INTERNATIONAL INVESTMENT:
Its principles and application to New Zealand companies investing in Thailand

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TABLE OF CONTENTS

INTRODUCTION

1.1 Overview of the problem

The future of the New Zealand economy lies in expandin its markets and investments overseas. With an annua population growth rate of only 1.5% and a current marke size of only 3.3 million people, the potential for domesti economic expansion is not encouraging. The decision t consider a foreign market often stems from the fact that th home market is too limited to attain a sales volume with sufficiently attractive yield (OECD, Internationa Investment, 1983).

The Minister of Overseas Trade in the presen government administration stated that the only way Ne Zealand will increase employment and revenue is throug exports... that is where the recovery of the economy lie (National Business Review, 15 Apr 85)

The signing of the Closer Economic Relations (CER agreement with Australia in April 1982, dismantling many o the protective barriers precluding the free flow of trad between the two countries, was a step in the right directio in providing market opportunities for New Zealand companies Many domestic industries are entering the mature stage o their life cycles, characterised by stagnant demand. Thi together with a general contraction of the market necessitates that the future growth of these industrie rests on the exploitation of offshore markets.

Generally New Zealand has been slow to respond to international expansion opportunities. Until the early 1960's, most exports consisted of agricultural products to its major overseas market, the United Kingdom, under the British Preferential Treaty system. During that time 40%-50% of those exports, consisting of bulk commodity dairy and meat products were absorbed by the British market. The late 1960's and early 1970's brought about a dramatic change in New Zealand's trade pattern with its traditional partner. The U.K. joined the European Economic Community (EEC) in 1973 therefore no longer providing New Zealand with preferential access for its products.

Today, surplus stocks of butter and skim milk powder within the EEC continue to rise causing dairy prices in general to fall. Both the U.S. and Canada pose significant threats to New Zealand in the international dairy market. Canada in particular has become a regular exporter of skim milk powder and subsidised sales to Latin America have adversely affected the market for New Zealand products. Access of New Zealand butter will be restricted over a five year period, 1984 - 1988, to reach a maximum 79000 tonnes in 1986 with a further review pending. Beef exports to the EEC (73% of which went to the U.K.) are subject to higher import levies. Sheep meat exports to the U.K. decreased by 15% in 1984. At the same time, under the influence of guaranteed producer returns, the lamb production there continues to expand providing a further threat to the future of New

Zealand exports to that country (Dept. of Trade and Industry Report, March 1985).

The past several years has also seen a decline in world commodity prices of two of New Zealand major exports - lamb and butter (see appendix 1). Although wool showed a modest rise in 1984, it is under continuing threat of competition from synthetic fibres. Thus the threat of increasing competition within traditional markets; the decrease in world commodity prices for some primary products; and the threat of international protectionist policies, is making it extremely difficult for New Zealand to maintain a comparative advantage.

For economic survival there is the pressing need to diversify not only its products but also its geographical markets. The situation demands a shift from the mere trading of bulk commodity products to more value added ones; from a concentrated agriculturally based economy to a more equitable dispersion of activity within the manufacturing and industrial bases; and from a reliance on its traditional markets to the exploitation of those opportunities offered by Australia, the Middle East, and in particular, the countries of Southeast Asia.

There is some evidence that this painful and slow process is being effected. In 1970 a large proportion of total exports to industrial countries from New Zealand was accepted by the United Kingdom (a percentage of 45.4%). By 1980, this figure had declined to 20.5% (IMF, Direction of

Trade Statistics 1985), and in 1984 only 12.9% of total export receipts were destined for the U.K. (Department of Trade and Industry Report 1985). The increasing importance of Australia, Japan, and the U.S., as export markets, is reflected in their share of receipts. (see appendix 2).

The contribution of the agricultural sector to the gross domestic product (GDP) has declined from 11.0% to 10.0% whilst that of the manufacturing industries has increased 23.0% to 25.0% for the period 1982-1983 (UNCTAD, 1984). Though no recent figures are available, it is believed that this trend has continued. Agricultural products, excluding horticultural ones, however, continue to comprise the bulk of New Zealand exports with 50.3% in 1983 as compared to manufactured goods of only 12.2%. (UNCTAD,1984). A modest shift was seen in 1984 with manufactured goods rising 3.6% as a percentage of total export receipts (Monthly Abstract of Statistics, August 1985).

An analysis of the diversification and concentration indices, as shown in appendix 3, indicates that the number of types of export commodities has increased 16.7% yet the concentration index remains high in comparison to other industrial countries. In fact, the Asia and Pacific Review 1985 states that: Among OECD countries New Zealand has one of the highest concentrations of exports in a small range of commodities and that it has experienced a higher degree of export price volatility than other OECD countries.

Although there has been modest gains in diversification in the past several years, New Zealand remains highly dependent on a small number of markets and on agricultural exports, with 56.0% of total export receipts destined to its top four markets. There is also a question of a real gain in profit as opposed to a rise in export receipts. The latter has increased 8.7% over 1983 figures, but taking into consideration the rise in inflation (6.0%), this increase becomes relatively insignificant.

Total volume of exports increased only 1.1% over the year ending 1984, while imports increased 4.1% (IMF, International Financial Statistics). This continued trading imbalance, together with a declining growth rate of GDP, suggests the need to accelerate the diversification process and the expansion of offshore investment.

The latest annual report of Fletcher Challenge Limited, one of New Zealand's largest corporations providing 10.0% of its total exports, stated that: If New Zealand is to remedy its" chronic" balance of payments it desperately needs more exports (Evening Post 19 October 1985). As a fully diversified business Fletcher Challenge has export markets worldwide with concentrated investments in Asia and Australia. The company has been able to exploit New Zealand's "natural" advantages in widening its overseas investment base.

The future growth of the New Zealand economy therefore demands a more aggressive, offensive strategy than that which has been undertaken in the past. A highly competitive international market precludes the complacency which has historically characterised New Zealand trade patterns.

1.2 ASEAN/Thailand.

The countries of Asia provide enormous investment opportunity if only on the basis of sheer market size, having 1.3 billion people in South and Southeast Asia with an annual growth rate of 2.4%. The emergence of the so-called newly industrialising countries (NIC's) - South Korea, Taiwan, Hong Kong, and Singapore, has created a new centre of world economic growth. Together their economies are expanding at a rate of 9.0% per year. As a consequence large industralised countries, like the U.S., have, since 1980, contracted more business with Asia than with its traditional allies (Newsweek 13 May, 1985).

Another fast growing region comprises the countries of ASEAN - Singapore, Malaysia, Indonesia, the Philippines, Brunei, and Thailand, having a collective population of 280 million, and a growth rate of 2.6%. Their average GDP growth rate, though declining in the past four years in response to general economic recession, is 3.5%, as compared to New Zealand's of a negative 0.7% (UNCTAD 1984). They are considered newly emerging countries and are thought to be on the fringe of explosive growth similar to that experienced by the NICs. The greatest long range potential is to be found in the growth of the traditional sectors of developing countries where the majority of the population is found (Cateora and Hess 1975). Some would argue that the traditional sector, as generally occupying the lowest level on the socio-economic scale, lack the necessary technological skills required to improve productivity and in so doing increase their purchasing power. However, national economic policies of the more progressive developing nations are seeking to overcome these shortcomings in an effort to improve the standard of living of their traditional sectors. Thailand in particular has one of the least centrally planned and directed economies within the region, opting instead to encourage private investment entrepreneurial enterprise.

Its growth comes at a particularly opportune time for New Zealand. The latter presently experiencing stagnating economic expansion and the former presenting an opportunity for growth; that is, one requiring investment to new overseas markets, the other requiring investment from foreign countries, with the common objective of stimulating economic growth that is mutually beneficial. It is what Abell refers to as the "strategic window" concept - those periods during which the "fit" between the key requirements of the market and the particular competencies of the firm or country competing in that market is at an optimum. For the incumbent competitor it provides a way of relating strategic moves to market evolution; for the would-be entrants, it provides a framework for diversification and growth (Abell

1978). As the Minister of Overseas Trade has pointed out: New Zealand has a vital need to transform the existing pattern of trade with ASEAN if it is to get the most out of its near north region which is one of the fastest growing in the world (National Business Review, 15 May 1985). This need is equally matched by its comparative advantage of having advanced technology and skills particularly in the field of agriculture.

1.3 Purpose and Scope.

The main purpose in writing this paper is to examine overseas investment, with a focus both on potential opportunities and those presently being exploited by New Zealand companies in Thailand. The emphasis of the paper is on the principles surrounding offshore investment, rather than an empirical study.

One of New Zealand's largest companies, having established enterprises in Thailand is examined, with particular focus on how its corporate strategies and investment decisions parallel the conceptual framework concerning the principles of overseas investment. Thailand is only one of the countries which provides New Zealand with investment opportunities. It serves as an example in examining the particular conditions and determinants necessary as a prerequisite to the investment decision making process.

The paper is meant to be an exploratory study only. It began as a area of particular interest to the author without stated definitive hypotheses.

There is a considerable amount of literature on investment in general, multinational corporations, and foreign direct investment as it applies to American, Japanese, and European conditions. It is however notably scarce, as the conceptual framework applies within a New Zealand context. Thus the scope , direction and strategic planning decisions taken by New Zealand companies have, to my knowledge, not been examined in any great detail. The reason perhaps, is because the extent of New Zealand foreign investment has been relatively insignificant in relation to other countries; consequently there has not been the requirement to review the subject in any great detail.

It is the intention therefore, that this paper serve as a conceptual basis to a more in-depth analysis of New Zealand offshore investment in the future. It will, hopefully not only help explain why countries invest overseas, but will contribute to predicting the future direction of offshore investment.

A literature research has been undertaken regarding the principles underlying foreign direct investment including the multinational corporations and their organisations. A personal interview with one of New Zealand's largest companies -Wattie Industries Limited using a semi-structured interview technique have been conducted and serve as the limited empirical construct of this paper.

1.4 Outline.

Introduction - Overview of the problem.

Section 1 - International trade analysis; an analysis of the international competitive structure faced by New Zealand.

Section 2 - International Investment; the conceptual framework detailing methods of entry, trends, determinants and strategies of investment as well as a discussion of the multi-national corporation.

Section 3 - The country under investigation; Thailand - an indepth look focusing particularly on the investment climate.

Section 4 - The corporate organisational structures required for overseas investment; the conceptual framework of the strategic planning process and organisation designs.

Section 5 - Case study; examination of overseas actual and planned investment in Thailand by one New Zealand company.

Section 6 - Recommendations and conclusions.

SECTION 1

INTERNATIONAL TRADE ANALYSIS

Note to section:

It is difficult to interpret statistics over time in real terms because of continued movements in relative inflation and exchange rates. In addition, the use of a variety of sources has highlighted data inconsistencies. These factors should be taken into consideration when interpreting the statistics in this section. Although actual figures may vary, the relativity within the specific data is accurate.

1.1 Origins of international trade

There are many postulated theories of why countries engage in trade. Two of the more prominent ones are: (a) The comparative advantage theory and (b) The theory of the product life cycle.

The theory of comparative advantage states that countries will trade in those commodities of which they are abundantly endowed and/or they have a relative cost advantage. Those countries having a surplus of labour, producing goods at relatively low labour cost, will therefore export products with a high labour content whilst importing others which do not have this advantage. Hence, developing countries (labour abundant - capital scarce) will export primary products, assumed to be labour intensive, and import manufactures, assumed to be capital intensive (Sundrum, 1983).

Where then does New Zealand's comparative advantage lie, if the majority of its exports are primary agricultural products; yet unlike Thailand it does not have a surplus of low cost labour. In fact, in 1982 the percentage of New Zealand's labour force engaged in agricultural production was 8.8% (UNCTAD 1984). This figure has risen modestly to 9.4% in 1984 (New Zealand Official Year Book 1985). At the same time, the index of agricultural output rose to 118 (where 1976 equalled 100), an increase of 13.5% over 1979. The answer lies in the application of technology.

The classical comparative theory assumed that the level of technology between trading nations was comparable. This however is no longer an accurate assumption. The neoclassical approach (technology theory) views the trading process as a more dynamic rather than a static one, and introduces the importance of the technology variable. The approach states that labour skills and technology indirectly promote the development of temporary trade advantages by fostering the new product or process innovations which generate those advantages (Humphrey 1979). Higher rates of per-capita growth stimulate higher demand/consumption patterns which in turn serve as a catalyst to increase production for domestic and overseas markets via technological application. This circular pattern reinforces the advantage held by the industrialised countries in modern international trade (Williams 1982). Thus New Zealand's application of technology in agricultural production has resulted in surpluses over and above its domestic needs and current international market demands. This situation is appropriate where domestic demand continues to expand and absorbs the surplus. However this is not the case and the options are either to reduce productivity or increase the number of international markets - a shift from production orientation to a marketing one.

Unlike the comparative advantage theory, that of the product life cycle takes into consideration the dynamic process of international trade and accepts the basis that there are differing levels of technology within different sectors of individual countries. It relies on the marketing concept, that is, a response to consumer demand to determine which products will be produced, assuming that without domestic demand there is no production. It also assumes that each product goes through a cycle of heavy growth (introduction) to eventual maturity or stagnant growth. It is this expansion cycle which determines the pattern of overseas trade - domestic saturation necessitating international exchange occuring when price elasticity of demand becomes greater while the income elasticity of demand rapidly declines (Tsurumi 1977) and it consequently, no longer becomes profitable to trade in the domestic market.

The application of the product lifecycle theory permits the forecasting of changing competitive conditions. Yet too much emphasis on its operation may obscure opportunities relying more on defensive strategies rather than aggressive, innovative ones. In New Zealand, the Dairy Board, for example, has taken the initative in marketing its products to overseas markets. The Meat Board on the other hand adopts a low key approach, preferring to employ a more cautious response to internal and external pressures.

Understanding why countries trade is important in analysing international trade and production patterns and the competitive structures associated with them as contributors of national development strategies. Theories however serve only as conceptual guidelines. The continuing complexity of international trade and the growing interdependence of world economies, precludes single theory application as too limiting. A broader, more global perspective is required and each of the above theories assessed on their own merits.

1.2 Patterns of international trade

1.2.1 General

The United Nations World Economic Survey (UNWES) predicts an optimistic outlook for the world economy at least until 1987. The recovery from the general economic recession, started in 1982 is continuing. Growth rates for real GDP at a current level for the developed market economies (DME) of 2.0% is expected to rise to 3.2% in 1987. For the developing economies in general, the growth rate for the 1985 to 1987 period will be 3.7% and is considered to be a disappointing performance. Within Southeast Asia however, the rate is a projected 5.2%, substantially higher than the developing countries of Africa and Latin America.

The goal in most developed countries has moved from one aimed at full employment and steady growth through government intervention to one of low inflation and growth by a reliance on market forces- a policy which has influenced the recovery process. This is particularly evident in New Zealand with deregulation of fiscal policy and a preoccupation of reducing budget deficits which has resulted in a low rate of output growth. Inflation for the developed market economies was 5.4% and unemployment 8.3% in 1984. In general the macroeconomic stance in most DMEs and the developing countries has not been conducive to a strong rebound in domestic demands, and reflect a concern more for the external constraints on their economies (UNWES 1985).

For the developing countries, the impact of general economic recession was greater, leaving them with large balance of payment deficits. Their reaction was to impose restrictive policies to reduce government expenditure. In particular currency devaluations were initiated to curb import demand, and promote exports. In 1981 for example Thailand devalued the baht by 10.0% with a further devaluation in 1984. Considerable overseas borrowing was undertaken by most developing countries to reduce the external debt.

The overall impact of recession has however affected the developing countries of Southeast Asia less than any other as is evidenced by the projected rate of GDP growth. In spite of this, there remains the continuing need to expand agricultural production and exports; increase savings and investment.

1.2.2 Volume of trade

Appendices 4 and 5 indicate the trend in the world volume of trade. The industrial countries continue to export the major share of world trade volume though this has decreased from a peak in 1970, making way for the rise in exports from the developing countries.

It is significant to note that New Zealand export volume (as a market share %) has declined slightly while that of Thailand has had a modest rise. A corresponding inverse relationship is seen in the import trade volume figures with the industrial economies absorbing more imports.

In general, imports continue to surpass export receipts though the trend is more significant in the developed market economies (see appendix 6). Consequently, trade deficits have continued to increase. New Zealand's exports as a percentage of GDP in 1982 was 29.0%; its imports,32.0%. Thailand had a balance of 25.0% for both exports and import contributions to GDP (UNCTAD, 1984).

As the UNWES contends: the development in the import demand pattern of the developing countries has had two important implications for the world economy. The reduction in import levels had a significant negative impact on the economic growth of the developed economies. Secondly, intermediate and capital goods (such as machinery and transport equipment) constitute a major part of the imports of developing countries. Since these are important determinants of industrial production and investment, the recent declines have affected the level of potential productive capacity (1985).

1.2.3 Direction of trade

The majority of exports from industrial countries are marketed to other developed economies. Developing countries accepted only 24.9% in 1984 of exports from developed countries. (see appendix 7). International trade flows have tended to be restricted due to the increasing protectionist policies curbing the market access for exports of the developing countries.

The contraction of export earnings has resulted in an imbalance of payments deficits for both developed and developing countries necessitating the requirement to spend more on capital imports.

International trade and fiscal policies are thus intimately related. As the UNWES survey points out: financial instability in the form of wide exchange rate savings and balance of payments difficulties engender protectionism in trade. Lower trade,in turn, holds back growth and makes it difficult to overcome financial strains, such as pressing debts(UNWES,1985). Liberalising trade policies is a necessity to stimulate the free flow of exchange.

Total trade between the ASEAN countries and New Zealand has increased steadily from $NZ248.7 million in the 1977 /1978 period to $NZ1208.4 million in 1983. New Zealand exports at their peak in 1983 totalled $NZ425.2 and 661.0 millions respectively with the result that overall trade with ASEAN has decreased 10.1%. ASEAN's percentage of total exports has declined to 8.1% in 1984 vice 10.4% the previous year. New Zealand exports to Thailand have increased slightly to $NZ53.7 million or 0.6% of total exports. Imports from Thailand have decreased 31.2% to $NZ13.7 million or 0.16% of total import receipts in 1984 (Department of Trade and Industry Report 1985).

1.2.4 Composition of trade

The export and import structure of major commodities in the developed and developing countries is included in appendices 8 and 9. With the exception of minor increases in ores and metals, and fuels, commodity trading within the developed countries declined, but increased to the developing economies, Southeast Asia in particular. The opposite trend is evidenced in the export structure of the developing countries with exports to other developing countries increasing significantly but declining to developed economies. The rise in economic unions within these countries may account for this trend as intra-area trade has been emphasised.

The shift in the production composition of global trade has provided stronger opportunities for countries whose exports are concentrated in manufactures than for countries which are primarily commodity exporters (UNWES 1985). The exporters of manufactured goods in the developing countries of Asia have experienced favourable exporting conditions. The import structure indicates a substantial increase in manufactured goods from the developing to the developed economies.

New Zealand's exports are dominated by agricultural, meat and dairy products:

meat and meat products	24.0%
wool	17.0%
butter	7.0%
wood pulp	4.0%
hides and skins	3.5%
fruits and vegetables	2.5%
casein and cheese	2.0%

New Zealand's imports are dominated by manufactured goods:

machinery/transport equip.	32.0%
fuel	20.0%
chemicals	12.0%
iron/steel/non-ferrous metals	5.0%
textiles, clothing and footwear	7.0%
food, beverages, tobacco	5.0%

The main sources of imports are Australia, United Kingdom, United States, and Japan.

Thailand's exports are dominated by cereals, rubber and tin:

rice	14.5%
tapioca	11.0%
rubber	8.0%
tin	7.0%
maize	5.0%
sugar	3.5%

The main destinations are Japan (15.0%); The Netherlands (11.0%); USA (12.0%); and Singapore (14.0%).

Thailand's imports consists of:

machinery	26.0%
fuel	22.0%
basic manufactures	16.0%
chemicals	14.0%
raw materials	7.0%

Main sources of imports are Japan, USA, Saudi Arabia, and Singapore.

The bulk of New Zealands export's to Thailand (52.1%) consists of skim milk powder, pulp and waste paper, and textile fibres. Imports from Thailand include food, beverages, and tobacco as well as textile manufactured goods. A detailed description of trade composition between New Zealand and Thailand is included in appendices 10 and 11.

1.2.5 Growth of output and trade

The expansion of world output and trade grew significantly in 1984. The GDP for developing countries amounted to a 2.9% growth with a corresponding rise of GDP among the developed economies of 4.6% (UNWES 1985). The rate of growth of the former was influenced by the macroeconomic policies in dealing with a heavy debt burden.

The countries of South and Southeast Asia grew 5.2%, the most significant in all of the developing countries. The output growth of the developed economies was partially the result of an increased level of investment in those countries as a consequence of substantial improvements in business profits.

The general economic recovery of the United States in particular had considerable flow on effect for the rest of the world economies. The countries with stronger trade links to the U.S. had, on average, higher export growth. New Zealand's export receipts to the U.S. rose 10.0% in 1984 for most primary products, with the exception of meat exports which declined 15.0%.

The revival of world trade has helped the developing countries to expand exports, rising at rates from 10.0% to 20.0% in most cases. Thailand's exports increased 19.8% in 1984 over the previous year. The Asia and Pacific Review (1985) predicts that the long term prospects for exports from Thailand "appear sound". However, as in the case of New Zealand, the volatility of commodity prices in the world market may restrict growth. Projections for the next five years are targeted at 8.0% per year. The need to curb the growth of imports is important to its balance of payments situation. Manufacturing has been the main source of growth output with a 1983 level of 7.0%.

New Zealand's continued reliance on agricultural products for the bulk of its export earnings together with the volatility of prices has made trade expansion exceptionally vunerable to price shifts in commodity trading. The meat and wool industries in particular have suffered from the adverse effects of trade. Together these industries earn approximately $NZ3.5 billion of the nation's export receipts. While costs of production have risen, returns from overseas markets has not (Asia and Pacific Review 1985). The current account deficit of $NZ1757 million in 1984 has restricted economic growth to an annual rate of 0.7%, the smallest of the OECD countries. As the UNWE survey notes: While international trade has provided a considerable stimulus to the growth of the exporters of manufactured goods, primary commodity exporters have continued to face weak external demand (1985).

