

Foreign Direct Investment and Thailand's Color-coded Politics: The Thai Paradox - Will it Endure?

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Abstract

Considering first various categories of political risk in which to pigeonhole the recent political mayhem in Thailand, this article explores the impact of these political events on the flow of foreign direct investment into the country. It posits that, contrary to the commonly-held view, the main threat to transnational capital inflow is the Map Ta Phut legal entanglement over environmental issues, not the political standoff. The Supreme Administrative Court's controversial halt, while good news for the environment climate could be bad news for the investment climate; all the more as with the Association of Southeast Asian Nations' Economic Community looming on the horizon and a new regional architecture taking shape, Thailand also faces increasing competition for FDI within its own economic block.

Key words: FDI, Political and legal risks, foreign investor confidence, AEC, ASEAN, Map Ta Phut industrial estate.

Introduction

Take any textbook addressing the issue of foreign direct investment (FDI).¹ You will invariably be told that political risk is at the top of the investor agenda and political stability in the host country one of the key factors attracting foreign investors (Daniels *et al* 2007; Czinkota *et al* 2004).

Politics and laws play a critical role in international business. A country's political and legal systems define vital parts of its business environment. Failure to anticipate them could prove the undoing of otherwise successful business ventures (Hills 2007).

This comment is premised on these propositions. Considering first various categories of political risk in which to pigeonhole the recent political events in Thailand, it then looks at FDI in the Kingdom and posits that, contrary to the commonly-held view, the main threat to FDI inflow is the Map Ta Phut legal impasse, not the political standoff.

Indeed, even though the Map Ta Phut legal controversy over industrial pollution has received little media coverage compared to the rioting in downtown Bangkok, its negative

impact on the flow of transnational capital is potentially far greater than the political upheavals; all the more as with the Association of Southeast Asian Nations' Economic Community (AEC) looming on the horizon and a new regional architecture taking shape, Thailand also faces increasing competition for FDI within its own economic block.

Political Risk

As defined in one textbook, generally, political risk "*is the chance that political decisions, events, or conditions in a country will affect the business environment in ways that lead investors to lose some or all of the value of their investment or be forced to accept a lower than projected rate of return*" (Daniels *et al* 2007).

There is political risk in virtually every nation. In general, risk is highest in host countries that do not have a history of stability and consistency. Still, even in countries that seem stable, civil unrest has been known to cause major setbacks in the operations of business (*Ibid*). One such country that readily comes to mind is Greece, where recent violent protests against reduced public spending brought the nation to a standstill.

Political risk has been classified in various ways. In a nutshell, ranging from least to most disruptive, political risk can be: systematic

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(created by shifts in public policy that alter the business system for all companies); procedural (created by political actions that interfere with the flow of business transactions in the global market); distributive (created by political officials to claim a greater share of rewards); or catastrophic (created by random political developments that affect the operations of companies) (*Ibid*).

It can also be classified based on its impact. This classification includes: ownership risk (losing property); operating risk (setbacks to ongoing operations); and transfer risk (difficulty shifting funds) (Czinkota *et al* 2009).

Now, bearing all this in mind, take a look at the political situation in Thailand since 2006.

Thailand's Political Risks

First, rewind to September 19, 2006 and the coup that ousted Mr. Thaksin Shinawatra, whose second term as Prime Minister (PM) began on February 6, 2005 amidst growing protests by anti-government demonstrators. Less than a month later, Mr. Surayudh Chulanont was appointed as Thailand's 24th PM.

Then fast forward to January 28, 2008 and the House's selection of Mr. Samak Sundaravej as Thailand's 25th PM. Protests ensued, calling for Mr. Samak to resign. A clash with the police left 2 dead and 500 injured and the Government House was seized. A few months later, Mr. Samak was disqualified by the Constitution Court and Mr. Somchai Wongsawat selected as 26th PM, causing political rallies to intensify and paving the way for color coded politics, with one side to wear red as a theme color and the opposite one yellow; all of which culminating with the seven-day occupation of Bangkok's airports at the end of November by anti-government demonstrators. On December 15, Mr. Abhisit Vejjajiva became Thailand's 27th PM.

In 2009, color-coded demonstrations intensified and the ASEAN Summit venue in Pattaya was stormed by protesters, prompting the government to cancel the Summit.

