

**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT**  
(Public Organization)



**Proceedings of the Training Workshop on  
Investment Issues for Thai Diplomats and Officials**

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**September 2002  
Bangkok, Thailand**

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สิ่งพิมพ์รัฐบาล  
สมบัติห้องสมุดรัฐสภา

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# INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT

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## **About the International Institute for Trade and Development**

During the 10<sup>th</sup> session of the United Nations Conference on Trade and Development (UNCTAD X), held in Bangkok, Thailand from 12-19 February 2000, the Government of the Kingdom of Thailand and UNCTAD concluded an agreement to cooperate in establishing the International Institute for Trade and Development (ITD).

In accordance with Paragraph 166 of the Bangkok Plan of Action, the Institute aims to provide a capacity-building mechanism in the areas of trade, finance, investment, technology and development that would strengthen the ability of developing countries to cope with the ever-changing international economic environment. It will strive to enable developing countries to become more informed and better-equipped to fully harvest the fruits of globalization.

The Institute, situated on the campus of Chulalongkorn University in Bangkok, Thailand was formally inaugurated on 1 May, 2002 by H.E. Dr. Thaksin Shinawatra, Prime Minister of Thailand.

## INTRODUCTION

On the day following the launching in Bangkok of UNCTAD's World Investment Report 2002, the International Institute for Trade and Development (ITD) joined with the Institute of Foreign Affairs in organizing the **Training Workshop on Investment Issues for Thai Diplomats and Officials** on 18 September 2002. The event took place in Naradhip Hall of the Ministry of Foreign Affairs. Participants included some 70 diplomats and officials from various ministries as well as Thailand's IPA – the Board of Investment.

Particularly notable was the fact that this training workshop brought together diverse perspectives on the central issues of foreign direct investment (FDI), featuring UNCTAD's presentation on FDI trends, UNESCAP's view on the subject of investor targeting, Thailand's Board of Investment's presentation of its policy and promotional programmes as well as private investors' corporate views on investing in Thailand.

Coming fast on the heels of UNCTAD's finding that world FDI in 2001 sharply declined by over 50% with a grim prognosis that this descending trend could hardly be reversed in 2002, the training workshop took on a timely significance. Even though Thailand's performance in 2001 was relatively positive, it indeed could have done better had the world economic situation entered a more positive territory, which apparently has not been the case. Thai diplomats and officials thus were given a variety of policy options to ponder amidst the bare realities of global economic slowdown.

Though the workshop saw a good turnout of participants, the International Institute for Trade and Development believes that the presentations delivered during this one-day activity by the distinguished resource persons and private investors, along with graphs and excerpts from various databases, would be more useful if given a wider audience and chance for a deeper perusal. The ITD is, therefore, publishing the **Proceedings of the Training Workshop on Investment Issues for Thai Diplomats and Officials**, making this the second publication to be produced by the ITD.

Special thanks go to Dr. Somchin Suntavaruk, Programme Director of the ITD, without whose timely contribution this publication could not possibly have been produced in time. The transcript and lay-out of this publication, as well as the previous one, was prepared by Nilaratna Xuto of the ITD, to whom an appreciative acknowledgment should here be recorded. Last, but by no means least, the Institute of Foreign Affairs of the Ministry of Foreign Affairs deserves high appreciation for having provided a well-equipped venue, efficient assistance in logistics for the resource persons, the hospitality arrangements and the personnel to service the workshop from the planning stages through to its conclusion.

Ambassador Manaspas Xuto  
Executive Director  
International Institute for Trade and Development

**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT  
(Public Organization)**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**Morning Session:**

**FDI Trends and Principles of Investor Targeting**

**Presented by:  
Ms. Nazha Benabbes-Taarji, UNCTAD  
Mr. Marc Proksch, UNESCAP**

**Bangkok, 18 September, 2002**

หน้าจาง

**Welcome Remarks**  
**Ambassador Chitriya Pinthong**  
**Director, Institute of Foreign Affairs, Ministry of Foreign Affairs**

Ambassador Manaspas Xuto, Executive Director of the International Institute for Trade and Development,  
Representatives from UNCTAD, ESCAP, BOI,  
Ladies and Gentlemen,

On behalf of the Ministry of Foreign Affairs, I would like to welcome all of you here today. It is a pleasure to host this training workshop on investment issues for Thai diplomats and officials, which is jointly organized by the Institute of Foreign Affairs, Ministry of Foreign Affairs, and the International Institute for Trade and Development, in cooperation with UNCTAD. We hope it will be a valuable and fruitful experience for the participants.

For the Thai diplomats, some of them will be leaving shortly for their posts in Embassies and Consulates abroad. Investment promotion and protection is one of their major tasks as the Ministry of Foreign Affairs takes an active part in supporting work by the Board of Investment, Ministry of Commerce and many other governmental agencies in promoting and protecting Thailand's economic interests.

The knowledge gained today would help strengthen the awareness of the role of foreign direct investment and enhance their contribution to investment protection and promotion activities. I would like also to take this opportunity to thank Ambassador Manaspas Xuto and the ITD in helping to organize this training workshop. The ITD (or International Institute for Trade and Development) is set up to equip developing countries with the knowledge necessary for successful participation in today's global economic environment. ITD is established through a cooperation agreement between the Thai government and UNCTAD during UNCTAD's Tenth Session held in Bangkok during February in the year 2000, and was inaugurated on May 1<sup>st</sup> of this year. The Executive Director is Ambassador Manaspas Xuto, one of our distinguished career diplomats.

May I now invite Ambassador Manaspas to say a few words of welcome.

หน้าจาง

**Welcome Remarks**  
**Ambassador Manaspas Xuto**  
**Executive Director, International Institute for Trade and Development (ITD)**

Ladies and Gentlemen,

Thank you Ambassador Chitriya for giving me this chance to say something to the participants here at this training workshop on investment issues for Thai diplomats and officials. Because of the tight programme at this workshop, I shall not take up much of your time.

The idea for having this workshop and the topic for it originated with the suggestion of Mr. Karl Sauvart, Director of the Division on Investment, Technology and Enterprise Development of UNCTAD. His suggestion envisaged a much longer period for the workshop. I thought then that it would be better to begin with a shorter version of the training, to allow you to have a taste of what could be expected of a workshop of this kind, dealing with the very important and complex subject of investment.

You all should congratulate yourselves for having decided to be here with all of us today. Investment, especially Foreign Direct Investment, is no less important to national development than trade, international trade. Of course, last year FDI inflows plummeted by one half the figure for the year 2000, to 735 billion dollars. We can point to at least two major reasons for this decline: the downturn in the world economy and the weakening of business confidence virtually everywhere, all of which was worsened by the events of September 11 last year. While it is accepted that Foreign Direct Investment for this year can hardly be expected to reverse its downward trend, there are, as in all other cases, opportunities for improvement if we do everything right.

According to the World Investment Report 2002, which was launched here yesterday, Thailand is not doing too badly, seeing an increase of FDI of about 1 billion dollars last year, making a total of 3.8 billion dollars for the whole year, 2001. Many

automakers and component-producers have announced plans for both expansion and for entry into Thailand. Still there are opportunities for a better performance on our part.

Some of these elements will be made known to you in the course of today's training workshop which includes the adoption of the third generation of investment promotion whereby specific investors are targeted, down to the firm level.

You will hear from a number of distinguished resource persons, starting with an expert from UNCTAD, followed by another expert from ESCAP, during the morning sessions. Then, in the afternoon--after lunch, which is kindly offered by the Ministry of Foreign Affairs--a representative from Thailand's Board of Investment will speak to you on Thai promotion policies and targets. The last programme for today's workshop will feature a panel presentation by two senior foreign corporate executives who will share with you their perspectives on investing in Thailand, derived from years of direct experience in the field.

This condensed programme may not be comprehensive, given the limited time of only one day. But, this is only the beginning. We intend to organise more of these events in the months to come.

So, ladies and gentlemen, enjoy yourselves through today's programme. In the end, let us know what you think about the workshop by filling in the evaluation form which will be distributed to you. If we find that the majority of you like it, then we shall certainly organise another workshop, perhaps with a longer duration and in greater depth.

I now would like to invite Mrs. Nazha Benabbes-Taarji to deliver her introductory remarks before she begins her presentation.

