)	Share of Tourist Arrival from EU28 (%)	Internet Subscriber per 100 Persons	Cellular Phone per 100 Persons	Road Length (km)	Paved Network (km)	Total Road Vehicles per 1000 Population	Railways Passenger (million)	International Air Passenger Traffic (000)
Brunei Darussalam	171.3	(69.8)	50.6	218.2	-	54.4	20.2	1.7	8.7	71.2	108.1	3,234.6	2,898.6	713.8	N/A	1,717.0
Cambodia	1,701.0	(1.5)	25.0	4,775.2	6.1	43.9	26.9	4.6	12.8	19.0	133.0	54,480.0	5,959.0	25.9	-	5,606.0
Indonesia	16,072.8	(26.3)	58.0	10,406.8	10.3	39.0	19.3	2.7	11.3	22.0	132.3	508,000.0	287,926.0	465.2	327.8	9,533.0
Lao PDR	1,079.2	18.2	20.6	4,627.1	11.3	77.6	15.6	1.4	3.8	18.2	53.1	51,597.0	9,397.2	229.9	0.4	921.2
Malaysia	11,289.6	3.8	24.1	25,721.3	(6.3)	74.4	10.0	1.4	1.5	71.1	143.9	205,786.9	156,691.9	862.8	2.2	39,984.2
Myanmar	2,824.5	198.5	79.0	4,681.0	51.9	37.7	48.2	1.5	4.3	21.8	76.7	116,398.0	50,345.0	102.6	42.7	3,428.1
Phillippines	5,724.2	(1.6)	2.9	5,360.7	10.9	9.0	43.4	14.5	8.3	40.7	118.1	32,633.0	28,919.0	85.7	360.2	17,168.1
Singapore	61,284.8	(17.7)	5.6	15,231.5	0.9	37.7	22.8	3.3	8.6	82.1	146.1	3,496.0	3,496.0	177.7	1,058.5	54,835.6
Thailand	8,027.5	115.8	17.6	29,881.1	20.6	26.4	35.8	2.9	12.8	39.3	125.8	234,072.6	190,077.4	515.3	36.4	51,150.5
Viet Nam	11,800.0	28.3	18.2	7,943.7	0.9	16.4	44.9	4.6	10.2	52.7	130.6	211,496.0	108,023.0	17.9	11.8	16,891,0

Sources: **ASEAN Statistical Leaflet Selected Key Indicators (2016)**
ASEAN Secretariat, UNCTAD, UNICT

Notes:
- ASEAN+3 covers China, Japan and Republic of Korea
- ASEAN +6 cover ASEAN+3, Australia, New Zealand and India
- GDP data as of 1 July 2016
- Trade data as of 23 August 2016
- Foreign Direct Investment as of 30 June 2016

The company S4 distribute of global network with 191 sites, employ people over 150,000 worldwide (refer to Table 4.25: Company S4 Subsidiaries ASEAN+6). The subsidiaries involved ASEAN+6 such as China, Japan, Korea, Australia, New Zealand and India. There are two subsidiaries in Australia were stablished in 1998

(A1) for holding company for Australian operations and 1989 (A2) to produce of car air conditioning systems, radiators and instrument clusters, sale of aftermarket products and non-automotive products with employment of 337 people. Australia is the largest Thailand vehicle export market destination and continue to increasing by year after year, approximately nearly 20% of total Thailand market export. Our mother company cited in Indonesia, Malaysia, Philippines and Vietnam as the emerging market. Despite, these market are still become Thailand's major vehicle export destination since before (2014) and after AEC (2016). As of this point indicate that Company S4 using ***"Thailand as the production based for exporting automotive component and product related to intra-ASEAN and extra-ASEAN",*** *he said, the Regional Business Affairs of Regional headquarters for Asia (S4).*

Table 4.24: Top 10 Thailand's Vehicle Export Destination in 2014-2016

No	Country	Thailand's Vehicle Export Destination 2014-2016 (mil baht)					
		2014	%	2015	%	2016	%
1.	Australia	127,594[1]	16	158,381[1]	18	183,642[1]	19.9
2.	Indonesia	64,534[2]	8.2	50,267[4]	5.8	53,357[3]	5.8
3.	Japan	42,224[6]	5.4	43,455[6]	5	45,463[4]	4.9
4.	Malaysia	51,063[4]	6.5	49,410[5]	5.7	44,583[5]	4.8
5.	Philippines	49,528[5]	6.3	70,186[2]	8	81,826[2]	8.9
6.	Saudi Arabia	51,979[3]	6.6	51,095[3]	5.9	39,896[6]	4.3
7.	South Africa	21,757[8]	2.8	23,679[9]	2.7		
8.	UAE	25,149[7]	3.2	22,959[10]	2.7		
13.	Vietnam	16,777[10]	2.1	25,217[8]	2.9	34,264[7]	3.7
15.	USA	20,216[9]	2.6			31,058[9]	3.4
16.	Mexico			26,864[7]	3.1	32,995[8]	3.6
17.	New Zealand					27,498[10]	3

Source: The Ministry of Commerce, (2017)

In 2013, company S4 cites sale office in UAE for aftermarket products in Middle Eastern and North African countries. In 2014 and 2015, UAE was the top 10th Thailand major vehicle export destination. Obviously, Japanese firm using Thailand as the production base for export to UAE, Saudi Arabia and South Africa.

Table 4.25: Company S4 Subsidiaries ASEAN+6

Asia	Sub.	Est.	Employee	Business types
Australia	A-1	1998	-	Holding company for Australian operations
	A-2	1989	337	Car air conditioning systems, radiators and instrument clusters, Sale of aftermarket products and non-automotive products
UAE	UAE-1	2013	39	Sale and service of aftermarket products in Middle Eastern and North African countries
India	D-1	1999	236	Sale of automotive components manufactured by companies in India
	D-2	1984	1,149	Automotive components, electric fans, ventilators, magnetos & wiper motors
	D-3	1997	2,051	Manufacture and sale of fuel pumps, injectors, and engine ECUs
	D-4	1998	393	Sale of radiators, car air conditioners, sale of air conditioners for buses
	D-5	1999	40	Manufacture and sale of car air conditioners
	D-6	2011	45	Design of car air conditioning systems and other products
Pakistan	P-7	2013	140	Manufacture and sale of magneto and CDI products
Korea	K-1	1976	779	Manufacture and sale of automotive components
	K-2	1997	138	Automotive components, non-automotive equipment and components
	K-3	1948	1,336	Sale of small motors, fuel pumps, electrical automotive & components
	K-4	1987	437	Manufacture and sale of wiper arms, wiper blades, and wiper linkages
China	C-1	2003	919	Sale, development, and design of automotive components
	C-2	1994	225	Manufacture and sale of car air conditioners and compressors
	C-3	1995	1,525	Manufacture and sale of alternators and starters
	C-4	1996	818	Manufacture and sale of motorcycle components
	C-5	1997	1,318	Manufacture and sale of automotive electronic control components
	C-6	1997	178	sale of condensers and radiators, Provide after-sale service
	C-7	2002	143	Design and development of software
	C-8	2003	1,281	Manufacture and sale of car air conditioners and radiators
	C-9	2003	403	Manufacture and sale of diesel injection pumps
	C-10	2003	752	Manufacture and sale of car air conditioners
	C-11	2004	124	Manufacture and sale of air filters, oil filters, and cabin air filters
	C-12	2004	1,747	Sale of fuel injection systems for gasoline vehicles, after-sale service
	C-13	2004	22	Import and sale of aftermarket components for Japanese cars
	C-14	2005	900	Sale of heat exchangers for car air conditioners and radiators
	C-15	2005	749	Manufacture ignition coils for automobiles
	C-16	2005	414	Manufacture oil filters
	C-17	2005	-	Manufacture and sale of car navigation systems & after-sale service
	C-18	2005	563	Manufacture compressors for car air conditioners
	C-19	2006	130	Manufacture and sale of instrument clusters
	C-20	2007	415	Sale of diesel common rail systems & after-sale service
	C-21	2008	109	Manufacture and sale of bus air conditioners
	C-22	2012	915	Manufacture and sale of compressors for car air conditioners
	C-23	2014	315	Manufacture and sale of compressors for car air conditioners
	C-24	2016	140	Designing, developing, manufacturing, and selling refrigerator
	C-25	1996	816	Windshield wiper, windshield washer systems, electric fan motors
	C-26	2005	289	Windshield wiper, windshield washer systems & power rear sunshade
	C-27	2011	613	Manufacture of motor components
	C-28	2008	121	Manufacture and sale of molded plastic for car air conditioners
	C-29	2004	887	Manufacture and sale of hoses and pipes for car air conditioners
Taiwan	T-1	1987	456	Automotive electrical components, radiators & car air conditioners
	T-2	1984	582	Manufacture and sale of aftermarket radiators, parts and molding

Note: Data is as of March 31, 2017

According to executive vice president (EVP) *"what are the countries in AEC your company has intension to do business?"* Now, our parent company in Japan already established manufacturing in Indonesia for seveb years ago due to the Mitsubishi Motor has established a new manufacturing in Indonesia on April 2017. So

the main business we are doing in Indonesia is *'automotive parts'* supplied to Mitsubishi Motor Company which similarly with Thailand, *he said, the EVP (S5)*.

As we know in this year Mitsubishi Motor has established new plant in Philippines due to the large population over 100 million and economic potential. In my perspective, Philippines become one of emerging market in ASEAN because most of national annual income came from labour export. As we know, Philippines country famous about labour export both professional and skill labour. For instance, in Thailand primary school and international school mostly hire Philippines teacher then they earn foreign exchange and sent back to their home country. In addition, the Philippines is a world leader in outsourcing, and has overtaken India as the world's call center capital this year. By 2016, experts estimate the country's BPO industry to generate 25 Billion US$ in revenue, accounting for about 10 % of the Philippine economy and as much as the total amount of remittances from Filipinos overseas.

Despite, the rate of car owner in Philippines still low and total road vehicles per 1,000 population was only 85.7 ratio. As of these points, there are an opportunities for Japanese business to engage in Philippines (ASEAN Statistical Leaflet Selected Key Indicator, 2016). Thus, Indonesia and Philippines are still strong highest economic growth in ASEAN region which Thailand can penetrate of motor vehicle (refer to Figure 4.18: Thailand, Indonesia and the Philippines-Fast Growing Markets).

The Philippines can be the next startup hot spot in Asia, as it is aiming to have 500 startup companies by 2020 with the total founding of 200 Million US$ and valuation of 2 Billion US$ (Judith Balea, 2015). Despite, Philippines has a long way to go beyond the next after Singapore and Thailand. Since the Philippines government has lunch several intensive programs for foreign investors such as business registered under the Philippine Economic Zone Authority (PEZA) are also eligible for the tax and non-tax intensives. Enterprises that are registered with the PEZA are entitles to further incentive to help boost employment in non-urban areas. **Tax incentives** include a six-year income tax exemption from the start of the enterprise's commercial operations for pioneer establishments, as well as a four-year income tax exemption for non-pioneer ones. This income tax holiday can even be extended depending on the

BOI's approval up to a maximum of eight years. **Non-tax incentives** include the simplified procedures in the equipment import. This also covers the spare parts, suppliers, raw materials, and the exportation of the processed goods. **PEZA incentive** refer to enterprises that are registered with the Philippine Economic Zone Authority (PEZA) are entitled to further incentives to help boost employment in non-urban areas.

These businesses can be registered as any of the following: (1) Export Manufacturing Enterprise; (2) Information Technology (IT) Service Export Enterprise; (3) Tourism Enterprise; (4) Medical Tourism Enterprise; (5) Agro-industrial Export Manufacturing Enterprise; (6) Agro-industrial Biofuel Manufacturing Enterprise; (7) Logistics and Warehousing Services Enterprise; (8) Establishment, operations, and maintenance of water supply and light and power systems, as well as distribution systems inside Special Economic Zones. These businesses are eligible for the six-and four-year income tax exemptions. When the tax holiday expires, companies in the Philippines' Eco-zones become eligible to the favored rate of five percent of earned gross income instead of paying all the national and local taxes. **Further incentives include:** (1) Zero VAT rating of locally purchased goods and services; (2) Tax and duties exemptions on imports such as merchandise, machinery and equipment supplies, raw and construction materials, capital equipment imports, special office furniture and equipment, transportation equipment and specialized vehicles, household effects, and professional instruments; (3) Import substitution tax credits; (4) Exemptions on wharf age dues, import fee, and export taxes; (5) Deductions for their personnel training costs and labor expenses; (6) Tax credit on breeding stocks and genetic materials and domestic capital equipment; (7) No restrictions on consigned equipment; (8) Employment of foreign nationals in executive, supervisory, advisory and technical positions as long as the number doesn't exceed 5% of its total workforce at any given time. Bases on these intensive make Philippine become attractive country via Japanese investors perspective.

In Thailand, Indonesia and Philippines which countries making your company more profitable? Currently, *"Thailand is the best location in ASEAN that we are more satisfied in term of profitable, however, in the long-run we could not justified that*

Thailand still the best choice due to unstable business environment", he said. Despite, we have no plan to enlarge business in Thailand at the moment. Furthermore, if we can gain more on market volume and government investment incentive policy support we will expand investment (as of interview data by Executive Vice President, Company S5).