1.2.6 Unit values and price changes

It has been noted, previously, that both New Zealand and Thailand are highly vulnerable to world price changes in commodity trading. The volatility and uncertainty associated with these markets have hampered trade growth in both countries.

Appendix 12 details the export price indices of major non-fuel commodity groups for 1980 to 1984. The prices at the end of 1984 were 15.0% below their 1980 value. Most food and beverage prices were affected not by supply-demand forces, but by weather conditions. This is particularly true of sugar where favourable conditions has produced an excess supply collapsing world sugar prices. Production increases over the past three years is expected to continue.

Rice, of which Thailand is one of the world's major exporters, has had the greatest price volatility because of the geographical concentration of rice production in Southeast Asia and China (see appendix 13). Much of the international price weakness from 1982 to 1984 was accounted for by weather-related improvements in crop yeilds. The price of rice is expected to remain low as supply is likely to exceed demand again in 1985 (UNWES 1985).

The persistent accumulation of agricultural surpluses - sugar, beef, and dairy products, have served to keep their prices depressed. The combination of price- support schemes which foster output expansion... and major efforts by developing and centrally planned economies to enhance their own agricultural sectors have made it increasingly difficult to dispose of the farm surplus of industrial countries through exports (UNWES 1985).

Indices of wholesale prices for the major exports of New Zealand and Thailand is included in appendix 14. A cursory examination of the figures however, concludes that Thailand has been less affected by commodity price changes than New Zealand. All of the latter's exports have declined in the past three years. The result has been less returns from its export receipts and the necessity to substantially expand its volume to prevent a further decline in trade balance.

1.2.7 Terms of Trade

Terms of trade indices have been calculated for developed and developing economies for the years 1983 and 1984. (See appendix 15).

Price, as well as volume are important indicators of a country's value of export earnings. If a country's exports are falling relative to the price of its imports, it will be required to sell that much more of its export product. World value of exports and those of the developed market economies have managed to remain at a slightly higher level than its imports. Developing countries, including Thailand, have seen export prices decline relative to imports. Historically, the prices of primary commodities have declined relative to manufactured goods (Todaro,1982). This suggests the need of both Thailand and New Zealand to diversify their export base to overcome trade deficits -a situation which may worsen in future due the continued downward trend in commodity prices.

1.2.8 Balance of payments

For most developed economies the ratio of current account balance to GDP has increased, most particularly in the U.S. where it has risen to 3.7%. Other economic indicators of the current "disequilibria" for those economies are: a substantially high unemployment rate at an average of 8.2% -an increase of 3.2% over the previous 3 year period ending 1979; a decline in real growth from 3.0%

to 2.0%; and an inflation rate of 6.3% (UNWES, 1985). In general, the developed market economies have increasing trade balance and balance of payments deficits which has resulted in considerable instability in the world economy. Balance of payments on current accounts, for the developed countries, excluding the U.S.,is a deficit of $US 35.5 billion and is expected to rise to $US 43.5 billion in 1985. Rates of growth of output are expected to rise by only 3.1% in 1985.

While gross domestic output in the developing countries has been recovering slowly from the recession of the early 1980's, the growth in national income is lagging behind, partly as a result of large net interest payments to foreign capital (UNWES,1985). Most countries have experienced growing internal deficits. For capital-importing ones a $US 23.0 billion surplus in their balance of trade in 1984 was more than absorbed by net interest payments of $US50.0 billion resulting in an overall deficit in the current account balance of $US39.0 billion (UNWES,1985).

The ability of debtor nations to service their debt depends to a large extent on export expansion. In 1984 there was a slight decrease in the ratio of debt to foreign exchange earnings, with predictions for this trend to continue. The continuing revival of world trade flows in the past two years is essential for the economic recovery of the developing nations. Rates of growth of real output is forecasted to increase 3.3% and 5.0% for the countries of

Southeast Asia in particular in 1985. Inflation rates are expected to rise 8.5% in this region(UNWES 1985).

Appendix 16 details the ratio analysis of two of the main indicators of balance of payments performance for Thailand and New Zealand. As it has been noted previously, New Zealand has a high concentration of its exports in commodity exchange. Efforts to diversify have been slow, thus its export earnings remain vulnerable. Imports comprise almost one third of its total domestic product. The foreign exchange required to pay the import bill is therefore substantial. Fortunately there has been a significant increase in its external reserves to cover the cost. In spite of this, New Zealand's current account deficit has risen from $NZ778 million in 1983 to $NZ1757 million in 1984.

For Thailand, export earnings fell 7.7% resulting in a trade deficit of baht 3.9 billion. Depressed commodity prices and heavy borrowing has created a considerable burden to finance its external debt with a debt servicing ratio of over 19.0%. Debt repayment now constitutes the biggest single item in the budget (Asia and Pacific Review, 1985).

In conclusion, there is a pressing requirement for both New Zealand and Thailand to expand their export earnings.

1.2.9 Consequences of trade

Trade is an important stimulator of economic growth. It rests on the principle of comparative advantage or in today's terms, the competitive edge. That is, to optimise and exploit those areas of production, natural resources, and technology which one nation does better than another. The economic development of a country, therefore rests on the level of success and exploitation of its trade and consumption patterns. As UNWES notes: To sustain the growth momentum in the world economy, to help reduce external and internal imbalances and to improve the prospects of indebted countries, a continuous expansion of trading relations is crucial(1985).

The trend towards increasing internationalisation of trade is important, as the developing countries, like the new industralising countries, emerge to compete for a share of world markets. Several of the conclusions reached by the Centre for Strategic and International Studies(1981) reflect on the changing competitive structure: (1) Governments will need to develop a framework to reconcile their domestic sector policies on an international level. (2) A new international framework is needed for managing the interactions of trade and finance and more importantly (3) strategic planning needs to be given far greater weight in private business decision making taking into account global market developments and investment plans (Malmgren,1981).

Increasing protectionism is restricting economic growth for most countries. The head of the United Nations Food and Agriculture Organisation recently warned that wide spread protectionism and sharp declines in the prices of commodities have led the world to the brink of a trade war (Dominion 18 October 1985). The situation necessitates a re-examination of current trade policies and agreements, with a view to liberalising the international exchange flow as a prerequesite for economic growth.

SECTION 2

INTERNATIONAL INVESTMENT

2.1 General

In the previous section on trade analysis it was pointed out that the future of the New Zealand economy, for reasons discussed, depends on moving strategically to a more international stance. The importance of trade to a country's economic growth, by initiating expansion as in the case of developing countries or sustaining growth as in the developed countries through the exploitation of its comparative advantages; gaining economies of scale; and acquiring proprietary knowledge via the exchange process, explains why its firms go international. Aharoni (1966) suggested that the commitment to invest abroad often comes not from a conscious strategic decision but a series of investigative steps that bring the incremental cost of investment down to an attractive level (Caves, 1982).

The methods of entry to international competition lie on a continuum characterised by the degree of involvement and the amount of control a company wishes to exercise. There are numerous criteria upon which this decision is made, including the number of international markets, the competitive structure, the degree of market penetration and, in particular, the financial risks involved. The decision is not taken lightly and is only proceeded after much examination and analyses of the internal environment.

Porter (1980) outlines several generic strategies designed to cope with competition both domestically and overseas. Although he applies these within the context of an industry, that is, at the micro level, the strategies can have a much broader application at the macro level - a country's position on an international competitive scale. The comparative advantage or competitive edge of a firm can be equally à propos to a national level as has been discussed previously under the origins of international trade. The overall objective for both is profitability and/or growth. Thus moving from the level of business/industry to that of a country is not a tremendous leap in logic; it is rather an extension of a micro outlook to a more all encompassing macro one.

Hindley (1984) uses the term "discretionary industrial policy" to refer to government directed strategy affecting a counry's economic structure. He cites the Japanese example of its MITI organisation. Hindley states that: The specifics of the debate over discretionary policy has been largely in terms of picking winners and propping up losers, whether these are companies or industries. Those opposed to industrial policy argue that markets are capable of finding winners and that companies and industries which are failing ought to be left to fail(1984).

Regardless of whether one is for or against industrial policy, the fact remains that a country's political and economic goals are so intimately interwoven that at times it is difficult to separate the two. The issue is whether the government and economic structure, as reflected in its industries and businesses, can work together towards common objectives.

The strategies therefore of cost leadership, differentiation, or focus, can be applied within in a national context. Cost leadership necessitates maintaining costs - R and D, distribution, production, lower than the competition. The skills rquired for this strategy are a low cost distribution system and a sustained capital investment. Differentiation strategy involves creating something which is perceived as being unique, that is differentiating the product/service from the competitors. The skills required are strong marketing capabilities; product engineering; and a reputation for quality or technical leadership. Focus strategy concerns a concentrated effort on a particular market and serving only a narrow target range nore efficiently than the competition. The country may have a low cost position, high differentiation, or both but directed only at specific areas (Porter 1980).

In applying these strategies within the New Zealand context, the first had originally been the basis upon which the New Zealand economy rested. However rising transportation costs have made distribution more expensive. Domestic production costs have also risen and entry barriers in the form of duties have raised these costs even further. This, together with, the abundance of low cost labour in developing countries and increasing international competition, precludes this strategy from continuing as a viable strategic stance when it applies to exporting only.

Focus strategy is too restrictive. It has already been noted that New Zealand's export concentration is high and the pressing requirement to increase rather than decrease its geographical diversification. The most likely alternative for New Zealand would be to follow a strategy of differentiation. NZ is one of the top ten producers of dairy and wool products in the world. Its research in the field of agricultural technology has put it in the fore-front of development in this area. New Zealand has therefore many of the prerequisite skills necessary to exploit this strategy. For years New Zealanders earned their livings from the land carving out an export income and a specialist reputation from the products of their country's pastures (NBR 15May 1985). The country however lacks strong marketing capabilites and the production base to further process its commodities into products acceptable to consumer demand on an international scale. In a highly competitive environment only concentrated marketing efforts and an expansion of value added manufacturing processes will exploit the opportunities presented.

2.2 Methods of entry

EXPORTING —— LICENSING —— JOINT VENTURE ——→ WHOLLY OWNED

minimum - → maximum

———— INCREASING CONTROL AND INVOLVEMENT ————→

Non Equity Investment ———— Equity Investment

All are investments of one kind or another. Exporting and licensing are non equity (indirect) forms of investment. They do not entail the transfer of capital funds from the home country to the international market but involve only the flow of products and/or the exchange of technology. Joint ventures and wholly owned subsidiaries (as in the case of large multinational corporations) do involve direct capital investment and hence greater risk. Both of these methods are referred to as foreign direct investment (FDI). The International Monetary Fund defines direct investment as: An investment which is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor; the investor's purpose to have a effective voice in the management of the enterprise (1984).

Entry methods are not mutually exclusive. In fact many firms have a combination of operations depending on the structure of the overseas market. There is, however, a gradual movement of New Zealand companies towards more direct involvement of joint ventures and wholly owned subsidiaries as the international market becomes more competitive.

The extent of any investment is influenced by market access, that is, geographical proximity; historical ties, as in past colonial rule; and current trade patterns. Nankani (1979) found that (1) foreign investment is enlarged between those nations and developing countries that were formerly connected by colonial ties and (2) is negatively related to the geographical distance between them. Dubin (1975) also found that the smaller the firm and less diversified its portfolio the more likely are its foreign assets to be concentrated in familiar countries (Caves 1982). This, in part, explains New Zealand's concentration of exports to the U.K. in the past which have been influenced by its historical connection; and its tardiness in entering Southeast Asian markets.

Other important dimensions to be assessed are the host country's investment climate, political risk, and profitability expectations.

Choice of specific locations for investment consider the incentives and disincentives offered in the host country, though the latter has more impact on the decision. Business persons respond more strongly to disincentives rather than incentives as obstacles to investment (Caves 1982).

Porter (1980) has outlined four strategic alternatives regarding the extent of international investment. These are:

(1) Broad line competition - competing worldwide in full product line. This involves a considerable amount of resources.

(2) Global focus - competing in only one particular segment of the industry on a worldwide basis.

(3) National focus - exploiting national market differences to create a focused approach to a particular national market for which the firm

(4) Protected niche - competing in those countries where restraints exclude global competitors and providing an opportunity to exploit the competitive edge.

The choice of strategies will be influenced by a number of determinants not the least of which is the company's/country's size and the extent of its resources. Smaller ones may consider only a small number of countries when more direct investment is contemplated. For exporting, transportation costs, distribution channels, or limited product line to meet specific requirements, may preclude alternative strategies from being undertaken.

The objective of the ASEAN tour in March 1985 was to "search" for market niches for New Zealand companies in Southeast Asia. New Zealand firms have to concentrate on specialised areas (NBR,15 May 1985). There is the requirement therefore to exploit those areas that New Zealand does best to capture not large market shares but small niches in a large number of markets

Regardless of the extent of investment, for a slow growing economy, geographical diversification is an alternative to product diversification. Those countries whose products are concentrated in a narrow range, generally find that seeking new markets is an easier process than expanding product line particularly if the manufacturing base is also narrow.

There is the necessity for countries and their businesses to move away from a domestic outlook to a more international one. As Simmonds et al(1977) point out: The growth process of the firm might be visualised as following the path along which business enterprises develop from a completely local to a global orientation. To achieve global enterprise status the following conditions must be met: (1) The firm and its management must have an international horizon and access to resources necessary for global operations. (2) It must have competitive advantages that it can exploit, and (3) it must be in product or service fields that are not limited economically or legally to local and national markets. These prerequisites can be equally applied to the macro level, that is, the level of a nation's competitive stance in world markets.

2.3 Exporting

Exporting is the lowest (minimal) level of international involvement with the least amount of control. It has less risk as it involves no direct capital investment but merely the flow of products/services from one country to another.

Exporting is a significant contributor to country's balance of payments position. A firm will export for a variety of reasons. The first is to increase sales volume in order to reduce production costs and achieve economies of scale. Those companies who export for this reason have several common characteristics:

(1) High fixed or high R and D costs (2) A domestic market too small to justify production on a large scale, and (3) An elastic demand curve that prevents them from raising prices sufficiently to cover costs (Daniels et al 1979). In several studies of Swedish companies, Swedenborg (1979) found that those industries whose plants are capital intensive and have extensive economies of scale tend to export; and the greater the economies of scale the more likely a firm will export rather than invest directly (Caves 1982). On the other hand exporting may be one method to rid a country of excess surpluses. Dumping of excess dairy products by the U.S. and EEC is undermining the established trade agreements and creating export difficulties for countries such as New Zealand.

Another important consideration for exporting is the production cost factor. It is less expensive in the long run than other, more direct forms of involvement. High relative production and R and D costs can be overcome by expanding into new markets without up front capital investment. More importantly, exporting involves little investment and incremental marketing costs compared to joint ventures or wholly owned subsidiaries.

Preferential trade agreements may promote exports as the more profitable alternative. Conversely government disincentives may preclude involvement other than by exporting. Risk factors are other stimulants to exports, being considerably less than more direct forms of investment.

Firms must not only consider financial but also possible political constraints. The more direct and visible the entry of the international firm in the foreign market, the more vulnerable it is politically (Terpstra 1983).

Not all firms however export, considering rather that the domestic market adequately fulfils their profit and growth objectives. Cable Price Downer Limited, a New Zealand company, exports only 5.0% of its production turnover. Management considers such a target sufficient for the present, though future development plans will consider more active involvement. According to Daniels et al (1979), in a study comparing perceptions of both exporters and non exporters, it was found that decision makers in exporting firms perceived cost, risk and communication problems to be lower for export operations and perceived profit from exports to be higher than did the decision makers in non exporting firms.

Factors which preclude exporting in favour of other forms of investment include those import tariff/duties which restrict trade flows and stimulates more direct investment. Anything that favours foreign direct investment discourages the use of exports. Schmitz and Bieri (1972) in a study designed to examine the relationship between trade barriers and foreign direct investment found that tariff-preference arrangements had induced an acceleration of the upward trend in U.S. foreign direct investment and a deceleration of the trend in U.S. exports (Caves 1982). This implies that the two are mutually exclusive which is true within the same market but not necessarily so when involvement includes a number of markets. The important consideration is to tailor the investment involvement which best maximises opportunities within each. The conclusion however is consistent with the finding that dis-incentives, not incentives have more influence on the choice among various methods of investment. Trade barriers should accelerate the transition from exporting to establishment of foreign production subsidiaries (McCulloch and Owen 1983)

Tariffs have two important influences on exports to the foreign market. It raises the price of the product. The higher the tariff the greater the price impact and loss of competitive edge in the market. Secondly, high tariff barriers bolster the profitability of those firms that are currently in the market - both foreign and local (Williams 1982). Finally transportation and distribution costs make exports more expensive particularly if the exporting country is greatly distanced from its overseas markets.

Caves (1982) concludes that exports and horizontal foreign investment (the establishment of plants in different countries which make the same or similar goods as those exported) should be substitutes for one another.

2.4 Licensing

The other form of indirect involvement is through licensing agreements. It involves a transfer of technology of information, know-how, patents and trade marks. In return the licensee agrees to produce, distribute the products, and pay a royalty rate to the licensor of a percentage of sales revenue. The value of the license depends on the size of the market; the level of exclusivity within the market and the degree of obsolescence associated with the technology. As Caves (1982) points out: Licensing is more common when the goods are less physically complex, and therefore the technical information can be more easily conveyed. It is discouraged for more complex products for which research may involve the reconfiguring of the product for competitive reasons.

The advantage of this type of arrangement to the licensor is that it involves no capital expenditure and hence less risk. It is also an effective method into the foreign market as distribution channels are already established by the licensee. Not only does the investor gain from royalty payments, but the costs of transportation and import duties are not incurred. For the licensee the agreement is advantageous if the cost of research and development as well as acquiring the skills is prohibitive. The licensee will invariably accept the technology transfer which best complements his own.

One of the major disadvantages to licensing agreements is the fact that the licensee may eventually become a rival with his "new - found" knowledge. Companies are discouraged from these agreements if future plans involve more direct forms of investment. The limitations specified in licensing arrangements are generally sufficiently detailed to preclude such an occurrence. In addition, much licensing of technology takes place across national boundaries rather than between firms in the same country... the rival in a geographically separated market can be licensed without threatening one's own product and market profits (Caves 1982).

Some question the wisdom of countries/businesses "giving away" their expertise and subsequently their comparative advantage. The Assistant General of DSIR remarked in the National Business Review of 15 May 1985 that: Our (New Zealand) technology and skills especially in plants and food processing are saleable commodities... There are dangers ot passing on key technology". The Dairy Board for example is opposed to technology transfer, preferring to keep its expertise to itself to capitalise on the commercial advantage in export markets. To overcome this difficulty, some firms only license "peripheral" technology and not that which is essential to business activities. Control over the licensee and the technology is an important consideration in licensing agreements.

Caves (1982) discusses some of the determinants of licensing as opposed to more direct involvement and much of the following draws upon his discussion.

Licensing is preferred when the market is too small to warrant more direct investment or when the firm lacks the capital and managerial resources required. Thus the smaller the firm/country and the more valuable its internal uses of its resources, the more likely it will resort to licensing rather than foreign investment (Telesio 1979). When it is difficult to select an appropriate firm, or when there is a possibility of technology "leakage", licensing is not a suitable agreement. Where technology is rapidly changing, licensing is preferred because of the long lead times required to establish a subsidary. As Telesio (1979) states, foreign investment increases with R and D but licensing increases even more (Caves 1982). It is discouraged if the opportunity cost of capital is higher in the host country than that of the licensor. It would therefore not be cost beneficial to the firm to transfer its technology. If there is the prospect of reciprocity or exchange of technical information then licensing is encouraged. If the transfer cost of technology is high relative to the expected returns on that investment, then possibilites other than licensing should be examined. Teece (1976) contends that transfer costs tend to be higher the first time technology is transferred and for newer technology (Caves 1982). The more experienced the licensee is in manufacturing the lower the transfer cost.

Licensing is a difficult business decision. Like most, its relative gains must be weighed against the "trade offs" and the expected profitability. Initial low cost outlays and risks may make the expected return on investment minimal. Frequently, licensing is not an optimum way to maximise the gains from a company's competitive advantage (Simmonds et al 1977).

In conclusion the costs of non equity forms of involvement include the risk of dissipation of the firms specific advantage and the danger of loss of control over its technical know-how. The major difficulties in contractual arrangements is (1) finding a suitable partner and (2) negotiating an agreement which specifically outlines the terms and conditions. The first is also faced by more direct methods of investment, that is, joint ventures. The second is overcome by having a major input into the management and operation of the enterprise.

2.5 Foreign direct investment(FDI)

There are two kinds of long term investment - the portfolio or the direct. The first is a passive investment involving the purchase of stocks in an enterprise and having little input into the actual operation of the business. The second involves a degree of ownership and control in the management and running of the enterprise. By this distinction joint ventures can be either a portfolio or a direct investment depending on the level of equity and the terms of the agreement. The main focus however will view joint venture operations as a more equitable partnership with a foreign firm and thus having a voice in its control and operation. Both the U.S. and Japan use a percentage of

25.0% stockholding as the defining limits of direct investment. FDI takes place both in the developing and the developed countries. Motivations and strategies behind each are different. The following discourse will focus on foreign direct investment to the developing countries.

2.5.1 Theories of Foreign Direct Investment

Theories of foreign direct investment fall into two broad categories: Those that have a micro economic approach, that is, the level of the business unit and those that deal with a broader concept encompassing the macro or national economic level. The conceptual framework of FDI has many similarities to those of international trade theory, highlighting the fact that the two are separate but intimately related parts of the total scope of international business.

The first regards foreign direct investment as the natural progression in the growh of a business firm as it moves from a domestic orientation to a more international one. The works of Fayerweather (1977), Caves (1982) and Kogut (1983) reflect this approach. They see the evolution of the multinational as a sequential process - from an exporting stance, through to the establishment of foreign subsidiaries and finally to full control of the facilites world wide.

The firm invests overseas because it has a unique asset (comparative advantage) of a product, technology or both.

Most foreign direct investment is horizontal rather than vertical integration and companies engaged in direct investment are mostly oligopolies in the domestic market. Businesses having comparative advantages are known as differentiated oligopolies and possess the technology and skills required for overseas investment.