Keep fast forwarding to March 12, 2010 and the so-called 'million march' in Bangkok calling for PM Abhisit to step down. It marked

the beginning of the 68-day rally that was to paralyze Bangkok's main business district.

By the time the political rally ended mid-May the death toll had risen to 86, hundreds were injured, economic damage was estimated to be over \$1.25 billion (thailand-business-news.com, June 7, 2010), and pictures of downtown Bangkok set ablaze were flashing across TV screens around the world. And with some media outlets ever so prompt to put a sensational spin on events, the world was left under the impression that Bangkok was in a state of total chaos and Thailand on the verge of an insurrection, an exaggerated rendering; yet, one that further tarnishes the image of Thailand, already blemished by past political unrest, the airport seizure in particular.

While these bouts of political turbulence clearly bear the hallmark of political instability, none of them can be categorized as systematic, procedural, or distributive political risks since none of the risks foreign investors were faced with resulted from a shift in public policy meant to interfere with their operations in the Kingdom.

Two episodes, however, markedly fall under the broad label of catastrophic political risks, defined as "*those random political developments that adversely affect the operations of all companies in a country [...] and arise from flashpoints like ethnic discord, civil disorder, or war [...] and whose impact can disrupt the business environment...*" (Daniels *et al* 2007). One was the seizure of the airports that caused serious disruption to passengers - stranded for days - and the supply chains of a number of companies at home and abroad. It soon turned into a logistics nightmare with potentially catastrophic consequences.

The second one was the April-May 2010 rally in downtown Bangkok which put a severe strain on the economy and turned out to be another logistics ordeal - and one of a greater magnitude - with cargo shipments delayed, temporary cuts in deliveries, and the country brought to a halt for seven days, not to mention inner city businesses suspended for weeks and spending depressed as consumer confidence nosedived.

And, as evidenced by the substantial property losses some firms suffered and the setbacks to their ongoing operations, the recurring protests on Bangkok streets unmistakably rose to the level of ownership and operational risks.²

These political risks have been quantified. One of the most respected gauges of political risk is the World Governance Indicators (WGI). In 2002, Thai political stability was rated at 59.1 out of 100. By 2008, the latest year for which data are available, it had plunged to 12.9 (Marshall 2010).³ Events since then will have dragged it even lower.

Banks, however, calculate their own ratings on a scale of 0 to 20. Morgan Stanley, for example, puts Thai political risk at the maximum of 20, with the Philippines at 18, Indonesia at 10, and Malaysia at 8 (*Ibid*).

Therein lies the rub: as the dust begins to settle over the worst political and civil unrest in years and the nation tries to regain its footing, is Thailand still an attractive investment destination in Southeast Asia?

The Thai Paradox

It is, on the face of it, difficult to see how this could still be the case; all the more as the worst conjectures keep slipping into the narrative,⁴ adding to the uncertainties. Yet, to paraphrase Anthony Nelson of the US-ASEAN Business Council, the prevailing sentiment among foreign investors is that “*despite the political unrest, Thailand still offers strong partnership opportunities and has good economic fundamentals*” (Pratruangkrai 2010a).⁵ This is also the view of Frederic Neumann, co-head of Asian economic research for HSBC in Hong Kong, according to whom, “*the [Thai] economy is fundamentally sound and there are no major macroeconomic imbalances to worry about*” (Semple 2010).

These fundamentals which facilitate FDI include a skilled workforce, strong support system and good basic infrastructure. Adding to this favorable perception is Thailand’s sound overall financial standing: a consistent account surplus, record foreign exchange reserves, and a low public debt (*Ibid*).

And with Moody’s Investors Service (Moody’s) still maintaining its “stable” outlook on Thailand’s banking system despite the escalation of violence, this perception is further reinforced (The Nation 2010a). It will be worth noting that Moody’s upgraded the system’s fundamental credit outlook to “stable” in January 2010 after having downgraded it to “negative” in 2008 when Bangkok’s airports were seized (*Ibid*).

We will call it the Thai paradox. Although the country has been plagued by political instability, it remains an attractive investment destination. Will this paradox endure though?

If foreign investors’ past behavior is any indication, Thailand should weather its recent bouts of political turbulence the way it has withstood the coup and a series of events since. In spite of the intensity of the recent protests and deepening fracture within Thai society, it should continue to have international confidence. This claim, however, is subject to two qualifications.