According to managing director (S6), *what are the attractive countries in ASEAN via your perspective?* In my point of view, Thailand market is one of the most potential market in ASEAN due to strong infrastructure whereby large number of Japanese supplier are located to supply their parts in automobile industry. In Philippines, most of people can speak English that is rather advantage for foreign company like General Motor. However, the most of supplier are in Thailand, in so far, the Japanese firms will following the supplier and choose Thailand as their first choice destination.

The different countries in ASEAN are different in major industries, in Malaysia wage second rank expensive after Singapore. To compare with Philippines where the wage is triple time cheaper, we could not say that Philippines is more competitive advantage due to different in product and industries. For instant, in Malaysia they have their own national car such as Perodua and Proton, thus, we the Japanese car maker entry to the market then we become their competitors. As of this, facilitate the Japanese firms to enter in Thailand market, *he said, the managing director (S6).*

Similarity to company S7, in among ASEAN countries, Thailand is the best attractive in term of strong infrastructure as compare to Indonesia, Vietnam, Cambodia, Myanmar and Lao. Thai GDP and domestic purchasing power is rather high, people are educated that is make Thailand become potential country, *he said, the managing director.*

The managing director of company S8 was asked *"do you have trend to make more investment in Thailand?* He said that *"Thailand is located the middle of AEC that is advantage if we want to transporting goods to India and China".* Thus, in the nearly further time, we aim to increase the capacity and new plants in Thailand. The

next question was asked *"do you have trend to make more investment in ASEAN and which country?"* There are two countries that we are targeted to do investment after Thailand that are Myanmar and Vietnam. This is due to young population demography and low labour wage attractiveness. Moreover, these countries GDP growth rate fast moving up to 6-8% annually, *he said, the managing director S8*. These are all important indicators for investors' decision making.

What are the attractive country for Japanese FDI inflows in ASEAN? It is depend on business type, as we are the supplier and distributor, so we are looking foreign partner in ASEAN to export orientation. Thus, Vietnam is an interesting county whereby a large number of Japanese firms are located in electronic industry. That is potential market in my point of view, *he said, the managing director S9.*

According to company S10, Indonesia is the high potential country in ASEAN due to population attractive over 250 million people and they keep expanding in infrastructure to support FDI growth. Philippine consider middle level since most of customer prefer import used car. Malaysia domestic market is hardly to promote since the local government strongly promote their own national car. India is the huge market and potential but their national car is half price cheaper than Japanese car. However, we are exporting motorcycle parts to India, *he said, Executive Vice President Director (EVP) S10.*

Thailand profitability during 2015-2016 are stabile but rather low. Since after Thailand flooding crisis in 2011, then in 2012 Thai government giving intensive to stimulate the economic demand to build up Thailand economic recovery. As of this, lead to manufacturing capacity over than demand. This is effect to economic demand in 2013 and the year after. However, Thailand country is a strong in automobile industries cause by over 30,000 automobile assembly are located in Thailand. Even car engine (commercial engine) which more value added was produce in Thailand. To be competitiveness in global market, car maker prefer using localization strategy whereby all parts mainly product in Thailand, *he said, Executive Vice President Director (EVP) S10.*

Thailand is the abundant of natural resources and human capacity, Thai people are educated and knowhow in using technology. In our business based on the technology data based (big data) and innovative. Thus, Thailand is the first choice destination in my perspective, *he said, the President S11.* However, for some of the industry needs labour intensive, they are recommend to for CLMV countries where cheap and young labour are available. In my point of view, Thailand is the best location for chemical industry, following by Vietnam for electronic device such as Samsung already located in Vietnam due to culture diversity and human quality, *he said, the president S11.*

Finally, the general manager of company S12 express that Indonesia is the most attractive country in ASEAN for automobile industry. This is because of car domestic demand leads by large number of population. The local government has intensive support green car producer that enable to attractive a large of Japanese investment. Indonesia is the championship in eco-car and Thailand still in 1 ton pickup car championship, but in overall Thailand still higher than Indonesia in term of number.

Indonesia government promote investment intensive on cooperate tax exempt, promote supply chain from upstream to downstream, that is cover all productivities in automobile line. Despite, skill labour in Indonesia still unavailable as compare to demand, as this point Thailand rather competitiveness. Culture difference may leads to some miss understanding problems, and local government stability not reliable. Despite, Thailand political stability has not-significantly to Japanese investment decision; as this support by the large number of new investment projects, *he said, general manager administration S12.*

A share market of motorcycle in Vietnam 70% belong to Honda, moreover, Honda also export 150cc motorcycle to India. However, India market demand trend to have personal car electric vehicle in nearly further.

Is CLMV countries are the potential market? Honda exporting completed car or finished car to Lao and Cambodia, we start doing business with these countries by

internationalization before we decided to located plants. Thailand is the center to export car to these countries, Thailand logistic transportation and infrastructure are facility to these countries.

What kind of investment are you interest? Japanese investment interesting about medical industry and R&D, now a day we have car test courtyard 200,000 square meters (Car/ Motorcycle) in Prachin Buri. Honda established car test courtyard in three countries are as Japan, USA and Thailand in 20 July 2017, as of this point, it's a good indicator to confirm that Japanese business strongly trust with Thailand economic, *he said, general manager administration S12.*

Due to highly competition, our company needs data based in R&D for development of auto parts and decrease the cost of production. Normally, automobile parts we import and using localization parts, then R&D function is to find out the way to produce localization parts instead of import parts. As this enable to decrease a production cost. In Thailand R&D oversee Oceania market what are the trend of customer in this region. Thus, R&D department will make customer behavior survey to find out what the customer want.

4.6 Thailand International Investment Position

Objective 5: To explore of Thailand investment position and Thailand location attractive (competitiveness) towards Japanese investor.

Thailand international investment position can be examined by Thailand trade balance, foreign investment position and Thailand investment position. The overall Thailand current economic situation during 2015 to July 2017 will be examined and discussion in this section.

4.6.1 Thailand Trade Balance

The trend of Thailand exporting were increasing from year 2010 to 2016. Despite, Thailand trade balance shows deficit (-274,738.7 Million US$) in 2011, (-708,360.9 Million US$) in 2012, due to the effect of flooding crisis between Nov

2011 to Mar 2012. In 2013, Thailand trade balance shows deficit (-748,089.2 Million US$) before decline to (-92,815.8 Million US$) in 2014 (refers to Table 4.26: Balance of Trade 2010-2017).

In 2015, Thailand balance of trade continue surplus 319,644.4 Million US$ contrast with import volume in the same period. Since, the established of AEC 2015 leads to Thailand trading value increase to 2.2% in 2016, export increase 4.5% while import reduce (-0.3%). Finally Thailand balance of trade shown surplus 662,517.4 Million US$ or 107.3% increase as compare to year 2015.

Recently, in Jan-Aug 2017, Thailand balance of trade shows surplus 243,821.7 Million US$, trade value increase 9.3% and export increase 6.2%. As this show a good sign of Thailand balance of trade after the established of AEC-2015 (refers to Table 4.26: Balance of Trade 2010-2017).

Table 4.26: Balance of Trade 2010 to 2017 (Million US$)

Year	Value	Export	Import	Balance of trade	% Value	% Export	% Import	% Balance of trade
2010	11,969,926.8	6,113,335.5	5,856,591.3	256,744.2	22.2	17.7	27.3	-56.7
2011	13,690,717.6	6,707,989.5	6,982,728.1	-274,738.7	14.4	9.7	19.2	-
2012	14,863,885.2	7,077,762.2	7,786,123.0	-708,360.9	8.6	5.5	11.5	157.8
2013	14,567,177.0	6,909,543.9	7,657,633.1	-748,089.2	-2.0	-2.4	-1.7	5.6
2014	14,714,993.8	7,311,089.0	7,403,904.8	-92,815.8	1.0	5.8	-3.3	-87.6
2015	14,131,801.2	7,225,722.8	6,906,078.4	319,644.4	-4.0	-1.2	-6.7	-
2016	14,438,890.8	7,550,704.1	6,888,186.7	662,517.4	2.2	4.5	-0.3	107.3
2017								
Jan-Aug	10,318,578.8	5,281,200.2	5,037,378.5	243,821.7	9.3	6.2	12.7	-51.4

Source: Ministry of Commerce, as of data on 29 Jun 2017

In 2014, Thailand balance of payment has shown deficit (-39.6 Billion US$) before moving to surplus 190.8 Billion US$ in 2015 or 79.2% increase from previous year. In 2016, Thailand balance of payment has boost up to 456.6 Billion US$ or 58.2% increase from previous year. The accumulative of Thailand balance of payment between Jan to July 2017 shows surplus 625 Billion US$.

In 2014, Thailand service and income has shown deficit (-61.3 Billion US$) and boost up to 178.5 Billion US$ (134.3% increase) in 2015 before jump to 414.7 Billion US$ or 57% has changed from previous year. This is case by the liberalization of AEC whereby labour, good, service and capital are free of flows. Similarly, Thailand current account shown surplus 497.6 Billion US$ in 2014 before reach to

1,103.1 Billion US$ changing up to 54.8%, and again reach to 1,704.1 Billion US$, an increase of 35.26% from year 2015 (refer to Table 4.27 Balance of Payments)

Table 4.27: Balance of Payments (Billion US$)

Balance of Payment	2014	2015	2016	2017					Cumulative
				May	Jun	July	Aug	Sep	Jan-July
1: Balance of Trade	**558.9**	**924.6**	**1,289.5**	**74.9**	**100**	**45.5**	**113.1**	**179.0**	**689.8**
2: Exports (F.O.B)	7,359.9	7,331.7	7,560.3	680.0	673.5	632.6	699.1	725.1	5,228.3
% changed	(5.3)	(-0.4)	(3.1)	(7.1)	(3.6)	(3.9)	(10.9)	(8.2)	(5.6)
3: Imports (F.O.B)	6,801.0	6,407.0	6,270.8	605.1	573.6	587.2	586.0	546.1	4,541.4
% changed	(-2.5)	(-5.8)	(-2.1)	(14.8)	(8.6)	(13.9)	(9.5)	(1.7)	(12.3)
4: Service & Income	**-61.3**	**178.5**	**414.7**	**-46.0**	**38.7**	**47.9**	**41.8**	**29.4**	**342.8**
5: Current account	**497.6**	**1,103.1**	**1,704.1**	**28.9**	**138.7**	**93.3**	**154.9**	**208.4**	**1,029.7**
6: Capital account	**3.2**	**0.0**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**…**	**0.0**
7: Financial Account	**520.4**	**-586.3**	**-740.0**	**-51.2**	**-36.7**	**24.5**	**42.7**	**…**	**-316.2**
8: Errors and omissions	**-20.1**	**-326.0**	**-508.0**	**-34.0**	**-35.1**	**-39.8**	**-8.5**	**…**	**-88.5**
9: Balance of payment	**-39.6**	**190.8**	**456.6**	**-56.2**	**66.9**	**78.0**	**189.2**	**151.8**	**625.0**

Source: Bank of Thailand (BOT), as of data on Oct 2017

Thus, these indicator results shows Thailand trade balance and its balance of payment are still well-built and secure for international investors after the established of AEC 2015. Additionally, the volume of Thailand export value from 2015 up forward continuous in the positive direction (refers to Table 4.27). This also indicated that Thailand economic is still well-built and secure as it remain surplus by year after year.

4.6.2 Foreign Investment Position

Japanese direct investment has been remain as a largest investor in Thailand investment position in 2015 to Jan-June 2017 as exhibited in Table 4.28: Foreign Investment Classified by Country.

Thailand overall foreign investment value shows 493,690 Million US$ in 2015 before decline to 358,119 Million UD$ in 2016, a decrease of 27.4% as compared to previous year. The 100% foreign investment worth 235,852 Million US$ in 2015 before decline to 139,250 Million US$ in 2016, a decrease of 41% from previous year (refer to Table 4.28 Foreign Investment Classified by Country).