International firms prefer foreign direct investment rather than exporting or licensing to exploit the advantages of economies of scale of multi-production facilities. They are able to use internally generated funds for continued growth through foreign direct investment for production and sales abroad without reducing profitability in the domestic market... The size of the corporation in terms of sales and assets constitutes an important distinction between firms that invest abroad and those that do not (Williams 1982). Foreign direct investment and growth of a firm are subsequently cyclical processes with growth as both a stimulator and a response to foreign direct investment. As a business expands, its organisational structure changes to one more suitable to changes in its level of involvement in overseas investment.

The product lifecycle (PLC) approach attempts to determine what stage of the PLC foreign direct investment takes place. The theory proposed by Vernon (1966) places less emphasis on comparative advantage and more on the timing of the investment process. External threats such as tariffs and duties decreases the amount of exports and foreign direct investment is thus a monopolistic defense of the market and could be made before the mature stage (Kojima 1978)

All multinational corporations (MNC) are defined as oligopolies and foreign direct investment in each phase of their PLC determines the level of investment in overseas markets. As firms grow they multinationalise and maximise by all possible means their oligopolistic profits (Kojima 1978).

The PLC theory is an oversimplistic approach to understanding the conditions and determinants of why businesses undertake FDI. To view it merely as a defensive reaction to an export threat ignores the experience of large U.S. and Japanese MNCs whose foreign direct investment is more an offensive than a defensive one. The growth of business depends on initiating not merely responding to change.

The comparative advantage theory has also been applied in the macro economic approach to explaining foreign direct investment. In the previous section on international trade, the theory explained in part the pattern of world trade flows from countries "factor endowed" to those less so. Its application to FDI has been proposed by Kojima (1978) where the comparative advantage at the macro level focuses on national factor endowments. He contends that FDI is carried out in the direction dictated by comparative costs and comparative profit rates in the same way as international trade.

Kojima is more concerned with the differences between macro economic FDI and that undertaken at the micro level (exploiting the oligopolistic factors as in business expansion) than in explaining the conditions and determinants under which the former operates. He views macro foreign direct investment as trade creating whereas micro FDI as trade supressing - a distinction he carries to the Japanese and American methods of foreign direct investment. The superiority of comparative advantage foreign direct investment over micro FDI derives from the fact that the former leads to increased international trade from the developing to the developed block while the latter reduces the volume of trade (Gray, 1982).

A further distinction between macro and micro foreign direct investment is that of labour-oriented versus market-oriented. The former is trade creating. It becomes profitable and rational for the advanced country to contract its own traditional, labour intensive industries and transfer the location of production to low wage countries where cheaper labour costs prevail(Kojima,1978). As a consequence trade is created between labour intensive and labour scarce countries. Oligopolistic foreign direct investment is trade restricting; it works against the comparative advantage and is characteristic of American models. Most American foreign direct investment industries, Kojima contends are oligopolistic ones which, rather than strengthening the exports of their final products, they establish foreign subsidiaries which "cut off" their own comparative advantage.

In summary, the arguments for Japanese style investment as opposed to American foreign direct investment is one in favour of joint ventures vice wholly owned subsidiaries which Kojima views as the "evil" of the multinational corporations exploiting the less factor endowed countries. Some counter this argument with the fact that Japanese joint ventures are themselves seen as a first step to wholly owned operations. His views on the comparative advantage theory seemed to be based solely on this narrow distinction. This theory does not take into account the very high proportion of world trade that takes place among the industralised countries... Their cost structures are similar and competitiveness is likely to be more a function of firm - specific characteristics than of differences in resource endowments (Gray 1982). This does not preclude the application of the comparative advantage theory but merely highlights the fact that all models of foreign direct investment, as is true of international trade theories, must take into account the context and circumstances in which they are used.

2.5.2 Foreign direct investment, international trade, and economic development.

There has been considerable research undertaken to study the relationship between foreign direct investment and international trade, specifically concerning the question of whether they complement or are substitutes for one another.

Purvis (1972) contends that foreign investment is a complement to international trade. Mundell (1957) on the other hand, argues for foreign investment as a trade substitute. Kojima (1978) addresses both of these questions and arrives at the folowing conclusions: As the first criterion, foreign direct investment is undertaken in an industry in which the investing country has a comparative disadvantage and is trade creating. Investment in a comparatively advantaged industry results in trade destruction. Furthermore, foreign direct investment should occur in host country industries which have a comparative advantage in productivity increase.

The practical implication of these criterion can be seen in the foreign direct investment firstly to developing countries and secondly to the developed economies. FDI is not just a capital outlay but encompasses the transfer of managerial skills and technical know- how. Subsequently FDI plays an important role in the economic development of less sophisticated economies and as such should stimulate and be complementary to trade flows. The goal is to increase productivity, stimulate demand, promote exports, and expand international trade.

Other objectives of foreign direct investment may however serve only to maximise the profits of the investing firm and strengthen their monopolistic or oligopolistic advantages, rather than contribute to the development of a less sophisticated economy. The "reverse order transfer of technology" that is, the technology gap between host and investing country is sufficiently large to preclude the easy adaptation of the technical skills thus creating "enclaves" of sophisticated technology. Consequently, rather than contributing to growth this form is a substitute for trade, exploiting the advantage of the developing country for self interest (assuming that profit making is the business objective). It has been argued that foreign controlled firms may adopt overly capital intensive production techniques, which are inappropriate; make insufficient transfers at too high a cost; set artifically high transfer prices; and exert strain on the balance of payments by not expanding exports (IMF 1985), as well as transfer outmoded technology.

Foreign direct investment between advanced countries is designed to overcome barriers to entry and exploit specific advantages of individual firms such as product differentiation; or simply because it is more advantageous than exporting or licensing. In many cases, FDI is promoted to reduce or avoid high transaction cost. Conversely reductions in trade barriers may increase the incentives by allowing for greater flexibility for the internationalisation of production in accordance with the firms comparative advantage.

Foreign direct investment is a key economic factor within the total scope of international business activities. It is not a zero sum game; it assists both the investor and the host country contributing to the dynamic process of growth... It promotes the economy and sustains the multiplier effect on a global basis (Wallace 1976).

2.5.3 Strategies for foreign direct investment in developing countries.

The theories concerning foreign direct investment are generalised concepts designed to explain why the process of investment takes place. How and under what conditions foreign direct investment is conducted will be discussed.

Equity investment not only involves a transfer of technology, but also a capital expenditure of plant and production facilities necessary to the operation of the enterprise. Much of the following will draw on the work of Williams (1982) and a study by Greene and Bauer (1975) on American offshore investment.

Broadly defined, strategies for FDI can be categorised into economic, competitive, and product motives.

(1) Economic conditions

Investment is undertaken to exploit the availability of low cost labour in labour intensive countries. The low labour cost makes the product cost competitive and is an efficient use of the host country's natural resource.

Manufacturing products with locally produced components gains economic benefits. Local supply capacities can be expanded and domestic industry promoted.

(2) Competitive conditions

For strategic reasons, a company may want to produce in a country where a major competitor is based to achieve comparable economies of scale.

(3) Product conditions

The strategy is to manufacture products abroad which will not compete with those currently being exported. Foreign based products are generally unsuited or uneconomical to export if domestically manufactured because of high transportation costs. Most packaged foods, for example, are consumed in the domestic market because of the problems of spoilage, low unit value and acceptability.

Normally, exported products may be more advantageously manufactured in foreign markets because of high import duties. High tariffs would increase product price. Consequently trade liberalisation tends to increase the advantage of international firms over domestic ones. Investments to centralise production activities subject to economies of scale are therefore promoted.

Once the strategic decision has been made to directly invest overseas for some or all of the above reasons, there necessitates the determination of the role the manufacturing plant will play in the developing country. Foreign subsidiaries fall into three categories: (1) the exporters of natural resources and resource based products (vertically integrated firms); (2) exporters of manufactured goods from the region and (3) those producers largely serving the domestic market of the developing Caves(1982).

The factors affecting the role of the foreign subsidiaries depends to a large extent on the incentives and the disincentives offered in the developing country, which will be discussed in greater detail later. Suffice to say, at present: higher overseas equity investments promote export-oriented subsidiaries. Local market operations rely more on funds secured within the host country from local partners than export oriented ones which have little incentive for local borrowing. Export oriented investments also show higher nominal profitability but local market subsidiaries remit much larger percentages of earnings as royalties (Reuber et al 1973).

Foreign subsidiaries, regardless of their role, have an impact on the indigenous industries and competitive structure within the developing countries, and their balance of payments positions. The weakened bargaining stance of these countries in relation to the stunting role arises later on when the poor country has begun to generate its own entrepreneurs and technicians (Simmonds et al 1977).

2.5.4 Determinants of foreign direct investment

Root and Ahmed (1978) found that foreign direct investment attraction to developing countries increased with their GDP per capita; the extent of urbanisation; political stability; trade balance; and strength of infrastructures (Caves 1982). These results have been supported in a study by Dunning (1979). The difficulty of course is the fact that most foreign direct investment is therefore concentrated in the richest of the developing countries. In 1981 low income countries captured only 4.0% of total FDI flows. Root (1972) found that market opportunity and assessment of political risk were major factors considered in a company's overseas investment decision (Caves 1982).

The developing countries of the Third World offer the greatest opportunities for expansion, particularly in the traditional sectors where the bulk of the population lies. Promoting demand in the traditional market means higher costs initially but long term profits realised if countries are willing to forego short term considerations. One need only to look at China and the mulitnational "rush" to exploit the opportunities offered by its open door policy and the sheer size of the market. In 1981 it received over $U.S. 2.0 billion in direct investment and the figure continues to increase. The major drawback of course is the considerable amount of competition among international businesses necessitating a most careful analysis of the market structure.

Another important factor in investment decisions is that of political risk inherent in the host country. Robock (1971) defines political risk in international business existing when (1) discontinuities occur in the business, (2) they are difficult to anticipate and (3) they result from political change. The political stability is an important contributor to an assessment of a country's investment climate. It concerns the possibility of national takeovers of the investing firm by the host country; government interference; and discriminatory performance requirements demanded on the enterprise. The overall objective in evaluating the political stability of a host country is to reduce the uncertainity involved in the investment process. The greater the level of equity, the greater the risk - in particular the threat to the profitability of the business. The greater the risk of the investment, the more return on investment is expected.

There are a number of approaches designed to measure and analyse the political risk factor. Two of the more popular ones are the Business Environmental Risk Index (BERI) and the Buisness International Index of Environmental Risk (BI), both based on the Delphi method which in it self gives a high degree of subjectivity to the assessment. Another method proposed by Blasch and Cummings (1974) is included in appendix 17 and will be used in assessing the political stability of the country under discussion - Thailand. It,too, is a judgemental analysis and like the others rests on the assumption that experts(so-called) will assess the particular environment. It is the most common method used. It should be noted that Blasch and Cummings' index includes financial factors which need also be considered.

The international firm's management of political risk is an influential contributor to its overall strategies regarding foreign direct investment. There appears to be a loose correlation between the level of economic development and political stability - the lower the per capita income, the greater the political risk. Haendel et al (1979) used the Political System Stability Index (PSSI) to measure the political stability of sixty-five developing countries. They found that a positive score represented less social conflict, greater socio-economic development, and greater stability with respect to the government processes. It is interesting to note that under this measurement Thailand was given +0.88, the Philippines +1.97 and Malaysia +1.29. Most of the countries of Africa received negative ratings.

The effort of the firm is directed at minimising the risks whilst simultaneously maximising the profits. Bradley (1977) outlines four possible strategies to lessen risks in foreign direct investment. These are: (1) to seek joint ventures, (2) to concentrate proprietary technology in the home country, that is transfer only peripheral skills, (3) ensure that each new investment is economically dependant on the parent corporation, and (4) adopt a low profile with small investments spread throughout several countries.

The following strategies must be taken into consideration along with other major factors in the decision making process regarding overseas investment. There is a continual "trade-off" of influences and the individual firm must assess these to determine the best strategy which meets its requirements and objectives. Some have argued that not enough attention has been paid to the assessment of political risk. The continuing encroachment of international business into the developing countries necessitates a closer and more systematic look at this factor.

The third and most overriding determinant of FDI is the level of profitability expected by the investor which, in turn, is influenced by the incentives and disincentives offered by the host country. A degree of political risk may be acceptable providing that the amount of return on equity is sufficient enough to warrant it. No decision regarding capital expenditure overseas is made without a thorough asessment of the investment climate.

By definition, an incentive (disincentive) is any government measure designed to influence an investment decision, and increasing (or reducing) the profits accruing to the potential investment or altering the risks attached to it (OECD 1983). Incentives in general are designed to compensate the investor for the risks inherent in his decision. Disincentives may take the form of performance requirements; specific technology transfer conditions; or those concerning profit repatriation and tax conditions. Government regulations concerning FDI are designed to determine the appropriate level of foreign participation and subsequently to increase the bargaining power of the host country to its investors (Simmonds et al 1977). In fact, policies to minimise the effects of foreign ownership through incentives and disincentives are two-pronged. They can be designed to strengthen the local enterprise or weaken the power of the foreign firms.

It has been previously noted, that disincentives have more impact on the international investment decision. Aharoni (1966) goes so far as to say that in the initial decision making stage the incentives offered by countries are not at all considered by firms - concluding that there are far more important factors to consider (OECD 1983). Similar findings were reported in a survey of major MNCs conducted by Group of Thirty, when only 13.0% of respondents ranked host country incentives among the top three factors affecting direct investment in developing countries (IMF, Foreign Private Investment, 1985).

However, there are two important characteristics of incentives which are considered to be important - one is the degree of flexibility, the other is the level of predictability. Most investors are receptive to those incentives particularly tailored to meet their specific requirements. Thus, rather than imposing incentives on an "across the board" basis, incentives are applied as each project is considered. Predictability involves the assurance that incentives once given, will be honoured. For example, incentive programs offering an immediate payout are more popular than if it was delayed over a period of time.

In a survey conducted by Reuber et al (1973), the variety of incentives were highlighted. They included: tariff protection and reduction, import quota protection, tax holidays and accelerated depreciation for tax purposes. Generally export-oriented investments received tax holidays; domestic market investments on the other hand received tariff protection from competing imports. It has been estimated that for a large developing country in the latter situation, import protection accounts for more than 80.0% of the total incentives provided (IMF 1985).

The constraints upon foreign direct investment are designed to regulate and restrict the operations of investors in the economy of the host country. They in turn limit the degree of profit maximisation returning as much of the profit to the domestic economy. In many developing countries, foreign ownership is limited by: The degree of equity ownership; investment in sectoral specific industries to protect local infant industries; or serving the import-substitution industries to encourage exports.

Host country disincentives fall into two broad categories: economic and political. Williams (1982) provides an excellent analysis of these restrictions and much of the following will draw upon his work.

Economic restrictions

(1) **Tariffs and duties** - designed to protect the domestic industries from foreign competition by eliminating any price advantage imports may have.

(2) **Import quota** - like tariffs, are designed to restrict foreign competition and encourage consumption of domestic products.

(3) **Export commitments** - most developing countries may provide greater incentives to those foreign subsidiaries exporting rather than serving the domestic market only, thus encouraging the inflow of foreign exchange.

(4) **Export restrictions** - designed to control domestic prices and increase world prices of commodities. The OPEC cartel is an example of the success of this method to artifically inflate prices.

(5) **Licensing restrictions** - particularly encouraging those in favour of labour intensive technology at the lowest possible price.

(6) **Capital repatriation restrictions** - designed to curb the capital outflow which would adversely affect their foreign exchange position and encourage the investor to reinvest and turnover their profits within the country.

Political rstrictions

(1) **Limitations on geographical expansion** - by restricting the investor to specific geographical markets the host country regulates the level of competition faced by local industries.

(2) **Nationality representation** - by encouraging foreign subsidiaries to gradually replace management positions with nationals (indigenisation) it will foster host country goodwill and minimise the threat of nationalisation or expropriation.

It is evident that disincentives have more influence on the foreign direct investment decision because of their far reaching adverse effects.

2.5.5 Trends in foreign direct investment*

*Source: International Monetary Fund, Private Investment in Developing Countries, January,1985.

Foreign direct investment implies a longterm commitment to the host country's economic development as well as the profit/growth maximisation objective of the investor. It is a better alternative to short, medium term debt - creating bank credit approaches to increasing capital inflows. One of the major concerns therefore of the developing countries, is attracting and sustaining foreign direct investment. FDI introduces efficient and internationally competitive enterprises into an economy fostering long term economic improvement through the introduction of technology and management (IMF,1985).

The flow of foreign direct investment is contingent on a host country's favourable investment climate.

Flows of FDI from developed to the developing economies averaged only $U.S. 1.8 billion in the 1960's, to an average

$U.S. 12.0 billion from 1981 to 1982. The proportion of FDI to total financial resources fell from 17.5% to 11.8% as the amount of external borrowing rose (see appendix 18). During the 1973/1974 oil crises, most non-oil developing countries financed their deficits by heavy overseas borrowing. During the 1975 - 1980 period foreign direct investment increased at an average rate of 3.0% per year. Net direct investment flows to non-oil developing countries (of which Thailand is one) reached a peak of $U.S. 13.0 billion in 1981 but fell to $U.S. 9.9 billion in 1983 due to a downturn in the world economy. The majority of this decline was concentrated in Latin America and Africa.

Foreign direct investment tends to be concentrated in those countries having a large domestic market; an abundance of natural resources; and infrastructures conducive to promoting export-oriented production. Consequently, smaller developing countries, having few of these advantages find it difficult to attract the investment required to stimulate growth. The positive relationship between FDI and the level of economic development is further substantiated by examining the share of FDI to the stock of total external liabilities (see appendix 19). The so-called NICs of Hong Kong and Singapore have 43.2% and 91.9% respectively of FDI as proportions of their gross external liabilites. Political conditions, however, may skew this correlation as is evident in Israel and Yugoslavia. The percentage for Thailand is 9.0%.

Although the United States has been the main source of FDI in developing countries intra-investment among them is gradually increasing. The stock of Hong Kong and Singapore based direct investment in East Asian countries was estimated to be $U.S. 1.0 billion at the end of the 1970's. Japan is also heavily invested in the region contributing 61.0% of the total net investment flows. New Zealand on the other hand contributed only 0.1% ($U.S. 15.0 million) to the region in 1981, an actual decline from the previous year.

The industrial composition of FDI in developing countries has changed significantly in response to changes in economic structure and to policies designed to reduce share of foreign capital in particular sectors of a host country's economy. There has been a move away from the natural resource extraction industries to the manufacturing and service ones, with an emphasis on import- substitution industrialisation. This is especially true in Asia, where manufacturing affiliates of U.S. companies had exports amounting to 24.0% of sales in 1976; the trend is expected to continue.

Direct investment flows include all funds provided by the investor, either directly or through an affiliate. Reinvested earnings generally constitute a large proportion of these flows. However the share of earnings that are reinvested varies substantially with changes in economic conditions. Reinvested earnings of U.S. subsidiaries within the developing countries decreased considerably in

1982 to $U.S. 2.9 billion or 46.0% of total earnings from a high of $U.S. 5.0 billion in 1981 or 62.0% of total earnings. It reflects to some extent the reluctance to accept the greater degree of risk associated with the investment.

Many developing countries are now discouraging full or majority ownership whilst at the same time foreign investors have sought more equitable local participation to minimise potential risk. As a consequence, wholly and majority owned foreign affiliates have declined in relative importance, while more equitable arrangements such as joint ventures and international sub contracting have grown in recent years. The MNCs have had therefore to re-evaluate their past strategies.

Income payments (remitted dividends) by all developing countries on direct investment rose from $U.S. 10.4 billion in 1973 to $U.S. 17.7 billion in 1983; for non-oil exporting countries, payments amounted to $U.S. 6.3 billion in 1983. In addition an average of 52.0% of all direct investment earnings were re-invested in these countries in 1982 but fluctuated to changing economic conditions affecting investment profitability.

A significant proportion of royalty payments for the transfer of technology were made between subsidiaries of the same parent company that is via direct investment. Such intra-firm transfers however grew more slowly over the past several years than those involving unrelated companies.

Foreign direct investment is considered essential to the future economic growth of developing countries and as a continuing area of expansion for the industrialised economies. Projections forecast that the rising trend in FDI will continue as long as the degree of risks associated with it remain within an acceptable level. In addition, a convergence of attitudes in developing and developed countries concerning the MNCs is required if FDI is to remain a long term feature of international economic relations (OECD 1983).

2.5.6 Joint venture ownership

Terpstra (1983) defines the joint venture as: A foreign operation in which the international company has enough equity to have a voice in management but not enough to completely dominate the venture. If one were to examine the trends in equity ownership between fully owned and joint partnership, one would find a cyclical pattern with continual shifts from joint venture to wholly owned and back again. In the 1960's, wholly owned subsidiaries of the large MNCs were popular; in 1976 the trend was towards joint ventures. Yet in many of the major investing nations, the companies were and remain predominantly wholly owned. Stopford and Wells (1972) in studies of large U.S. multinationals found a preference for wholly owned subsidiaries where the law allows... The drive for unambiguous control which has led to the ending of the joint ventures (Brooke and Remmers 1978). However the trend towards joint ventures begun in 1976 continues today.

One reason for this continual change rests on the receptivity of host countries for each form of ownership, that is on the location of the investment. Risk is an important determinant and the degree to which a business is willing to accept them determines the level of equity as well as the degree of success.

Joint ventures have a high failure rate. Franko (1971) found that joint ventures tend to dissolve over time but that certain types of companies have a greater tolerance for them than others. Firms with a higher tolerance include those new at foreign operations and those which have a multi product line.

The Japanese for example are more apt to engage in joint ventures than wholly owned subsidiaries as a method of getting their "foot in the door". While the Japanese see joint ventures as only a first step, western companies use them as a substitute for independant development (Dominion 2 Feb,1984). They (the Japanese) have a knack for exploiting the competitive edge of others and using it to their own advantage.