**Introductory Remarks**  
**Mrs. Nazha Benabbes-Taarji**

Ambassador Xuto, Ambassador Chitriya,  
Ladies and Gentlemen,

On behalf of the Secretary-General of UNCTAD, Mr. Rubens Ricupero, I would like to join my voice to that of my predecessors, and welcome you to this training workshop on investor targeting for Thai diplomats and officials. We are very pleased to see the fruitful and long cooperation between UNCTAD and the Thai government continue, this time in cooperation with the International Institute for Trade and Development (ITD), and the Ministry of Foreign Affairs, with the assistance of ESCAP – the Economic and Social Commission for Asia and the Pacific, allowing us the opportunity to share with you some of the knowledge and expertise UNCTAD’s Division on Investment, Technology and Enterprise Development has developed in the area of investment promotion.

As you are all aware, foreign direct investment has become a major tool for the development and the integration of home economies into the global world economy, bringing together skills, technology and much-needed capital. However, the declines experienced in 2001, which are likely to continue in 2002--as reported by the World Investment Report of this year, launched just yesterday worldwide--have spurred fierce competition between countries in their search to attract foreign direct investment. Indeed, countries are scaling up their efforts to attract and benefit from FDI. The intense competition for such investment is leading countries to adopt a more targeted approach to FDI promotion, particularly within the framework of their development objectives.

This is the reason why UNCTAD embarked on the development of a training package, entitled “Third Generation Investment Promotion: Investor Targeting” aimed at assisting developing countries and transition economies to acquire the necessary skills to promote and target investment. The master training package consists of a reference manual for participants, an instructor’s guide and training aids. It addresses these issues in modular form—I think you have a few modules, which have been

distributed to all of you—which try to present key aspects of investment promotion and investor targeting. The training is based on the research that UNCTAD conducts in the area of FDI and on experience gained from its global programme of technical assistance in investment promotion and facilitation. As for the target beneficiaries – the training is primarily designed for officials of investment promotion agencies and other institutions that are responsible for promoting and facilitating investment, including diplomats like yourselves.

In this regard, I would like to mention some of the national programmes we had the privilege to develop, particularly for Egypt and Brazil, for training their diplomats. Actually, we're currently organizing a training workshop for Brazilian diplomats posted in Asia and Latin America, which will be held in Lisbon, Portugal from 11 to 13 November 2002. A similar workshop was already organised in cooperation with "Invest in France", in Paris in November 2000 for Brazilian diplomats posted there, and in major capitals in Europe and in North America on how to promote and target investors from these major capitals.

Our training is delivered both at the national and regional level, in English, French and Spanish. At the national level, tailor-made training is developed to address the specific needs of the country and the investment promotion agency. Right now, we're developing comprehensive training programmes for the Kingdom of Saudi Arabia, Morocco and Costa Rica. For Saudi Arabia, this is done in cooperation with the Saudi Arabian General Investment Authority (SAGIA). In the case of Morocco, it is in cooperation with the *Direction des Investissements Extérieurs of the Ministry of Economy, Finance, Privatisation and Tourism*, and we're developing a sophisticated programme for Costa Rica in the area of targeting. As you know, CINDE--Costa Rica's investment promotion agency--is one of the best agencies in the world as they have been very successful in targeting investors, but they still today feel the need to upgrade the skills of their staff. This is why they've requested UNCTAD to help them in this area.

This training, as already mentioned, is also organized at the regional level. It is conducted in cooperation with the World Association of Investment Promotion Agencies (WAIPA), and I'm pleased to say that Thailand's BOI is a member of

WAIPA. WAIPA is an Association that has grown tremendously in the last few years. Established by UNCTAD in 1995 with 45 members, today WAIPA has more than 137 member agencies from all over the world.

Since 1999, we had approximately 8 or 9 workshops organized at the regional level. The first one actually was held in Kampala, Uganda in cooperation with the Board of Investment of Uganda (BOI) for African IPAs. It was followed with one regional workshop for Asia and the Pacific, in cooperation with BOI Rajasthan, India. In 2001, we had one regional workshop for the Caribbean countries and Central America organized jointly with JAMPRO, the investment promotion agency of Jamaica.

This year, we have been very busy as we had 4 workshops that were already organized and we are planning one more workshop before the end of 2002. The first one actually was held for French-speaking countries, for sub-Sahara Africa, in cooperation with the investment promotion agency of Mali, and held in Bamako. We recently held one for North African countries in Rabat, Morocco. We had also organized one in cooperation with ICE in Rome, Italy for English-speaking Arab Mediterranean countries. Last July we had one training workshop for Central and Eastern European IPAs, which was held in Istanbul, Turkey in cooperation with the OECD and PriceWaterhouseCoopers, Plant Location International. The last in this series is being organised for December 2002 for Latin American countries. It will be in cooperation with CORPEI, the investment promotion agency of Ecuador, and will be held in Guayaquil. As you can see, we have a heavy programme of training.

The workshops are conducted by a team consisting of UNCTAD staff that is totally devoted to this activity. We also have a team of international consultants and practitioners from the private sector. Whenever possible, we try to cooperate with the private sector. We have developed special partnerships with some large consulting firms like PriceWaterhouseCoopers who have joined hands with us to share their expertise in this area, particularly Plant Location International, which is famous and very active in assisting companies, particularly transnational corporations, to site select. We also cooperate with Ernst and Young. Actually, the workshop in Morocco for the North African countries was held together with Ernst and Young - a leading

consulting firm quite active, particularly, in the area of corporate development support, commonly known as “after-care.” Ernst & Young have developed a very sophisticated programme assisting IPAs on how to take care of their existing investors.

In order to ensure the sustainability of the training, we aim at organizing what we call the “training-the-trainers” workshops. In this regard, we also try to develop cooperation with training centres in various regions and we would like to develop our relationship with the ITD. We are also currently developing a long-distance training programme. We have a website and as you can see in the materials that you have, our group is called ASIT – the Advisory Services on Investment and Training.

Today, as Ambassador Xuto has said, we have very limited time. So we will not be able to share with you all the expertise and all the knowledge UNCTAD has accumulated in this area, but just provide you with a schematic idea of what has been developed and what you can benefit from. I do believe that diplomats can be really important representatives and promoters of investment abroad. A number of countries have realized that it’s too costly to have overseas offices, and they have set up a network of focal points responsible for promoting investment from abroad, particularly in major capitals where the majority of their investors are located.

Thank you.

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**TRANSCRIPT**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**"FDI Trends"**

**Presented by  
Ms. Nazha Benabbes-Taarji  
Chief of Investment Promotion Section  
Investment Policies and Capacity Building Branch, DITE-UNCTAD**

**Bangkok, 18 September, 2002**

หน้าจาง

**Presentation:  
“FDI Trends”**

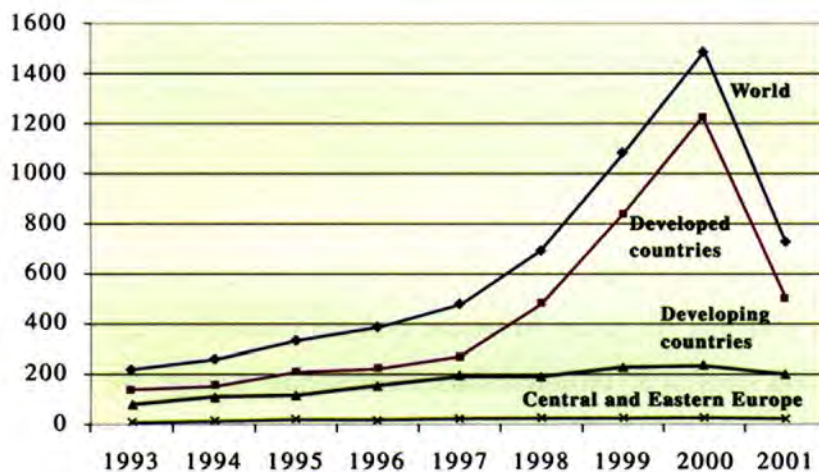
**Mrs. Nazha Benabbes-Taarji, DITE-UNCTAD**

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This morning I have the pleasure of sharing with you some of the major findings of the World Investment Report 2002, which has just been launched actually yesterday from Bangkok, Thailand and worldwide.