Table 4.28: Foreign Investment Classified by Country (Million US$)

	2015		2016		2016 (Jan-June)		2017 (Jan-June)	
	No.	Invest	No.	Invest	No.	Invest	No.	Invest
Total Foreign Investment	**1,151**	**493,690**	**926**	**358,119**	**446**	**133,220**	**350**	**122,743**
100% Foreign Investment	**698**	**235,852**	**596**	**139,250**	**284**	**63,884**	**225**	**66,393**
Japan	**451**	**148,964**	**285**	**79,629**	**144**	**28,275**	**112**	**49,680**
Taiwan	52	15,584	46	8,032	20	3,556	16	1,877
Hong Kong	71	27,653	32	8,602	16	2,713	16	3,017
South Korea	37	3,942	32	6,242	17	5,407	19	964
ASEAN	**175**	**110,158**	**148**	**32,070**	**73**	**16,234**	**47**	**11,206**
1. Brunei Darussalam	-	-	-	-	-	-	-	-
2. Cambodia	-	-	-	-	-	-	-	-
3. Indonesia	10	32,642	3	1,114	2	1,102	1	4,769
4. Laos	-	-	-	-	-	-	-	-
5. Malaysia	28	31,360	36	8,247	21	6,465	9	3,156
6. Myanmar	1	22	-	-	-	-	1	4
7. Philippines	-	-	1	4	1	4	1	1
8. Singapore	135	40,838	106	22,622	48	8,596	34	3,266
9. Vietnam	-	-	-	-	-	-	-	-
China	81	28,100	107	53,777	47	25,103	34	2,755
India	15	1,285	21	1,153	9	693	9	346
United States	48	32,232	27	25,291	8	2,267	8	996
Canada	5	3,418	8	400	4	278	7	277
Australia	19	1,117	27	19,856	16	19,394	10	231
New Zealand	5	163	9	118	4	67	1	20
EU	**182**	**48,683**	**161**	**38,721**	**82**	**8,994**	**73**	**31,117**
1. United Kingdom	32	1,605	28	1,627	15	514	13	657
2. Germany	38	7,345	34	1,456	20	437	12	2,002
3. Switzerland	18	1,132	11	3,524	5	374	3	32
4. France	11	2,534	19	354	9	80	15	195
5. Belgium	10	891	4	1,832	1	3	3	44
6. Italy	5	1,554	4	11	3	10	1	2
7. Denmark	9	6,927	14	1,388	11	193	1	16
8. Sweden	6	113	8	637	-	-	6	156
9. Netherlands	34	16,439	34	28,837	11	5,290	15	16,667
10. Luxembourg	2	8,181	5	1,174	3	1,051	1	122
Cayman Islands	6	3810	7	16,838	5	16,818	4	7,910
United Arab Emirates	2	6,566	1	40	-	-	-	-
Samoa	3	408	3	506	2	206	3	576
British Virgin Islands	16	7,487	12	3,323	6	1,506	2	7,226
Mauritius	5	4,608	4	29	3	19	-	-

Sources: International Affair Division, BOI, As of July 7, 2017

Note: 1) Foreign direct investment (FDI) data reported by the Board of Investment (BOI) are based on the following new definition;

- For "total foreign investment" statistics, FDI value is derived from total investment of all projects which have equity participation (shown by registered capital mount) of one particular nation or the sum of all foreign registered capital from more than two nations of at least 10%
- For "foreign investment of each country", FDI value is derived from total investment of projects which have foreign equity participation of that particular nation of at least 10%

Japan is the largest investor country worth 148,964 Million US$ in 2015 before decrease to 79,629 Million US$ (changed 46.5%) in 2016. Recently in Jan-June 2017, the Japanese investment worth 49,680 Million US$, an increase of 43.1% from year 2015. Similarity to European Union (EU comprises with 25 countries)

investment value worth 31,117 Million US$, accumulate in Jan-June 2017, an increase of 71% changed from 2015.

As of these results exhibited in Table 4.5 (Foreign Investment Classified by Country) the number of Japanese projects and investment submitted to BOI seem to be decline from year 2015 to 2016 and seem to be quiescent status in 2017. The overall Thailand investment opportunity has been able to maintain its investment position since 2015 to 2017. This is indicating strong sentiment of foreign investors towards Thailand economy holistically.

4.6.3 Thailand Investment Position

According to world investment perspects survey (IPAs) continue cited China as the top prospective investors in 2017-2019. The next followed by the United States, Germany and the United Kingdom and Japan (figure 4.19). As of IPAs data shows the most attractive industries include professional services and technology-based activities in developed economics. In developing economics shows the attractive industries include agribusiness, food and beverages. In telecommunication industry, data processing and software programming is emerging as an attractive industry in selected developing regions. These results confirming that the digital economy is growing in important beyond developed economics.

Among developed countries, Japan, Italy and Spain have regained ground in the ranking. Japan have changed its standings from 8th become 5th after a temporary setback in the previous year. Among emerging economies, the United Arab Emirates, the Republic of Korea and Turkey have increased their standings investment position while South Africa's ranking point has dropped. China is the top promising home economic investment outflows and closely followed by the United States (refer to Figure 4.19: IPAs' selection of most promising host economics for 2017-2019).

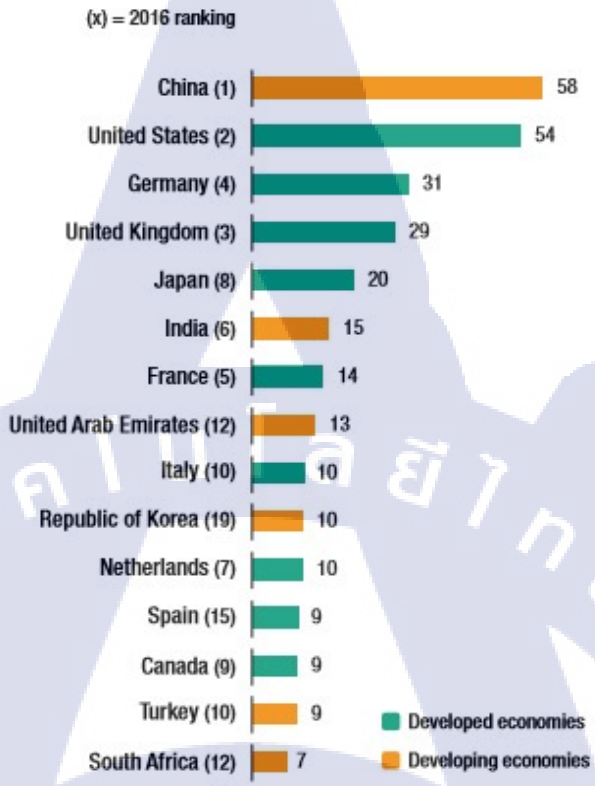


Figure 4.19: IPAs' selection of most **promising host economics** for 2017-2019
(Percent of IPAs responding)
*Note: World Investment Perspects Survey (IPAs)

The top FDI receipted host economic destinations remain the United States, nearly following by China and India (refer to Figure 4.20). Top executives maintain their confidence in developing Asia's economic performance and are also forecasting investments in South-East Asia region, with Indonesia, Thailand, Philippines, Vietnam and Singapore. To figuring in among the most promising host countries. Thailand has increased their standings investment position of host recipient economic ranking from 14th move to 5th and become an attractive and prominent countries after Indonesia and India.

As for developed countries, investors seem to have responded to the reforms Spain implemented during the global financial crisis: the country has reappeared in the top 15 ranking after many years of absence. Canada also gained ground, while the United Kingdom, possibly owing to uncertainty about Brexit, lost three positions.

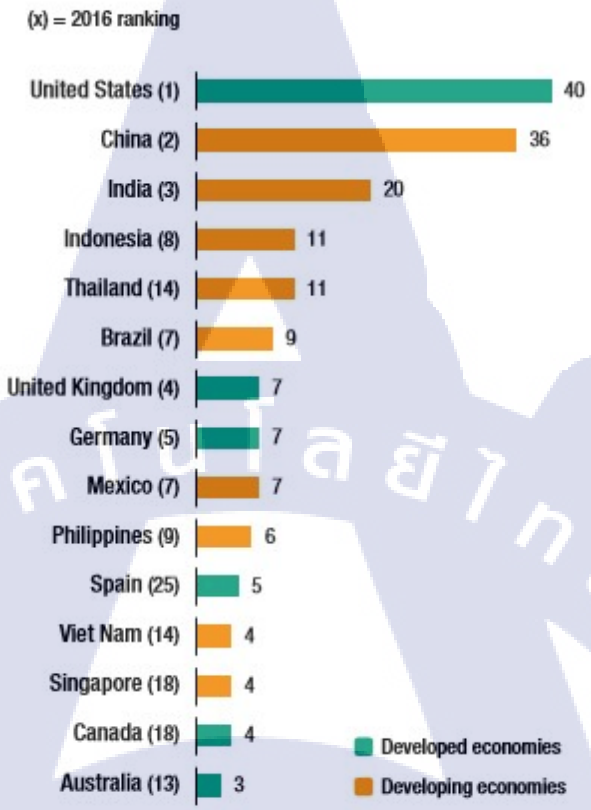


Figure 4.20: IPAs' selection of most **promising home economics** for 2017-2019 (Percent of IPAs responding)
*Note: World Investment Perspects Survey (IPAs)

4.6.4 Thailand Current Economic Situation

Thailand's GDP growth was 2.8% in 2015 and expanded to 3.3% in the first quarter of 2017. It is the strongest growth rate since the established of AEC in Dec 2015. Exports of goods and services grew by 13.2% in the first quarter (Jan-Mar) of year 2017 and balance of payment surplus nearly 1 Billion US$ (refer Table 4.29: Key Economic Indicators in ASEAN Countries).

In ASEAN, the 1st rank highest yearly GDP per capital is Singapore worth 53 Trillion US$, following by Brunei Darussalam the 2nd rank worth 31Trillion US$, Malaysia 9.4 Trillion US$ and Thailand worth 6.2 Trillion US$ respectively. Despite, Thailand GDP value has large different lower as compare to Singapore and Brunei, but in term of Thailand private consumption value is higher at 3.2% while these

countries worth (-0.4%) and (-0.7%), respectively. As this indicate that Thailand economic has an opportunities to growth based on national domestic consumption demand.

Table 4.29: Key Economic Indicators in ASEAN Countries

ASEAN	Quarterly GDP		Quarterly PC	Yearly GDP per Capita	Quarterly BoP	Quarterly CA	Month-end IR	Quarter-end External Debt	Monthly (USD)				Monthly			
									Export		Import	Trade Balance	Unemployment Rate	IPI YoY	PPI YoY	CPI YoY
	YoY %	2017f %	YoY %	USD Th	USD Bn	USD Bn	USD Bn	USD Bn	% IR	YoY %	YoY %	USD Bn	%	%	%	%
Brunei	-3.6	3.9	-0.7	31	0.3	0.4	3.1	-	-	-4.2	9.9	0.2	2.0	-	-	-0.6
Cambodia	7.2	6.9	6.0	1.3	0.0	-0.4	8.8	12.3	178.9	1.9	33.4	-0.6	0.1	-	-	4.0
Indonesia	5.0	5.3	4.9	3.6	4.5	-2.4	123.1	326.3	267.9	24.1	24	0.5	5.6	4.0	4.6	4.4
Laos	7.6	7.3	-	1.9	0.1	-0.1	1	5.6	539.4	39.2	9.4	-0.2	-	-	-	1.1
Malaysia	5.6	4.6	6.6	9.42	-0.4	1.2	98.9	201.9	211.6	23.9	22	1.3	3.4	4.6	8.0	3.9
Myanmar	7.3	7.7	-	1.2	0.3	-4.9	4.7	6.42	168.2	5.5	37	-0.8	-	-		3.9
Philippines	6.4	6.7	5.7	3	-0.1	-0.5	81.4	73.8	91.2	13.7	16.6	-2.8	5.7	5.8	-2.1	2.8
Singapore	2.7	2.2	-0.4	53	11.7	13.7	266.3	1,300	500.8	9.4	15.5	3.3	2.2	5.0	0.1	1.4
Thailand	3.3	3.3	3.2	6.2	-1.6	1.1	184.1	135.1	73.2	13.2	18.2	0.9	1.1	1.4	-1.2	0.0
Vietnam	6.2	6.2	9.3	2.1	2.7	1.1	36.5	77.8	275.4	20.9	22.2	-0.3	2.3	9.9	0.6	2.5

Last Updated: 21 July 2017
Source: Bangkok Bank Research Center
(http://www.bangkokbank.com/BangkokBankThai/BusinessBanking/RatesAndReports/Reports/EconomicNewsAndResearch/Documents/IER_ER_Asia_Economic_Essence_0717.pdf)

Thailand international financial reservation is the 2nd rank after Singapore, it's worth 184 Billion US$ in the first quarter of 2017. Thailand external debt worth 135 Billion US$ or 73.2% of international reserve. Singapore is more reline on external debt worth 1,300 Billion US$ or 500% of international reserve follow by Indonesia and Malaysia. As of this point indicate that Thailand's macro-economic is dominating national credibility in term of external financial debt (refer to Table 4.29: Key Economic Indicators in ASEAN Countries).

Thailand is considers as an attractive investment country in among ASEAN region. Since Thailand's population are about 67 Million people makes Thailand a rewarding and attractive market, as well as a source of cheaper and skilled labour, available of raw material for most multinational companies (MNC). Thailand's GDP is constancy increase from year after year.