Joint ventures are a quick and relatively easy way to penetrate the local market. A partnership with a domestic firm can exploit already established distribution channels and local market knowledge. Although involving greater risk, both financial and political, the expected returns on investment are higher and greater control is exercised in comparison with licensing agreements. Joint ventures are attractive to smaller companies which lack the capital resources to undertake a wholly owned venture. Reuber et al (1973) found that: joint venture operations have narrow product lines, smaller scales of production, and less input of the investor's technology (Caves 1982). It is difficult for a small country such as New Zealand to generate the necessary funds to initiate ambitious joint venture schemes. Forming consortiums is one solution to this difficulty, as not only does it provide the capital but it also spreads the risk.

Many developing countries, for nationalistic reasons, preclude more direct foreign ownership and consequently the joint venture becomes the compromise entry strategy for international investment.

The main disadvantage of joint venture operations, as is in licensing agreements, is finding a suitable local partner and controlling the potential conflict of interest which may arise between them and the investor. The necessity to compromise on major decisions which may run contrary to the foreign firm's overall objectives, may preclude the maximising of global strategies. Partners must be complementary. One requiring the technical skills, the other the technology it is willing to impart. As Terpstra (1983) remarks: if international exchange and integration are important to the effectiveness of a company, the joint venture may be a hinderance. This is one of the reasons why large multinational corporations such as General Motors and IBM prefer 100.0% ownership. Both companies also have a high degree of technological skills, which in itself, is a reason, not to engage in joint venture schemes.

Increasingly, however, it will be the political environments which determine the level of equity within a developing country as national governments become more involved in the decisions regarding international business operations. Growing nationalism, and the recognised need to promote economic development to their advantage and not those of the foreign enterprise may restrict in future the options available to the multinational corporation.

2.5.7 Wholly owned subsidiaries

The normal progression of the firm in world markets is from exporting to more active levels of involvement, usually ending up with wholly owned manufacturing operations...Indeed that is the history of the MNC - a life cycle pattern of international involvement (Terpstra,1983).

One hundred percent ownership involves maximum commitment of a business to direct investment. It is characterised by the optimum level of risk, control, and return on investment. Ownership is acquired either by acquisition of an existing local firm or by establishing new facilities altogether. The former is a faster method to penetrate the market and involves less initial capital outlay than if manufacturing plants have to be built. There is the difficulty, however, in having to overcome possible resistance from the national government.

There are more disadvantages to fully owned operations than advantages. Although they involve the greatest amount of risk and capital investment, the foreign investor has complete control over the management of the enterprise and the profits are returned to the company rather than shared with local partners. It provides for maximum synergy of effort from the international enterprise using its own technology to optimum advantage rather than having to compromise its strategies and objectives.

It is however an expensive undertaking and profits in the short term may, in most cases have to be postponed for long term considerations. Wholly owned subsidiaries are increasingly more vulnerable to adverse government regulations concerning their operations and the threat of expropriation and domestication from the host country. One hundred percent ownership also precludes the exploitation of local knowledge and contacts that would be inherent in a partnership agreement. However, governments are increasingly demanding representation in the employment of nationals as a prerequisite to establishing the operation.

Method of entry strategies are not mutually exclusive; an international firm may operate in a combination of several modes.

During a Department of Trade and Industry Seminar held in August 1985 and attended by several of New Zealand's leading companies, an informal, impromptu survey was conducted to determine the types of entry methods to foreign markets that were presently being used. The results of this survey are included in appendix 20. When asked the question of where their businesses stood five years ago, most replied that they were at the "lower end" of the scale of involvement. There is, therefore, a continuing shift towards a more direct and increasing commitment to international investment by several New Zealand companies.

2.5.8 The multinational corporation (MNC)

Dunning (1971) defines the MNC as: An enterprise which owns or controls producing facilities in more than one country. (Kapoor and Grub 1972). It is distinguished from a corporation which only trades internationally or one which is owned and controlled by more than one country.

One of the major characteristics of direct investment is the transfer of technology. The MNC transfers resources, it does not trade them - a process known as internalisation. The MNC and technology transfer are consequently, as Pavitt (1971) contends, "mutually dependent". The MNC has the capital resources to undertake significant R and D and is thus an important source of technological innovation. This together with the extent of its other resources enables it to achieve considerable economies of scale in most functional areas and constitutes the source of their superiority in international business operations. Newfarmer (1983) refers to the oligopolistic nature of the MNC. He states: That MNCs not only bring capital and technology to the developing countries but also a package of tangible and intangible assets giving them a monopolistic advantage in all markets... This together with their ability to raise barriers of entry to protect their advantage, creates a market with a limited number of sellers - an oligopoly.

The MNCs therefore have significant advantages over domestic operations, being more "mobile" in terms of ease of exit and entry into a developing country. The situation is changing as imposed restrictions shift the bargaining power away from the MNC towards the host country.

Like most international business operations there are benefits to be gained along with the costs. On the one hand, MNCs stimulate the economic growth of developing countries through the inflow of capital and sophisticated technology. Some promote and stimulate locally produced exports thereby encouraging much needed foreign exchange. MNCs also provide employment and training to foreign nationals.

There are several criticisms of multinational corporations. Some would argue that their lack of integration in the economy displaces rather than complements local production. Williams (1982) states: Foreign investment will have no impact if the amount of manufacturing input required by the new investment could be more easily met from existing levels of local production or from using idle plant capacity.

The transfer of inappropriate technology, that is, capital as opposed to labour intensive also, will reduce rather than enhance economic growth, by creating unemployment. Sophisticated technology, for which the developing countries have not the skills or expertise to utilise, creates technology "gaps". Biersteker (1981) states: investment characterised by a high capital intensity of production has a very low development potential because it restrains the growth of the internal market and creates balance of payments problems.

The major criticism of MNC is that it allows a significant amount of capital to flow out of the country rather than re-investing its profits into the local economy. It therefore serves only its own self-interest of profit maximisation at the expense of the host country through the use of transfer pricing.

Transfer pricing, that is, underpricing exports and overpricing imports as Plasschaert (1979) suggests, evokes the idea of systematic manipulation prices in order to reduce profits artificially, cause losses, and avoid taxes or duties. It provides for the circumventing of controls on repatriation of profits and royalty payments. Transfer pricing is a continuing source of conflict between the host country and the MNC as studies have indicated the continuing rise of internalisation. Robins and Stobaugh (1973) found that manipulating transfer prices could increase global profits as much as 15.0%.

As a consequence, the efforts of developing countries to curtail the power of the MNC have accelerated in recent years. The growing trend towards more equitable partnerships, the joint venture, is a reflection of these efforts. Others have argued in favour of an international "code of conduct" to promote a more cooperative relationship. Vernon (1966) had suggested that corporations be freed from laws of the home country and be subject to only those of the host country. Others such as Wallace (1976) suggest that they not be regulated at all but be monitored by an international body. In truth, MNCs responsible to their positions will be receptive to changing environmental conditions and adapt accordingly. They would therefore be self-regulating precluding the need for external constraints. As JK Galbraith (1976) wrote in In Defense of Multinational Companies: Great organisations that are so skilled in so many other matters and pride themselves on their performance should not be so outrageously clumsy in the case they make for themselves.

2.5.9 Foreign direct investment in ASEAN and Thailand*

*Source: Economic Bulletin for Asia and Pacific, Vol.33, No.1, June, 1982.

The ASEAN region has been described as one of the most "dynamic" in the world with a large and growing market; a strategic location; and an abundance of natural resources, it has already received a significant amount of FDI- $U.S.12.6 billion or 14.3% of total FDI in developing countries.

FDI in the region is currently dominated by the Japanese MNC standing at $U.S.7.0billion in 1980- 5.0% of which was invested in Thailand. They are heavily invested in natural resource extraction industries, particularly mining. The U.S. has only marginal representation and have concentrated their efforts in the manufacturing sector establishing low wage, assembly type operations. Appendix 21 details foreign direct investment by industry sector and appendix 22 outlines a further breakdown of the manufacturing industry in Thailand.

Not only has the ASEAN region attracted FDI from outside the Asian area, but there is a growing trend towards intra-region investment particularly from the newly industrialised countries- Hong Kong and Korea accounting for 19.0% of total FDI in Thailand (see appendix 23).

Foreign direct investment inflows into Thailand are the lowest of the ASEAN countries averaging only 4.0% of its gross fixed capital during the 1970's, and are concentrated in the manufacturing and service sectors. Only 1.3% was invested in the agricultural industry. Thailand's attitude towards foreign investment is generally favourable with only a small degree of government intervention. Their priority is to attract FDI into high technology- export oriented industries though actual flow patterns have proven otherwise.

Remittances of patent, royalties and management fees in Thailand have grown substantially in recent years, amounting to 46.0% of MNC profit and dividend outflows in 1980.

The world trend away from wholly owned subsidiaries has also been evident in the ASEAN region. Tightened entry barriers by host governments and the MNCs' increasing reluctance to accept the capital risk involved, have shifted entry preferences towards joint ventures and other equity forms of foreign investment. In 1980, Thailand had a total of 143 investment projects approved, 54.0% of these were joint venture operations (See appendix 24). In addition, 388 technology agreements were reached for firms remitting more than 500,000 baht in royalties.

As a most promising market for imports, it is predicted that the ASEAN region will continue to attract foreign direct investment- it is considered as a second tier of newly industrialising countries. Government intervention has responded to the need to monitor and regulate more closely the operation of international businesses.

Thailand has one of the least government controlled economies in the region, preferring a more laissez-faire economy in an effort to stimulate overseas investment. Conflicts have arisen more between the bureaucracy and the private sector than between foreign subsidiaries and local companies. Foreign investment is more smoothly integrated into the Thai economy than that of any other ASEAN country.

Most foreign investors do not view ASEAN as an economic entity. As Reyes (1982) points out: ASEAN began as a loose inter-governmental association under the Bangkok Declaration in 1967...They have remained highly decentralised graphically and sectorally. Thus each country as a target for FDI must be assessed on an individual basis. Each will find its own optimum strategy to stimulate economic growth in accordance with their particular environmental conditions.

SECTION 3

THE COUNTRY- THAILAND

3.1 Introduction

This section takes an in-depth look at Thailand with a particular emphasis on its investment climate. Its purpose is to examine the environment indicators to assess Thailand as a potential market for foreign direct investment. Material is drawn from various source books on the country detailed in the bibliography.

3.2 General description

The kingdom of Thailand lies in Southeast Asia, a strategic political zone. It has a coastline on the Gulf of Siam in the South China Sea, and is bordered by Laos, Kampuchea, Burma, and Malaysia. It has a land area of 514,000 sq. kilometres with a population density of 90 people per sq. kilometre.

It had a population in 1984 of 50.4 million with an annual growth rate of 2.4%, one of the lowest in Southeast Asia. 95.0% of its population is Buddhist, making it the worlds largest Buddhist nation. The remainder is made up of Moslem and Christian religions. Its largest city is Bangkok which has a population of 5.5 million.

The Thais belong to the Tai race which originated in the Yunnan Valley of Southern China. They migrated into

North Thailand in the seventh and eighth centuries. The early Thai people were overshadowed by the Khmer (Cambodian) Empire until they won their independence in 1238. They were persistently harassed by the Burmese who eventually destroyed their capital, Ayutthaya in 1767. A new capital was established at Thon Buri on the Chao Phrya River, but this was moved across the river to Bangkok in 1782. Siam had successfully resisted colonisation in the nineteenth century by playing off one European power against another.

The country's absolute monarchy was brought to an end in 1932 by a bloodless army coup and since then it has been ruled interchangeably by civilian politicians and the army with the latter playing an ever increasing role. In 1939 the country's name, Siam was changed to Thailand.

Eighty percent of the people are Thai; 13.0% are Chinese; and 3.0% are Malay. The predominant language is Thai, but English is widely understood as well as some French. The country is racially homogeneous except for the hill tribes in the Northeast and the Malays in the far south.

The monarchy's political power has diminished but it remains a strong unifying element in the Thai triad, of nation, king, and religion. The present monarch, King Bhumibol, has won a great deal of respect and devotion as he does much to improve the way of life of his people through his personal involvement particularly in agricultural development.

Thailand consists of three regions: The norther highlands which are tropical rainforest, bordering Burma an Laos; the damp flat central plains which is the primar rice growing area; and the lush, craggy southern peninsula Its climate is hot and humid all year round with the hottes period between March and May, and the coolest betwee November and February. The rainy season occurs between Jun and October.

3.3 Infrastructures

3.3.1 Transportation:

(a) **Water** - Thailand has one principal port, Bangkok and nineteen minor ports. Bangkok lies 28 mile inland of the Chao Phraya River, the main wate route. It handles more than 90.0% of Thailand' commercial imports and 75.0% of its exports. Fou other minor ports in the southern provinces handl the remaining commercial traffic.

(b) **Air** - The international airport is located twent miles north of Bangkok and handles air carrie from around the world. Plans are underway t expand the airport at a cost of $U.S. 650 millio Thailand's national carrier, Thai Airways, fli throughout Southeast Asia, the Middle East, Euro and the American West Coast.

(c) **Rail** - The government owned Thai Railways operat a network of 3765 kilometres of single gauge trac

Lines extend south, east, and north from Bangkok to connect most commercial centres. There are four freight terminals in Bangkok including two container terminals. The government expects to spend over $U.S. 100 million to expand the railway system in the next five years.

(d) **Road** - This is the most important mode of transport in Thailand, consisting of 23,000 kilometres of paved highways and another 15,000 kilometres of other graded roads. Like the railway they radiate out from Bangkok towards the north, east, and south. Road transport is operated by a combination of private enterprise and the government sponsored Express Transport Organisation to provide a nation wide trucking service. An elevated rapid transit system is under consideration as well as other major highway projects totalling over $U.S. 1.0 billion with a view to providing better access for farmers to their major markets.

3.3.2 Communications

(a) **Television** - Thailand has nine television stations licensed by the government; four located within the environs of Bangkok and five in the provincial centres. Average broadcast time is one hundred hours per week. Television sets number only 1.5 million.

(b) **Radio** - The country has 196 broadcasting stations located throughout the country.

(c) **Newspapers** - Thailand has five prominent daily newspapers in the national language and three English language newspapers published in Bangkok.

3.3.3 Commercial services - There are five kinds of financial institutions in Thailand of which the commercial banks are the most familiar. They numbered over thirty in 1984 and accounted for 80.0% of total assets. Finance companies borrow from the public at comparatively high rates of interest and in turn provide credit facilities to the consumer. Insurance companies distribute funds received in the market for long term debt instruments and government securities. Other financial institutions include the Industrial Finance Corporation of Thailand whose purpose is to provide long term credit to small and medium sized manufacturing industries.

3.3.4 Labour/Education - As of 1984: 73.0% of the labour force is engaged in the agricultural sector ; 7.0% is in manufacturing; 2.0% in communication and transport; 1.0% in construction; and 0.1% in mining. The Labour Relations Act 1975 regulates the establishment of employee unions and employer associations, both of which must be licensed.

The labour force is growing at an annual rate of 2.2%. The unemployment rate is 0.8%.

The occupational composition is dominated by agriculture, followed by manufacturing and finance at 8.0% and 8.5% respectively. Only 2.5% are classified as professionals.

Education continues to be an important priority in the country with an illiteracy rate 14.0%, one of the lowest in Southeast Asia.

3.3.5 Electricity - The Electricity Generating Authority is responsible for electricity generation and in 1978 had a capacity of 2.4 billion kilowatts. Sources of electricity are: Thermal (55.0%); hydro (38.0%); gas turbine (6.0%); and diesel (1.2%). Future plans call for a further $U.S. 470 million to be allocated for generation, distribution and transmission projects. The overall objective is to accelerate distribution to the rural areas of the depressed northeast region.

3.4 Market factors

(a) **Size** - The population of Thailand in 1984 was 50.4 million with an annual growth rate of 2.4%. This is predicted to decline to 1.9% in the following years to 2000. 58.2% of the population is between the ages of 15 and 64 years. The average household numbers 5.6 persons.

(b) **Urbanisation** - Only 17.0% of the population lives in cities. Consequently there is a large traditional base indicating a substantial degree of duality in the economic structure.

(c) **Consumer profile** - Although the Thais are religious, there are no taboos restricting their trade. They are a mixture of conservative and progressive in their outlook - the old and the new. They are quality conscious of the products they buy but in most cases this is overridden by price- most preferring foreign goods if the price is not prohibitive.

(d) **Distribution channels** - There are three main categories of importing and agency firms:(1)The long established expatriate ones with established distribution channels (2)The smaller importers who specialise in one line of business and (3)the new companies which have technical backgrounds and marketing skills. Initially local representation is the best way to penetrate and acquire knowledge of the market.

(e) **Retail/Wholesale trading** - Domestic trade is centred in Bangkok. Wholesale firms are agents for the sale of imported goods. Retail goods are distributed from outlets which range from the very modern to the small general stores. There are also a number of specialty shops and supermarkets on the increase in suburban areas.

(f) **Patents and trademarks** - Patents are protected under the Patent Act(1979). Inventions are valid for 15 years and product design for 7 years. Trademarks are protected under the Trademark Act(1931) and are registered for 3 years.

(g) **General business climate** - Thailand is a capitalistic economy. Development plans proposed for 5 year periods serve as guidelines rather than as central planning documents. The Board of Investment (BOI), Thailand's investment planning agency encourages foreign and domestic investment in the economy - both are treated equally. This will be discussed in more detail later.

3.5 Structure of the economy

(a) **Agriculture** - This sector accounts for 22.0% of GDP; 46.0% of exports and 70.0% of employment in 1984. Growth has averaged 3.3% annually with production output increasing by 3.8% due to favourable weather conditions and acreage expansion. Rice is the most important crop with exports averaging $U.S.1.0 billion per year for the past 3 years. Other export crops include maize, rubber, tapioca, and sugar which together earn $U.S.1.8 billion a year. These exports are vulnerable to world commodity price fluctuations.

(b) **Energy** - Like other countries previously dependent on oil imports, Thailand has done much to to expand its domestic supplies of energy. In 1978, oil purchases constituted 21.0% of all imports, demanding 22.0% of foreign exchange earnings. In 1981, substantial deposits of natural gas were discovered in the Gulf of Thailand with an average flow rate of 200 million cubic feet per day. Pipelines were constructed to bring the gas to shore which will be used mainly for electricity generation for the growing industrial base. Oil reserves are estimated at 140 million metric tonnes yielding some 350,000 barrels a day. Thailand also has substantial reserves of coal and lignite. It is estimated that by 1990, domestic energy production will cover 60.0% of the country's fuel requirements as compared to only 11.0% in 1981.

(c) **Manufacturing** - Thailand continues to diversify its economic base. The country is in the early stages of sustained economic growth with Bangkok as the only large industrial centre. Manufacturing was initially oriented towards import-substitution but is providing an increasing proportion of total exports - 43.0% in 1984. Textiles account for 24.4% of manufactured exports and is one of the fastest growing sectors as is the processing of agricultural products such as rice mills, canned fruit, tobacco.

(d) **Industrial** - The largest area of industrial expansion is the eastern seabord. The government and private sectors have invested $U.S.5.0 billion in the construction of a fertiliser plant, petrochemical complex, a gas separation plant, and two deep-sea ports. Current balance of payments difficulties may prompt a review of these large scale indutrial projects and may involve a postponement in future. Small scale building projects are expanding however particularly in the service sector to cater for the boom in tourism. The comparative advantage of Thailand lies in labour intensive industries and increasing world protectionism threatens the growth of this sector and manufacturing.

(e) **Mining** - Thailand is rich in minerals, 10.0% of which are exported. Tin comprises the bulk of the exports accounting for $U.S.300 million in 1984. Others include tungsten, antimony, and barite. Major deposits of rock salt, potash, and phosphate have also been found in the northeast.

3.6 The economy

In 1984 GDP was $U.S.42.0 billion with a growth rate of 6.0% which is expected to continue until 1987. The average annual inflation rate was 1.0% but will rise to between 6.0 and 8.0% in 1985. Thailand is described as a middle income developing country defined by the IMF as one with a GDP per capita of between $U.S. 500 and 1500. Per capita income in the country is $U.S. 830.0.

In 1983 an increase in real domestic demand of 10.9% and decrease in exports of 7.7% resulted in a current account deficit of $U.S. 3.0 billion. This improved slightly in 1984 to $U.S. 2.2 billion because of an improvement in the percentage of exports over import demand. Because of ths deficit the government imposed tight monetary policies restricting expenditure and devaluing the baht by 14.8% against the U.S. dollar in November 1984. Current exchange rate is approximately B23:$1.

Foreign debt servicing accounts for 20.8% or $U.S. 1.2 billion of the national budget which is expected to continue due to high interest rates. In order to minimise the increases and maintain the country's favourable credit rating, credit for non-essential imports will have tighter restrictions and external borrowing will be constrained.

In spite of the balance of payments difficulties, economic outlook for Thailand is reservedly optimistic. Although economic growth has slowed, it remains relatively strong in comparison to other developing countries. Exports are forecasted to expand in the future; oil imports will continue to be reduced; and tightened fiscal policies will gradually ease the foreign debt.

The national budget for the fiscal year 1984/ 1985 totals baht 213.0 billion, an increase of 10.9% over the previous year. For fiscal year 1985/1986 which started 1st October 1985, the government has imposed a zero growth budget with a critical review of all large scale development projects to be undertaken.

In addition the government proposes its involvement in state run enterprises to stimulate more private investment in the economy. In spite of its objective to curb imports, there will remain the requirement to import more capital equipment and machinery for use in the manufacturing and industrial sectors.

3.6.1 Thailand's growth strategy

The fifth five year development plan, 1982 - 1987 addresses some of the major problems faced by the country. These are: (1) The disparity between the traditional and the modern economic sectors preventing a more equitable distribution of income and highlighting the duality of the economic structure. (2) The slow diversification process from a reliance on agricultural production to a more industrial base and (3) The gradual deterioration of the country's external financial position. To overcome these problems the plan outlines the following main target objectives:

(a) Trade and current account deficits not to exceed $U.S. 2.6 billion (currently $U.S. 2.2 billion).

(b) Exports to expand by 8.0% per year (currently 7.0%)

(c) Imports to increase by 17.0% (currently 21.0%).

(d) GDP growth rate 6.9% (currently 6.0%).

(e) Agricultural growth rate 4.7% (currently 3.1%).

(f) Manufacturing growth rate 7.6% (currently 6.9%).

