Research on Chinese direct investment to Thailand

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One. Literature review

1. Investment Development Cycle Theory

- Dunning developed the cycle theory of investment in the early 1980s.

- This theory thought that net foreign direct investment position of a country was proportional to per capita GNP.
2. Small-scale Technology Theory


He believed that the most important feature of small-scale technology theory in developing countries was to combine the advantages with their own market characteristics.
3. Technical Localization Theory


He thought that developing country enterprises would transformated imported technology and products so that their products could better meet the needs of the local or neighbor markets. This would inevitably lead to a competitive advantage;
4. Technological Innovation and Industrial Upgrading Theory

British economist Cantwell and Tolentino proposed the theory of innovation and industrial upgrading theory in developing countries.

They believed that from overseas operations perspective, geographic expansion of enterprises in developing countries was largely affected by the "psychological distance", and followed the trajectory of the progressive development of surrounding countries → developing countries → developed countries.

Enterprises from developing countries could use unique "learning experience "and organizational skills to master and develop existing production technology.
5. Investment Induced Factors Portfolio Theory

The theory emphasized indirect induced factors, including economic policies, regulations, investment environment and the role of foreign direct investment to macroeconomic.

In this sense, the investment induced factors portfolio theory provided a new theoretical support for foreign direct investment in developing countries.
Two. Chinese direct investment to Thailand

- 2.1 FDI of the World

- Currently the world's foreign direct investment still fluctuates and does not show a significant rise because of the global financial crisis triggered by the U.S. subprime mortgage crisis.

- Due to the vulnerability of global economic and uncertainty of national policy, the world's foreign direct investment countries have adopted a cautious approach.
2.1.1 Foreign direct investment in developed countries

Currently outflows of direct foreign investment fell to the level of the trough in 2009.

Developed countries and regions suffered the most significant decline in FDI inflows, and now it was only 42% of world traffic.
2.1.2 Foreign direct investment in developing countries

Rapid development is the most significant characteristic of foreign direct investment in developing countries.

Under the background of global recession, multinational companies of developing countries continued to expand overseas.

Developing economies in 2013 kept the leading position in the world's foreign direct investment flows and nearly a third of world FDI outflows came from developing economies. They continued with an upward trend.
Table 1. World FDI flows in 2010-2012 ($ 1 billion)

<table>
<thead>
<tr>
<th></th>
<th>FDI inflows 2010</th>
<th>FDI inflows 2011</th>
<th>FDI inflows 2012</th>
<th>FDI outflows 2010</th>
<th>FDI outflows 2011</th>
<th>FDI outflows 2012</th>
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<tbody>
<tr>
<td>World</td>
<td>1409</td>
<td>1 652</td>
<td>1 351</td>
<td>1 505</td>
<td>1 678</td>
<td>1 391</td>
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<tr>
<td>Developed economies</td>
<td>696</td>
<td>820</td>
<td>561</td>
<td>1 030</td>
<td>1 183</td>
<td>909</td>
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<tr>
<td>Developing economies</td>
<td>637</td>
<td>735</td>
<td>703</td>
<td>413</td>
<td>422</td>
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<td>Africa</td>
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<td>48</td>
<td>50</td>
<td>9</td>
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<td>14</td>
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<tr>
<td>Asia</td>
<td>401</td>
<td>436</td>
<td>407</td>
<td>284</td>
<td>311</td>
<td>308</td>
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<tr>
<td>East and Southeast Asia</td>
<td>313</td>
<td>343</td>
<td>326</td>
<td>254</td>
<td>271</td>
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<tr>
<td>Southern Asia</td>
<td>29</td>
<td>44</td>
<td>34</td>
<td>16</td>
<td>13</td>
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<tr>
<td>Western Asia</td>
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<td>47</td>
<td>13</td>
<td>26</td>
<td>24</td>
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<td>Latin America and the Caribbean</td>
<td>190</td>
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<td>119</td>
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<tr>
<td>Oceania</td>
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<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Economies in transition</td>
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<td>96</td>
<td>87</td>
<td>62</td>
<td>73</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: UNCTAD
2.2 China's foreign direct investment

2.2.1 Current Situation of China's foreign direct investment

China won both the largest inward foreign direct investment in developing countries during the 20 consecutive years and the world's most compelling emerging outward FDI home country currently.

Since 2008, China carried out a massive investment in the developed economies, which was the biggest highlight of China's foreign direct investment.
Chart 1. Chinese multinationals invest up to 10 countries and regions

Source: China International Trade Promotion Committee
2.2.2 Chinese foreign direct investment characteristics

2.2.2.1 From the point of view of investment areas, China's foreign direct investment is still mainly in Asia and Africa.

East Asia and Southeast Asia become mainly best destination for Chinese enterprises "going out" because of geographical proximity, similar to the human environment, strong complementarity in the economic structure and similar cultural traditions.
Chart2: Regional distribution of China's foreign investment

- Asia: 49%
- Europe: 33%
- North America: 28.40%
- South America: 6.30%
- Latin America: 6.70%
- Oceania: 13.60%

Source: China International Trade Promotion Committee
Chart 3. Future destination choose of China's foreign investment

Source: China International Trade Promotion Committee
2.2.2.2 Cross-border mergers and acquisitions and greenfield investments are in parallel, and China's foreign direct investment is of diversified trends.


Cross-border mergers and acquisitions in non-financial foreign direct investment accounts for about half of China's total investment.

For example, Sany finished the acquisition of Germany Putzmeister with approximately $420 million; With $15.1 billion CNOOC finished acquisition of Canadian company Nexen; Dalian Wanda finished acquisition of U.S. AMC theater companies with $2.6 billion.
2.2.2.3 Investment of resources and energy are still dominated in China’s foreign direct investment, and the proportion of manufacturing has significantly increased.