**Global inflows of FDI**

*1993-2001, USD billions, by group of countries*

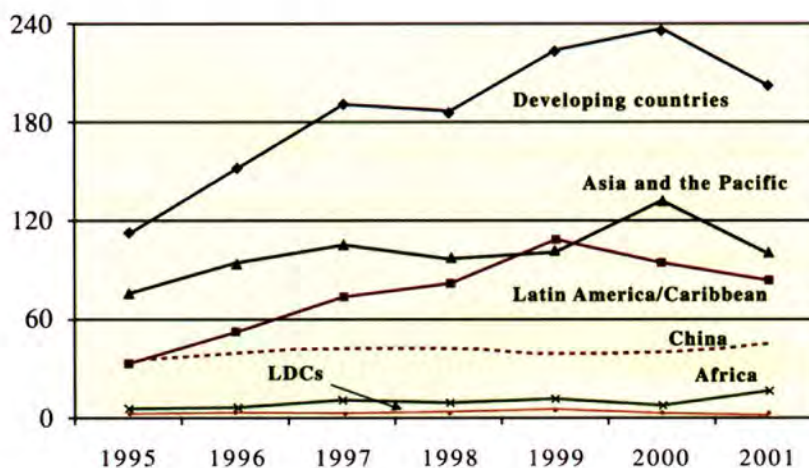


This first slide provides you with a global picture of what happened from 1993 to 2000, in terms of foreign direct investment (FDI) inflows. We can see that global flows have grown tremendously over these years to reach a remarkable level in 2000. Unfortunately, in 2001, we witnessed a drastic decline in overall foreign direct investment inflows. The decline of FDI in 2001 was by more than half of the previous year and it's the largest decline in the last 30 years -- it was actually minus 51%. The total level of FDI inflows in 2001 stood at 735 billion US dollars.

The economic deceleration in the world economy and also the weakening in business confidence can explain some of the major causes behind this drastic decline, which have been accentuated by the September 11 events. We also witnessed a sharp reduction in mergers and acquisitions at world level.

### Inflows of FDI to developing countries

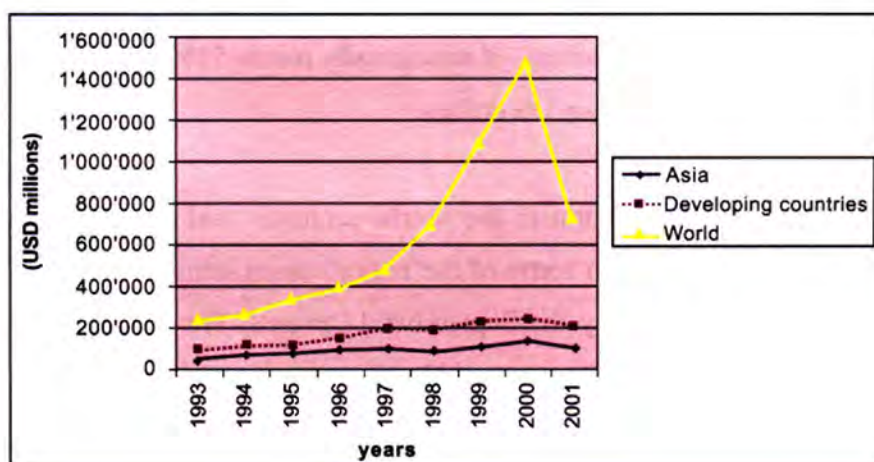
1995-2001, USD billions, by region



The trends in various regions, particularly in the developing world, follow more or less the same upward trend to the year 2000, followed by a significant decline. Fortunately, the decline was not as drastic for developing economies. The decline stood actually at minus 14% in the year 2001 for developing countries as a whole. Asia and the Pacific lost FDI inflows of about 24% to 102 billion dollars from 134-135 billion dollars the previous year. For the Latin American and the Caribbean region, the decline was minus 11%, and stood at 85 billion dollars. Interestingly enough, the only continent that has managed to actually double its inflows of foreign direct investment in 2001 was Africa, which has increased its share to 2%. Nevertheless, Africa's share is quite modest at world level.

### Inflows of FDI to South, East, and South East Asian countries

1993-2001, USD millions

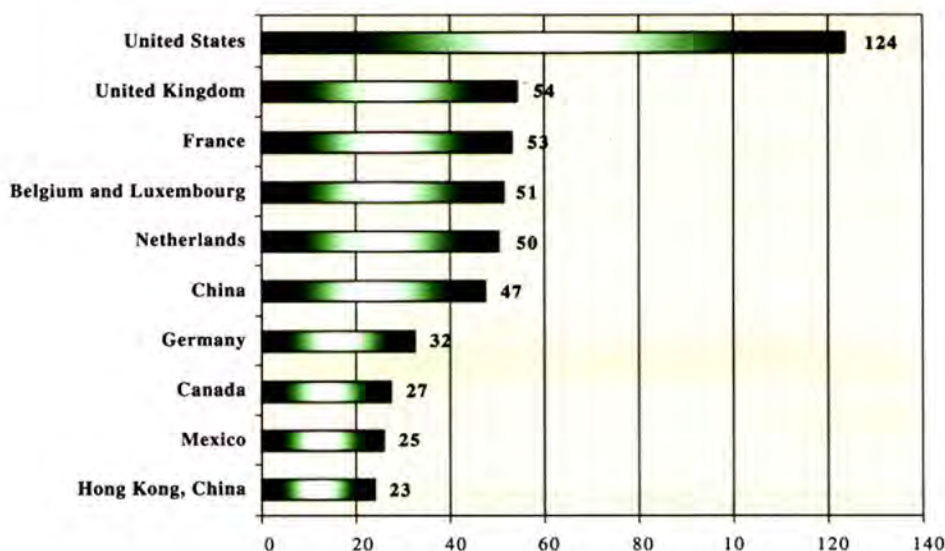


Here we have a comparative graph between Asian developing countries and the world of FDI in the period 1993-2001 in millions of dollars. You can see that the decline is not as drastic in this region compared to the world. In blue, we have Asia. In pink we have developing countries as a whole, and in yellow we can see the steep decline from 2000 to 2001. In Asia, the decline did not affect all sub-regions or countries in the same manner. Some countries have still managed to actually maintain or increase their overall inflows of foreign direct investment in the year 2001. This is the case particularly for South Asia. India has managed to attract increased levels of FDI.

Also in West Asia, the trend was varied again, and some countries like Turkey and Saudi Arabia have actually managed to increase the level of inflows to their respective countries because of a number of reasons. However, in your sub-region – in Southeast Asia – FDI inflows stagnated at 13 billion dollars. The major reason behind this was continued divestments, which took place the last 3 to 4 years, in Indonesia. Inflows were also stagnant in Northeast Asia and this is particularly because of the decline which Hong Kong, China experienced in 2001.

### 10 largest FDI destinations

2001, USD billions

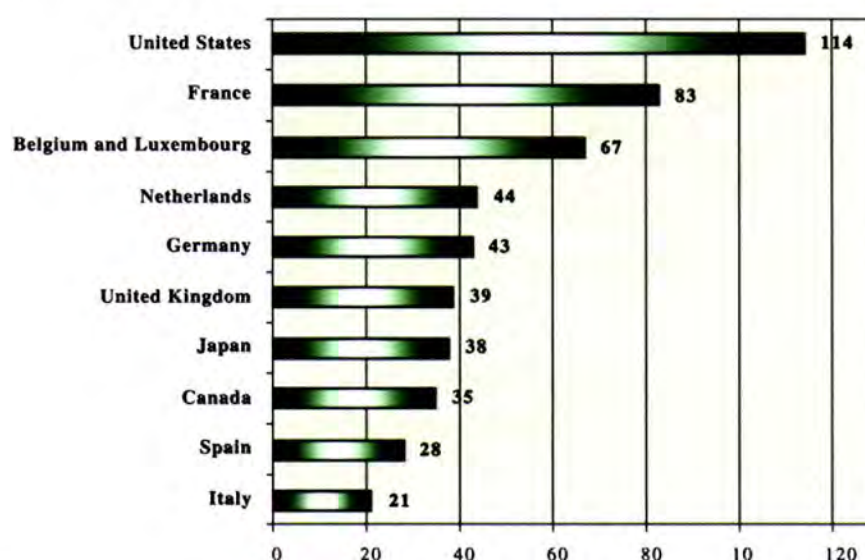


This slide allows us to see the level of concentration of FDI in general amongst a handful of countries, particularly the developed countries. We can see that the ten largest FDI destinations comprised the United States, the UK, France, Belgium, Luxembourg, Netherlands, Germany and Canada. For developing countries we have China as the major

beneficiary of FDI inflows, followed by Mexico and Hong Kong, China. So we have two major countries in your region that are in the top ten destinations in the world, and one Latin American country – Mexico, namely.