Table 4.30: Thailand's Macro Economic Indicators

	2017 p	2016 p	2015 p	2014	2013	2012	2011	2010
1. Population (Million persons)		65.93	65.73	65.12	64.79	64.46	64.08	63.88
2.GDP (New series) 2/								
2.1 GDP : Chain volume measures (bil. baht)	....	....	9,501.2	9,229.8	9,146.1	8,902.8	8,301.6	8,232.4
(% change)	....	....	2.9	2.2	0.8	4.9	2.7	7.5
2.1.1 Agriculture (Billions of Baht)	....	....	619.5	656.8	660.4	655.8	638.5	600.7
(% change)	....	....	-5.7	-0.6	0.7	2.7	6.3	-0.5
2.1.2 Non-agriculture (Billions of Baht)	....	....	8,946.6	8,610.3	8,516.5	8,268.9	7,667.9	7,652.7
(% change)	....	....	3.9	1.1	3.0	7.8	0.2	8.4
2.2 GDP at current price (Billions of Baht)	....	....	13,672.9	13,203.7	12,921.2	12,357.4	11,306.9	10,808.1
(% change)	....	....	2.9	0.9	2.7	7.2	0.8	11.9
2.3 GNP per capita (Baht : Person)	....	....	192,812	186,812	181,195	177,333	166,644	157,088
3. Inflation								
3.1 Headline Consumer Price Index (2015=100)	100.67	100.19	100.00	100.91	99.03	96.91	94.08	90.63
(% change)	0.60	0.20	-0.90	1.90	2.20	3.00	3.80	3.30
3.2 Core Consumer Price Index (2015=100)	101.20	100.74	100.00	98.96	97.42	96.45	94.46	92.29
(% change)	0.50	0.70	1.10	1.60	1.00	2.10	2.40	1.00
4. External Account								
4.1 Export (BOP basis) (Billions of USD)	173.9	214.3	214.0	226.7	225.4	225.7	219.1	191.6
(% change)	9.1	0.1	-5.6	-0.3	-0.1	3.0	14.3	27.1
4.2 Import (BOP basis) (Billions of USD)	148.6	177.7	187.2	209.4	218.7	219.1	202.1	161.9
(% change)	14.3	-5.1	-10.6	-7.9	-0.1	8.4	24.9	37.0
4.3 Trade balance (Billions of USD)	25.4	36.5	26.8	17.3	6.7	6.7	17.0	29.8
4.4 Current account balance (Bil. USD)	36.1	48.2	32.1	15.1	-5.2	-1.5	8.9	10.0
(as % of GDP)	0.0	11.9	8.0	3.7	-1.2	-0.4	2.6	3.8
4.5 Net capital movement (Billions of USD)	-9.1	-21.0	-16.8	-16.0	-2.5	12.8	-8.3	24.8
4.5.1 Central Bank	0.4	1.1	-1.4	-3.0	-4.6	1.0	-0.1	2.7
4.5.2 Government	2.70	0.80	-1.70	1.40	4.60	6.50	3.40	3.60
4.5.3 Other Depository Corporation 4/	2.60	-0.70	-12.80	-5.50	3.20	16.40	-8.20	10.30
4.5.4 Other Sectors	-14.70	-22.20	-0.90	-9.00	-5.70	-11.10	-3.40	8.20
4.6 Balance of payments (Billions of USD)	22.8	12.8	5.9	-1.2	-5.0	5.3	1.2	31.3
4.7 International reserves (Billions of USD)	199.3	171.9	156.5	157.1	167.2	181.6	175.1	172.1
4.8 Swap Obligation (Billions of USD)	-31.2	-25.8	-11.7	-23.1	-23.0	-24.1	-31.2	-19.6
4.9 Total debt outstanding (Billions of USD)	146.6	131.4	131.4	141.7	141.9	130.7	104.3	100.6
of which : Public debt 5/	37.6	31.5	29.6	35.2	36.5	39.7	27.7	26.3
4.10 Total debt service ratio (%)	5.0	5.9	6.3	4.9	4.0	4.2	3.4	4.7
of which : Public (included BOT since 1997)	1.1	0.8	0.7	0.7	0.9	0.6	0.6	0.6
5. Government Finance (fiscal year)								
5.1 Overall cash balances (Billions of Baht)	-406.3	-381.9	-344.2	-327.3	-208.9	-287.0	-159.9	-200.4
(as % of GDP)	-2.7	-2.7	-2.5	-2.5	-1.6	-2.4	-1.4	-2.0
5.2 Total public debt outstanding (Bil. Baht)	6,274.9	5,988.4	5,783.3	5,690.8	5,430.6	4,937.2	4,448.3	4,230.7
Domestic debt	5,969.8	5,641.9	5,423.0	5,332.6	5,052.5	4,596.6	4,097.2	3,868.2
6. Monetary Statistics								
6.1 Narrow Money (Billions of Baht)	1,889.7	1,864.2	1,778.1	1,682.5	1,661.3	1,598.3	1,414.3	1,302.4
(% change)	9.8	4.8	5.7	1.3	3.9	13.0	8.6	10.9
6.2 Broad Money (Billions of Baht)	18,621.4	18,289.4	17,551.7	16,809.0	16,062.2	14,966.8	13,559.9	11,778.8
(% change)	4.9	4.2	4.4	4.6	7.3	10.4	15.1	10.9
Claims on Other Nonfinancial Corp.,	3.4	4.1	5.3	4.5	9.3	15.0	16.2	12.0
6.3 Prime rate : Max	6.60	6.60	6.85	7.13	7.25	7.38	7.63	6.50
6.4 Fixed deposits (1 yr.) : Min	1.50	1.50	1.50	1.75	2.35	2.50	3.00	1.70
7. Exchange rate (1 Baht : US$	34.27	35.30	34.25	32.48	30.73	31.08	30.49	31.73
Loans from financial corporations to GDP %	....	79.8	81.2	79.9	76.6	71.8	66.2	59.3

Source: Bank of Thailand, Last Updated: 31 Oct, (2017)

Thailand's GDP was 8,232.4 Billion Baht in 2010, 8,301.6 Billion Baht in 2011 before jump to 8,902.8 Billion Baht in 2012, or 4.9% positively changed from previous year. In 2013 Thailand GDP slightly improve to 9,146.1 Billion Baht before

reach to 9,229.8 (2.2% changed) Billion Baht in 2014 and 9,501.2 Billion Baht (2.9% changed) in 2015, respectively (refer to Table 4.30: Thailand macro-economic indicators). Thailand's GDP averagely every year changed minimum 0.8% to maximum 4.9 during 2010 to 2015.

The positive trade balance was 29.8 Billion US$ in 2010 and decline to 17 Billion US$ in 2011 and again peaked down to 6.7 Billion US$ in 2012 and 2013 before increase to 17.3 Billion US$ in 2014. In 2015^{p} Thailand trade balance has improve to 26.8 Billion US$ and reach to maximum 36.5 Billion US$ in 2016^{p} before decline to 25.4 Billion US$ in 2017^{p}. Moreover, after established of AEC-2015, Thailand balance of payment shown 5.9 Billion US$ surplus in 2015^{p} and increase to 12.8 Billion US$ in 2016^{p} before reach to maximum point of 22.8 Billion US$ in 2017^{p}. Similarity, Thailand exporting continue decline (-0.1%) in 2013, (-0.3%) in 2014, and peaked down to (-5.6%) in 2015p before slightly getting increase 0.1% in 2016p and reach to 9.1% in 2017p. The increase of export and consumer price index, balance of trade, balance of payment are indicated the strong sentiment of Thailand economic position. Thus, the overall Thailand macro-economic is seems to be good indicator to supporting the credible country as a whole (refer to Table 4.30: Thailand macro-economic indicators).

4.6.5 Thailand Competitiveness Position

According to global competitiveness report 2016-2019 defined competitiveness as the set of institutions policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can achieve. The global competitive index (GCI) developed by world economic forum combines 114 indicators that capture concepts that matter for national productivity and long-term prosperity (see described in greater detail in Appendix B).

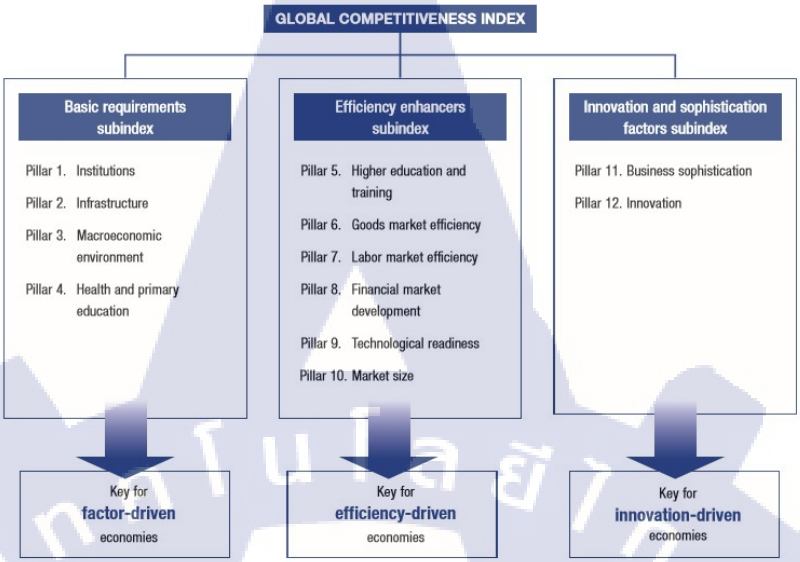


Figure 4.21: The Global Competitiveness Index Framework
Source: The Global Competitiveness Report 2016–2017

These indicators are grouped into 12 pillars (refer to Figure 4.21), there are such as (1) institutions (ex. property rights, burden of government regulation & intellectual property protection); (2) infrastructure; (3) macroeconomic environment (ex. government budget balance, gross national saving, inflation, government debt & country credit rating); (4) health and primary education; (5) higher education and training (ex. quality of math and science education, local availability of specialized training services); (6) goods market efficiency (ex. intensity of local competition, extent of market dominance, effectiveness of anti-monopoly policy, total tax rate, imports % GDP); (7) labour market efficiency (ex. pay and productivity, reliance on professional management & country capacity to retain talent); (8) financial market development; (9) technological readiness; (10) market size; (11) business sophistication (ex. local supplier quantity & quality, value chai breadth & control of international distribution) and; (12) innovation (ex. capacity for innovation, quality of scientific research institution, company spending on R&D, university-industry collaboration in R&D & availability of sciences and engineers). These are the global competitiveness index to measure of international facilities standard of host country investment. The framework keeps competitiveness on the public agenda, provides a focal point for the discussion of long-term competitiveness policies, and help to keep

stakeholders accountable (refer to Figure 4.21: The Global Competitiveness Index Framework)

The GCI includes statistical data from internationally recognized organizations, notably the International Monetary Fund (IMF); the World Bank; and various United Nations' specialized agencies, including the international telecommunication Union, UNESCO and the World Health Organization. The index also includes indicators derived from the World Economic Forum's Executive Opinion Survey that reflect qualitative aspects of competitiveness. The report of global competitiveness index this year covers 138 economies included based on data availability. In ASEAN region, Brunai Darussalam latest year 2013 data included in this year report and Myanmar was not completed to minimum requirements, thus, Myanmar economy was not included in this year 2016-2019 edition of the report.

In among ASEAN economies, Thailand is the 34th competitiveness in the global investment position after Singapore as the 2nd and Malaysia is the 3rd ranked (refer to Table 4.31: Global Competitiveness Index 2016-2017a-b). Indonesia is the 4th ranked following by Brunei Darussalam, Philippines and Vietnam. Thailand competitiveness advantage strongly dominant on macroeconomic environment factors which refer to government budget balance % GDP, gross national saving % GDP, inflation, government debt and country credit rating (rank 13th , score 6.12 out of 7). Thailand market size is attractive rank 18th with score 5.2, this is because of Thailand is production based for exporting orientation in several industries. Thailand market size is the prominent pillar, whereby most of MNEs investment orientation trend to focus on domestic market size and exporting opportunity to international market. As of Thailand market size is competitive advantage as compare to neighbor ASEAN countries such as Malaysia (rank 24^{th,} score 5.03), while Indonesia is the potential market due to large economic of scale (rank 10^{th,} score 5.71), Vietnam is the emerging market and should be monitoring its economic growth, since market size is in 32^{h} rank with score 4.82 higher than Singapore (refer to Table 4.31(a)-(b): The Global Competitiveness Index 2016-2017)

Table 4.31(a): The Global Competitiveness Index 2016-2017

	Overall Index		1: Institution		2:Infrastructure		3:Macroeconomic Environment		4:Health & Primary education		5:High education & training	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
United Kingdom (UK)	7	5.49	14	5.55	9	6.04	85	4.40	17	6.45	20	5.54
USA	3	5.70	27	4.96	11	5.94	71	4.62	39	6.18	8	5.91
ASEAN												
Brunei Darussalam	50	4.81	47	4.25	78	3.88	61	4.87	31	6.26	65	4.48
Cambodia	89	3.98	104	3.46	106	3.17	50	5.02	103	5.20	124	2.88
Indonesia	41	4.52	56	4.10	60	4.24	30	5.51	100	5.28	63	4.50
Lao PDR	93	3.93	68	3.98	108	3.08	87	4.32	102	5.25	106	3.40
Malaysia	25	5.16	26	4.97	24	5.24	35	5.43	44	6.15	41	4.96
Myanmar	-	-	-	-	-	-	-	-	-	-	-	-
Philippines	57	4.36	91	3.62	95	3.37	20	5.88	81	5.57	58	4.60
Singapore	2	5.72	2	6.10	2	6.50	11	6.15	2	6.75	1	6.29
Thailand	**34**	**4.64**	**84**	**3.73**	**49**	**4.39**	**13**	**6.12**	**86**	**5.53**	**62**	**4.54**
Vietnam	60	4.31	82	3.76	79	3.88	77	4.55	65	5.79	83	4.11
Japan	8	5.48	16	5.45	5	6.29	104	4.10	5	6.64	23	5.38
China	28	4.95	45	4.30	42	4.71	8	6.19	41	6.17	54	4.64
Republic of Korea	26	5.03	63	4.02	10	5.96	3	6.58	29	6.28	25	5.32
Australia	22	5.19	19	5.32	17	5.65	23	5.69	10	6.56	9	5.19
India	39	4.52	42	4.36	68	4.03	75	4.55	85	5.54	81	4.12
Canada	15	5.27	18	5.37	15	5.70	41	5.22	9	6.58	19	5.54
New Zealand	13	5.31	3	6.01	27	5.33	17	5.99	6	6.61	10	5.89
Pakistan	122	3.49	111	3.34	116	2.75	116	3.79	128	3.99	123	2.91

Thailand labour market efficiency seem to be problematic outcome with health and primary education such as flexibility of wage determination, country capacity to attract and retain talent, quality of primary education, life expectation and infant mortality, as this point rank in 86th with score 5.53 (refer to Table 4.31a). Despite, Thailand labour market efficiency is much more competitiveness as compare to Indonesia and Philippines.