On the one hand it shows that Chinese government protect strategic resources and energy to guarantee stability supply and control price risks.

On the other hand, in order to promote domestic industrial structure optimization and upgrade, Chinese government is gradually increasing manufacturing investment which is of most comparative advantage.

There is a high transnationality index (TNI) of wholesale and retail trade, food processing, textiles, equipment manufacturing, and chemical industry.

It indicates a high degree of internationalization of these industries reflecting China's comparative advantage in the export market.

Technology-intensive industries account small still, and have not enough attention.

Now market expansion and brand internationalization are major motivation for China corporate foreign direct investment.
Chat 4. Distribution sector investment in developing countries

Source: China International Trade Promotion Committee
Table 2. TNI in different industry of China's foreign direct investment

TNI = \((\text{foreign assets} / \text{total assets} + \text{foreign sales} / \text{total sales revenue} + \text{foreign employees} / \text{total number of employees}) ÷ 3 \times 100\%\)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Wholesale and retail trade</th>
<th>Textiles</th>
<th>Food processing industry</th>
<th>Chemical industry</th>
<th>Transportation equipment manufacturing</th>
<th>Building industry</th>
<th>Real estate leasing and brokerage</th>
</tr>
</thead>
<tbody>
<tr>
<td>TNI</td>
<td>30</td>
<td>27</td>
<td>26</td>
<td>25</td>
<td>25</td>
<td>14</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: China International Trade Promotion Committee
2.2.2.4 Investors are still central on state-owned enterprises, and non state-owned enterprises are active.

Most non-financial overseas direct investment of China is dominated by the state-owned enterprises, especially investment in the natural resources industry.
2.2.2.5 Policy environment of China’s foreign direct investment has been improved greatly.

- First, one of the most significant policies was the adjustment of export tax rebate rate.
- And next was industrial development policies such as encouraging capital subsidy and promoting the revitalization of industry.
- The last was the adjustment of monetary policy, for example increasing mobility and moderately loose.
China's foreign investment has entered a rapid growth phase.

The situation relying mainly on exports and attracting inward foreign direct investment will undergo significant transformation.

Outward foreign direct investment will be an important driving force of China's industrial upgrading and economic growth.

However, we should clearly see where there are still many problems.
2.2.3 Problems of China's foreign direct investment

2.2.3.1 Share of the world foreign direct investment is limited

2.2.3.2 China's outward foreign direct investment performance index is low

Foreign Investment Performance Index means OND(OND= (FDIi)/(FDIw) ÷ (GDPi)/(GDPw)). Generally, more OND means much more use of business ownership advantages and location advantages of host country for a country. If a country’s OND is 1, which means the performance of the country's foreign direct investment reaches average of the world; if a country’s OND is greater than or less than 1 means that the performance of the country is higher or lower than the world average.

According to my calculations, in 2013 China's OND was 0.5, indicating that China's foreign direct investment performance is far below the world average.
2.2.3.3 Investors structure is single and lack of competitive.

2.2.3.4 Macro management of foreign direct investment is weak.
2.3 Chinese direct investment in Thailand

2.3.1 Status of Chinese direct investment in Thailand

From the attractive Chinese investment perspective, the advantages of Thailand is mainly reflected in:

- 2.3.1.1. There is a long-term good diplomatic relations between the two countries.
- 2.3.1.2. There would be a good prospects for Thailand’s economic growth.
- 2.3.1.3. Thailand’s market potential is huge, and foreign direct investment incentives are more.
- 2.3.1.4. Thailand is located at the geographic center of Southeast Asia.
- 2.3.1.5. Policy transparency and degree of trade and investment liberalization are higher.
2.3.2 Comparison of mutual investment between China and Thailand.

Chinese investment in Thailand has increased year by year, but it is still unable to communicate with the investment scale of Thailand’s investment in China.

This is mainly because Chinese companies invested in Thailand late, starting point was relatively low, corresponding investment funds was less, and the number and size of investment projects were relatively small.
2.3.3 Analysis of Sino-Thailand Investment Relation

There is a highly competitive and a great complementary in Sino-Thailand investment relation, but complementary is more than competitive.

Therefore, both sides can achieve more from mutual investments of Sino-Thailand.
Three. The main problems of Chinese direct investment to Thailand

- 3.1 Investment scale of Chinese direct investment to Thailand is smaller, which should be highly valued.
- 3.2 Ability of resisting investment risks is lower and style of financing is single.
- 3.3 Compared with foreign companies, there are still a large gap in enterprises strength and international competitiveness.
- 3.4 Lack of international compound talents
- 3.5 Labor disputes occur because of poor understanding of Thailand investment laws and investment regulations.
- 3.6 Management and service system of Chinese government is not fully developed.
Four, Policy recommendations and measures to promote Chinese direct investment to Thailand

- 4.1 Continue to encourage Chinese direct investment enterprises to "go out" and increase direct investment to Thailand.
- 4.2 Improve the ability to resist transnational business risks and realize the diversification of financing.
- 4.3 Enhance the core competitiveness of Chinese direct investment enterprises.
- 4.4 Development and training of international talent for Chinese direct investment enterprises.
- 4.5 Strengthen learning and understanding of Thai investment laws and regulations and improve labor relations.
- 4.6 Chinese government should establish a sound legal system of foreign investment for Chinese enterprises to provide guidance and warning of investment.
Two governments of China and Thailand have developed strategic bilateral trade and investment cooperation programs facing the future, and established the bilateral trade volume target to achieve $ 100 billion in 2015.

Railways, water, clean energy and education are as the four key areas of investment cooperation.

- Strengthening Sino-Thai investment cooperation between the two countries will not only promote national economic growth, but also contribute to the development of the world economy.
Thank you!