### 10 largest sources of FDI

2001, USD billions



The level of concentration can be witnessed also at the level of *sources* of FDI and amongst the ten largest sources, we more or less find the same countries, particularly in the developed world. The United States invests almost as much abroad as it receives in terms of FDI inflows. This year France has been quite active in investing around the world; there is Belgium, Luxembourg, Netherlands, Germany, the United Kingdom - in general, the EU countries or, I would say, the “Triad” countries– Japan, North America and the EU countries.

### Inflows of FDI to select countries in South, East, and South East Asian countries 1993-2001, USD millions

(USD millions)	1993	1994	1995	1996	1997	1998	1999	2000	2001
China	27'515	33'787	35'849	40'180	44'237	43'751	40'319	40'772	46'846
Hong Kong (China)	6'930	7'828	6'213	10'460	11'368	14'770	24'596	61'938	22'834
Singapore	4'686	8'550	8'788	8'608	10'746	6'389	11'803	5'407	8'609
Thailand	1'805	1'364	2'068	2'271	3'626	5'143	3'561	2'813	3'759
Korea, Republic of	588	809	1'776	2'325	2'844	5'412	9'333	9'283	3'198
Malaysia	5'741	4'581	5'816	7'296	6'324	2'714	3'895	3'788	554
Indonesia	2'003	2'108	1'346	6'194	4'677	-356	-2'745	-4'550	-3'277

On this slide, we have inflows of foreign direct investment to a number of selected countries in South, East and Southeast Asian countries in the period 1993-2001 in million US dollars. You can see that the lion's share goes to China, which has managed in 2001 to regain its No. 1 position in the region, overtaking Hong Kong-China from 3 consecutive years of stagnant FDI inflows. China remains the largest recipient, not only at the world level but also amongst developing countries and in your region.

In the case of Hong Kong-China we witnessed a steep decline in the year 2001 from 61 billion 938 million dollars to 22 billion 834 million dollars, in 2001. The remarkable increase in the year 2000 can be explained by the conclusion of a major transaction, a merger and acquisition in the telecommunications area which was concluded in that year, inflating the overall level of FDI inflows to Hong Kong-China. This was not the case in 2001, and the level went to normal again.

In the case of Singapore, the country had managed to step up its FDI inflows to 8 billion 609 million dollars from a lower level the previous year. Singapore is consolidating its policies as they were facing fierce competition, particularly in the electronics industry. They had to review their targeting strategies and they have launched a new targeting programme focusing on new sectors, particularly in the biomedical industry, to attract higher-technology types of FDI and also develop their R&D centres in this area. So they have been quite successful in attracting new investments in the year 2001.

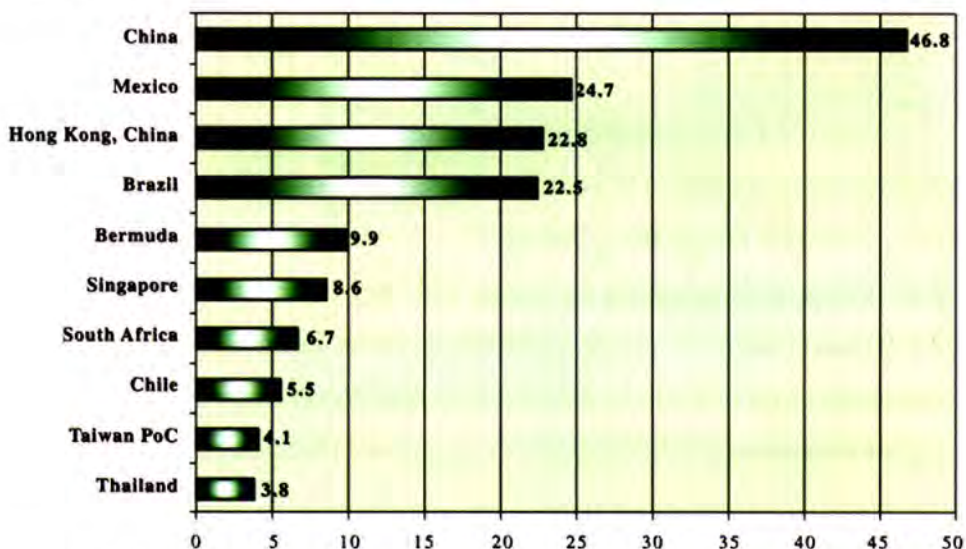
In the case of Thailand, the country has successfully managed to attract increased levels of foreign direct investment inflows and this is a result of the consolidation, which has been going on, particularly in the automotive industry. TNCs continued to consolidate their regional auto-manufacturing bases in Thailand. Auto and auto-component manufactures such as BMW, Honda, Toyota, Land Rover and Ishikawajima-Harima announced expansion or entry there.

In the case of the Republic of Korea, there has been a steep FDI decline. Korea is undergoing major restructuring and is trying to consolidate some of its major industries. This is also valid when we look at the trends for their outward investment where the Republic of Korea has actually been closing a number of affiliates which are established in a large number of countries around the world, focusing on core activities.

For Malaysia FDI inflows went down in 2000 and the country is facing fierce competition in some industries, particularly in the electronics industry. In Indonesia, divestment continued for reasons which we are all aware of. However, overall prospects for FDI in the Asia-Pacific region remain bright. Surveys suggest that Asia will continue to be an important location for the expansion of activities within TNCs' international production systems. The UNCTA/AFII/Andersen survey reported that overall half the respondents saw "improved" or "significantly improved" prospects for FDI in the region in the next three to five years (UNCTAD 2001). The recent MIGA survey also ranks India, Malaysia and Singapore as favoured destinations.

**10 largest developing economy recipients of FDI**

2001, USD billions



This slide provides us with the top ten largest developing country recipients of FDI. We can see, of course, that the lion's share goes to China with close to 47 billion dollars. It's a 15% rise over the year 2000, and the momentum continued in the first half of 2002. FDI plays an important role in the Chinese economy and foreign affiliates actually account for 23% of total industrial value-added in China, approximately 18% of tax revenues and close to 50% of total exports.

The other country attracting significant levels of foreign direct investment inflows among developing countries is Mexico. Mexico has benefited tremendously from the NAFTA agreement, and large investments—particularly from the United States—have been relocating to Mexico in search of low-cost labour and good conditions and, of course, proximity to the US market. The third beneficiary is Hong Kong-China with 22.8 billion

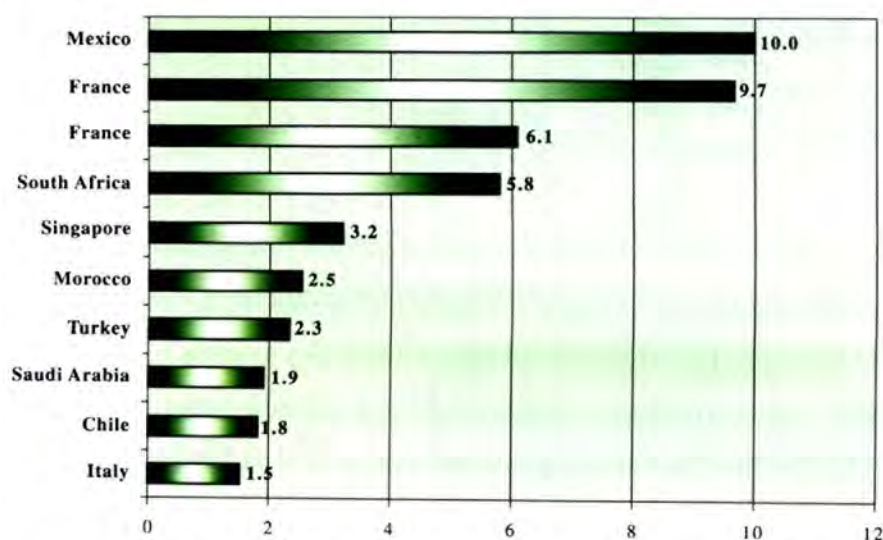
US dollars. Hong Kong-China continues to attract and play a major role as a location attracting investment worldwide.