First, the paradox will endure only if there is no more violent insurrection in the capital and elsewhere. Second, to posit that the paradox will continue to exist is not tantamount to saying that investor confidence has not been shaken at all by the recent political developments. We will consider the reasons for the paradox to persist first.

Uncertainty has been a near-chronic feature of Thailand’s modern political landscape. This is not the first time the country has had a political crisis. Nor is it the only country to go through some political crises. Japan, for example, has had five different PMs in office since September 2006. While Thailand might change its PM quite frequently, the rules of the game do not markedly change when the PM changes.

It has gone through both bad and good times in the past and business had to carry on regardless. Foreign investors recognize this.

Most relevantly, though, as one commentator pointed out, investors need not focus unduly on politics as some economies managed to power

ahead despite instability, offering bumper returns to investors (Marshall, 2010).

Thailand's export-oriented economy has shown strong growth in recent quarters despite enormous political upheavals. As long as the economy grows smoothly from year to year, investors will continue to separate political concerns from economic issues and tolerate some level of political instability. As a recent Credit Suisse analysis of Thailand puts it, "*in essence, the bull case contends that politics is noise and that other factors matter more for the economy and earnings*" (Ibid).

In fact, the Thai economic engine seems to work almost independently from the political crises. In May, for example, the nation's exports rose for the seventh straight month, swelling by 42.1% from a year earlier. Imports jumped up by 55%, the sixth consecutive month of gains (Arunmas 2010).⁶ Most significantly, the surge came despite the unrest.

Investors maintain what has been termed a "*cautiously optimistic view on investment in Thailand*" (Viboonchart 2010). As long as the economy keeps expanding, most investors will continue to separate political concerns from economic issues and tolerate some degree of political instability - with which they are familiar.⁷

One such investor is Ron Goh, president of EMC, a global IT company and the second biggest player in the storage market in Thailand. Like many others, he expressed concerns about further eruptions of violence. Yet, in the same breath, he made it clear that Thailand and Indonesia remained the company's key markets, quickly discounting the political risk factors (Rungfapaisarin 2010).

A number of firms have expressed similar sentiments over the recent months and reaffirmed their strong commitment to having operations and making long-term investment in the Kingdom despite political instability.⁸ They continue "*to be confident in Thailand as a stable platform for economic and business growth*" (Bangkok Post 2010a). This includes tourism, a sector particularly hard hit. According to PM Abhisit, even though it is gasping, it has remained an area attracting foreign investors (Wiriyapong 2010a).

In essence, what the likes of Mr. Goh have been saying is that, to a degree in spite of some

instability, prospects for Thailand remain sound. However, while foreign investors can live with some degree of instability, they are concerned about an escalation of violence as the current surface-level calm conceals long-standing social conflicts. As one financial analyst remarked, "*even though Thailand has a history of political tensions, we've never seen them escalate to this level with department stores burning*" (Semple 2010); which points to the first qualification to which the paradox is subject.

Whether the paradox endures depends largely on whether the violence of the past weeks "*was a short-live spasm or a harbinger of a new, darker phase in populist political expression in Thailand*" (Ibid).

If the recent violence were indeed a harbinger - there have been speculations that seething resentment among some protesters could ferment into an armed insurgency - a recurrence of it in the capital and elsewhere would substantially dampen investor confidence and raise serious doubts as to the ability of the government to guarantee security for both existing investors and new comers; hence the calls from all quarters urging the government to end the political rift and address the disparities that feed the regional and class divides.⁹

There are also some worries over the effects that widespread unrest would have on supply chains, should there be more protests; particularly whether there could be a shutdown of transportation links to other countries as had been the case in November-December 2008. As these suppositions make clear, the paradox will endure only if Thailand does not stay mired in political violence.

It is worth noting at this juncture that, although violence has for years been a feature in Thailand's southern provinces, where an ethnic Malay Muslim insurgency is battling for autonomy from the Kingdom's Buddhist majority, this conflict has felt distant in the mind of most Thais and tourists and also investors given the paucity of FDI in that area (Semple 2010).

A second qualification needs to be addressed. To claim the paradox will endure does not

mean the political developments over the last four years have had no impact on the FDI flow into Thailand.