Table 4.31(b): The Global Competitiveness Index 2016-2017

	6:Good market efficiency		7:Labor market efficiency		8:Financial market efficiency		9:Technology readiness		10:Market size		11:Business sophistication		12:Innovation	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
United Kingdom (UK)	9	5.34	5	5.46	16	4.93	3	6.33	9	5.27	7	5.58	13	5.03
USA	14	5.21	4	5.48	3	5.56	14	6.02	2	6.90	4	5.62	4	5.64
ASEAN														
Brunei Darussalam	68	4.34	47	4.66	92	3.65	84	3.60	116	2.74	84	3.73	78	3.26
Cambodia	76	4.24	58	4.39	63	4.06	98	3.28	86	3.28	114	3.47	118	2.83
Indonesia	58	4.40	108	3.80	42	4.33	91	3.54	10	5.71	39	4.33	31	3.99
Lao PDR	72	4.30	30	4.63	81	3.86	121	2.72	108	2.89	92	3.67	95	3.12
Malaysia	12	5.25	24	4.77	13	4.98	43	4.81	24	5.03	20	5.16	22	4.72
Myanmar	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Philippines	99	4.07	86	4.04	48	4.22	83	3.61	31	4.88	52	4.15	62	3.38
Singapore	1	5.78	2	5.80	2	5.69	9	6.14	37	4.70	19	5.18	9	5.33
Thailand	**37**	**4.66**	**71**	**4.23**	**39**	**4.39**	**63**	**4.30**	**18**	**5.22**	**43**	**4.27**	**54**	**3.43**
Vietnam	81	4.21	63	4.33	78	3.88	92	3.51	32	4.85	96	3.64	73	3.29
Japan	16	5.20	19	4.85	17	4.91	19	5.81	4	6.06	2	5.72	8	5.43
China	56	4.43	39	4.53	56	4.16	74	3.96	1	7.00	34	4.41	30	4.04
Republic of Korea	24	4.93	77	4.14	80	3.86	28	5.54	13	5.51	23	4.87	20	4.75
Australia	27	4.82	28	4.69	6	5.42	24	5.66	22	5.10	28	4.74	26	4.55
India	60	4.39	84	4.10	38	4.41	110	2.99	3	6.43	35	4.39	29	4.05
Canada	17	5.10	8	5.34	7	5.30	21	5.79	15	5.42	24	4.87	24	4.61
New Zealand	10	5.31	6	5.43	1	5.79	13	6.03	64	3.86	26	4.82	23	4.63
Pakistan	117	3.89	129	3.30	107	3.44	119	2.73	29	4.91	95	3.65	75	3.28

Thailand innovation such as company spending on R&D, quality of scientific research institutions, capacity for innovation and availability of scientists and engineers are competitiveness as compare to Vietnam and Philippines at 54th rank with 3.43 score (refer to Table 4.31b), despite Thailand still lag backward from Singapore, Malaysia and Indonesia.

As of these competitiveness index indicate that Thailand still remain an attractive investment destination as well as the foreign investors are confident on Thailand's economic situation (see more detail in Figure 4.22: Thailand Key Indicator). Japanese is the largest and long-term investor whereby a large number of automobile manufacturers are dominated by Japanese firms. This is because Thailand location advantage allows the Japanese firms to form an offshore production site and for their further market extension in ASEAN region (Wadeecharoen, 2015; Suwanarat et al., 2010; Gossack, 2004).

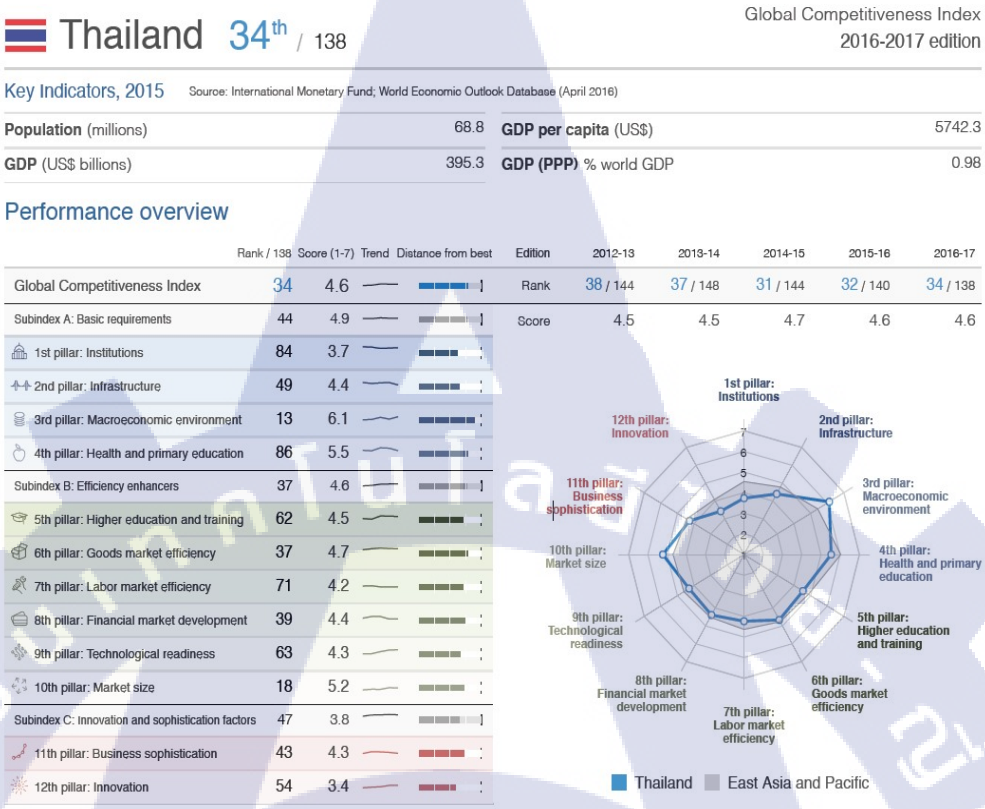


Figure 4.22: Thailand Key Indicator
Sources: International Monetary Fund; World Economic Outlook Database (April, 2016)

Thus, based on secondary and interview data, enable to supports that 'Thailand still competitiveness advantage due to several reasons as discussion in previous finding sections. Automobile industry is the high value added industry whereby core technology belong to Japanese parent firm. Since, Thai-Japan have long-term trading partnership history, no wonder Japanese firms are trust to do business in Thailand as their first choice destination in ASEAN region. As support by Thailand domestic passenger car sales reach to 33,482 units and commercial car sale 51,319 units in March 2017. Similarly, domestic machinery reach to 97,959.48 Million Baht and import of capital 4,209.22 Million US$. As record by bank of Thailand, the number of factories and total investment emitted by local government has increased by Feb-Jul 2017 (refer to Table 4.32: Private Investment Indicators). Thus, the overall Thailand macro-economic seems to be in a strong sentiment position via the perspective of Japanese investors.

Table 4.32: Private Investment Indicators (Unit: Millions of US$ or As Stated)

		FEB 2017 r	MAR 2017 r	APR 2017 r	MAY 2017 r	JUN 2017 r	JUL 2017 p
1	Domestic cement sales (1,000 of ton)	2,922.53	3,269.94	2,409.37	2,747.38	2,744.09	2,646.05
2	Domestic concrete sales (Cubic meters)	1,235,676.95	1,357,926.00	926,173.95	1,152,128.25	1,241,229.20	1,194,384.75
3	Domestic tile (Tons)	153,138.52	177,273.59	121,324.08	155,259.08	148,891.98	122,983.22
4	Domestic commercial car sales (Units)	41,733.00	51,319.00	37,774.00	40,271.00	40,374.00	38,379.00
5	Domestic passenger car sales (Units)	26,702.00	33,482.00	25,493.00	26,151.00	29,420.00	26,795.00
6	Domestic machinery (Millions of Baht)	80,458.04	97,959.48	74,837.13	85,980.57	80,628.33	79,068.52
7	Import of capital (Millions of US$) 1/	3,470.36	4,209.22	3,543.83	4,266.23	3,895.25	4,063.57
8	Construction areas (1,000 of sq. metre)	3,225.33	3,659.55	2,673.76	3,106.29	2,551.80	4,089.02
9	Construction areas permitted in municipal zone (Thousands of sq. metre)						
10	Whole kingdom	1,195.87	1,907.74	1,308.58	1,489.22	1,969.86	1,697.08
11	Residential	787.28	1,350.53	853.28	902.17	1,239.27	682.13
12	Commercial	155.92	241.54	191.68	222.99	174.81	850.70
13	Industrial & others	252.67	315.67	263.63	364.07	555.78	164.25
14	Bangkok metropolis	766.85	1,325.49	627.99	951.43	1,300.33	1,331.15
15	Central region	120.27	211.56	368.36	194.81	319.36	128.88
16	Other regions	308.74	370.69	312.24	342.99	350.17	237.05
17	Factories permitted to establish by Ministry of Industry						
18	Permitted by Department of Industrial Works :						
19	No. of factories	51.00	80.00	34.00	83.00	57.00	62.00
20	Total investment	7,173.17	9,387.57	6,525.76	25,777.32	16,650.65	15,170.53
21	Permitted by Provincial Industry Office :						
22	No. of factories	212.00	285.00	227.00	265.00	303.00	227.00
23	Total investment	6,361.40	8,321.82	5,920.92	10,235.84	10,546.00	9,263.62
24	Emitted by Local Government :						
25	No. of factories	12.00	22.00	14.00	15.00	30.00	32.00
26	Total investment	185.27	205.51	163.78	207.40	318.52	448.89
27	Capital investment of business registered at Ministry of Commerce						
28	Newly registered 2/	26,989.00	26,641.00	21,832.00	31,411.00	40,916.00	21,258.00
29	Capital increase	102,691.00	64,656.00	39,525.00	84,686.00	69,029.00	500,286.00
30	Capital decrease	23,786.00	24,496.00	11,597.00	56,751.00	10,689.00	77,515.00
31	No. of liquidated juristic person (Unit)	657.00	1,167.00	878.00	1,074.00	1,548.00	1,626.00
32	Promotional privileges from Board of Investment 3/						
33	No. net applications	80.00	122.00	n.a.	n.a.	n.a.	n.a.
34	Total investment (Billions of Baht)	13.00	31.44	n.a.	n.a.	n.a.	n.a.
35	No. applications approved	90.00	106.00	n.a.	n.a.	n.a.	n.a.
36	Total investment (Billions of Baht)	37.73	184.29	n.a.	n.a.	n.a.	n.a.
37	No. of promotion certificates issues	128.00	103.00	n.a.	n.a.	n.a.	n.a.
38	Total investment (Billions of Baht)	38.23	47.10	n.a.	n.a.	n.a.	n.a.

Source: Bank of Thailand
(http://www2.bot.or.th/statistics/ReportPage.aspx?reportID=857&language=eng)

Remarks: 1/ Exclude imports of aircrafts, ships, floating structures, and locomotive by government and rent by private sector.
2/ From January 2012 onwards, the data includes Public Company Limited
3/ The sum of previous year's data , for instance, sum of monthly or quarterly data may not be equal to annual data due to an effect of BOI's data adjustment, Last updated: 22 September 2017

CHAPTER 5

DISCUSSION AND CONCLUSION

This chapter will be representing the overall results of the study back up by theoretical content and literature relevant. The study will be discussing the over objectives and bring out the significance expected outcome of the study in two perspective are as *(1) how does Japanese FDI perform well on Thailand locational advantage and; (2) does Thailand investment position and its location advantages still attractiveness?* Finally, the study will summarize the role of Japanese FDI in Thailand economic development.

5.1 Discussion and Conclusion

How does Japanese FDI perform well on Thailand locational advantage?

This section will be discussing the role of Japanese investment in macro perspectives. The motive of Japanese FDI will be explain via theories of international trade. The performance of Japanese firms in our research sample will be examined in summary.

Thailand is one of the prominent recipient country in ASEAN region whereby Japanese firms are the largest investors engaged in Thailand manufacturing sectors (Wadeecharoen, Worapongpat, Lertnaisat, Lertpiromsuk & Teekasap, 2015; Suwannarat, 2012; Suwannarat, Williams, Smith & Ibrahim). Japanese investment inflows to the ASEAN continue to enlarge year after year (refer to Table 1.2: The Top 10th Major Investment Countries Inflows in ASEAN Regions). ASEAN is the desirable destination for Japanese FDI whereby a large number of MSMEs engaged in automotive parts and its components industries. As the results of this study found that most of Japanese MSMEs with oversea bases have located their subsidiaries in ASEAN for general (such as facilitate international expansion, product diversification and reduce cost by globalizing supply chain) and Thailand (such as achieve economic of large scale and increase market share) in particular (Nisar & Boateng, 2012). These research finding are correspondence with the result of Japanese headquarter in Japan

perspective express that electronic and semiconductor firm was motives by price competitiveness, transaction cost, increase brand value in different market, innovation in global market, increase market share and access to suppliers and customer in local market (Kierzkowski, 2005; Ekeledo & Sivakumar, 2004; Dinning, 1993; Kogut, 1988), see more detail in Table 4.7: The motive of Japanese Subsidiaries via Japanese Headquarter Perspective.