Brazil is the major player and recipient in the Latin American region. The level stood at 22.5 billion US dollars. The interesting aspect about the majority of Latin American countries, particularly Brazil—Argentina also, before the crisis—Venezuela and Peru and other countries, is that there has been, and there is still going on, a major wave of privatisation and a lot of mergers and acquisitions concluded in the last few years, particularly in the energy, electricity and utilities sectors. The other major player in the Latin American region is Chile.

In Africa, the only country that manages to attract significant levels of foreign direct investment is South Africa. Particularly in the year 2001, South Africa attracted 6.7 billion US dollars, thanks to the conclusion of a major deal, a merger and acquisition, when Anglo-American, a major UK-registered TNC, bought out De Beers - in the diamond business - a South African company.

### **The 10 largest increases of inward FDI**

*2001, USD billions*

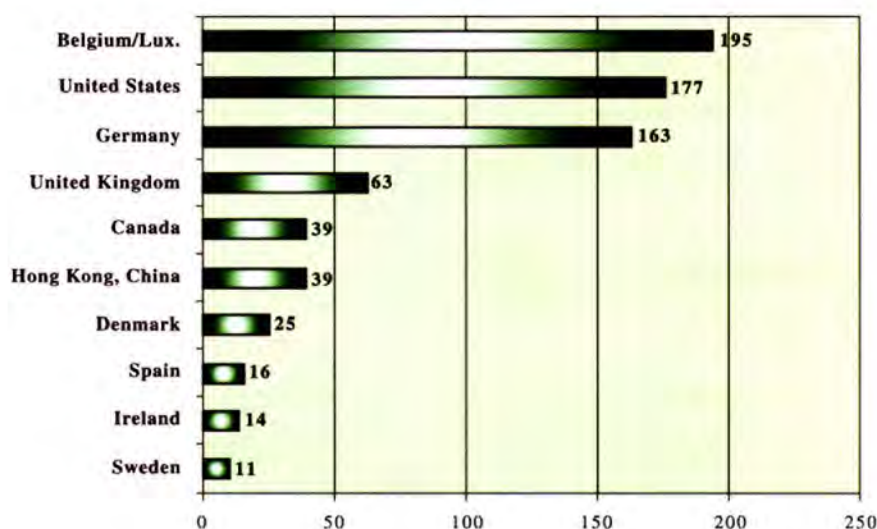


This slide allows us to see what are the ten largest increases of inward FDI and what is the magnitude of this increase. It's interesting to see that Mexico managed to attract 10 billion US dollars more than the level of the previous year. France was also very successful in attracting 9.7 billion dollars. China, a major location, attracted close to 6.1 billion dollars increase in the year 2001. As I said earlier, we have South Africa with this

major deal that was concluded in the year 2001. Morocco, for the first time, attracted a sizable level of FDI in the year 2001, again thanks to a major transaction that was concluded in the telecommunications area. Vivendi Universal, a French-registered company bought over Maroc-Telecom. Turkey has been very successful in attracting investment in West Asia. Saudi Arabia, with the help of the establishment of a new agency promoting investment called the Saudi Arabia General Investment Authority (SAGIA), and also with the adoption of a new investment law that liberalized their investment regime –this has paid off in terms of results, and we have seen an increase in their overall level of FDI by 1.9 billion.

### The 10 largest declines of inward FDI

2001, USD billions

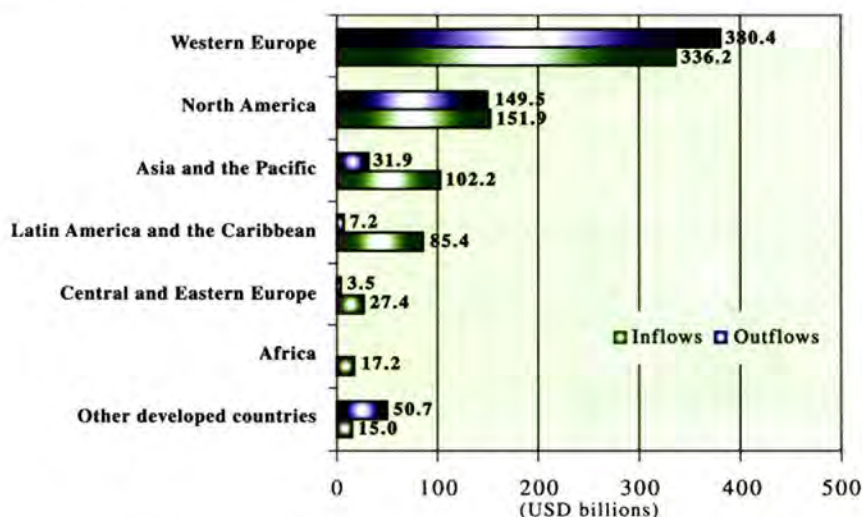


Here we have the ten largest declines of inward foreign direct investments in the year 2001. The decline was quite significant for some countries and this was particularly the case for Belgium, Luxembourg and the United States - minus 177 billion US dollars. For Germany, the sharp drop is explained by the inflated figure of the previous year because of the conclusion of one single major deal involving Mannesmann and Vodafone -- a takeover. This was not the case in 2001.

The UK also lost 63 billion dollars in the year 2001. In your region, we have, as I said, Hong Kong-China but for the obvious reasons I have explained earlier. Again it's mostly in developed countries where we see the loss in terms of FDI inflows, including Denmark, Spain, Ireland and Sweden.

## FDI inflows and outflows by region and economy

USD billions, 2001



This is a comparative graph of FDI inflows and outflows in the year 2001 in billion dollars. In blue are the outflows and in green you have the inflows. For Western Europe they almost set a par between inflows and outflows - it's really the region which invested most abroad and which also received very significant levels of FDI. It's the same thing for North America - it's more or less as active in both inward and outward investments. In your region, Asia and the Pacific, outward FDI fell to 32 billion dollars in 2001, the lowest level since 1998 because of the massive fall in outflows from the largest traditional investor - Hong Kong-China. In Singapore, outflows doubled and actually overtook Hong Kong-China as the region's single largest outward investor. There were actually two major deals that were concluded in Singapore in terms of mergers and acquisitions. Also, India boosted its outward investment.

In the Latin American and Caribbean region, outflows are quite small compared to the level of inflows. In Central and Eastern Europe it's the same thing - there are very, very low levels of investments coming out of that region to the rest of the world. However, this region has been increasingly attracting significant levels of FDI. This can be explained by a number of reasons such as the availability of highly skilled labour; its proximity to the European Union markets as well as the fact that a number of countries in this region have already or are acceding to the European Union. Some of them have also concluded bilateral trade agreements and association agreements with the European Union.

In Africa, actually in terms of outflows it's been negative, minus 2.5 but its intake has increased as I explained earlier on.