The “war of colors” and the fiery May denouement, the latest and most dramatic signs of political unrest in a string of events spanning over four years, may have left some scars. They may have caused a few investors to slow down their investment decisions,¹⁰ weigh their investment plans or have a change of mind about pursuing them in the Kingdom.

One case in point is Khosan Electronics (Thailand), the subsidiary of a South-Korea-based manufacturer. It had planned to invest millions in Baht to double its production capacity in its existing Thai plant but has since halted its plan, citing delayed shipments, temporary delivery cuts, and clients’ complaints. Though no final decision has been made yet, the parent company may choose India as its main manufacturing base in Asia instead of expanding its Thai plant (Rungfapaisarin 2010). But with India as the company’s major market destination, the expansion plan shift may have more to do with strategy than with political risk factors.

Besides, Khosan has yet to make a final decision. As will be discussed later, some investors, who had signaled their intention to pursue their investment plans elsewhere, later announced that they would go ahead with their initial plans and remain in Thailand. In short, the Kingdom will buck the trend.

The Map Ta Phut Case: a Greater Threat to FDI

As mentioned earlier, a far greater threat to FDI inflow than the country’s near-chronic political instability is the Map Ta Phut legal entanglement over environmental issues. It is a prime example of systematic political risk. A predictable legal environment ranks high on the investor wish-list. Unexpected legal influence could send the best-laid plans awry (Hill 2007).

At issue is the Thai Supreme Administrative Court’s decision in September 2009 to uphold a lower court’s injunction suspending 65 of the 76 petrochemical and industrial projects located in the Map Ta Phut industrial estate for

failing to comply with Article 67 (2) of the Constitution, related to health and environment impact assessments (HIA and EIA) and the role of the local communities. Forty-three (43) projects out of the 65 initially suspended were subsequently allowed to resume operations. The remaining 22 are still seeking assistance from the state to restart their work.

A four-panel committee has since proposed that 18 projects be classified as activities harmful to the environment and public health. The list has yet to be endorsed by the National Environmental Board. After saying a determination was imminent, the government recently announced that it would need another two months to review it. The prospect of another two-month delay before the government releases it is yet another setback to the companies affected and another motive of dissatisfaction.

Clearly, the conflicting economic and environmental interests, at the core of the Map Ta Phut deadlock, have created a sub-text with a different narrative. The Supreme Administrative Court’s controversial halt, while good news for the environment climate could be bad news for the investment climate (Dautrey 2009). Investors want to know how legal factors in the host country will impact their day-to-day operations.

A case in point is Bayer Thai, the local unit of the German pharmaceutical and chemical giant. According to its managing director, “*the impact [of the political turmoil] has not taken away [Bayer’s] optimism*” (Changson 2010). The company, however, feels it “*ha[s] not been fairly treated*” by the Administrative Court, which declined a request to exclude its two petrochemical projects from the list of suspended projects (*Ibid*). Bayer claims to operate in a manner that responsibly protects health and the environment. It is included on the lists of many of the world’s sustainability indexes.

The consequence of the ruling could be a delay of up to 17 months in the start-up of the Bayer’s projects, “*which were completed and earlier slated to start operation late last year*” (*Ibid*). Bayer, though, has had no change of mind about pursuing its investment plan in

Thailand and still expects to pour in US\$ 13 to 16 million this year. Some existing investors, however, have had second thoughts about their investment plans in Thailand (*Ibid*).

Ford Motor, for example, said earlier this year it might drop its plan to invest in Thailand because of the Map Ta Phut unclear regulatory environment. Ford has since announced it would go ahead with the new auto plant project.¹¹ The new plant, though, will not be located in the Map Ta Phut industrial estate, at the centre of the controversy over industrial pollution, as initially planned. Ford was afraid of being entangled in environmental conflicts. It will be located nearby instead.

The failure to quickly resolve the legal impasse could drive away the likes of Ford; companies that have production bases in Thailand and are planning to pour more money into the region but may be having a change of mind about pursuing their investment plans in the Kingdom and are now looking at other ASEAN countries (Viboonchart 2010). The government may not always be in a position to convince investors to stay in the country and go ahead with their initial plans as it did with Ford Motor; all the more as regional competitors are trying hard to lure investors.

The lingering problems may also scare away new investors. *“If foreign investors don’t know what the future will be like, they will seek new places [to invest]”* (Wongsamuth 2010). Yet, as the US-ASEAN Business Council pointed out, *“if the government were able to clear up the regulations at the Map Ta Phut industrial estate, investors would not mind following the rules”* (Pratruangkrai 2010).