Since, Japan is the major investor in ASEAN region in general and Thailand in particular, the motive of Japanese FDI was explain by three perspectives are as *'natural resources-securing type'; 'market securing type'* and *'cost saving type'* (Wadeecharoen, Lertnaisat, Lertpiromsuk & Teekasap, 2015). Urata, (1998) propose the motive of Japanese FDI in developing countries is to maintain international price competitiveness. Low-cost Labor and natural resources are abundantly available in developing countries, thus, enable Japanese firms to save their production costs (Tiwari, Syamwil & Doi, 2003). These motives began with enhancing the competitive advantage by decrease the cost of production and sharing of resources dependent (Wadeecharoen, Kanjanavanikul & Aunahabandid, 2011). Similarly, the finding of this study states that *'access to natural resources, local suppliers and customer'* are the major motives of Japanese FDI across several industries (Feinberg & Keane, 2001; Kogut, 1988), see more detail in Table 4.8 The motive of Japanese Subsidiaries in Thailand.

The main objective of Japanese firms engaged in global business is for maximize profit in oversea countries. This is including Japanese investment in Thailand. Japanese excusive directors and managers well know how to cover operating expenses and achieve stable profit. As of the finding shows that the largest electronic producer of Japanese headquarter office in Tokyo, Japan satisfied with overall Thailand subsidiary performance. Similarity to Japanese subsidiaries in Thailand are satisfied with their performance approximately 75% (11 firms), only 25% (1 firms) not achieved the target due to less profitable. There are 4 firms (33%) gain benefit from AEC-2015 while other 6 firms have not seen the clear benefit gain from AEC-2015. For more detail see Table 4.11: The opportunities of Japanese Perspective in Thailand Subsidiaries and Table 4.19: The Attractive Countries in

ASEAN. Based on these finding results enable to confirm that *'Thailand become the first choice country targeted by Japanese investor to get engaged in ASEAN region'*. This is supported by Japanese External Trading Organization (JETRO) survey in 2015, shows that 552 firms or 37.6% were located in Thailand (refer to Table 1.3: Japanese Companies with Overseas Bases, by Size and Destination).

Asean Economic Community (AEC) market is the main reason for Japanese firms find out the new advantage location in ASEAN countries supply for demanding in this region (Hennart, 1988; Buckley & Casson, 1976; Hamada, 1974). As of the interview data based (S1-S12), enable to concluded that suppliers of Japanese firms will reduce cost of globalizing supply chain by located their production base in the same region (Feinberg & Keane, 2001; Kogut, 1988; Dining, 1977:1979). For instant of global supply chain, see more detail in Table 4.15: Company S4 Subsidiaries in ASEAN Regional.

According to *'transaction cost theory'* Japanese firms located their manufacturing in ASEAN countries to minimize transaction cost in the target market. Cost saving factor is the major objective of Japanese firms to perform business in Thailand at lowest cost (Hennart, 1988). Most of Japanese FDI has been in the area of export and import which is differently among ASEAN nations. Such trading export and import is relatively easy to complete in Thailand, Malaysia and Singapore while this thing become difficult in Laos, Cambodia and Myanmar. These because national logistics service quality is vary among ASEAN countries. For instance, Singapore is having a world class logistic service while Cambodia, Myanmar and Laos are having logistic system lower than regular standard. Thus, Thailand is the good choice for Japanese production based for exporting to other international market like Australia (see more detail in Table 4.22: Top 10 Thailand's Vehicle Export Destination in 2011-2016).

As of the points are discussed above, Thailand location is considered as the spatial pattern of Japanese manufacturing industry in ASEAN region (Tiwari et al., 2003). This is because Japanese investors are confident on Thailand economic position and political stability. Despite, some other countries like Myanmar, Vietnam

and Cambodia may spoil some of Japanese investment inflows from Thailand. In fact, they could take simply minor amount of Japanese investment while the large amount of investment inflows to Thailand manufacturing sectors (refer to Table 1.3: Japanese Companies with Overseas Bases, by Size and Destination and Table 1.4: Japanese Investment). This is because Thailand is the gate way of ASEAN region due to logistic advantage of connection to all neighboring countries (refer to Figure 2.1: The 10 Member Nations of ASEAN). Thailand country is a strong in automobile industries cause by over 30,000 automobile assembly are located in Thailand. Even car engine (commercial engine) which more value added was produce in Thailand. ***"To be competitiveness in global market, car maker prefer using localization strategy whereby all parts mainly produce in Thailand",*** *he said, Executive Vice President Director (EVP) S10.*Thus, Thailand is the best location to facilitate of product diversification whereby most of Japanese selling points are located in Thailand.

Through the lens of Japanese investors from twelve firms (S1-S12), Thailand has been recognized as a successful country from the last part of twenty-first century. This is because most of Japanese firm's products are using of cheap labor but relative high skilled labor. ***"In Thailand, we have problem on unskilled labour (maids), for skilled labour we are in the competitiveness position",*** *he said, general manager administration S12.* Despite, Thai cheap labor advantage has eroded by Vietnam, Cambodia, Laos, Philippines and Indonesia where unskilled Labor is available. Some of Japanese firms went to these countries due to the cheaper Labor as compare to Thailand. For instant, ***"we have sites new location in Cambodia in 2013 and Myanmar, one of the reason behind the motive of new subsidiaries in these countries is Thailand minimum wages are trend to growth up to 300 Baht/Day",*** *he said, the Regional Business Affairs Manager of Regional headquarters for Asia (S4)*.

In the face, these CLMV countries are lack of functional infrastructure, political unstable and lack of professional skill worker supply for high technology production. Despite, Thailand still have competitive advantage on high skill labour while Cambodia and Myanmar available at skill and non-skill labour. For example, some automobile parts are using labour incentive such as magneto part, we export raw

material to Cambodia and re-import to Thailand, this is the way of globalization by using the benefit of AEC, *he said, the Regional Business Affairs Manager of Regional headquarters for Asia (S4)*.

As of the research finding based on twelve Japanese subsidiaries in Thailand which located in Thailand over 10 years and more than several decade. It's indicated that Thailand still attractiveness in term of location advantage, production resources and customer demand. Thus, Thailand manufacturing sector has an opportunities to growth, as long as, these firms attempt to increase of their investment and transformative of labour intensive to high technology (robotic system). Moreover, they are changing the organization structure by using localization strategy to be competitiveness in ASEAN region and worldwide.

Does Thailand investment position and its location advantages still attractiveness?

The 10 research sample out of 12 Japanese firms subsidiaries (83%) are engaged in automobile, machine and its automobile assemble across from large to medium enterprise (refer to Table 4.2: Sampling Profile). This is start from upstream to downstream sampling selected based on Thailand supply chain system (see more detail in Figure 3.3: Sampling Selected based on Supply Chain System). Thus, in this sector will be discussing Thailand investment position and its location advantage based on automobile industry.

Thai automobile industry has documented an extended period of growth, in line with the economy and automobile sales. Production during 2000-2010 grew 12% per year, on average. This was mainly a result of expanding export market, as per major manufacturers' policy (average growth of 22% per year). However, during the last several years, performance of automobile businesses has been rather volatile, owing to various industry-specific factors (refer to Figure 5.1).

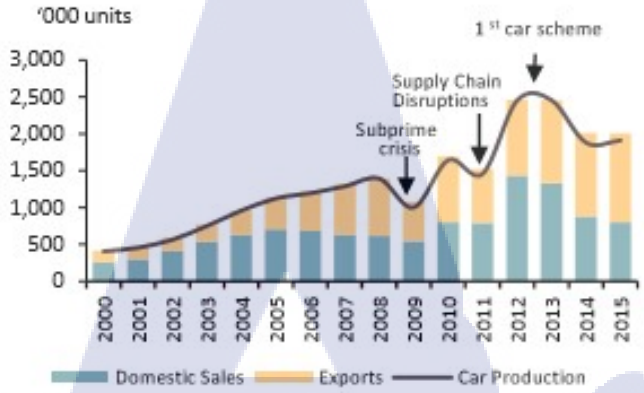


Figure 5.1: Thai Automobile Production and Sales
Source: FTI, TOYOTA cited in Krungsri Research, July 2016

In 2011, two major natural disasters, i.e., tsunami in Japan (March 2011) and the Great Flood in Thailand (October 2011), led to serious supply chain disruption. Automobile production in Thailand shrank substantially due to severe shortage of auto parts; outputs dropped to the level recorded in 2008. In period of 2012-2013 was the golden years of Thai automobile, thanks to the pent-up demand caused by the Great Flood towards the end of 2011 and the government's first-car scheme, leading to an unusual rise in demands. Total annual sales in 2012 and 2013 were 1.43 and 1.33 million units, respectively. At the same time, major manufacturers were focusing on expanding the export market. Consequently, the number of car exported has gone above 1 million units since 2012. Production also increased substantially to 2.45 and 2.46 million units in 2012 and 2013, respectively (see more Table 5.3: Thailand's Motor Vehicle Production by Unit, 2010-2016).

During 2014-2015, the domestic automobile market tumbled badly. The demand brought forward by government's first-car initiative resulted in a rapid rise in household debt and a significant drop in domestic sales after the end of the policy. The sales were only 0.8-0.9 Million units per year, as compared to 1.3-1.4 Million units per year under the scheme, while the total production reduced to just 2 Million units, as compared to 2.4 Million units previously (Krungsri Research, July 2016).

More specifically, the situation of Thailand automobile industry in 2015 is as followed. Total production amounted to 1.91 Million units (refer to Figure 5.2**:** Thai Production and Sale Forecast), supported by the export market whose volume

ascended to the record high of 1.2 Million units with value of 17,585 Million US$ (+5.31% YoY). Of this, export of passenger cars broke record 9,180 Million US$, mainly because of an expansion of eco-car export to many countries, including Europe, and USA. Particularly in the Australian market, demand has surged after the gradual closure of domestic production bases. Exports of other commercial automobiles amounted to 8,406 Million US$ (-21.42% YoY), in line with economic slowdown in trading partners. Besides, exports of pick-ups had slowed, as Toyota- a main exporter-reduced production of the existing line, prior to the launch of a new model (Table 5.1: Thai Automobile Export)

The domestic automobile market in 2015 still suffered from frontloading of demand led by first-car scheme for the second year. Together with a slower growth of the Thai economy due to depressed commodity prices and shrinking export income, **sales of automobiles hit the lowest point in 3 years at 0.8 Million units (9.32% YoY).** Meanwhile, imported automobiles totaled $ 1,489 Million US$ (-20.54% YoY). Nonetheless, exist tax hike (effective on Jan 1, 2016), which increases retail car price, this has decline in some demands towards the end of the year (refer to Table 5.2: Thai Automobile Imports).

Table 5.1: Thai Automobile Export

Export Value (Million USD)				
	Passenger	**Commercial**	**Total**	**%YoY**
2008	5,038	5,469.9	10,507.9	21.83
2009	3,897.4	3,522.7	7,420.1	-29.39
2010	6,757.5	5,812.3	12,569.8	69.40
2011	6,049.4	5,343.5	11,392.9	-9.36
2012	4,961.5	11,045.4	16,006.9	40.50
2013	6,028.7	11,014.1	17,042.8	6.47
2014	6,001.7	10,697.2	16,698.9	-2.02
2015	9,180.1	8,405.8	17,585.8	5.31
Export Market Share (15%) 2015	Asean (28.8%) Middle East (18.6%) Australia (20.2%) EU (7.8%) Other (24.6%)	Asean (18.3%) Middle East (19.8%) Australia (20.2%) EU (7.5%) Other (34.2%)	Asean (23.8%) Middle East (19.2%) Australia (25.1%) EU (7.7%) Other (24.2%)	

Source: MOC, (2016)

Table 5.2: Thai Automobile Imports

Import Value (Million USD)		
	Passenger	**%YoY**
2008	1,032.2	45.85
2009	867.2	-15.99
2010	1,526.0	75.97
2011	1,813.7	18.85
2012	2,507.1	38.23
2013	2,085.5	-16.82
2014	1,873.8	-10.15
2015	1,489.0	-20.54
Export Market Share (15%) 2015	Asean (26.4%) USA (2.3%) EU (26.3%) Other (24.2%)	

Source: MOC, (2016)

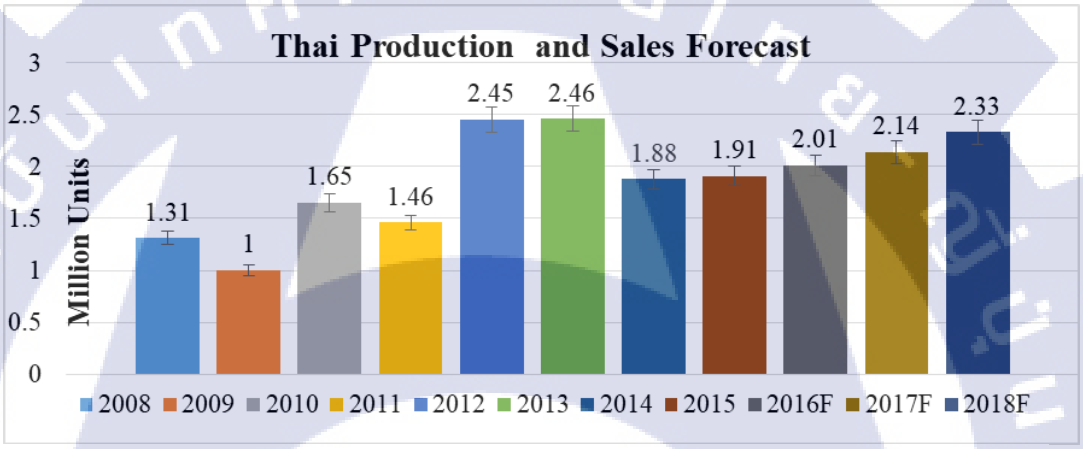


Figure 5.2: Thai Production and Sale Forecast
Source: FTI, Forecasted by Krungsri Research

The automobile industry in Thailand is expected to grow only slightly in 2016 before accelerating to a higher rate in 2017-2018. More specifically, production in 2016 is forecasted to be around 1.95-2.01 million units or a growth of 2-5% YoY and it could speed up to the growth of 6-8% YoY and 8-10% YoY in 2017 and 2018, or around 2.1-2.4 Million and 2.3-2.33 Million units of production volumes, respectively.