Objective short falls have occurred in all but one of the target objectives with one year remaining before a revision takes place. Continued emphasis will be placed on expanding the export base and addressing the major problem facing the agricultural sector which is the exhaustion of cultivatable land. The greater use of fertilizers; the construction of further irrigation systems; and the use of more sophisticated agricultural technology is expected to raise productivity levels. The active encouragement of private investment will create a greater inflow of capital and lessen the foreign debt burden by stimulating exports.

3.7 The political climate

Thailand is a constitutional monarchy. Under the constitution (1978), the King is Head of State and Head of the Armed Forces. He appoints the Prime Minister on the advice of the National Assembly and the Council of Ministers. A House of Representatives is elected by national elections every four years. In March 1980, General Prem Tinsulanond succeeded another former army general as the sixteenth Prime Minister since 1932.

His acceptance across a broad political spectrum from the army to civilian political parties and the intellectual community has made Prem the leader of the longest lasting civilian government since Thailand became a constitutional monarchy in 1932. He recently survived the fifteenth coup attempt in Thailand in fifty years though it was not considered a serious threat to his government.

The government is a coalition comprising the Social Action Party, the Prachakon Thai, the Democrats, and the National Democrats. It has proven to be more stable than originally anticipated though the army continues to play a significant power broker role and exerts considerable influence on policy direction.

The day to day management of the country's affairs lies with the Cabinet. Government bureaucracy has come under frequent attack for corruption and inefficiency though major improvements have been effected through administrative reform.

Communist insurgency in Thailand has generally collapsed except in the far south, due to effective army counter- insurgency programs. The country has a fairly racially integrated population. Its homogeneity index, defined in terms of linguistic and ethnic integration, is 34.0% and is ranked one hundreth on the world scale. New Zealand in comparison has an index of 63.0% and is ranked seventy-first.

The most visible external threat to security is the presence of Vietnamese troops in neighbouring Kampuchea. Hostilities between the two are considered remote but minor clashes have occurred across the border. As a consequence there has been an influx of Indo Chinese refugees across the Thai border. Settlement camps still contain 126,000 though many have them re-settled to other countries.

Thailand's position on Vietnam is aligned with that of other ASEAN countries, that is, in demanding a total troop withdrawal from Kampuchea. The difficulty has had a positive effect in moving Thailand closer to relations with China. Since the U.S. withdrawal, at its request, after the Vietnamese war, Thailand has adopted a more independent stance yet it maintains a close non-aligned relationship with the United States.

The Thais are freedom loving people who hold democratic values and principles in the highest regard. The three pillars of religion, monarchy and nation are intimately interwoven to produce a relatively stable and cohesive society.

3.8 The investment climate

The Board of Investment (BOI) was established in 1977 under the Investment Promotion Act. Its purpose is to regulate, monitor, and stimulate promotional/investment opportunities which are conducive to the country's economic development and making the most efficient use of its natural resources. From an emphasis on import substitution priority is on those projects with high export potential; agro-industrial products; and those which are established in areas outside the environs of Bangkok.

Generally, joint Thai-foreign ventures are favoured but in certain types of industry 100.0% foreign equity is permitted. The present government is receptive to foreign investment and puts as one of its priorities the need to make Thailand more attractive. There is paradoxically a desire to maintain sovereignty over the Thai economy which reflects in part its traditional approach.

Thailand's attractiveness to foreign direct investment lies in its availability of low cost labour together with an abundant supply of agricultural and mineral resources. Investment incentives are highest for export-oriented projects.

The multinational corporations are no longer seen as instruments of exploitation but rather as important contributors to the country's economic growth. This change of attitude has come about mainly because the investment process has become a more disciplined, formal procedure, where government regulations limit the "power" of the foreign investors. Thus its bargaining position has been substantially reinforced.

During the first six months of 1984, 181 applications for investment were approved by the BOI with 97 approvals worth an estimated $U.S. 1.0 billion and 30 firms actually beginning operations. 43.0% of new applications were from Japan (already heavily invested in the country) followed by the U.S. and Taiwan.

3.8.1 Controls on foreign businesses

The important law governing foreign business in Thailand is the Alien Business Law No. 281 enacted in November 1972 which outlines the three categories of business permitted to operate (see appendix 25). In most cases majority foreign owned businesses are forbidden in Category A or B. Projects in category B promoted by the BOI are exempt. Foreign investors falling in category C must obtain permission which generally is granted automatically if promoted by the BOI.

No activites are restricted to foreign capital if minority ownership is planned. Growth restrictions are applied to those businesses in categories A and B unless given promotional priviledges by the BOI. New foreign investors in categories A and B are restricted to minority share holding. Only 40.0% maximum equity is permitted in livestock raising, mining and meat processing industries. Ventures with 100.0% foreign ownership are permitted in some industries but the BOI normally insists on a schedule to shift to Thai control within a period of time. No regulations govern acquisitions and takeovers. It is however a difficult procedure and is easier to acquire ownership of an existing foreign-controlled company that already has an alien business license.

Regulations requiring a minimum percentage of local content apply only to the automobile industry but favourable BOI considerations is given to those investors using local raw materials and resources.

There are generally two ways for foreign companies to establish business enterprises in Thailand: (1) Registration as a branch of a foreign corporation (subsidiary) or (2) Incorporation as a Thai limited company (joint venture). The latter is the most popular type of organisation to foreign investors. At least 25.0% of total capital must be paid in; there are no local content requirements; and at least 5.0% of after tax profits must be apportioned to a reserve fund until it reaches 10.0% of capital.

For foreign subsidiaries to operate they must be registered and for legal purposes are considered head offices which could make certain parent company transactions liable to tax in Thailand as in the case of transfer prices.

3.8.2 Licensing

As discussed previously, patents and trademarks are protected under their respective acts. What is difficult to regulate is the direct copying or imitating of local and foreign products as in the case of piracy of brand names. Although steps have been taken to overcome this problem, it persists and only through extensive advertising can its effects be minimised.

Licensing agreements call for an initial "down payments" in addition to monthly royalties paid as a percentage of sales - 2.0 to 10.0%. Royalties and fee payments are subject to a 25.0% witholding tax.

3.8.3 Disincentives

(a) **Repatriation of capital/profits** - there are no government regulations precluding the remittance of profits, fees, and royalties. However the Bank of Thailand may restrict remittances if foreign exchange levels are threatned.

(b) **Corporate taxes** - this is a subject of criticism in Thailand as large and medium sized firms pay a disproportionate amount. While promoted companies are eligible for a tax holiday of between three and eight years, there are a number of other indirect taxes imposed on them such as business tax, customs duties and excise tax.

All companies and partnerships conducting business are subject to a tax of between 30.0 and 40.0%. In regards to joint venture schemes, 50.0% of the profits payable to the local limited company are excluded from calculation of profit for purposes of corporate income tax. Total amount of profits however must not exceed 15.0% of the company's gross income. Taxes are paid on a semi-annual basis.

Dividends remitted abroad are subject to 20.0% witholding tax and on interest payment remittances tax is 25.0%. Businesss tax levied on all companies engaged in industry is imposed on gross monthly receipts - at the time of import and at the time of sale. Consequently tax is paid when buying imported components and again when selling the finished product. The tax ranges from a low of 0.5% to a high of 40.0% on imported cars.

(c) **Export controls** - many priviledges are extended to firms manufacturing for export but are subject to high custom duties on imported materials. Some items such as rice and sugar are subject to export tax to ensure that the needs of the domestic market are met first.

(d) **Import controls** - only a few products require import licenses, such as those which are competitive with local products. Generally, high tariffs, rather than specific regulations control imports.

(e) **Tariffs and import taxes** - tariffs are high for those products manufactured locally and on luxury items but comparatively low for imports of raw materials which will eventually be exported as finished products. Since 1982 a 10.0% tax was applied to all imports except skim and powdered milk, vegetable oils and energy conservation equipment. The Boi can impose surcharges to protect local industries in addition to normal import duties.

3.8.4 Incentives

In 1977, the Investment Promotion Act, was altered to provide for greater incentives to export-oriented businesses and to those locating outside the Bangkok industrial area. Since mid - 1984 firms receiving promotional priviledges totalled 1490 of which 779 were Thai, 36 foreign, and 675 were joint ventures. Incentives applied to these projects include:

(a) The state will not engage in a competitive industry.

(b) The state will not nationalise any promotional industry.

(c) A foreign business may own land, remit profits, royalties, fees and other capital.

(d) Businesses may export its products.

(e) A promoted business may be exempt from import duties and/or business taxes on machinery providing it is not available locally.

(f) Businesses may be exempt from corporate income tax on net profits for three to eight years.

(g) Businesses may be exempt from up to 90.0% of import duties on raw materials imported for production.

Promotional priviledges and incentives are granted in particular to companies that have a high proportion of local equity. Guidelines established in 1983 set minimum Thai equity participation at 51.0% if the product is intended for sale in the domestic market and 60.0% for projects in agriculture, fishing and mining. Businesses that export at least 50.0% of total production may have majority foreign equity participation. If production is entirely for export, equity may be 100.0%.

3.8.5 Availability of capital

Money supply has tightened sharply since 1983. Credit extended by commercial banks rose 34.0% compared to 17.9% in 1982. Bank interest rates were raised to 19.0% in 1984 in response to credit restrictions.

The most common form of short term financing is the one-year overdraft costing 17.0% for prime borrowers and up to 19.0% for others. Collateral is usually required. Medium-term capital is in short supply and long-term even more so, through the commercial banks. There is however the Industrial Finance Corporation of Thailand (IFCT) which supplies medium and long term loans for investment projects for purchasing fixed assets. Priority is given to industrial projects; labour intensive, export-oriented and energy conservation businesses. Large firms, both local and foreign, have been able to raise funds through bond issues and share offerings but the cost is so high and the bureaucracy so overwhelming that it is rarely used as a means of raising funds.

3.8.6 Assessment of the investment climate

A judgemental assessment of Thailand's investment climate is found at appendix 26 based on Blasch and Cummings(1974) assessment scale. Thailand has been given a relatively high rating as a potential target for investment. Its active encouragement of foreign direct investment through incentives and promotions offered make it an attractive area in which to invest. Its capital credit schemes however are weak and need substantial improvement. The country's current balance of payments difficulties and the fiscal policies designed to overcome them may preclude smaller foreign companies lacking the initial capital resources from undertaking direct investment, thereby limiting their involvement to more indirect, less capital intensive forms. The magazine Institutional Investor which assesses credit ratings for countries gave Thailand a value of 52.2 and a rank of 49 out of 100 in 1982 as compared to New Zealand's 78.0 and a rank of 15 (Williams,1982).

Government stability remains an area of some doubt. The country is located strategically within a militarily and politically volatile region. External pressures are difficult to assess. Thailand has developed good relations with China which may serne to curtail possible confrontations with Vietnam. Its membership in ASEAN also encourages economic and political stability. Internally the country is relatively stable due to a high degree of racial integration and the unifying power of the monarchy.

New Zealand has had long standing foreign relations with Thailand through its membership in SEATO. It has supported ASEAN's stand on the withdrawal of Vietnamese troops from Kampuchea. As a Department of Trade and Industry (1985) report points out: There are sound, political foundations and considerable scope for developing the commercial opportunities that exist for New Zealand in a country of fifty million people. The initiative in expanding the relationship rests with New Zealand.

In a study of EEC investment motivations in Thailand conducted by Tang and Ho (1981), they found that for the companies surveyed the issue of political stability was most important among European investors. This was offset however by the potential size of the market and the types of investment incentives offered.

3.9 Investment opportunities

Over the past five years Thailand has embarked on an ambitious program of industrial restructuring; away from a reliance on the agricultural sector (though it remains important) towards a wider, more diversified industrial base. It is an objective comparable to that of New Zealand; though the latter begins at a higher level of economic development. As an integral part of the program, more liberal attitudes towards foreign direct investment have been adopted as a prerequisite to increasing needed capital inflows.

Agro-industry is a major investment potential, particularly the application of sophisticated agricultural technology and production methods in an effort to exploit the abundance of raw materials and low cost labour. The processing of food for export is of critical importance to the future of the Thai economy, including fruits, vegetables, and canned beef products. In an effort to further expand its manufacturing industries, investment opportunities exist in leather products; hand and machine tools; electrical switch gear; electronic control and measurement devices, as well as medical and dental equipment.

The Board of Investment is willing to consider any viable project that contributes both to the economic development of the country and the profit/growth motives of the foreign investor. As the Director- General of DSIR pointed out during the recent tour of the ASEAN countries: Let us see if we can help them develop new exports which are not competitive with ours. That way we can have a hand in their development...I believe there is a real opportunity for New Zealand to join in being a world marketer for Asian food products.(NBR 15 April, 1985).

SECTION 4

CORPORATE ORGANISATIONAL STRATEGIES FOR INTERNATIONAL INVESTMENT

4.1 Introduction

The purpose of this section is to outline the specific types of organisational design choices facing firms which engage in international business. As Caves (1982) contends: A knowledge of organisational structures helps us to understand the behaviour of the multinational enterprise as an economic actor.

Reasons why firms go international are many and varied as discussed in previous sections. In the introduction to this paper, it was illustrated that opportunities for the future growth of the New Zealand economy lie in overseas investment. Similarly, for commercial enterprises to realise specific profit maximisation objectives and to continue to expand in contracting domestic markets, necessitates the exploitation of overseas opportunities. A firm becomes international not because it desires to become one, but because it is forced to seek wider markets outside its domestic scene. (Majaro, 1982).

As a firm develops from a domestic business towards that of an international corporation, a multinational, there is, by necessity a parallel evolutionary process within its specific organisational structure to cope with this change in orientation. As the level of involvement in overseas investment increases, the greater the consequent change in structure. Thus, structural changes are in response to, not causes of, shifts in corporate strategy.

A strategic re-orientation is in turn influenced by a variety of internal and external environmental factors including an assessment of the competitive structure; the degree of international involvement; company goals and objectives; and its available resources followed by a careful analysis of the specific growth options conducive to these factors.

Two key characteristics of successful firms are: (1) their ability to adapt to changing environmental conditions and (2) the degree of flexibility within their organisational structures which permits them to do so.

Shifts in corporate strategy may either involve a major change occurring in a relatively short space of time or a more gradual, relaxed process over a longer period of time, that is, a difference between a global change and a more incrementalist approach. The latter involves a continual adaptation of the organisation in much the same way as international investment is a sometimes gradual process from a low level of involvement to the more direct foreign investment strategies. Thus just as businesses become international through a step by a step process, structural changes within the organisation generally take place gradually over time. Quinn (1980) argues that: The most effective strategies of major enterprises tend to emerge step by step from an iterative process in which the organisation probes the future and learns from a series of partial commitments rather than through global formulations of total strategies (Channon 1978).

There are however times when a more drastic change is required. Should the environmental factors adjust faster and in a more dramatic fashion than anticipated, a gradual response may result in lost opportunities and stagnant growth. The successful business enterprise, operating in a highly competitive international environment cannot afford the luxury of complacency and must be continually responsive to outside influences. It seems that the essence of a sophisticated international industrial corporation is that it, at all times is prepared and in a position to develop markets wherever such opportunities exist (Simmonds et al, 1977). The international business enterprise is therefore a dynamic on-going entity continually responsive and adaptive to its environment.

4.2 Corporate strategy and organisational design

The move of a commercial enterprise from a domestic operation to a more international one not only involves a change in strategy and organisational design, though these are instrumental to the process, but also involves a more pervasive change in the attitudes and values associated with the "corporate culture". A sincere commitment to international investment is as important to the success of the firm as the practical and efficient implementation of its strategy. Studies conducted by Miles and Snow (1978) confirmed that: The overall strategic posture of an enterprise, its structure, the sort of people who hold power and the way it operates, reflect the dominant ideologies in an organisation...Management ideologies can be thought of as an important influence on the approach an organisation will take to a strategic problem.

The degree of internationalisation of a commercial enterprise therefore reflects what Perlmutter (1969) defines as its "state of mind". Attitudes are categorised as ethnocentric, regiocentric, polycentric, or geocentric (ERPG). The ERPG model provides a conceptual framework for identifying the relationship between, and actual implementation of, the level of international involvement undertaken. A brief description of the model follows:

(1) **ethnocentrism** - a firm views overseas operations as secondary to its domestic one. The level of international commitment is restricted to exporting with risk and control of foreign operations minimal.

(2) **regiocentrism** - involves a regional orientation (Southeast Asia for example), exploiting commonalities to establish a more area concentrated operation.

(3) **polycentrism** - involves the establishment of subsidiaries using skills of local personnel. Each

subsidiary is independent and marketing mix strategies are formulated separately.

(4) **geocentrism** - involves a worldwide approach at both headquarters and subsidiary levels. It is the maximum degree of involvement encompassing a global strategic outlook. It maximises results on a multinational basis rather than treat international activities as a portfolio of diverse and separate country companies(Simmonds et al, 1977).

Geocentrism involves a long term commitment to international investment. Perlmutter (1969) views the ultimate objective of a commercial enterprise as the adoption of this geocentric frame of mind. He says: The geocentric enterprise offers an institutional and supranational framework which could conceivably make war less likely on the assumption that bombing customers, suppliers, and employees is in no one's interest. While this is rather idealistic, the value of the multinational corporation in promoting the exchange of skills and technology to less developed countries and its role in the internationalisation of world trade to further economic growth is not disputed. However differing resource capabilities of individual firms may preclude the universal adoption of this attitude as Perlmutter seems to envisage. As Cateora and Hess (1979) point out: Each company must evaluate independently the desirability of each position and select the most appropriate degree of international orientation.

Gaining experience in competing on an international scale is a necessary prerequisite to more direct forms of involvement and can take place only over a period of time; thus implying the evolutionary nature of the internationalisation process- a process comprising a shift in attitudes, corporate strategy, and organisational design.

Chandler (1961) studied the historical development of large U.S. firms and concluded the following:

(1) structure is affected by the strategy adopted by the organisation.

(2) development takes place in a series of stages beginning with single unit operations through to vertical integration and the divisionalised structure to the multinational structure.

He implies a rather simplistic evolutionary process, when in reality it not a smooth transition from one stage to the other. A change in corporate strategic orientation does not provoke an immediate change in organisational structure. There is a necessary period of adjustment required; a time of experimentation and even as Perlmutter contends periods of "regression" to an ethnocentric stance. Johnson and Scholes (1984) point out: Given that strategic change occurs, there is an intermediate step between strategic and structural change... it may result in a decline in company performance which in turn triggers a necessary structural change. The dynamic nature of the business enterprise requires a period of time for the "system" to adapt; it is not an immediate response.

4.3 Determinants of structural choice

Caves (1982) has said that: The evolving organisational patterns of multinational enterprises reflect a quest for efficient organisation undertaken in the context of the structural environment of the firm's markets and strategic choices using their distinctive assets and competencies. There is no one "right" way to organise. Each business will implement those strategies best suited to optimise its resources. There are however several common determinants which influence the choice of organisational design, in addition to managerial attitudes towards its commitment to intenational investment. These are: (1) size of the enterprise (2) its diversity (3) the level of involvement (4) cultural factors and (5) technology.

As would be expected, the larger the firm, the more divisionalised the structure into specialised areas. Thus as its intenational investment portfolio increases, a corresponding expansion occurs within the organisation to cope with these additions. The degree of product and geographical diversity also influences the choice of structure. Generally, the more diverse the firm, the more likely the multi-divisional design and the control decentralised to lower level units. Prasad and Shetty (1976) have pointed out: The greater the diversity of product lines, the more likely that a global product structure is desirable...Market diversity requires an organisational structure different from homogeneous domestic ones. A geographic structure may therefore be appropriate.

The level of involvement in international business will determine the extent to which the domestic and foreign operations of the firm are separated. At the level of exporting or licensing, the basic organisational structure may remain the same with the addition of an export department. No major shifts in design or control is required, as the firm retains its domestic stance. As more direct involvement occurs, the emphasis moves to an international orientation necessitating more dramatic changes in structure.

Stopford and Wells (1972) found that U.S. companies are usually organised along functionally specific divisions at the time they acquire their first foreign subsidiaries. The risk and uncertainty surrounding the initial experience in international direct investment, necessitates a closer centalised control and monitoring. As the business gains experience, the organisation may shift to a more multi-divisional design. The incidence of joint ventures operations was also found to be related to organisational structure. Franko (1971) contends that: A multinational enterprise organising its subsidiaries into geographical area divisions no longer treats each subsidiary as a local profit centre and therefore finds joint ventures inconvenient.

Design choice also appears to be influenced by cultural origin. Franko (1971) discovered that European and American multinational corporations have a preference for global product and international divisional structures with decentralised control. Japanese enterprises however prefer a more centralised control to optimise close communication and management systems. Caves (1982) has said that: These differences may be of a transitory nature, reflecting the diffusion of organisational innovations rather than intrinsic cultural differences.

Technology will influence organisational choice. The more sophisticated and complex the technical skills required the more divisionalised the structure into specialised areas of expertise. Studies conducted by Woodward (1965) showed that the more standardised the manufacturing process, the more centralised the control and thus the less divisionalised the organisational structure. Channon (1978). This is not to say however that other functional areas need be organised on a similar pattern.

The important point is that although there may be a commonality of influences affecting the kind of organisational design a firm chooses for conducting international business, there is no optimum structure which is suitable for all. Each must analyse its requirements in light of the preceeding factors, as well as its overall objectives and available resources. Its ability to compete effectively, maximise growth and profit involves creating a corporate climate conducive for both. The goal is to ensure an appropriate "fit" between the organisation and its environment which determines its sucess or failure. As Caves (1982) points out: Getting its organisational structure properly matched to its pattern of activities is important for a firm's efficiency and profitability. A firm with a multidivisional organisation and diversified operations abroad which is supervised by an international division probably suffers a mismatch... Mismatched multinational enterprises are on average less profitable than those deemed properly matched.

4.4 Organisational designs

The following will discuss organisational structures as they apply to corporations conducting business on an international level only and precludes those of domestic orientated firms. It is not meant to be an in-depth analysis of the dynamics of the organisation and its subsystems but rather a general overview of the design types most popularly used in today's multinational corporations. Although not discussed, it does not preclude hybrid structures peculiar to particular businesses.

Davis (1979) has outlined some of the major trends occurring in the design of multinational corporations. These include:

(1) Worldwide functional structures are showing instabilities.