### **Indicators of FDI and international production**

*1982-2001, USD billions, current prices*

<b>Item</b>	<b>1982</b>	<b>1990</b>	<b>2001</b>
FDI inflow	59	203	735
FDI outflow	28	233	621
FDI inward stock	734	1 874	6 846
FDI outward stock	552	1 721	6 582
Cross border M&As	..	151	601
Sales of foreign affiliates	2 541	5 479	18 517
Gross product of foreign affiliates	594	1 423	3 495
Total assets of foreign affiliates	670	1 169	24 952
Exports of foreign affiliates	670	1 169	2600
Employment of foreign affiliates (thousands)	17 987	23 858	53 581

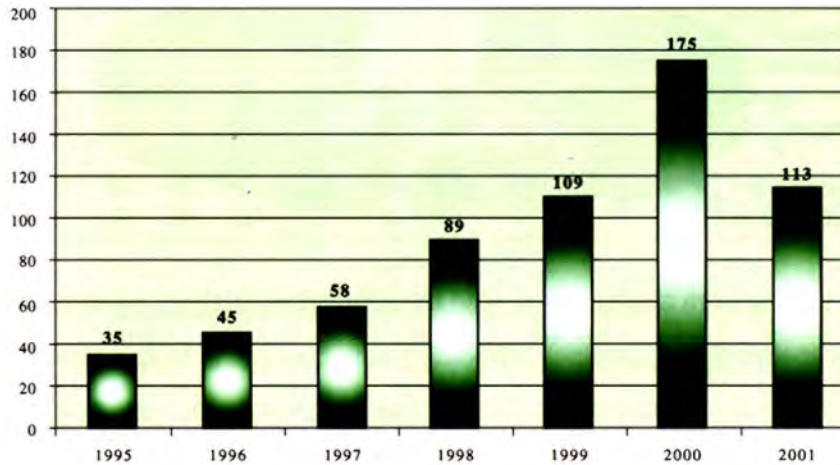
This slide provides us with the indicators of FDI and international production in a selected number of years – in 1982, 1990 and 2001. It's very interesting to see the significant increase of most of these indicators. FDI inflows went up in 1982 from 59 billion US dollars to 735 billion US dollars in 2001. It's still a tremendous increase in spite of the decline we have experienced in the year 2001. For FDI outflows – it's the same thing. It's a very dynamic process. It went up from 28 billion US dollars to 621 billion US dollars in 2001. For inward stocks there was also a remarkable increase as you can witness from the figures in front of you, and it's the same thing for outward stocks.

As for cross-border mergers and acquisitions, there has been tremendous activity in this area throughout the 1990s. The number of deals has gone from 151 transactions in the year 1990 to 601 in 2001.

The sale of foreign affiliates also saw tremendous growth over the last two decades. Gross product and total assets of foreign affiliates saw a huge growth in the last two decades, as well as overall exports. Employment has also benefited tremendously and has grown remarkably over the last two decades to 53.6 million people employed by foreign affiliates.

## Number of cross-border “mega deals”

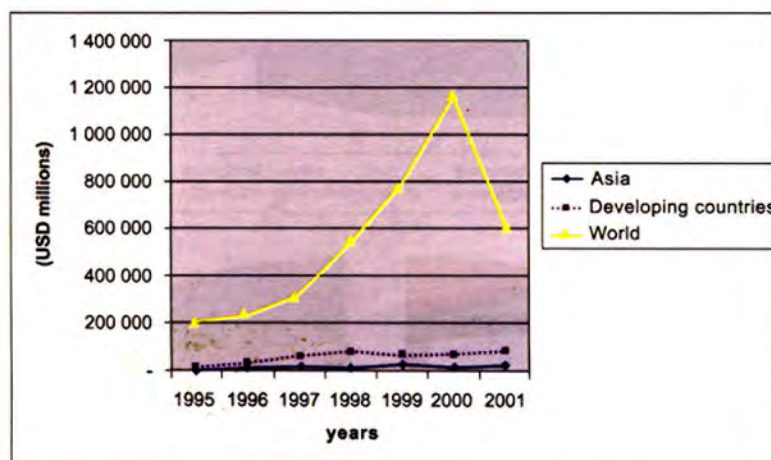
1995-2001



Regarding mergers and acquisitions (M&As) in the period 1995 to 2001, a peak was reached in the year 2000 when 175 mega-deals--deals greater than 1 billion US dollars--were concluded, with a drastic decline the following year to 113 transactions.

## Value of cross-border M&As in South, East, and South East Asian countries

1995-2001, USD millions



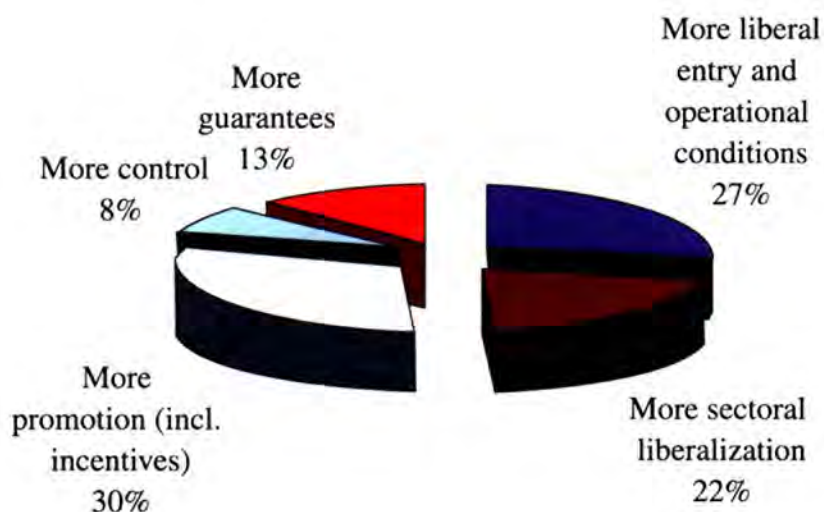
For your region the trend is different. It is not as drastic, with huge peaks, as experienced at the world level, but it is similar to what has been going on in developing countries as a whole.

### Types of changes in FDI laws and regulations 1991-2001

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
No. of countries that introduced changes in investment regimes	35	43	57	49	64	65	76	60	63	69	72
No. of changes of which:	82	79	102	110	114	151	145	140	150	208	
More favourable to FDI	80	79	101	108	106	98	135	136	131	147	186
Less favourable to FDI	2	-	1	2	6	16	16	9	9	3	22

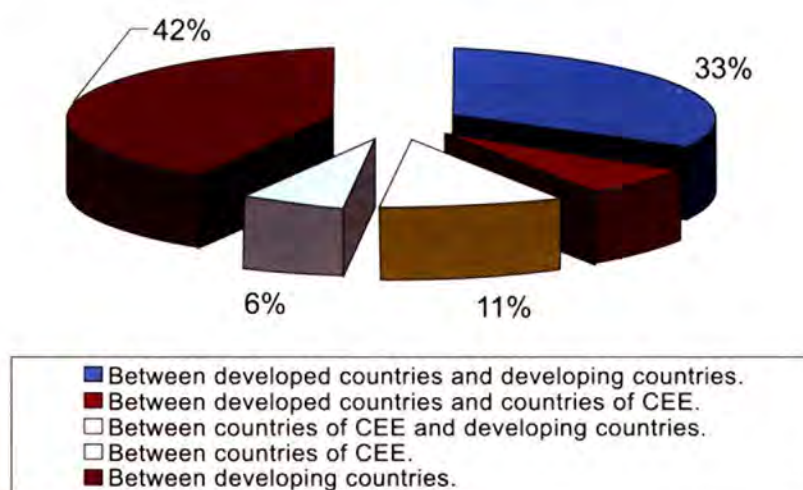
The 1990's were also characterised by tremendous activity in terms of regulatory reform. A large number of countries introduced new changes in their investment laws and opened up their national economies, liberalizing, adopting more open policies. A large number of countries have been introducing changes in investment regimes and, according to the UNCTAD database, in 1991 about 82 changes were made while in 2001 there were 208 changes, which are more favourable to foreign direct investment. But there were also countries which introduced changes which were less favourable to foreign direct investment, but this is much less. The major trend is really for opening up and trying to create a conducive environment for foreign direct investment.

### Types of changes in FDI laws and regulations 2001



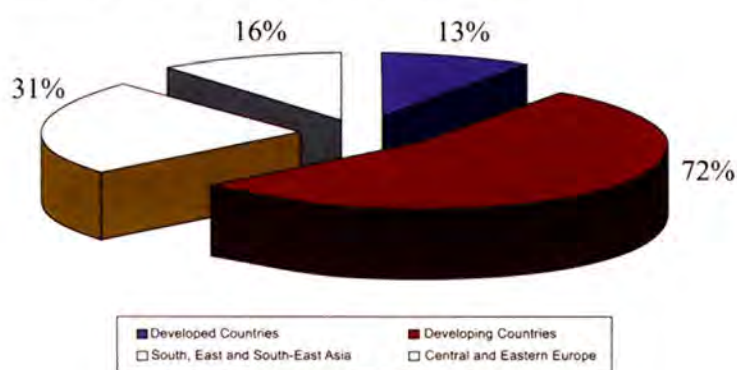
This is just a pie chart reflecting what I just said, by region.