In 2016, the domestic automobile market is anticipated to continue to shrink by 3-5% YoY with domestic sales estimated to be approximately 0.76-0.78 Million units. This is essentially due to (1) the effects of the first-car scheme and exist tax hike that had already attracted part of the demand that were to be realized this year; (2) high level of household debts; (3) depressed prices of agricultural products and a

severe drought; and (4)stricter loans approval by financial intermediaries. However, export of automobiles in 2016 would help offset the drag; its growth is forecasted to be 7-9% YoY or a volume of 1.29-1.31 Million units. This is mainly led by increases in export of new models of pick-ups and large vehicles – particularly the PPVs (Krungsri Research, July 2016).

During 2017-2018, the domestic automobile market could register positive growth of 3-5% YoY and 5-8% YoY, respectively. This is partly due to the fact that the cars purchased under the government's first-car scheme are banned from selling the in the first five years. Therefore, car owners who wish to change to a new one could then sell their existing vehicles. At the same time, the economic conditions are projected to begin to recover. In addition, export market could also benefit from the AEC and the eco-car export plan which was agreed as part of the conditions for the BOI tax privileges. Therefore, growth of automobile exports in 2017 and 2018 are forecasted to be 8-10% and 10-12% YoY, respectively (Krungsri Research, July 2016).

Table 5.3: Thailand Vehicle & Motorcycle Production, Export and Import (Units)

	Vehicle				Motorcycle			
	June 2017	Jan.-Jun. 2017	Growth YOY%	Growth YTD%	June 2017	Jan.-Jun. 2017	Growth YOY%	Growth YTD%
Production (Units)	175,443	950,966	-2.46	-4.27	188,389	1,033,094	11.97	14.98
Domestic Sale (Units)	69,798	409,980	5.68	11.22	175,802	949,550	-4.69	4.35
Export (CBU) (Units)	93,086	536,406	-13.02	-9.82	61,427	439,679	-15.06	-4.16

Source: Thailand Automotive Institution, (June, 2017)
Remark: YOY (Year on Year: compare to the same month of this year to the last year)
YTD (Year to date: the accumulate from January to the latest month)
Export of Motorcycle is included CBU & CKD

Recently, according to Thailand Automotive Institution, (June, 2017) reported Thailand vehicle production Jan-Jun, 2017 were 950,966 units or a growth of -2.46% YOY, motorcycle production Jan-Jun, 2017 were 1,033,094 unites or a growth of 11.97% YOY. Thailand vehicle domestic sale in Jan-Jun, 2017 were 409,980 units or a growth of 5.68%, motorcycle domestic sale were 949,550 units or a growth of 4.35% YTD. Thailand vehicle export from Jan to Jun, 2017 were 536,406 units or a growth of -13.02% YOY (refer to Table 5.3). As of these data indicate that Thailand automobile industry whereby Japanese is the main investors are more reliable to gain

benefit from Thailand domestic market and using Thailand location as production base in ASEAN Regional (refer to Figure 5.3).

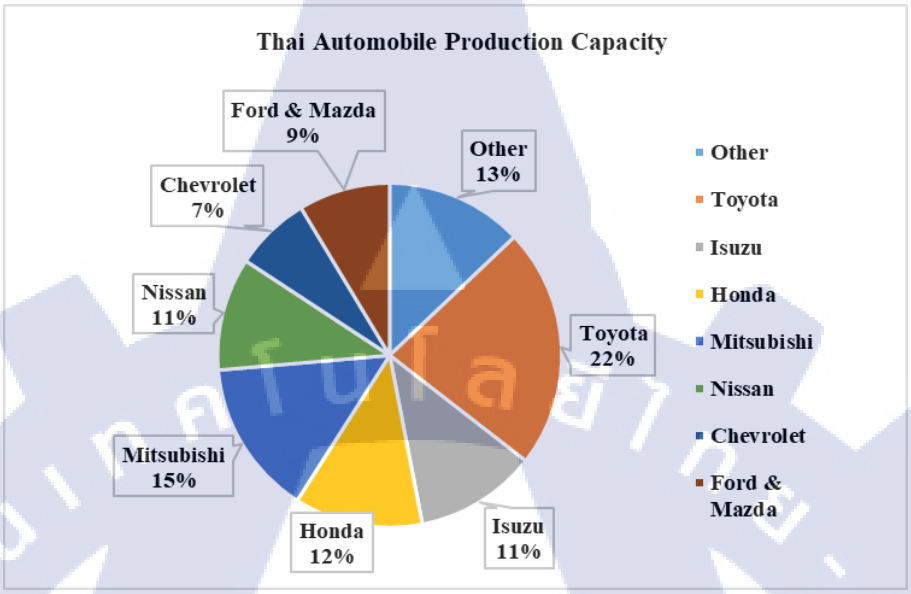


Figure 5.3: Thai Automobile Production Capacity (Year 2015 = 3.66 mil units)
Source: FTI, Thailand Auto Book, compiled by Krungsri Research
Note: Inclusive of planned capacity expansion announced by automakers

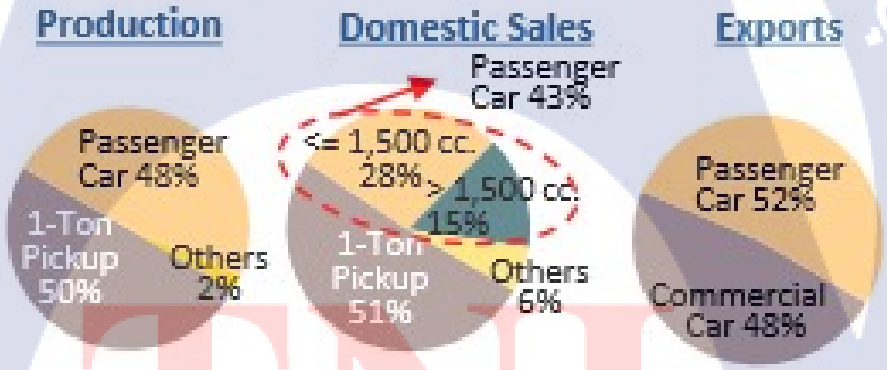


Figure 5.4: Proportion of Thai Auto Production, Sales and Exports in 2016
Source: FTI, TOYOTA, compiled by Krungsri Research, July 2016

Thailand economic position is mainly reline on automobile industry whereby most of foreign investors are from Japan (refer to Figure 5.3). Thailand automotive industry is a vital sector for the country's economic as it contributes greater to exports and trade inflows (refer to Figure 5.4). Thailand automobile is the second largest export industry after computer parts and components, these industries continuous government-led supported. Specially, in automotive has involved into an industry with vibrant foreign original equipment manufacturer (OEM) competition and

extensive network of supporting industries. Moreover, Thailand have long experience with automotive manufacturing has equipped the country with a comparative low-cost yet experienced labor force for the sector. Thus, Thailand still have a competitive advantage base on the high value chain of automotive industries. *"This is the main reason to support of mold industries to growth up on Thailand economic positioning".*

The second largest of Thailand foreign investors were from ASEAN countries followed by is United Stage (US) and Europe Union (EU) (refer to Table 4.5: Foreign Investment Classified by Country). These top four foreign investors are the major contributor of Thailand economic development and export orientation. The enlargement of these foreign countries investment in Thailand location is continued to increase as long as Thailand can provide them competitive advantage. Thus, through the view of foreign investors, Thailand location is still in a good health and wellbeing for foreign firms to located their plants and investment expansion. This is sufficient enough to confirm that *'foreign investors are confident on Thailand economic'*.

5.2 Avenues for Further Research

Thailand has long relied on 1-ton pickup car, which over the years has made the country the world's second-largest producer. The major auto-makers setting up production and export bases in the country or *"pickup car is the product championship of Thailand"* (Suwannarat, Williams, Smith & Ibrahim, 2010). Despite, the Thai government through the Ministry of Industry and the Thai Automotive Institution (TAI) has initiated a new program that would give Thailand another champion product. The eco-car project would see Thailand becoming a producer and exporter of small and fuel-efficient passenger cars. And today we have seen many of these car being launched (refer to Figure 5.4: Proportion of Thai Auto Production, Sales and Exports in 2016.

The era of intensified globalization and international competition forwarding Asian Economic Community (AEC). Thailand can no longer rely on its cheap Labor to gain competitiveness. As far as skilled Labor is concerned to the host county education system to ensure of manpower supply in manufacturing sectors. This

requires government fund and expertise or professional trainer to enhance of Thai worker capacity and efficiency. Thailand must seek to assimilate advance technology from Japanese firms and move up the product value rather than attaching on price competitive with low-wage economic (Willem, 2009). In doing so, joint business venture with largest foreign investor like Japan country is one of the best alternatives for Thailand business enterprise to gain fast moving technology and expertise. Hence Japanese direct investment via the form of IJV enables to improve the competitiveness of Thailand recipient country.

Thus, the further research extend from this study aim to focus on *'how to transfer technologies effectively between Thai and Japanese SMEs?'* The objectives mainly to find out the gap appeared in Technology transfer between Thai and Japanese SMEs. *What types of technologies are required to be transferred between Thai and Japanese SMEs?* These are the point needs to be investigated for the further study.

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APPENDIX A

สถาบันเทคโนโลยีไทย-ญี่ปุ่น
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10 February, 2017

Dear Managing Director/President and who it may concerned

A Survey on the Trend and Motives of Japanese FDI to Thailand after the Start of Asean Economic community (AEC)

The above matter is referred

Japanese foreign direct investment (FDI) in Thailand has played a significant role towards Thailand economy, to understand the trend and motives of Japanese FDI to Thailand after the start of AEC is crucial. The Center for Business Research and Services of Thai-Nichi Institute of Technology intends to carry out a study on this topic with the objective to share the results to related authorities and policy makers, including the general public.

We would like to request your cooperation in responding to the attached questionnaires and would like to thank you in advance for your kind cooperation.

Your faithfully,

Assistant Prof Rungsun Lertnaisat

Dean, Faculty of Business Administration
Thai-Nichi Institute of Technology

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เรื่อง ขอความร่วมมือในการตอบแบบสอบถาม

เรียน กรรมการผู้จัดการ/ ผู้จัดการฝ่ายบุคคล หรือผู้ที่มีส่วนเกี่ยวข้อง

การลงทุนจากประเทศญี่ปุ่นมีบทบาทสำคัญอย่างมากต่อการพัฒนาเศรษฐกิจและสังคมของไทย ด้วยเหตุนี้ความเชื่อมั่นของนักลงทุนญี่ปุ่น จึงส่งผลกระทบต่อสัดส่วนการลงทุนของประเทศไทยนับตั้งแต่ปี พ.ศ. 2556 อันเนื่องมากจากปัญหาค่าแรงที่มีแนวโน้มเพิ่มสูงขึ้น ปัญหาด้านเสถียรภาพทางการเมืองของไทย และความไม่แน่นอนของนโยบาย อย่างไรก็ตามประเทศไทยยังมีความได้เปรียบเชิงยุทธศาสตร์ที่สามารถเชื่อมโยงไปยังประเทศต่างๆ ในอาเซียน

ด้วยเหตุนี้ศูนย์วิจัยและบริการธุรกิจ สถาบันเทคโนโลยีไทย-ญี่ปุ่น จึงได้ทำโครงการสำรวจ **"แนวโน้มการลงทุนของบริษัทสัญชาติญี่ปุ่น ภายหลังการเข้าร่วมประชาคมอาเซียนของไทย"** โดยมีวัตถุประสงค์เพื่อศึกษาแนวโน้มการลงทุนของบริษัทสัญชาติญี่ปุ่นในประเทศไทย และภูมิภาคอาเซียน ระดับการทำกำไรของบริษัทในช่วง 2 ปีที่ผ่านมา (พ.ศ. 2558-2559) ตลอดจนปัจจัยที่สนับสนุนการดำเนินงานของธุรกิจญี่ปุ่นในประเทศไทย ผลของการวิจัยในครั้งนี้จะถูกนำเสนอต่อหน่วยงานภาครัฐ และเอกชนที่เกี่ยวข้อง เพื่อใช้ประกอบการกำหนดนโยบายด้านการลงทุน อันเป็นประโยชน์ต่อบริษัทต่างชาติที่เข้ามาลงทุนในประเทศไทย

ทั้งนี้ข้อมูลของท่านจะถูกเก็บเป็นความลับ เฉพาะคณะผู้วิจัยภายในศูนย์วิจัยและบริการธุรกิจเท่านั้นที่ทราบ และจะไม่เปิดเผยต่อบุคคลภายนอกแต่อย่างใด

จึงเรียนมาเพื่อโปรดพิจารณา และให้ความอนุเคราะห์ข้อมูลในครั้งนี้

ด้วยความนับถือ

ผู้ช่วยศาสตราจารย์ รังสรรค์ เลิศไพสัตย์

คณบดี คณะบริหารธุรกิจ
สถาบันเทคโนโลยีไทย-ญี่ปุ่น

Semi Interview Structure

Point of Interview

1. The trend of Japanese investment in ASEAN and Thailand country
2. What are the attractive countries in ASEAN?
3. What are opportunities contributing to Japanese firms operating in Thailand successfully?
4. What are the company beneficial gain from AEC?