(2) Corporations organised by country are exploring how and where to place product management more adequately in their framework.

(3) Firms with worldwide product groups require better coordination within countries and regions than their structures provide.

(4) Corporate planning and development activites have led some companies to organise around markets, not geography.

(5) Companies are experimenting with global matrix management and structures.

These trends reflect the fact that there is a continuous re-evaluation of organisational structures - adaptation being a dynamic, ongoing process with increasing levels of complexity and sophistication. The choice of an organisational structure, Caves (1982) remarks, represents a balancing of advantages among imperfect alternatives.

Appendix 27 graphically details the organisational structures which will be discussed.

4.4.1 The International Division

This type of structure has evolved out of the export department of the firm. As exports have continued to expand, overseas activites have been consolidated into a specialised department. Although there are no strict guidelines as to when a department ceases to be an export one and becomes an international division. Generally however, export sales over 20.0% of total turnover necessitates a more concentrated and coordinated effort. With the domestic operations organised along functional or product lines, the international division is invariably geographically oriented. Strategic planning is centralised at the corporate level. Responsibility for gaining local knowledge and expertise is delegated to the subsidiaries in situ rather than centrally located.

When there is little product differentiation; limited managerial experience in international business; and restricted economies of scale, the international division is a suitable structure. Prasad and Shetty (1976) point out that: Such an arrangement facilitates specialisation in international problems, definition of responsibility, and a coordinated efficient response to a large number of an increasingly complex business issues. The multidivisional type structure therefore encourages each division to become a profit responsibility centre.

There are however, a number of disadvantages associated with this organisational design. Clee and Sachtjen (1964) suggest that the international division becomes ineffective when overseas activites shift from exporting to more direct forms of involvement. Also, as the diversity of product lines expands, the management's efforts to mobilise the total resources of the company to accomplish a global objective is impeded when this structure is used. The international division is a reflection of the low level of commitment to international investment within the corporate hierarchy. As overseas involvement increases, this structure becomes inappropriate. When 40.0% or more of a firm's operations are conducted internationally, a more global structure is required.

4.4.2 Global (Worldwide) Structures

The really decisive point in the transition to world enterprise is top management's recognition that to function effectively the ultimate control of strategic planning must shift from decentralised subsidiaries or division locations to corporate headquarters where a worldwide perspective can be implemented (Clee and Sachtjen, 1964). Global structures represent a high degree of commitment to international investment and are organised along functional, product, and geographic lines. The goal is to optimise corporate performance on a worldwide basis, thus eliminating the distinction between domestic and international operations.

(a) Global functional divisions

The corporate divisions are organised around functional areas (see appendix 27) each having responsibility for worldwide operations. The structure is common among European multinational corporations but is not prevalent in American businesses, they prefering geographic or product distinctions.

The functional structure is suitable for those international firms having narrow, standardised product lines. Thus a low level of differentiation promotes a strong, central control over functional areas as corporate planning, too, can be standardised.

The main criticism of such a design, according to Prasad and Shetty (1976), is that it can create serious coordination problems because each division lacks an overall specalised objective and encourages duplication of effort. Davis (1979) go so far as to suggest: Not to organise global structures around functional lines unless industries are raw material extractive, having integrated production processes requiring a high degree of central coordination.

(b) Global product divisions

Surveys conducted by Business International (1981) have noted a trend towards this type of organisational structure (see appendix 27).

It assigns worldwide product responsibility to senior line managers. Overall goals and strategies are centralised at corporate headquarters but each product group has responsibility for planning and controlling all product activities on a worldwide basis.

This structure works well when a business has a highly diversified product line requiring differing activities associated with each. It is found extensively in industrial consumer goods companies requiring a high degree of investment in research and development. The transfer and control of technology is therefore more easily accomplished in this type of structure, particularly in those situations where firms actually invest in the local manufacture of the product.

The major activity associated with this design is coordinating the activities of the various product groups within any one geographic area. However as Davis (1979) points out: Maximising technological linkages has been done at the cost of duplicating management and organisation in each area. To cope with problems of coordinating these parallel managements, firms must reach through their existing product structure to promote cooperation.

Another difficulty is the lack of international experience of the top level management. It is however not confined exclusively to this type of structure.

(c) Global geographic divisions

In this structure the primary operational responsibilities are assigned to area managers. Worldwide strategic control and planning are centralised at the corporate headquarters(see appendix 27).

This design is suitable for those international businesses having minimum product differentiation but maximum geographic diversification; economies of scale in production; and little trading among the various regions. It is applicable to food, beverage, automobile, and pharmaceutical industries having narrow, mature product lines and common end user markets.

Davis (1979) contends: The major advantage of a worldwide area structure is its ability to differentiate between regional and local, and to determine variations in each appropriate market. Its disadvantage is its inability to coordinate diffferent product lines and their logistics of flow from source to markets across areas.

The difficulty is trying to find an optimum organisational structure which maximises control and coordination, while at the same time is conducive to promoting growth and profitability. The product structure sacrifices geographical control for product coordination; the geographical structure, on the other hand, promotes geographic control at the expense of product coordination. One solution to this dilemma is the matrix type of design.

4.4.3 Matrix structure

Rather than specialising along one or two dimensions, (product or area), the matrix structure is an attempt to integrate characteristics at the the same time within a comprehensive organisation (see appendix 27). It is a move away from a hierarchial line design to one promoting a more equitable dispersion of authority and responsibility sharing. General Electric, Philips, and Corning Glass are a few of the larger multinationals successfully implementing this design.

Channon (1978) states that this structure is suitable to: very large multinational corporations involving a network of product and geographic interests requiring maximum coordination and high product flow between national subsidiaries within regions but not between areas.

Matrix structures will only be successful if there is both product and area diversification thereby creating economies of scale in manufacturing, marketing etc. It is a complex hybrid design requiring a high degree of corporate commitment and support subsytems for its success.

4.4.4 Strategic business unit (SBU)

The SBU is a term which has evolved out of the matrix structure to encompass a more functionally autonomous unit within complex multi-divisional/national corporations. It has a high degree of autonomy in the conduct of its own business in much the same way as traditional "mother-daughter" (parent-subsidiary) designs have.

The SBU has a distinct goal; formulates its own strategy; and controls its own functional areas. The term was first developed by General Electric to describe business entities which could be self-standing without undue influence from within the corporation. The SBU is another modification of the matrix structure which has evolved in light of the increasing complexity and sophistication of the large multinational corporations. It is a response to the continuing diversification of these organisations and the increasing need to obtain a high level of synergy within corporate strategic planning.

Research into 180 American based companies in 1980 showed that 32.0% of them preferred the global product structure followed by the International Division. In the 1960's the most popular was the international division followed by the global product design. Thus in a space of 20 years organisational preferences have been reversed, yet have become more complex. In future it will be even more difficult to delineate organisational designs as combinative structures will reflect the ever dynamic process of international business's search for the optimum organisation.

4.5 From multinational to multilocal

The continuing internationalisation of trade and the increasing inter-dependencies of world economies, have led corporations to move from a domestic orientation to the multinational and eventually to a global, worldwide stance. Clee (1959) has pointed out the growing homogeneity of the world and the declining importance of political boundaries.

Others such as Kenichi Ohmae (1982) have argued that in fact there has been a move in the opposite direction, that is, a contraction of resources to more concentrated, less dispersed activities. He contends that, exploiting the low cost labour in developing countries is becoming costly thereby precluding them from taking advantage of this resource. This together with more widespread protectionist policies, are compelling multinationals to operate in fewer locations where they can concentrate their efforts on larger markets. That is, becoming multilocals, locating where their markets are and worrying more about high fixed costs of production. Thus instead of worldwide expansion Ohmae believes that multinationals are limiting their growth to carefully analysed markets which provide the greatest return on investment.

His reasons for such a trend, if indeed it is so, are vague yet it is true that multinationals are adopting a more "low profile" stance than the positions of power and dominance they once had. The effect on their organisational structures may foresee a reverse trend towards the International Division - though necessarily more complex and sophisticated.

4.6 Centralisation and decentralisation

One of the most important factors concerning the choice of organisational design is the relationship between the parent headquarters and its foreign subsidiaries. It is the question of centralised or decentralised control, or an open or closed system. Both concern the degree of autonomy and responsibility allowed the foreign affiliates in conducting their operations.

An open, decentralised relationship is one which delegates maximum authority in planning and decision making to the subsidiary, as in the case of "mother-daughter" organisations. A close, centralised system is one in which foreign operations are merely extensions of the domestic operations - all strategic planning is conducted at the corporate level. The continuum of the centralisation - decentralisation dichotomy loosely parallels that of the method of entry strategies discussed previously. From the corporate view however, the continuum moves in the opposite direction. That is:

Exporting ⟶ Licensing ⟶ Joint Ventures ⟶ Wholly Owned
maximum domestic ⟵------ CONTROL ------⟶ minimum domestic
minimum foreign ⟵------------------------⟶ maximum foreign

Consequently, as the level of involvment in the foreign market increases, control shifts from the domestic to the local decision making operation, where the authority is delegated to the subsidiary.

The degree of decentralisation however is influenced by a variety of factors such as age, size, and profitability of the foreign affiliate with large, long established, profitable centres having the most autonomy. The environment in which the subsidiaries operate will also influence the focus of decision making with strong national controls necessitating more decisions being made within the local market.

Decentralisation promotes flexibility and motivates managers to perform than if they were under the constant direction from the corporate level. Centralisation however is more conducive to integration within the large, diversified multinational corporation where greater synergistic planning is promoted. Technology transfer and communication is often made easier under central corporate control.

The trend today in most large multinational corporations is that of a combination of differing control levels. As Prasad and Shetty (1976) point out: Decision making authority in multinational firms is conceived of as two vertical spheres. One is a nationally and culturally decentralised base structure designed to deal with diverse conditions through semi - autonomous subsidiaries at the operating level. The other is a centralised super-structure to provide direction, coordination, and control for the whole orgainsation at the multinational level. Thus the corporation optimises its organisation by maximising the advantages of centralisation and decentralisation simultaneously.

In summary the choice of organisational design is only one of the decisions strategic planning at the corporate level must consider. It is a multi-dimemsional process involving inputs from managers at all levels. What is important is that it be flexible and adaptive to continually changing environmental conditions with a goal to providing a strategic focus that best maximises the profit and growth potential of the international business. The increasing sophistication, not necessarily size, of the multinational corporation and the environment in which it operates will necessitate more complex organisational designs to integrate the diversity of the requirements.

SECTION 5

CASE STUDY

5.1 Introduction

This section comprises the limited empirical orientation of this paper. Its purpose is to provide an overview of the actual and potential direct investments of one of New Zealand's largest corporations in Thailand: Wattie Industries Ltd. The focus is on direct investment as opposed to less involved forms of entry such as licensing and exporting.

There has been several difficulties encountered in this study which has precluded a more indepth analysis. These are:

(1) There are only a few New Zealand companies which have undertaken or are planning to undertake direct foreign investment in Thailand.

(2) The corporation has been reluctant to divulge information which it considered confidential to its operations. As a consequence, in conversation, generalities rather than more important specific factors were discussed. Although understandable, it has prevented a more involved study.

(3) Interview time was limited to approximately one hour in each case.

5.1.2 Study method

A personal interview was conducted with the marketing manager of Watties International, the international division of the company. A semi-structured questionnaire technique, using prepared questions, was used.

5.1.3 Summary of major findings:

(a) Wattie Industries Limited considered Thailand a good investment opportunity.

(b) Foreign direct investment has been undertaken in a cautious manner after considerable evaluation and assessment of internal/external environmental factors.

(c) Corporate organisational strategy involves "traditional" design of an international division.

(d) Political stability, market size and location were important factors influencing the decision to invest.

(e) Incentives and disincentives offered within the country were also important considerations.

5.2 Extent of New Zealand Investment in Thailand

There are no New Zealand wholly owned subsidiaries in Thailand. Joint ventures and to a lesser extent, management contracts are the preferred methods of investment. Joint ventures in particular are advantageous in Thailand. They more easily obtain registration and licensing than those for a branch of a foreign corporation.

Prior to 1981 there were no New Zealand companies involved in joint venture operations. At that time, General Foods Poultry Ltd., a subsidiary of Wattie Industries, established an offshore operation in Thailand. Its rationale was to sustain corporate growth (Gurney 1982). It was a chicken processing operation, General Foods Poultry (Thai) Company Ltd., producing chicken meat for export to the Middle East market. It was a 51% - 49% majority Thai owned joint venture. According to Gurney, Thailand was chosen as a base because of its strategic location to selected markets; its availability of low cost labour; plentiful supply of chicken feed; and attractive tax incentives. Unfortunately because of considerable losses, Watties are presently in the process of divesting its shareholding in this company.

At present there are four New Zealand joint venture schemes in Thailand, covering insurance; the marketing of dairy products (though at the moment this is more of an agent distributor relationship); general trading and food processing.

A large management contract was awarded to consultants Beca Worley International who supplied the technical expertises to convert five diesel transport buses to CNG. This project is an evaluative one only and if successful, could result in fuel conversion of Bangkok's total fleet of ten thousand buses (NBR 15 April 1985).

Consultancies have a lower profile than food processing or consumer trading operations but are becoming more and more prevalent as New Zealand continues to exploit its expertise in specalised areas.

Department of Trade and Industry Report written prior to the ASEAN Trade Mission of March 1985: The development of joint venture operations in Thailand has been slow, although future prospects are hopeful due to the encouragement by the government of Foreign Investment.

5.3 Case Study - Wattie Industries Limited

5.3.1 Brief background*

*Source: Dept. of Trade and Industry report and Wattie Industries Ltd. Annual Report, 1985.

The Wattie Group of Companies is the largest diversified food processing organisation in the southern hemisphere. Its growth is based upon high productivity within the livestock, horticultural, cropping and fishing industries. Domestically it manufactures more than eight hundred product lines of foods produced from the primary sector. It exports to forty-seven different countries both under its own and local brands.

In 1981, Wattie Industries Limited sent a large trade mission to Southeast Asia. As a consequence, an International Division was established to seek and develop new markets. Currently it has direct investments in Singapore, Malaysia, as well as Thailand.

The development of exports and overseas markets is a major element in corporate growth strategy, directed specifically towards Japan, the United States, and Southeast Asia.

5.3.2 Joint Venture Operations

Wattie Industries has two joint venture schemes in Thailand. The first is a joint venture with a leading Singapore based popiah skinmaker, Singanz Foods Pte Ltd. This company together with Seriwat Company Ltd. of Thailand, has built a factory near Bangkok to further process these pastry skins into filled vegetable rolls. They will be marketed and distributed within Thailand and other regional markets. Watties, in addition to its capital equity investment, contributes technological and managerial expertise. The factory will however will be managed by a local Thai employee selected by the company.

The second joint venture scheme is a planned food production operation processing local oriental vegetables, such as corn, water chestnuts, bamboo shoots, as well as meat pies and fruits for marketing under the Watties Brand within the Southeast Asian region. The project was originally located in Taiwan. Due to rising production costs returns on investment were restricted. Relocation to Thailand offered the advantages of low cost labour and raw materials as well as a strategic location for distribution. Distribution channels within the region are already well established by the joint venture partner.

5.4 Findings - The Questionnaire

Q: How is the company organised for international marketing?

Watties: The company has an International Division responsible for overseas market development. Strategic planning is coordinated from central corporate headquarters.

Q: What are the company objectives in expanding to offshore markets?

Watties: Has recognised the need for growth and expansion which involves more than the mere exporting of products overseas. The export of canned foodstuffs is precluded in Thailand causing more direct forms of involvement to be used.

Q: What was the planning process undertaken before deciding to invest in Thailand?

Watties: Considerable market research, prepared by the company and relying on local agencies, was conducted. As a consequence formal proposals of investment opportunities were outlined. These must be approved at the corporate level, a process which takes between eighteen and twenty - four months.

Q: What factors, if any, influence the pricing structure of your product?

Watties: Price structure takes into consideration mostly market and production factors, that is, competition, consumer demand, and manufacturing costs. There are no retail price ceilings or controls imposed by the government - its main concern being the control of monopolistic practises.

Q: What are the barriers, if any, concerning repatriation of funds from investments?

Watties: Generally, profits from operations are not repatriated but are "turned back" into the local economy. In accordance with Thai regulations, they would expect no difficulty should they decide to return capital to the parent corporation.

Q: What are some of the political risks, if any, encountered and/or considered before investing in Thailand?

Watties: In spite of the recent coup, the country is considered " pretty stable" and there are no overriding concerns regarding the threat of political risk. The monarchy has a strong unifying influence. The risk of expropriation is considered minimal.

Q: What is the government's feeling towards foreign investment?

Watties: Their investment proposals have been met with interest and enthusiasm. The government is highly receptive to foreign investment particularly if it generates export oriented industries.

Q: What specific government regulations/controls pertaining to foreign investment are of particular concern or interest?

Watties: Attracted to the incentives offered by the government rather than the disincentives to invest. In particular, tax holidays, no restrictions on capital repatriation, availability of real estate and of local labour are considered positive stimulants to investment. In general government regulations are not unnecessarily restrictive.

Q: Does Thailand's membership in ASEAN create any political or economic barriers for investment?

Watties: ASEAN was not considered either as an inhibitor or a stimulator of trade and investment. Member countries act independently rather than as a part of an economic unity. Each has individual controls and regulations regarding foreign direct investment rather than a unified policy.

Q: What are the legal barriers, if any, which must be overcome before investment takes place?

Watties: The only barrier is the prohibitively high cost of international lawyers responsible for the drawing up of the joint venture agreement.

Q: Are there specific regulations of concern regarding: Competition, cancalation of agreements, patents and trade marks?

Watties: The government is concerned particularly with monopolisitc practices and go to great lengths to prevent such occurrences. Insurance protects companies against cancellation of agreements. Trademarks and patents are protected under their respective acts. In consumer products other than food, there are some problems regarding brand and patent piracy. The government is attempting to control this difficulty as far as it can.

Q: What makes Thailand an attractive market in which to invest?

Watties: With a population of 50 million; an increasing per capita income, and rising consumer expectations, there is considerable market demand potential. Also attractive is the availability of low cost labour and natural resources. Thailand is one of only six countries who are net exporters of food and having major agricultural surpluses. The overriding consideration was in finding a suitable local partner. Once a suitable partner was found, we then decided what we would do.

Q: At what level of authority does the overall responsibility for the control and coordination of international activity lie?

Watties: All proposals for investment, whether they be initiated at the top or bottom of the management levels require corporate approval. There is however, decentralisation of some of the decision making processes, for example, in marketing activities.

Q: Are there counter trade agreements between Thailand and the corporation. If so, what are the conditions?

Watties: No.

Q: How would you describe the business climate in Thailand?

Watties: The government is receptive to foreign investment proposals. The board of investment considers all projects seriously and evaluates them on the basis of their contributions to the local economy and the investor. There is little interference by the government once approval has been granted, they preferring to encourage local enterpreneurship. Business is conducted in a professional and skillful manner and is a relatively formal process.

Q: What specific factors have influenced the promotional mix, if any?

Watties: Products will be manufactured to suit local consumer needs. There are adequate transportation, communication and promotional infrastructures to market the product both locally and within the region. Having established distribution channels is an important factor.

Q: Do you foresee long range potential for Thailand as a market for future investment?

Watties: The company should be investing more in Thailand in order to take advantage of the considerable growth opportunities. The experience of General Foods Poultry (Thai) Company Ltd. should not deter considerations of future projects. Thailand is "tops" for investment.

Q: What do you consider New Zealand's advantage over other countries to be?

Watties: New Zealand's competitive edge lies in its "hands on" technology in a scale that better "fits" the country rather than larger American multinationals. The way New Zealand conducts its business is more a propos.

SECTION 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

The purpose of this paper has been to examine the principles underlying international investment and the corporate organisational strategies conducive to more direct foreign involvement.

The primary focus has been a literature research as opposed to a practical, empirical study. The scope of the empirical investigation has been limited to only one of New Zealand's largest companies. This, together with the shortcomings inherent in the investigation outlined previously, precludes any definitive conclusions of generalities. Consequently, the research report is an exploratory study only. It was undertaken with a view to detailing the major dimensions surrounding the field of foreign direct investment and the hope that it will lead to more formal research design techniques in the future.

It remains the firm belief that the future of the New Zealand economy lies in the exploitation of overseas markets; not limiting to the mere exporting of products but a more active international involvement.

Within the past decade, New Zealand has begun the slow process of diversification away from its reliance on traditional markets towards a less familiar direction encompassing the countries of the Pacific rim, Japan, and Southeast Asia. Its approach has been initially one of careful and cautious contemplation. Its growing international experience will reinforce its commitment to offshore investment. This commitment must become a necessary and integral part of the country's future growth strategy.

Competing in a highly competitive market is not an easy task. In comparison with the large multinational corporations of the U.S., Japan, and Europe, New Zealand is small in size and resources. It lacks, for the moment, the necessary business "savoir - faire" characteristic of more internationally experienced countries. To compete directly, in head to head confrontation with these countries is a daunting, if not impossible task. Instead New Zealand must be prepared to exploit its competitive edge, that is, to take advantage of its extensive expertise and knowledge in the area of sophisticated agro-technology and production. As Kojima (1978) contends: The most important criterion by which to judge foreign direct investment is whether or not it contributes to a saving of real resources and consequently whether or not it conforms to its comparative advantage.

Fortunately many of the newly developing countries if Southeast Asia including Thailand are at a point in their development which requires these kinds of skills to promote economic growth - developing the pastoral base and raising the standard of living of their large traditional sectors.

As well as geographic diversification, there is a need to develop markets in many diverse areas. The goal should not be market share dominance but rather a market niche. Smaller market segments having little profit potential for the large multinational corporations, can be well served and highly profitable for less global enterprises with limited resources.

That is not to say that New Zealand businesses are not, cannot become, multinationals. The term is a descriptive one. Kojima (1978) defines a multinational corporation as having the following characteristics: (1) It is a "big" enterprise (2) It is operating in a least six countries (3) The operation is not limited to export and sales but is extended to full scale production and (4) Its activities account for a high percentage (20 - 25%) of total sales.

According to this definition therefore, Wattie Industries Ltd. qualifies as multinational. The joint venture operations by Watties in Thailand is the response of these differentiated oligopolies exploiting the comparative advantages in seeking growth and expansion through more direct forms of international involvement, as the theory of foreign direct investment presupposes.