At a time when a new regional architecture is taking shape - providing investors with more options - the negative impact of the Map Ta Phut irresolution on Thailand’s ability to attract FDI cannot be overstated, especially when seen through the prism of the AEC and the so-called ASEAN-plus rings.¹²

The 2015 AEC: Increased FDI competition

The 2015 AEC, which is the keystone of the upcoming regional architecture, aims to transform ASEAN into a single market. It will facilitate foreign investments within the 10-

nation economic grouping; all the more as permitted levels of ownership by foreign investors in ASEAN nations will gradually increase from the present 49.99 per cent. Yet, it will also increase competition for transnational capital. Unless the industrial complex’ current legal uncertainties ease, the Kingdom might be left behind regional competitors.

Indeed, with the AEC looming on the horizon, firms have been reevaluating their regional strategies and repositioning themselves for the single market. And with intra-firm trade becoming an important engine of regional integration, the investment landscape of Southeast Asia is being transformed: all the more as tariff cuts under the ASEAN Free Trade Area (Afta) have made business easier for foreign firms to operate in ASEAN without investing in Thailand.

All this begs the question of what place Thailand is going to occupy in that changing investment landscape.

There are two ways to answer: one is to ponder over what it could look like in the absence of an imminent Map Ta Phut resolution; the other is to contemplate it after a final determination has been made. A pre-resolution answer will err on the side of pessimism, a post-resolution one on the side of optimism.

Take Japan today. With 9 out of the 65 industrial projects initially halted involving Japanese companies, Fukujiro Yamabe, the vice-president of the Bangkok Japanese Chamber of Commerce (JCC) does not think that *“generally speaking, [...] Thailand can attract big new investments until all remaining issues related to Map Ta Phut become clear because all investors are so annoyed about the unclear regulations in Thailand”* (Wiriyapong, 2010b). Besides, according to Muneori Yamada, President of the Japan External Trade Organization (Jetro), *“Thailand is losing its status as a favored destination for Japanese investors in the region”* (*Ibid*).

Contrary to Jetro’s President’s claim, Thailand is not losing its favored destination status for Japanese investors. JCC and Jetro’s remarks are intentionally exaggerated. However hyperbolic, what they make clear,

though, is that a number of investors could eventually freeze or delay their investment or even relocate to other countries if the Map Ta Phut legal entanglement failed to be quickly and unequivocally resolved.

Although sources of FDI in Thailand have generally been quite diversified (Brimble 2002), Japan is the single largest source. According to the Board of Investment (BoI), the number of Japanese investment projects submitted for privileges jumped to 632, up 46.3% from the 432 projects in the first half last year. “*Japanese investors are still interested in pouring investment into Thailand*” (Kittikanya 2010).¹³ Applying for investment privileges, however, does not always translate into real investment.

Still, there is no reason to be pessimistic. As the government has vowed to bring the case to a prompt resolution, these investment projects should remain in the country. There is more to the brighter side of the narrative.

There has been a steady increase in the total volume of FDI worldwide over the past 20 years (Hills 2007). And with the trend to move production away from advanced economies showing no sign of slowing down, an increasing share of it is directed at developing nations, Asia in particular. Investors are also projected to substantially increase FDI in the coming years to capitalize on the region’s growth potential.

Another promising line in the narrative is that global investments have shown clear signs of a recovery. After plummeting by 16% in crisis-stricken 2008 and 37% in recession-plagued 2009, global FDI inflows are now rebounding with an expected pick-up to over \$1.2 trillion (Wiriyapong 2010a). According to a United Nations Conference on Trade and Development (Unctad) report, estimates for 2011 are \$1.3 to 1.5 trillion and \$1.6 to \$2 trillion in 2012, thus heading back towards the pre-sub-prime-crisis 2008 peak (*Ibid*).

Asian nations are among the beneficiaries of the recovering global FDI. “*South, East and Southeast Asia remain priority investment destinations*” (*Ibid*) with lower value manufacturing as the main foreign-invested sector (*Ibid*). In this reshaped global FDI

landscape, Southeast Asia has seen a surge in inflows which now accounts for one-fifth of FDI inflows worldwide (*Ibid*).¹⁴

Yet another propitious line in the narrative is a survey conducted in early February 2010 by the Japan Bank for International Cooperation (JBIC). Thailand was ranked as the fourth most promising country for Japanese manufacturing companies’ operations. It followed China, India and Vietnam, respectively (Yuthamanop 2010).