Part1: General Information

1.1Could you tell me about the company background?

Answer……
……
……
……
……

1.2 How many subsidiaries in Thailand own by your company?

Answer……..

1.3 Does your subsidiaries in Thailand get profit in five recent years? How much does it get in each year and in accumulation?

Answer……
……

Part 2: The Attractiveness Countries in ASEAN

2.1 What are the attractive countries in ASEAN region and why? Please given the supportive reasons.

Answer……
……
……
……
……

2.2 According to those criteria, is your subsidiaries in Thailand successful?

Answer……
……
……
……
……

2.3 In which level (high, medium and low), do you evaluated performance of Japanese subsidiary in Thailand during year 2015-2016. Why?

Answer……
……..
……..
……..
……..

2.4 What are the success criteria of your subsidiary to do business in Thailand? Why?

Answer……
……..
……..
……..
……..

Part 3: The trend of Japanese investment in ASEAN and Thailand country

3.1 Do you have trend to make more investment in Thailand?

Answer……
……..
……..
……..
……..

3.2 Do you have trend to make more investment in ASEAN and which country? Please tell the reasons to support?

Answer……
……..
……..
……..
……..

3.3 For further investment, what kind of business and where do u want to investment?

Answer……
……..
……..
……..
……..

Part 4: What are the company beneficial gain from AEC?

4.1. What are the beneficial your company gain from AEC?

Answer……
……..
……..
……..
……..

4.2. What are the opportunity for your company to do business in Thailand and ASEAN?

Answer……
……..
……..
……..
……..

--Thank You--

APPENDIX B

Thailand 34th / 138

Global Competitiveness Index
2016-2017 edition

Key Indicators, 2015

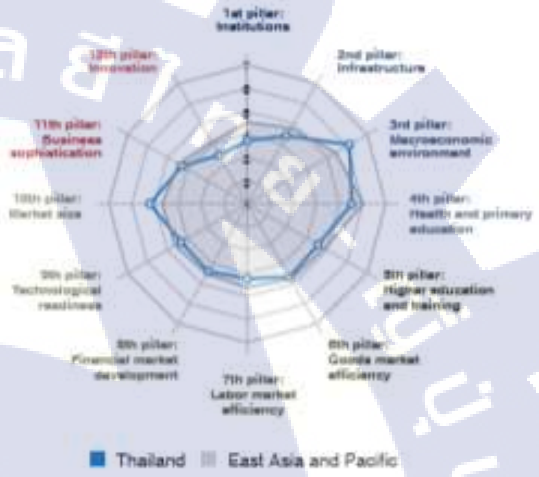
Source: International Monetary Fund, World Economic Outlook Database (April 2016)

Population (millions)	68.9	**GDP per capita** (US$)	5742.3
GDP (US$ billions)	395.3	**GDP (PPP)** % world GDP	0.98

Performance overview

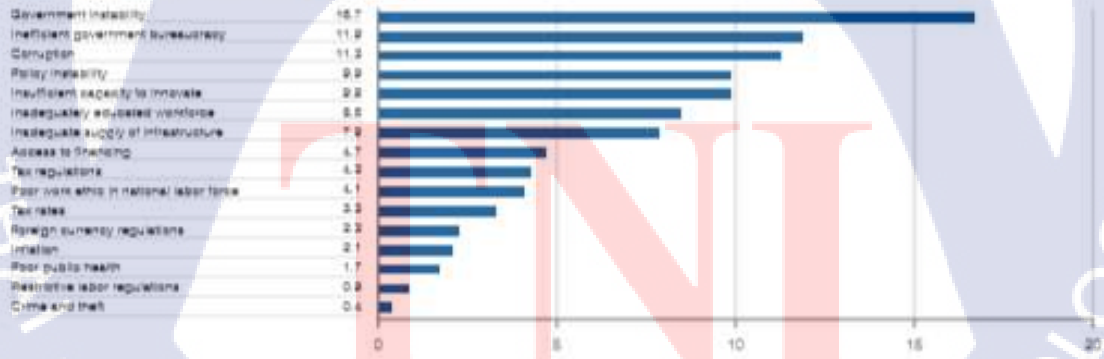
	Rank / 138	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	34	4.6		
Subindex A: Basic requirements	44	4.9		
1st pillar: Institutions	84	3.7		
2nd pillar: Infrastructure	49	4.4		
3rd pillar: Macroeconomic environment	13	6.1		
4th pillar: Health and primary education	86	5.5		
Subindex B: Efficiency enhancers	37	4.6		
5th pillar: Higher education and training	62	4.5		
6th pillar: Goods market efficiency	37	4.7		
7th pillar: Labor market efficiency	71	4.2		
8th pillar: Financial market development	39	4.4		
9th pillar: Technological readiness	63	4.3		
10th pillar: Market size	18	5.2		
Subindex C: Innovation and sophistication factors	47	3.9		
11th pillar: Business sophistication	43	4.3		
12th pillar: Innovation	54	3.4		

Edition	2012-13	2013-14	2014-15	2015-16	2016-17
Rank	38 / 144	37 / 148	31 / 144	32 / 140	34 / 138
Score	4.5	4.5	4.7	4.6	4.6



Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2016



Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their ranking.

The Global Competitiveness Index in detail

Thailand

	Rank/ 144	Value	Trend
1st pillar: Institutions	84	3.7	
1.01 Property rights	93	4.0	
1.02 Intellectual property protection	121	3.3	
1.03 Diversion of public funds	88	3.1	
1.04 Public trust in politicians	111	2.2	
1.05 Irregular payments and bribes	80	3.7	
1.06 Judicial independence	84	4.0	
1.07 Favoritism in decisions of government officials	74	3.0	
1.08 Wastefulness of government spending	108	2.5	
1.09 Burden of government regulation	61	3.5	
1.10 Efficiency of legal framework in settling disputes	54	4.0	
1.11 Efficiency of legal framework in challenging regs	62	3.6	
1.12 Transparency of government policymaking	57	3.9	
1.13 Business costs of terrorism	121	4.0	
1.14 Business costs of crime and violence	100	4.0	
1.15 Organized crime	104	4.2	
1.16 Reliability of police services	61	4.6	
1.17 Ethical behavior of firms	92	3.6	
1.18 Strength of auditing and reporting standards	51	4.9	
1.19 Efficacy of corporate boards	88	4.7	
1.20 Protection of minority shareholders' interests	32	4.6	
1.21 Strength of investor protection 0-10 (best)	38	6.3	
2nd pillar: Infrastructure	49	4.4	
2.01 Quality of overall infrastructure	72	4.0	
2.02 Quality of roads	60	4.2	
2.03 Quality of railroad infrastructure	77	2.5	
2.04 Quality of port infrastructure	65	4.2	
2.05 Quality of air transport infrastructure	42	5.0	
2.06 Available airline seat kilometers millions/week	15	3140.9	
2.07 Quality of electricity supply	61	5.1	
2.08 Mobile-cellular telephone subscriptions /100 pop.	55	125.8	
2.09 Fixed-telephone lines /100 pop.	91	7.9	
3rd pillar: Macroeconomic environment	13	6.1	
3.01 Government budget balance % GDP	13	0.3	
3.02 Gross national savings % GDP	13	32.9	
3.03 Inflation annual % change	88	-0.9	
3.04 Government debt % GDP	60	43.1	
3.05 Country credit rating 0-100 (best)	46		
4th pillar: Health and primary education	88	5.5	
4.01 Malaria incidence cases/100,000 pop.	34	187.5	
4.02 Business impact of malaria	24	5.4	
4.03 Tuberculosis incidence cases/100,000 pop.	113	171.0	
4.04 Business impact of tuberculosis	97	4.7	
4.05 HIV prevalence % adult pop.	106	1.1	
4.06 Business impact of HIV/AIDS	103	4.6	
4.07 Infant mortality deaths/1,000 live births	61	10.5	
4.08 Life expectancy years	72	74.4	
4.09 Quality of primary education	90	3.5	
4.10 Primary education enrollment rate net %	91	92.4	
5th pillar: Higher education and training	62	4.5	
5.01 Secondary education enrollment rate gross %	94	86.2	
5.02 Tertiary education enrollment rate gross %	55	52.5	
5.03 Quality of the education system	67	3.7	
5.04 Quality of math and science education	81	3.9	
5.05 Quality of management schools	77	4.1	
5.06 Internet access in schools	51	4.6	
5.07 Local availability of specialized training services	93	4.1	
5.08 Extent of staff training	54	4.1	
6th pillar: Goods market efficiency	37	4.7	
6.01 Intensity of local competition	44	5.3	
6.02 Extent of market dominance	104	3.3	
6.03 Effectiveness of anti-monopoly policy	62	3.7	
6.04 Effect of taxation on incentives to invest	45	4.0	
6.05 Total tax rate % profits	30	27.5	
6.06 No. of procedures to start a business	54	6	
6.07 Time to start a business days	113	27.5	
6.08 Agricultural policy costs	86	3.6	
6.09 Prevalence of non-tariff barriers	75	4.3	
6.10 Trade tariffs % duty	85	6.8	
6.11 Prevalence of foreign ownership	54	4.8	
6.12 Business impact of rules on FDI	56	4.8	
6.13 Burden of customs procedures	82	3.8	
6.14 Imports % GDP	29	64.0	
6.15 Degree of customer orientation	26	5.4	
6.16 Buyer sophistication	24	4.1	
7th pillar: Labor market efficiency	71	4.2	
7.01 Cooperation in labor-employer relations	36	4.8	
7.02 Flexibility of wage determination	107	4.4	
7.03 Hiring and firing practices	28	4.4	
7.04 Redundancy costs weeks of salary	128	36.0	
7.05 Effect of taxation on incentives to work	49	4.2	
7.06 Pay and productivity	52	4.3	
7.07 Reliance on professional management	50	4.6	
7.08 Country capacity to retain talent	42	3.9	
7.09 Country capacity to attract talent	46	3.7	
7.10 Female participation in the labor force ratio to men	64	0.81	
8th pillar: Financial market development	39	4.4	
8.01 Financial services meeting business needs	23	5.1	
8.02 Affordability of financial services	40	4.3	
8.03 Financing through local equity market	19	4.9	
8.04 Ease of access to loans	34	4.5	
8.05 Venture capital availability	31	3.5	
8.06 Soundness of banks	35	5.6	
8.07 Regulation of securities exchanges	45	4.8	
8.08 Legal rights index 0-10 (best)	97	3	
9th pillar: Technological readiness	63	4.3	
9.01 Availability of latest technologies	70	4.8	
9.02 Firm-level technology absorption	43	4.9	
9.03 FDI and technology transfer	42	4.7	
9.04 Internet users % pop.	94	39.3	
9.05 Fixed-broadband Internet subscriptions /100 pop.	71	9.2	
9.06 Internet bandwidth kb/s/user	53	64.9	
9.07 Mobile-broadband subscriptions /100 pop.	34	75.3	
10th pillar: Market size	18	5.2	
10.01 Domestic market size index	22	5.0	
10.02 Foreign market size index	13	6.0	
10.03 GDP (PPP) PPP $ billions	20	1108.1	
10.04 Exports % GDP	18	69.5	
11th pillar: Business sophistication	43	4.3	
11.01 Local supplier quantity	59	4.6	
11.02 Local supplier quality	77	4.2	
11.03 State of cluster development	62	3.8	
11.04 Nature of competitive advantage	34	4.2	
11.05 Value chain breadth	40	4.2	
11.06 Control of international distribution	49	3.9	
11.07 Production process sophistication	52	4.1	
11.08 Extent of marketing	24	5.1	
11.09 Willingness to delegate authority	35	4.2	
12th pillar: Innovation	54	3.4	
12.01 Capacity for innovation	70	4.1	
12.02 Quality of scientific research institutions	56	4.1	
12.03 Company spending on R&D	46	3.6	
12.04 University-industry collaboration in R&D	41	3.8	
12.05 Gov't procurement of advanced tech. products	65	3.3	
12.06 Availability of scientists and engineers	57	4.1	
12.07 PCT patent applications applications/million pop.	70	1.4	

Note: Values are on a 1-to-7 scale unless indicated otherwise. Trend lines depict evolution in values since the 2012-2013 edition (or earliest edition available). For detailed definitions, sources, and periods, consult the interactive Country/Economy Profiles and Rankings at http://gcr.weforum.org/