The company has, also undertaken the internationalisation of their production processes, a role played by the multinational enterprises. Multinational corporations will continue to have a considerable impact on the economic development of the developing countries. It has not lessened over time but the characteristics of its influence have changed and will continue to do so. The relationship between themselves and the developing countries in which they operate, has shifted from one of dominated - dominating, to a more equitable dispersion of bargaining power. It is a positive change promoting the mutual benefits of economic interchange as reflected in the increase in joint venture, contractual agreements as opposed to wholly owned operations. Rather than being condemned as exploitive, self seeking economic enterprises, they are viewed today more as initiators and stimulators of international trade. As Galbraith (1976) has remarked: The power of the multinational corporation can be conceded. The point to be stressed is that this power has been deployed on balance for socially useful ends; that where it has not, it must expect to be restrained by the nation state. The multinational corporation therefore has by necessity become more cognizant of their social respsonsibility role and have responded positively to it.

New Zealand businesses have an advantageous position in being able to observe and learn from the experiences of more internationally experienced multinational corporations of larger countries and in so doing capitalise on their "mistakes". As one New Zealand businessman stated: They (the Thais), like the way we do business; not like the Americans or Japanese.

6.2 Recommendations

The literature concerning foreign direct investment, the operation of multinational corporations, and corporate strategies for conducting international business, is dominated by American, Japanese and European experiences.

There is little documented evidence regarding the scope of direct foreign investment as it applies particularly within a New Zealand context. It creates a considerable vacuum of knowledge whilst at the same time presents an opportunity for further exploration in this area. Understanding foreign direct investment is a necessary prerequisite to sucess. Akrasanee (1982) has said: Lack of knowledge about available opportunities, methods of operation and styles of negotiation are frequent causes of missed chances. Dissemination of information, exchange of views and ideas, and the analysis of potential opportunities are therefore important factors for trade expansion. It is for this reason that research and academic exchange have an important role to play.

There is therefore a pressing need to undertake more empirical research into the study of direct investment in New Zealand. A necessary beginning is to determine the scope and extent of international involvement currently undertaken by New Zealand corporations. A structured survey technique is recommended as opposed to the personal interview method. It would provide the degree of anonymity required to obtain comprehensive information. This should be followed by more intensive research into such broad areas as: (1) The determinants of foreign direct investment (2) Organisational design choices conducive to international involvement (3) The operations and processes underlying multinational corporations and (4) Corporate macro and micro objectives as motivators to foreign direct investment.

In future, more and more New Zealand companies will look overseas to fulfill their corporate goals of growth and expansion. Understanding the processes underlying foreign investment, together with their growing experience in international competition, will contribute to their success.

Appendix 1

COMMODITY WHOLESALE PRICES*

FOR N.Z. PRIMARY PRODUCTS

Year Product	1980	1981	1982	1983	1984
Butter (¢US/lb)	151.4	140.9	130.5	111.4	93.9
Wool (¢US/kg)	597.3	612.6	572.6	539.6	558.9
Lamb (¢US/lb)	131.2	124.9	108.9	87.9	87.7
Beef (¢US/lb)	178.9	177.3	171.6	145.4	123.4

Source: INTERNATIONAL MONETARY FUND.
INTERNATIONAL FINANCIAL STATISTICS
JULY 1985

*NOTE: WHOLESALE PRICES FOR IMPORTANT COMMODITIES TRADED INTERNATIONALLY IN UNITS OF QUANTITY FREQUENTLY USED IN THE PARTICULAR MARKETS.

Appendix 2

NEW ZEALAND'S MAJOR

EXPORT MARKETS

Country	Export Receipts % of Total 1983	Export Receipts % of Total 1984
Australia	11.9	14.1
Japan	16.5	15.0
United States	15.2	14.3
United Kingdom	11.6	12.9

Source: DEPT. OF TRADE AND INDUSTRY REPORT
YEAR ENDING MARCH 31ST 1985

Appendix 3

EXPORT CONCENTRATION AND DIVERSIFICATION*

INDICES FOR SELECTED COUNTRIES

Country	Number of Commodities Exported	Diversification Index (1)	Concentration Index (2)	Number of Commodities Exported	Diversification Index	Concentration Index
		1970			1981	
Australia	168	0.657	0.191	172	0.678	0.165
Canada	167	0.486	0.184	165	0.470	0.151
US	180	0.326	0.099	179	0.374	0.100
New Zealand	120	0.809	0/368	148	0.748	0.262

*Source: UNCTAD, HANDBOOK OF INTERNATIONAL TRADE AND DEVELOPMENT STATISTICS

NOTE(1): ABSOLUTE DEVIATION OF THE COUNTRY COMMODITY SHARES FROM WORLD STRUCTURE AS FOLLOWS:

$$S_j = \frac{\Sigma_i |h_{ij} - h_i|}{2}$$

Where h_{ij} = SHARE OF COMMODITY i IN TOTAL EXPORTS OF COUNTRY j

h_i = SHARE OF COMMODITY i IN TOTAL WORLD EXPORTS

NOTE (2): HIRSCHMANN INDEX NORMALISED TO MAKE VALUES RANGING FROM 0 TO 1 ACCORDING TO FOLLOWING FORMULA:

$$H_j = \frac{\sqrt{\sum_{i=1}^{182} \left(\frac{x_i}{X}\right)^2} - \sqrt{1/182}}{1 - \sqrt{1/182}}$$

Where x_i = VALUE OF EXPORTS OF COMMODITY i

$$X = \sum_{i=1}^{182} x_i$$

182 = NUMBER OF PRODUCTS AT 3-DIGIT S.I.T.C LEVEL.

Appendix 4

IMPORTS*

	Value ($US Billions)					Market Share (Percentage)				
	1970	1981	1982	1983	1984	1970	1981	1982	1983	1984
World	($USm) 3288	1907	1799	1737	1842	· 100	100	100	100	100
Industrial	2378	1299	1220	1200	1310	72.3	68.8	67.8	69.1	71.1
Developing	563	587	561	516	510	17.1	30.8	31.2	29.7	27.7
New Zealand	13	5.7	5.8	5.3	6.2	0.39	0.33	0.32	0.31	0.34
Thailand	T	9.9	8.5	10.3	10.4	0.30	0.52	0.47	0.59	0.56

Source: IMF. INTERNATIONAL FINANCIAL STATISTICS, JULY 1985.

*NOTE: IMPORT VALUES Cif

Appendix 5

EXPORTS*

	Value ($US Billions)					Market Share (Percentage)				
	1970	1981	1982	1983	1984	1970	1981	1982	1983	1984
	Value ($USm)									
World	1351	1843	1708	1664	1766	100	100	100	100	100
Industrial	2251	1219	1156	1139	1215	71.4	66	67.8	68.4	68.7
Developing	566	603	530	499	521	18.0	32.7	31.0	29.9	29.5
New Zealand	12	5.6	5.6	5.4	5.5	0.4	0.32	0.33	0.31	0.30
Thailand	7.1	7.0	6.9	6.4	7.4	0.2	0.38	0.40	0.38	0.42

Source: IMF. INTERNATIONAL FINANCIAL STATISTICS. JULY 1985.

*NOTE: EXPORT VALUES fob.

Appendix 6

PERCENTAGE CHANGES OF IMPORTS

AND EXPORTS 1983 TO 1984*

	% Change Exports	% Change Imports
World	6.1	6.0
Industrials	6.7	9.2
Developing	4.4	-1.2
New Zealand	1.2	16.0
Thailand	15.6	0.9

Source: INTERNATIONAL MONETARY FUND, INTERNATIONAL FINANCIAL REPORT, JULY 1985

*NOTE: CALCULATED FROM EXPORT AND IMPORT ACTUAL VALUE CHANGES 1983 TO 1984

Appendix 7

DIRECTION OF WORLD TRADE - EXPORTS

To / From	Developed: Value ($US Billion)		Growth (%)		Share (%)		Value ($US Billion)		Growth (%)		Share (%)	
	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984
Developed Industrials	780.4	851.6	5.2	-3.6	66.1	68.2	303.2	304.6	13.9	-8.4	25.8	24.9
Developing Countries	304.4	326.1	12.0	-14.5	29.5	27.0	158.2	160.2	17.7	-4.4	69.2	67.1

Source: IMF. DIRECTION OF TRADE STATISTICS YEARBOOK. 1985.

Appendix 8

EXPORT STRUCTURE - DEVELOPED ECONOMIES

Destination Products	Developed Economies % Share		Aust/N.Z. % Share		Developing Economies % Share		South, South East Asia % Share	
	1975	1981	1975	1981	1975	1981	1975	1981
All Food Items	71.5	63.7	0.5	0.6	21.8	26.1	7.0	5.9
Agric. Raw Mater.	81.4	76.3	1.0	1.2	12.6	15.6	5.8	8.3
Ores and Metals	65.5	68.9	0.8	1.0	22.5	23.3	5.5	8.6
Fuels	86.4	86.6	0.6	0.3	6.8	8.4	1.0	2.0
Manuf. Goods	68.0	66.9	2.1	2.1	26.0	28.6	6.0	7.6

EXPORT STRUCTURE - DEVELOPING ECONOMIES

Destination Products	Developed Economies % Share		Aust/N.Z. % Share		Developing Economies % Share		South, South East Asia % Share	
	1975	1981	1975	1981	1975	1981	1975	1981
All Food Items	62.8	56.4	0.7	0.7	22.4	27.2	6.4	9.1
Agric. Raw Mater.	57.3	58.3	1.0	1.1	26.5	29.1	17.3	19.4
Ores and Metals	78.7	73.5	0.7	0.9	13.6	21.3	4.1	10.0
Fuels	15.1	75.6	1.0	1.2	20.9	22.8	7.1	10.6
Manuf. Goods	58.6	58.3	2.6	2.4	37.1	37.6	13.6	14.5

Source: UNCTAD, 1984.

Appendix 9

IMPORT STRUCTURE - DEVELOPED ECONOMIES

Origin / Products	Developed Economies % Share		Aust/N.Z. % Share		Developing Economies % Share		South, South East Asia % Share	
	1975	1981	1975	1981	1975	1981	1975	1981
All Food Items	68.6	70.5	3.7	3.4	27.5	26.4	6.8	6.8
Agric. Raw Mater.	70.8	68.6	5.9	5.2	20.2	21.0	10.0	11.3
Ores and Metals	76.5	76.6	3.3	2.7	18.2	19.1	3.5	5.1
Fuels	19.8	23.0	1.0	0.7	74.0	69.3	5.0	5.7
Manuf. Goods	91.4	87.7	0.5	0.4	6.3	9.9	4.8	7.9

IMPORT STRUCTURE - DEVELOPING COUNTRIES

Origin / Products	Developed Economies % Share		Aust/N.Z. % Share		Developing Economies % Share		South, South East Asia % Share	
	1975	1981	1975	1981	1975	1981	1975	1981
All Food Items	61.4	64.2	7.4	6.6	28.9	28.2	12.4	13.0
Agric. Raw Mater.	49.5	50.0	3.6	4.5	41.5	37.4	27.4	27.8
Ores and Metals	85.7	78.6	2.4	3.1	10.2	16.8	3.8	7.7
Fuels	6.8	9.0	0.3	0.9	89.7	85.4	8.3	12.3
Manuf. Goods	85.0	80.3	0.7	0.5	9.6	13.7	5.3	8.9

Source: UNCTAD, 1984.

Appendix 10

NEW ZEALAND EXPORTS TO

THAILAND - YEAR ENDING JUNE 1984

Product Group	Year to Date ($NZ 000) FOB	% of Exports to Country
Meat - Beef	261	0.7
Lamb	136	0.3
Dairy - Milk Powders	19.379	53.5
Butter	1.116	3.0
Cheese	47	0.1
Wool	2759	7.8
Other Primary - Forest	3916	10.8
Fruit	54	0.1
Hides	1	-
Textiles	1753	4.8
Non-Ferrous Metals	762	2.1
Non-Electric Mach.	774	2.1

Source: TRADE AND INDUSTRY REPORT ED4-382, 1985.

Appendix 11

NEW ZEALAND IMPORTS FROM

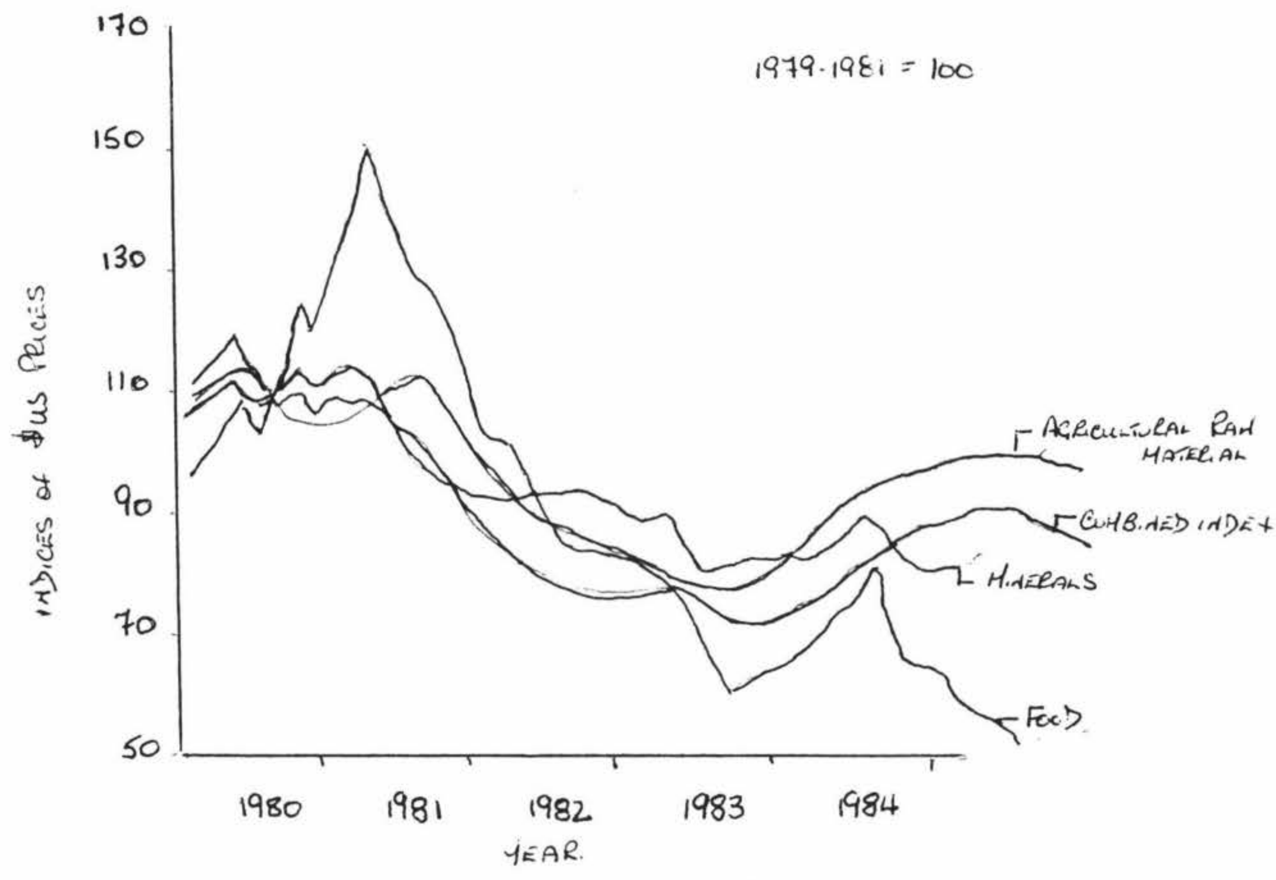
THAILAND - YEAR ENDING JUNE 1984

Product Group	Year to Date ($NZ000) Cif	% of Imports From Country	% Growth from previous year
Manuf. Goods -	11485	44.0	31.7
Rubber Products	821	3.1	58.4
Paper Products	12		300.0
Textiles	6868	26.3	31.1
Clothing/Footwear	225	0.8	41.5
Metal Products	416	1.5	333.3
Other Foods	9551	36.6	-32.7
Food, Beverages and Tobacco	12849	49.2	-18.7

Source: TRADE AND INDUSTRY REPORT ED4-482, 1985.

Appendix 12.

EXPORT PRICE INDICES OF MAJOR COMMODITY GROUPS.



Source: UNCTAD, Monthly Commodity Price Bulletin

Appendix 13.

EXPORT PRICE INDICES OF MAJOR CEREALS

1979-81 = 100

SOURCE: UNCTAD, MONTHLY COMMODITY PRICE BULLETIN.

Appendix 14

INDICES OF WHOLESALE

COMMODITY PRICES*

1980 = 100

Major Export Products	1982	1983	1984	Total % Change
New Zealand				
Butter	86.2	73.6	62.0	-28.1
Lamb	82.8	67.0	66.9	-19.2
Wool	95.9	90.4	93.6	- 2.4
Beef	95.9	81.3	69.0	-28.0
Thailand				
Rice	67.6	63.8	58.2	-13.9
Rubber	61.6	76.4	67.5	+ 9.6
Maize	83.9	107.6	108.7	+29.5
Tin	78.5	79.3	75.8	- 3.4
Sugar	66.3	73.4	72.4	+ 9.2

Source: IMF. INTERNATIONAL FINANCIAL STATISTICS JULY 1985.

*NOTE: THE COMMODITY PRICE INDEXES ARE WEIGHTED BY AVERAGE EXPORT EARNINGS DURING THE YEARS 1966 THROUGH 1970.

Appendix 15

TERMS OF TRADE

1980 = 100
Unit Values $US

Region	1983	Px/Pm	1984	Px/Pm
World				
Exports (Px)	90.5	1.02	90.03	1.02
Imports (Pm)	88.8		88.6	
Developed Countries				
Exports	89.9	1.03	89.6	1.03
Imports	87.5		87.1	
Developing Countries				
Exports	91.7	0.96	91.6	0.96
Imports	95.6		95.6	
New Zealand				
Exports	90.4	0.96	92.4	0.98
Imports	94.3		94.5	
Thailand				
Exports	86.4	0.85	86.7	0.86
Imports	101.8		101.1	

Source: INTERNATIONAL FINANCIAL STATISTICS
IMF JULY 1985

Appendix 16

RATIO ANALYSIS OF BALANCE OF

PAYMENTS

Indicator	Year	New Zealand	Thailand
Main Commodity Exports as % of Total Exports	1983 1984	58.5 55.6	46.2 43.5
Imports of Goods as a % of G.D.P	1983 1984	31.4 31.3 (Est)	27.5 26.6

Source: DEPT. OF TRADE AND INDUSTRY MARCH 1985
IMF. INTERNATIONAL FINANCIAL STATISTICS JULY 1985

INVESTMENT CLIMATE RATING SCALE

Item	Maximum Score
Capital repatriation:	
No restrictions	12
Restrictions based only on time	8
Restrictions on capital	6
Restrictions on capital and income	4
Heavy restrictions	2
No repatriation possible	0
Discrimination and controls foreign versus domestic businesses:	
Foreign treated same as local	12
Minor restrictions on foreigners no controls	10
No restrictions on foreigners some controls	8
Restrictions and controls on foreigners	6
Some restrictions and heavy controls on foreigners	4
Severe restrictions and controls on foreigners	2
Foreigners not allowed to invest	
Foreign ownership allowed:	
100% allowed and welcomed	12
100% allowed not welcomed	10
Majority allowed	8
50% maximum	6
Minority only	4
Less than 30%	2
No foreign ownership allowed	0
Political Stability:	
Stable long term	12
Stable but dependent upon key person	10
Internal factions but government in control	8
Strong external/internal pressures	4
Possibility of a coup	2
Instability real possibility of coup	0
Willingness to grant tariff protection:	
Extensive protection granted	8
Considerable protection granted especially to new industries	6
Some protection granted mainly to new industries	4

Little or no protection granted	2

Availability of local capital:

Developed capital market: Open stock exchange	10
Some local capital available:	
Speculative stock market	8
Limited capital market:	
Some outside funds available	6
Capital scarce, short term	4
Rigid controls over capital	2
Active capital flight unchecked	0

Currency stability:

Freely convertable	20
Less than 10% open/black market differential	18
10% to 40% open/black market differential	14
40% to 100% open/black market differential	8
Over 100% open/black market differential	4

Annual inflation for the last five years:

Less than 1%	14
1% to 3%	12
3% to 7%	10
7% to 10%	8
10% to 15%	6
15% to 35%	4
Over 35%	2
Total	**100**

Appendix 18

NET FLOWS OF FINANCIAL RESOURCES

FROM INDUSTRIAL TO DEVELOPING COUNTRIES

	Average 1960-66	Average 1967-73	1979	1980	1981	1982
Direct Investment ($US Billions)	1.8	4.3	12.4	10.5	15.7	9.9
Total of Financial Resource Flows ($US Billions)	9.2	17.9	75.8	75.6	89.7	83.7

Source: OECD. DEVELOPMENT COOPERATION, 1972 - 1983 INCLUDED IN IMF. FOREIGN PRIVATE INVESTMENT IN DEVELOPING COUNTRIES, 1985.

Appendix 19

DEVELOPING COUNTRIES: STOCK OF FOREIGN DIRECT INVESTMENT, 1973 1983

Non-Oil Developing Countries	1973 ($US Billions)	1983 ($US Billions)	Average Annual Growth 1973-83(%)	Total External Debt ($US B)	% Share of FBI of Total External Liabilities
Algeria	0.3	0.7	8.1	13.3	5.0
Egypt	0.1	2.1	35.6	24.0	8.0
Hong Kong	0.9	4.2	16.7	5.5	43.2
Israel	0.2	1.2	19.6	22.6	5.0
Malaysia	1.2	6.2	17.8	15.9	28.1
Singapore	0.6	7.9	29.4	0.7	91.9
Thailand	0.5	1.4	10.8	14.2	9.0
Yugoslavia	0.1	0.2	7.2	16.9	1.2

Source: IMF. FOREIGN PRIVATE INVESTMENT IN DEVELOPING COUNTRIES, 1985

Appendix 20

NEW ZEALAND COMPANIES'

ENTRY STRATEGIES TO FOREIGN MARKETS

International Commitment

Companies / Methods of Entry	Turners and Growers	Coopers	Cutler-Hamer	Allflex	Watties	Woolrest	Dominion Breweries	N.Z. Dairy Board	Cavalier Carpets
Indirect Exporting									
Trading Company									
Export MGMT Company							3		
Piggy Backing									
Direct Exporting									
Agents	12				2				9
Distributors		50	5	50		1	4	80	
Branch Offices			2	4				6	1
Foreign Manufacturing									
Assembly									
Contract Manufacturing		2		1					
Licensing/Franchising					5				
Joint Ventures		6		2	5			40	1
Wholly Owned		20			2	4		5	

Source: UNOFFICIAL SURVEY CONDUCTED BY PROF. J.S. BRIDGES, MASSEY UNIVERSITY, AUG 1985.