Setting aside the basic factors used to measure a country’s attraction, such as low wages, developed legal and business environments, and basic infrastructure, the survey reveals that the top reason cited by Japanese investors for their attraction to Thailand is “*the future growth potential of the local market*” (*Ibid*). Typically, food electronics, autos and chemicals are among the sectors most preferred by consumers in these developing countries.¹⁵

These consumer trends have been broadly mirrored in FDI flows. With global conglomerates breaking up their production processes and creating intra- and inter-regional production networks, the pattern of inter-industry connectedness has significantly deepened (Baldwin 2007). Typically, firms based in one factory economy are sourcing parts from other factory economies rather than from the headquarter economy alone (Wailerdsack 2008). This has strengthened supporting industries like auto parts, electrical appliances and electronics.

Thailand has become the automotive hub in ASEAN, with no sign of abating. The country’s automobile production will likely set a record this year and, as previously stated, some car makers have announced or are considering expansion plans¹⁶ (Santivimolnat 2010). This has created clusters within the industry with large companies helping small and medium-size ones in the production process.

Thailand’s central locality in the Southeast Asian economic block also provides the Kingdom with the opportunity to position itself as the transnational production hub for the enlarged and integrated ASEAN market in

other sectors as well. Canadoil, for example, recently announced its latest and largest investment in Thailand, “a 20 billion plus Baht investment [...that] will see Thailand become a regional hub in the supply of specialty metal plates serving” (The Nation 2010b). The Thai government also expects the country to become ASEAN’s main production center for moulds and switch from importer to exporter status within 5 years (The Nation 2010c).

Another boost for FDI flows into Thailand as a hub is the approval by the cabinet in early June of the Finance Ministry’s proposed tax incentives to encourage the establishment of regional head offices in Thailand (The Nation 2010d).¹⁷

Although the local-market-size and potential criteria used for the JBIC survey puts Thailand in a less favorable position when compared to Vietnam -let alone China and India - the Kingdom remains one of the favored investment destinations in the region. According to the US-ASEAN Council, it is more developed and has great potential in becoming a base for high-level US investment projects. According to the Commerce Minister, leading businesses eyed by American investors include telecommunications, infrastructure development, clean energy and healthcare.

In the Enabling Trade Index ranking recently released by the World Economic Forum, Thailand ranks 60th and Vietnam 71st. The index measures institutions, policies and services facilitating the free flow of goods over borders and to destinations. It breaks the enablers into four issue areas: (market access, border administration, transport and communications infrastructure, and business environment).¹⁸

Another way for Thailand to remain competitive is for the government to develop best practices in areas such as income tax and assisting investors to understand foreign regulations. There should also be more emphasis on education and research and development as part of a clear-cut plan to overhaul the education system and develop human resources and technology in order to attract new investors.

Summary and Conclusion

In summary, as this comment has made clear, the reasons why the paradox may endure outweigh any argument to the contrary; all the more as the government is intent on doing everything in its power to maintain – and in some cases restore - investor confidence. And with the Map Ta Phut impasse a bigger threat to FDI inflows than political instability - provided violence does not flare up again and escalate - there is even more cause for optimism. Indeed, it will be less demanding to resolve the industrial estate’s controversy over environmental issues – and create clarity - than the political row, which involves many deeply entrenched interests and intricate maneuvering, and will require time. Add to this the government’s resolve to tackle any investor concerns head on, for example, intellectual property rights,¹⁹ and there are even more reasons to remain optimistic. This augurs well for the future. After all, political brinkmanship may not always work wonders!

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End Notes

¹ This paper only examines FDI. Foreign portfolio investment is not considered.

² In fact, some of these companies have been pressing the government to intervene with insurance firms to speed compensation as some insurers have balked at paying claims in part because the government has branded the rioters' activities as terrorism.