### BITs concluded in 2001 by country group, per cent



These are the numbers of bilateral investment treaties that were concluded in the year 2001.

### BITs concluded in 2001 by South, East, and South East Asian countries between the following country groups per cent

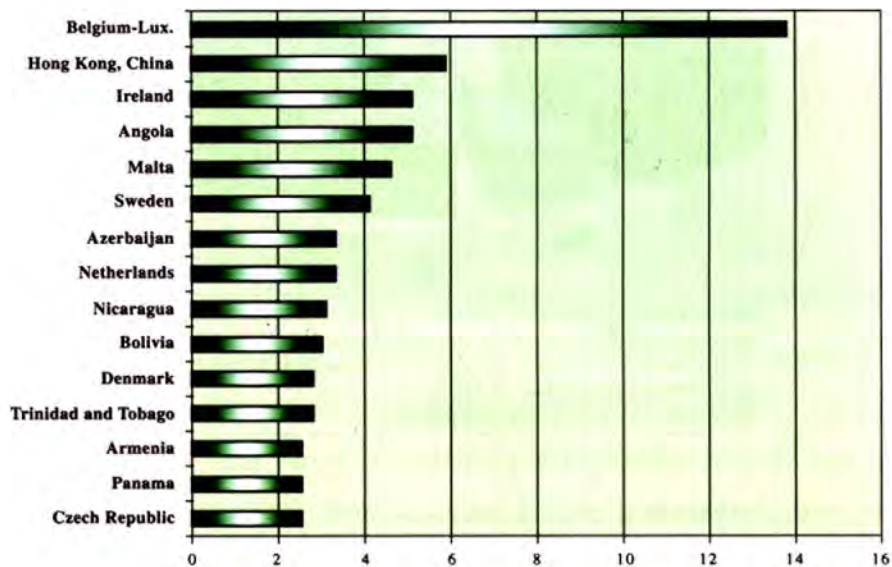


This is what has been happening in your region in terms of BITs.

UNCTAD, this year, developed two new FDI benchmarking tools. One is what we call the “FDI Performance Index” which measures performance by standardizing a country’s inflows to the size of its economy, relative to gross domestic product. The other FDI bench-marking tool has been called the “FDI Potential Index” and it’s the ratio of a country’s share in global flows to approximately 8 economic indicators which were taken into account to develop this ratio and to give an idea of what is the actual potential the country or its economy has to be able to attract foreign direct investment.

## Top 15 ranks in the FDI Performance Index

1998-2000, index value

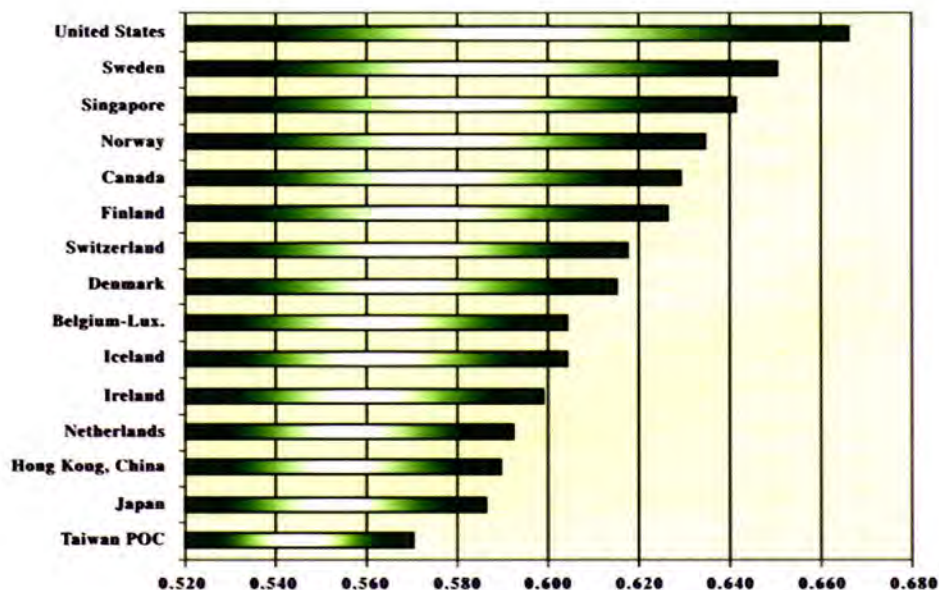


When we look at the Performance Index, we can see that some countries have been doing quite well compared to the size and the magnitude of their economy. This is particularly so in the case of Belgium, Luxembourg, Hong Kong-China, Ireland, also Angola. You might be surprised--but Angola, when you compare the size of what it has been able to attract in terms of foreign direct investment, particularly in the energy sector; also it's a resource-based economy rich in minerals and diamonds--compared to the small size of their economy, their performance index is quite high. This is also the case of Azerbaijan in Central Asia. We can see that the country has really been opening up, making efforts, and has attracted sizable FDI compared to the size of its economy, particularly in the oil, gas and copper industries which, as I said – are mostly resource-based sectors.

We have Nicaragua and Bolivia – again compared to the size of their economy, mostly resource-based economy. Trinidad and Tobago has been a very successful country that has developed large clusters around its petroleum and natural gas industries, and again, it's a very small economy. We have Armenia, Panama and the Czech Republic. The Czech Republic has been a very successful country among the Eastern European countries that has stepped up its investment promotion and targeting strategies and has been very successful in attracting FDI particularly from Western Europe, from the European Union countries.

## Top 15 ranks in the FDI Potential Index

1998-2000, index value

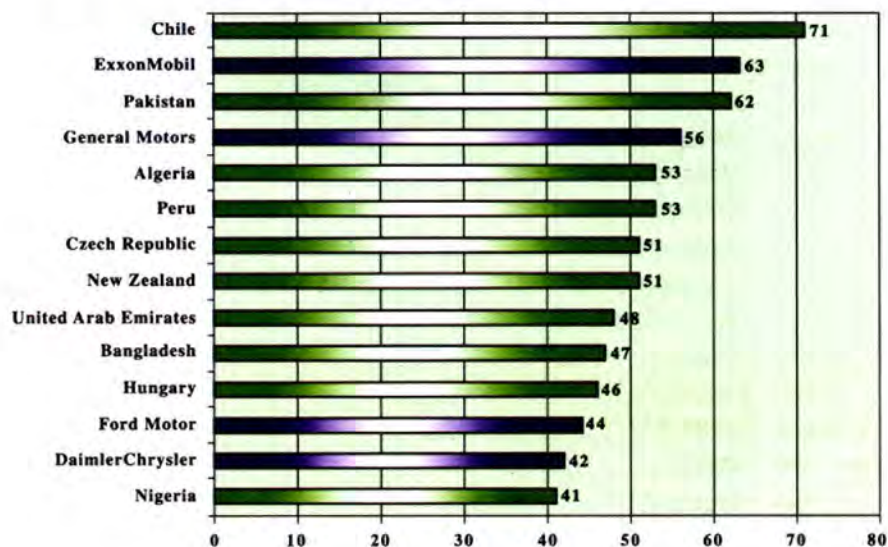


Here are the top 15 ranking countries in the FDI Potential Index, which is the real potential that these countries offer compared to the size of their economies and the level of their development. We can see that the United States ranks first. Actually, although it attracts the largest level of foreign direct investment, the United States could attract more because of the size of its economy so it's not doing as well as it should. It has greater potential. We also have Sweden. Singapore also can attract more and has a greater level of potential than the level at which it is performing right now. We have Norway, Canada, Finland, Switzerland, Denmark – we can see it's a lot of developed countries. The only developing countries in this group are Singapore, Hong Kong-China and Taiwan Province of China.

Now, I would like to provide you with a brief overview of the world's top 100 TNCs in the year 2000, 90 of which are based in the Triad, meaning North America, Japan and the European Union countries, or Western Europe in general. Only 5 firms are based in developing countries, and most of them actually are in your region. Also, what is interesting to note is that half of the largest 100 firms are in core industries – a high level of concentration at the industry level as well. We find them mostly in the area of motor vehicles and parts, and also electrical and electronic equipment, petroleum exploration and distribution industries and in pharmaceuticals.