Appendix 21

THAILAND: INFLOW OF FOREIGN INVESTMENT

BY INDUSTRY ($US Million)

Industry	Net Inflow 1970 - 1980
Agriculture	12.3
Forestry	----
Fishery	----
Mining	123.0
Manufacturing	312.8
Construction	130.6
Commerce	205.4
Hotels	9.0
Banking	97.5
Transport	52.6
TOTAL	976.8
Aver. Annual Inflow	88.8
Aver. Annual Inflow to Manufacturing	28.4
Aver. Annual Inflow Per Casita	1.8

Source: BANK OF THAILAND INCLUDED IN ECONOMIC BULLETIN FOR ASIA AND PACIFIC Vol. 33 No. 1. 1982

Appendix 22

THAILAND: INFLOW OF FOREIGN INVESTMENT

BY MANUFACTURING INDUSTRY

Industry	Net Inflow of Direct Investment 1970-1980 ($US Million)	Per Cent
Food, Beverages, Tobacco.	32.3	10.3
Textiles and Textile Products	99.8	31.9
Chemical Products	42.0	13.4
Petroleum and Coal	10.6	3.4
Electrical Machinery	78.0	24.9
Machinery, Except, Electrical (Transport Equipment)	20.5	6.6

Source: SEE APPENDIX 19

Appendix 23

FOREIGN INVESTMENT FLOWS INTO

THAILAND BY HOME COUNTRY

Country	1970 - 1980	
	$US MIllion	Per Cent
Japan	286.7	29.3
United States	318.6	32.6
Europe (Six Countries)	183.7	18.8
Other Asean	72.7	7.4
Hong Kong	114.9	11.8
Korea	-----	-----
TOTAL	977.0	100.0

Source: See Appendix 19

Appendix 24

NUMBER OF PROMOTION CERTIFICATES

ISSUED BY BOARD OF INVESTMENT - THAILAND

OWNERSHIP					
Year	total	Thailand	Foreign	Joint Ventures	Direct Local Employment (Persons)
1962	46	17	3	26	15986
1972	73	36	1	36	19867
1976	66	46	-	20	11547
1977	69	42	1	26	10108
1978	128	73	-	55	22286
1979	154	80	-	74	39188
1980	143	65	-	78	26008

Source: BOARD OF INVESTMENT INCLUDED IN ASEAN-EEC ECONOMIC RELATIONS. N. AKRASANEE AND H.C. RIEGER (ES) 1981

Restricted Business Activities Under the 1972 Alien Business Law

CATEGORY A (requires majority Thai ownership)

Section 1—Agricultural Businesses
- (1) Rice farming
- (2) Salt farming including salt mining, except rock salt

Section 2—Commercial Businesses
- (1) Internal trade of local agricultural products
- (2) Trade in real estate

Section 3—Service Businesses
- (1) Accounting
- (2) Law
- (3) Architecture
- (4) Advertising
- (5) Brokerage or agency
- (6) Auctioning
- (7) Barbering, hairdressing and beauty salons

Section 4—Other Businesses
- (1) Building construction
- (2) Mining

CATEGORY B (new investments require majority Thai ownership; established foreign firms may continue under restrictions)

Section 1—Agricultural Businesses
- (1) Farming, except those in category A
- (2) Orchard farming
- (3) Animal husbandry, including silkworm raising
- (4) Timbering
- (5) Fishing

Section 2—Industrial and Handicraft Businesses
- (1) Rice milling
- (2) Flour milling from rice or other crops
- (3) Sugar milling
- (4) Production of beverages, with or without alcohol
- (5) Ice making
- (6) Manufacturing of pharmaceuticals
- (7) Cold storage
- (8) Lumber milling or processing
- (9) Manufacturing of gold, silver, nielloware and stone inlaid products
- (10) Manufacturing or casting of Buddha images and alms bowls
- (11) Wood carving
- (12) Production of lacquerware
- (13) Manufacturing of matches
- (14) Manufacturing of white cement, portland cement and cement products
- (15) Stone quarrying
- (16) Manufacturing of plywood, veneer wood or chipboard
- (17) Manufacturing of garments or footwear except for exports
- (18) Silk spinning, weaving or silk fabric printing; manufacturing of finished products from silk.

Section 3—Commercial Businesses
- (1) Retail trade, except as listed in category C
- (2) Trading in mineral ores, except as listed in category C
- (3) Sale of foods and beverages, except as listed in category C
- (4) Trade in antiques, old objects or works of art

Section 4—Service Businesses
- (1) Tourist agencies
- (2) Hotels, except hotel management
- (3) Businesses governed by the laws on entertainment places
- (4) Photographic studio, photographic processing and printing
- (5) Laundry
- (6) Tailoring or dressmaking

Section 5—Other Businesses
- (1) Domestic land, water and air transport
- (2) Operation of printing establishments
- (3) Newspaper publishing

CATEGORY C (majority foreign ownership allowed with restrictions)

Section 1—Commercial Businesses
- (1) All kinds of wholesale trade, except those listed in category A
- (2) All kinds of export trade
- (3) Retail trade in machinery, engines and tools
- (4) Sale of foods and beverages to promote tourism

Section 2—Industrial and Handicraft Businesses
- (1) Manufacturing of animal feed
- (2) Extraction of vegetable oils
- (3) Production of textile and knitted products, including yarn spinning and dyeing and fabric printing
- (4) Manufacturing of glassware, including light bulbs
- (5) Manufacturing of food cups, bowls and plates
- (6) Manufacturing of stationery and printing paper
- (7) Rock salt mining

Section 3—Service Businesses
- (1) Any business not listed under categories A or B

Section 4—Other Businesses
- (1) Construction, except that listed under category A

Appendix 25

INVESTMENT CLIMATE RATING SCALE

Item	Thailand Score
Capital repatriation:	
No restrictions	12
Restrictions based only on time	
Restrictions on capital	
Restrictions on capital and income	
Heavy restrictions	
No repatriation possible	
Discrimination and controls foreign versus domestic businesses:	
Foreign treated same as local	12
Minor restrictions on foreigners no controls	
No restrictions on foreigners some controls	
Restrictions and controls on foreigners	
Some restrictions and heavy controls on foreigners	
Severe restrictions and controls on foreigners	
Foreigners not allowed to invest	
Foreign ownership allowed:	
100% allowed and welcomed	
100% allowed not welcomed	
Majority allowed	8
50% maximum	
Minority only	
Less than 30%	
No foreign ownership allowed	
Political Stability:	
Stable long term	
Stable but dependent upon key person	
Internal factions but government in control	
Strong external/internal pressures	4
Possibility of a coup	
Instability real possibility of coup	
Willingness to grant tariff protection:	
Extensive protection granted	
Considerable protection granted especially to new industries	6
Some protection granted mainly to new industries	

Little or no protection granted

Availability of local capital:

Developed capital market: Open stock exchange	
Some local capital available:	
Speculative stock market	
Limited capital market:	
Some outside funds available	6
Capital scarce, short term	
Rigid controls over capital	
Active capital flight unchecked	

Currency stability:

Freely convertable	
Less than 10% open/black market differential	
10% to 40% open/black market differential	14
40% to 100% open/black market differential	
Over 100% open/black market differential	

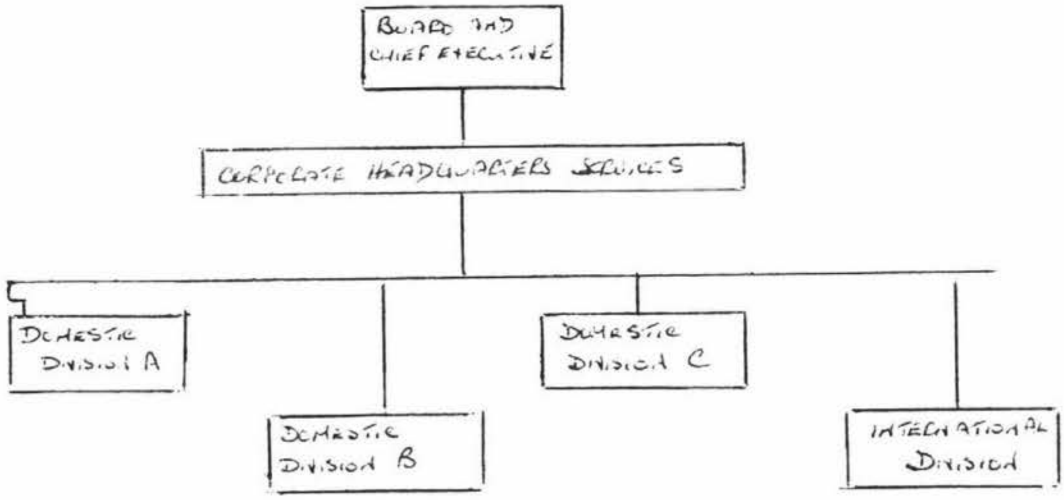
Annual inflation for the last five years:

Less than 1%	
1% to 3%	
3% to 7%	10
7% to 10%	
10% to 15%	
15% to 35%	
Over 35%	

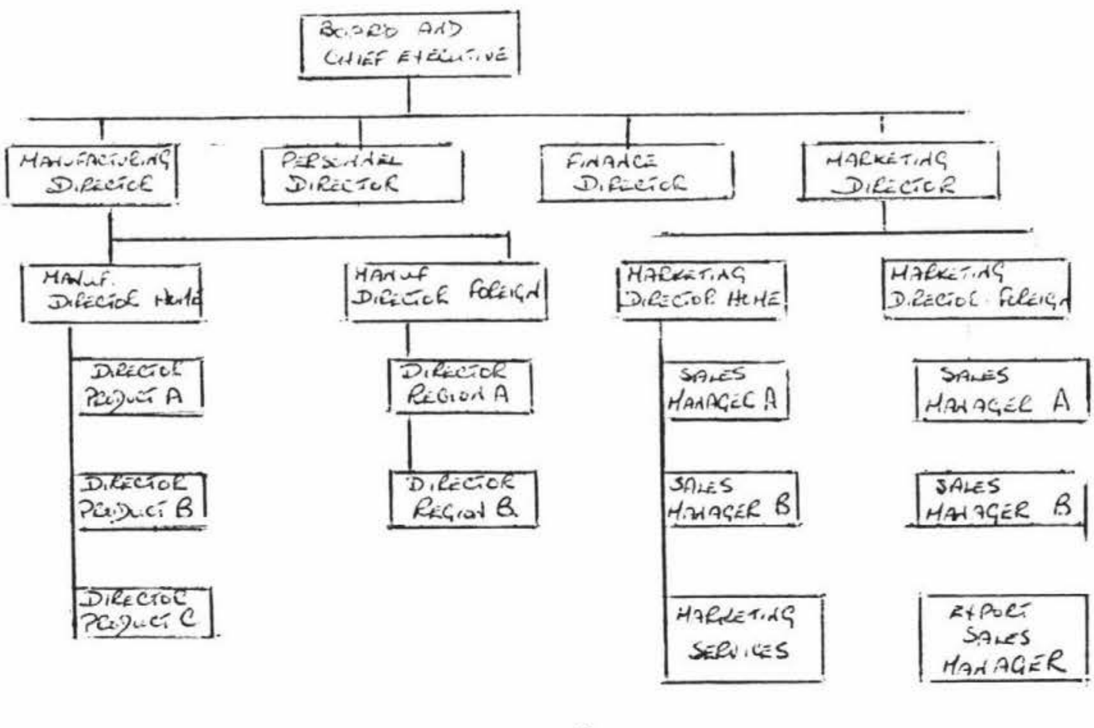
Total	**72**

Appendix 27(i)

INTERNATIONAL DIVISIONAL STRUCTURE



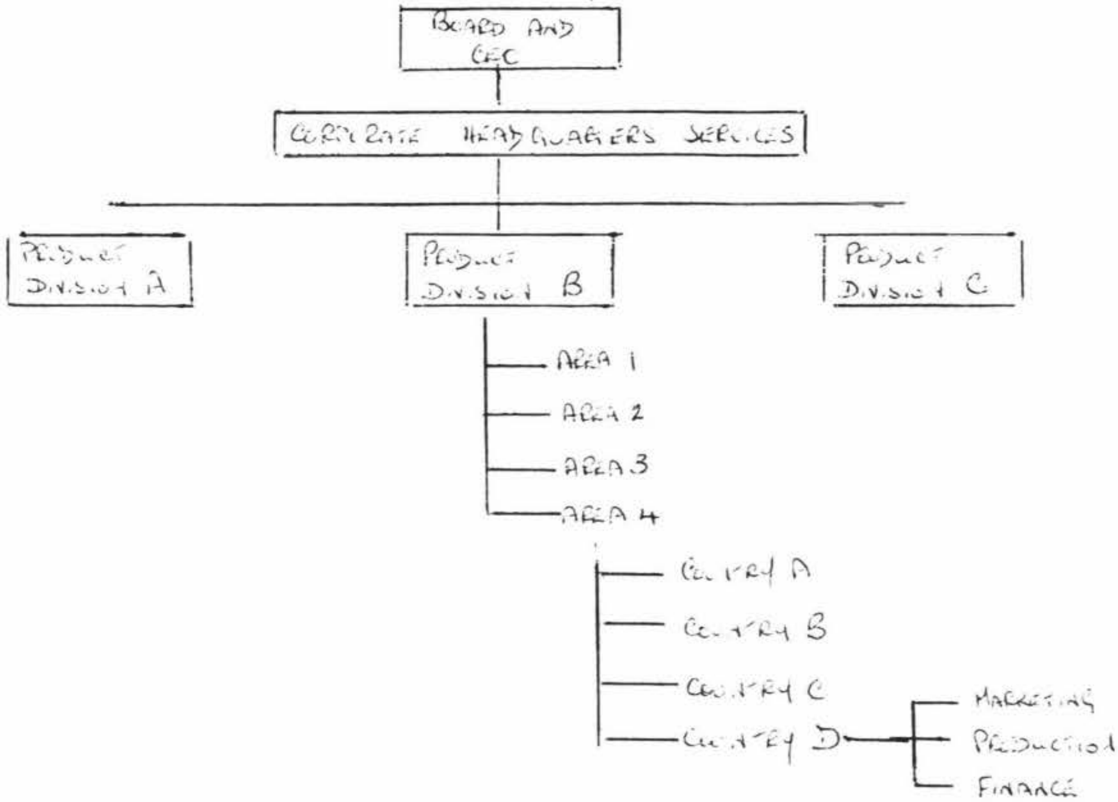
GLOBAL FUNCTIONAL STRUCTURE



Source: MULTI NATIONAL STRATEGIC PLANNING
DEREK F CHANNON WITH MICHAEL JALLAND

Appendix 27(a)

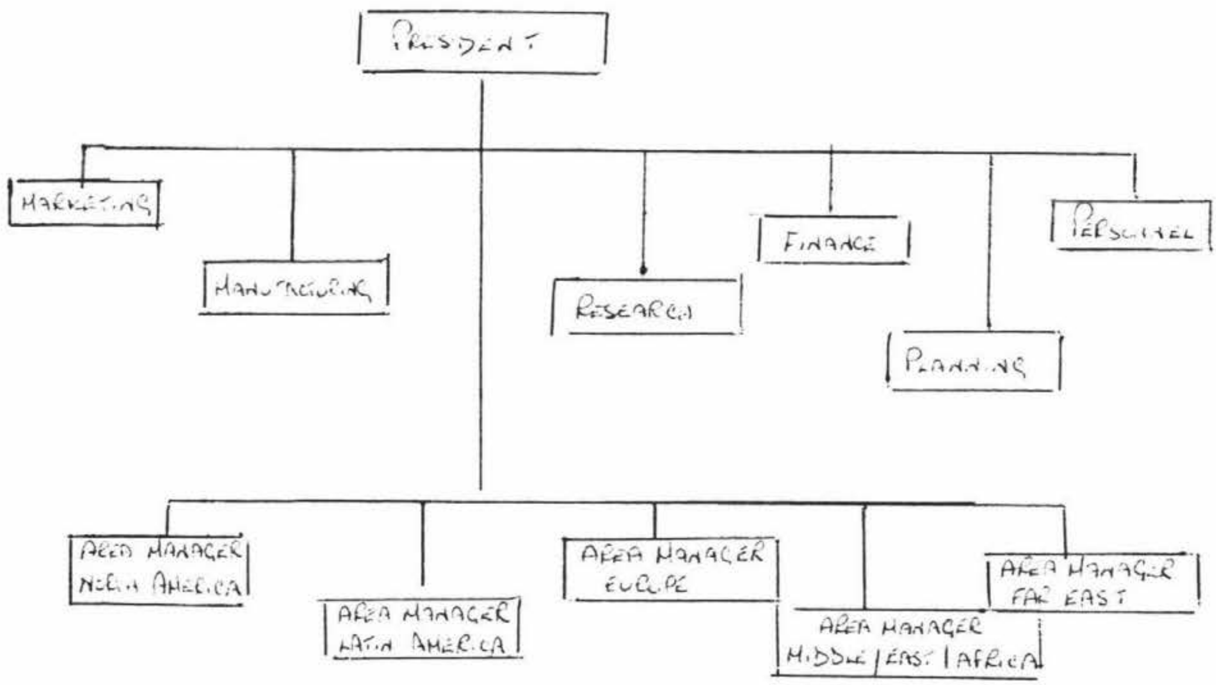
GLOBAL PRODUCT STRUCTURE



Source: DEREK F CHANNON WITH MICHAEL JALLAND
MULTINATIONAL STRATEGIC PLANNING

Appendix 27 (3)

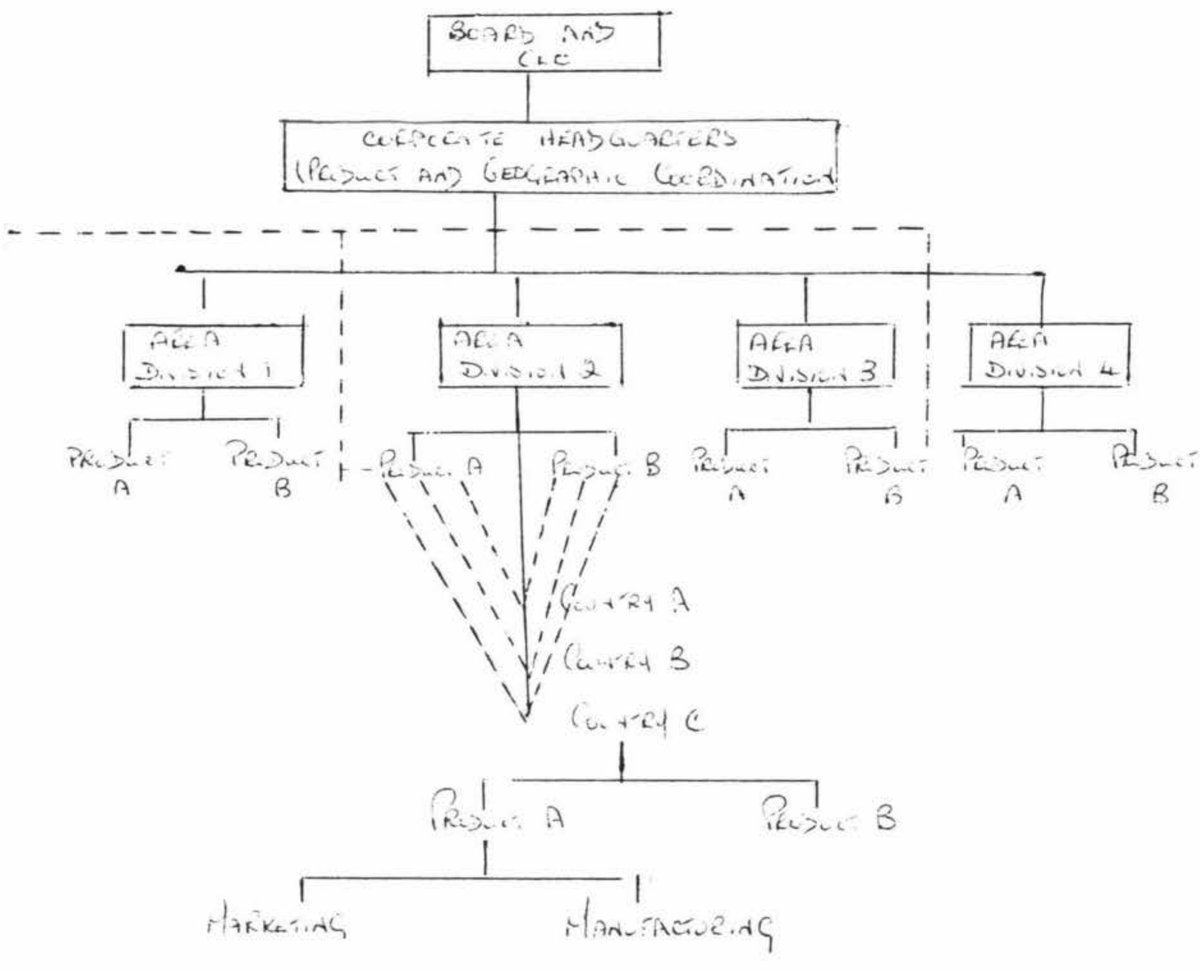
GLOBAL GEOGRAPHIC STRUCTURE



Source: Gilbert H Clee and Wilbur M. Sachtjen
Organising a Worldwide Business
Harvard Business Review, 1964.

Appendix 27 (4).

Area Product Organisation Structure
Matrix



Source Derek F. Channon with Michael Jalland
Multi National Strategic Planning.

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