³ The [Kaufmann-Kraay-Mastruzzi](http://www.kaufmann-kraay-mastruzzi.com) WGI measured six dimensions of governance between 1996 and 2008: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. The data reflect the views on governance of public sector, private sector and NGO experts, as well as thousands of citizen and firm survey respondents worldwide. The margins of error accompanying each country estimate are also explicitly reported. These reflect the inherent difficulties in measuring governance using any kind of data. Still, even after taking margins of error into account, the WGI permit meaningful cross-country comparisons as well as monitoring progress over time (see World Bank website). There have also been a number of criticisms (see [http://en.wikipedia.org/wiki](http://en.wikipedia.org/wiki/WGI)).

⁴ There have been a number of unsubstantiated reports about plots by red-shirts.

⁵ Ironically enough, a US-ASEAN Business Council's mission had initially planned to meet in April and is now due in Bangkok in July. Americans business leaders will meet the PM, Commerce Minister, Industry Minister, and Thailand Trade Representatives as part of a special forum.

⁶ Executives remain bullish and the key sectors are upbeat on exports prospects for the rest of the year. Manufacturers and exporters have largely been unaffected by the crisis (Viboonchart, *The Nation*, May 27, 2010) According to a FTI report on the rally's industrial impact nationwide, damage is minimal since most industrial plants are located outside the sites of violence (*The Nation*, July 7, 2010, B3).

⁷ This is, for example, the position adopted by the government of India and some private companies there. At a recent meeting with Thailand Deputy Commerce

Minister, the India Commerce and Industry Minister also indicated his country's interest in cooperating with Thailand in terms of trades and investments under the Thailand-India and Bengal Initiative for Multisectoral Technical and Economic Cooperation (Bimstec) (Ongdee, *The Nation*, May 29, 2010).

⁸ One such token of confidence came from Hitachi Corporation, which expressed a strong commitment to its business operations and long-term investment in Thailand despite the political instability (Rungfapaisarn, *The Nation*, May 28, 2010). Another came from the Saha Group which recently said "*its foreign partners [were] still confident in investing in Thailand even after the political unrest.*" Accordingly, the joint venture between the Saha Group and Lion Corp. of Japan will increase by 40% (Jitpleecheep, *The Nation*, June 2, 2010). Honda is also planning to have Thailand serve as a production base for the export of a new sports bike (The Nation July 29, 2010). In the wake of Carrefour's decision to pull out of Thailand, the French embassy rushed to quell rumors about Carrefour leaving because of the political instability (Viboonchart, *The Nation*, July 8, 2010).

⁹ There have been calls domestically and internationally, ranging from politicians and business leaders to the US Congress and Buddhist leaders, for a reconciliation roadmap and initiatives to bridge social and economic disparities.

¹⁰ Toshiba, for example, announced that its new investments in Thailand have been delayed (Rungfapaisarin, *The Nation*, May 24, 2010).

¹¹ Ford has been granted taxation privileges by the BoI. It helps promoting Thailand as the true regional auto-production hub (*The Nation*, June 3, 2010).

¹² ASEAN+6 in particular: China, India, South Korea, Japan, Australia, and New-Zealand.

¹³ A recent report by the BoI shows that the value of new investment applications rose by 7.4% in the first half despite the political unrest in April and May.

¹⁴ FDI into Thailand have rebounded from late 2009 and continued to grow in the first half of this year according to the BoI.

¹⁵ The fact that Japanese investors are interested in businesses with middle income consumers in emerging markets contradicts the commonly-held belief that the Japanese use developing economies as production bases for export to a third country and as part of their global supply chains.

¹⁶ Mitsubishi Motors will make Thailand its "Global Small" car export hub by opening a Bt15-billion plant in Laem Chabang. "*We are very confident in the infrastructure and the government*" Osamu Masuko, President of Mitsubishi Motors said (*The Nation*, July 6, 2010). As previously mentioned, Ford will go ahead with its Bt20-billion plant in Rayong. GM also plans to build a new diesel-engine plant in the Rayong province.

¹⁷ This is estimated to cost Bt4.1 billion in tax receipts (*The Nation* June 3, 2010).

¹⁸ The *Global Enabling Trade Report 2010* was released on May 19, 2010 by the World Economic Forum. See <http://www.weforum.org/getr>

¹⁹ This is another issue affecting investor confidence. The US, among others, is particularly worried about IPRs infringement. The Thai government recently asked the US-ASEAN Council to pass on information regarding cracking down on copycat producers, hoping that further action will make the US trade representative review Thailand's status.