### Some TNCs are larger than some economies

value added or GDP, 2000, USD billions



The top 100 TNCs accounted for 11% of foreign assets in general, 14% of overall sales and 14% of employment. They play a very significant role in the world economy. Actually some of these TNCs are larger than some economies, particularly developing economies. ExxonMobil and General Motors, Ford Motor, Daimler-Chrysler are just as important as some developing countries such as Chile, Pakistan, Algeria, Peru, New Zealand, United Arab Emirates, Bangladesh, Hungary etc.

### The top 10 largest TNCs in the world

by foreign assets, USD billions, 2000

Rank	Corporation	Industry	Economy	Foreign assets
1	Vodafone	Telecommunications	United Kingdom	221
2	General Electric	Electronics	United States	159
3	ExxonMobil	Petroleum	United States	102
4	Vivendi Universal	Diversified	France	93
5	General Motors	Motor vehicles	United States	75
6	Royal Dutch Shell Group	Petroleum	Netherlands/ United Kingdom	75
7	BP	Petroleum	United Kingdom	57
8	Toyota Motor.	Motor vehicles	Japan	56
9	Telefonica	Telecommunications	Spain	56
10	Fiat	Motor vehicles	Italy	53

The top 10 largest TNCs in the world include Vodafone, General Electric, ExxonMobil, Vivendi Universal, General Motors, Royal Dutch Shell Group, BP, Toyota, Telefonica and Fiat. What is interesting from this list is to see that they are mostly from only a few countries – from the United Kingdom, the United States, France, Netherlands, Japan, Spain and Italy. Most of these major TNC players are in a few sectors – telecommunications, electronics, petroleum and motor vehicles. Some of them are diversified, actually the only case there is Vivendi Universal.

The top ten largest TNCs in developing countries are ranked according to the level of foreign assets in billion US dollars in the year 2000. I'm pleased to note that a few of these companies, of these developing country TNCs, come from your region. We have Hutchison Whampoa which is a diversified group from Hong Kong-China. We have Cemex from your region. We have Petronas, in the area of petroleum, from Malaysia. We have, also from Hong Kong-China, New World Development, a diversified group; Samsung and Samsung Electronics, from the Republic of Korea; and from Singapore we have Neptune Orient Lines, which are in the top ten TNCs from developing countries.

The other continent, which boasts some of the largest TNCs is Latin America, particularly Mexico – Cemex, in the construction area, is one of the major players– and we have Companhia Vale do Rio Doce which is from Brazil. In the petroleum area we have the Petroleos de Venezuela from Venezuela, as the name says.

### **The top 10 largest TNCs in Central and Eastern Europe**

*by foreign assets, USD billions, 2000*

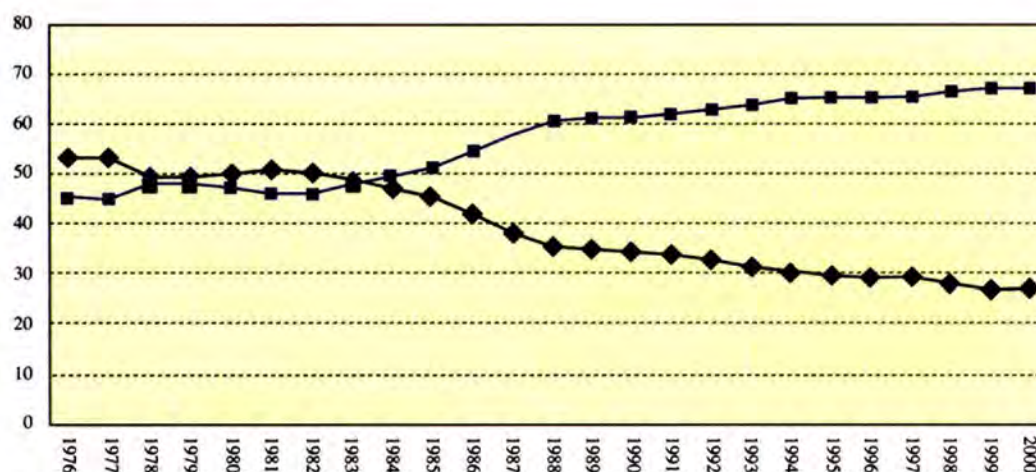
<b>Rank</b>	<b>Corporation</b>	<b>Industry</b>	<b>Economy</b>	<b>Foreign assets</b>
1	Lukoil Oil	Petroleum & natural gas	Russian Federation	4.2
2	Novoship	Transport	Russian Federation	1.0
3	Latvian Shipping	Transportation	Latvia	0.5
4	Primorsk Shipping	Transportation	Russian Federation	0.3
5	Hrvatska Elektroprivreda	Energy	Croatia	0.3
6	Gorenje Group	Domestic appliances	Slovenia	0.2
7	Far Eastern Shipping Co.	Transportation	Russian Federation	0.2
8	Podravka Group	Food & Beverages/ pharmaceuticals	Croatia	na
9	Pliva Gorup	Pharmaceuticals	Croatia	0.2
10	Atlantska Plovidba	Transport	Croatia	0.1

And here we have the top ten largest TNCs in Central and Eastern Europe.

Now I would like to say a few words about the actual theme of this year's World Investment Report. As you know, each year UNCTAD chooses a different theme, and the analysis is made around this theme. Last year the theme was "mergers and acquisitions" because of the important role that M&As played in global FDI flows. This year we put the emphasis on export competitiveness and the role transnational corporations play in this area.

### Shares of resource-based and non-resource-based products in world trade

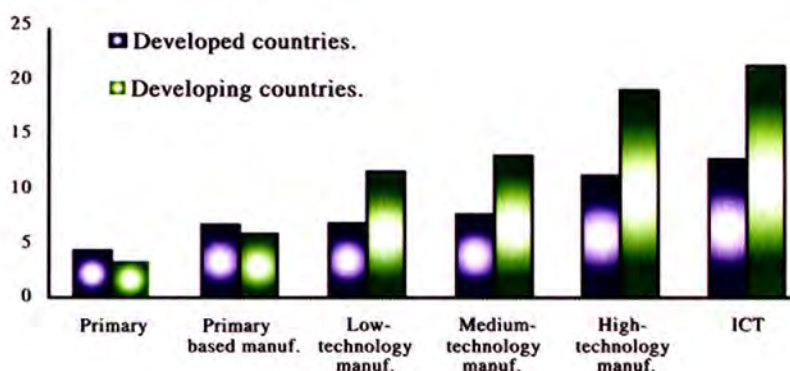
1976-2000, per cent



This slide provides us with the trend between 1976 to the year 2000 in the share of either resource-based or non-resource-based products in overall world trade by percent. It's very interesting to see that the cutting point is really the year 1983, where the non-resource-based manufacturers have continued to increase and to overtake remarkably world trade over primary products and resource-based manufacturers.

## Average annual growth rates of world exports

by technology intensity, 1985-2000, per cent

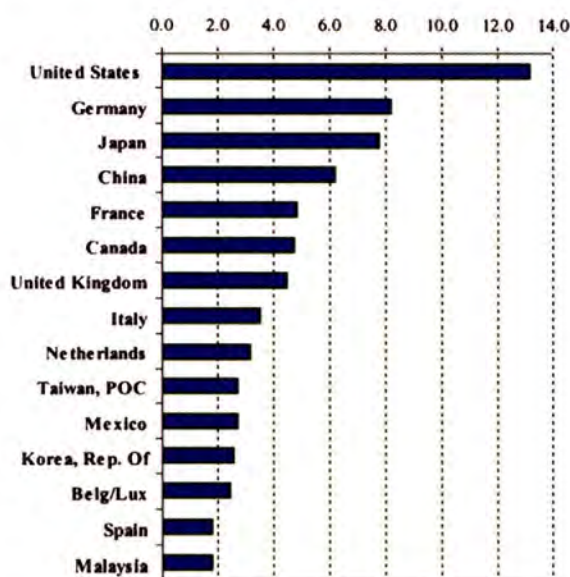


Here we have compounded the annual growth rates of world exports in the period 1985 to the year 2000, by percent and technology intensity. What is interesting to note is the shift from primary to manufacturing products and from low to medium-and-high technology manufacturers, particularly in non-resource-based manufacturers such as electronics, automotive and apparel industries.

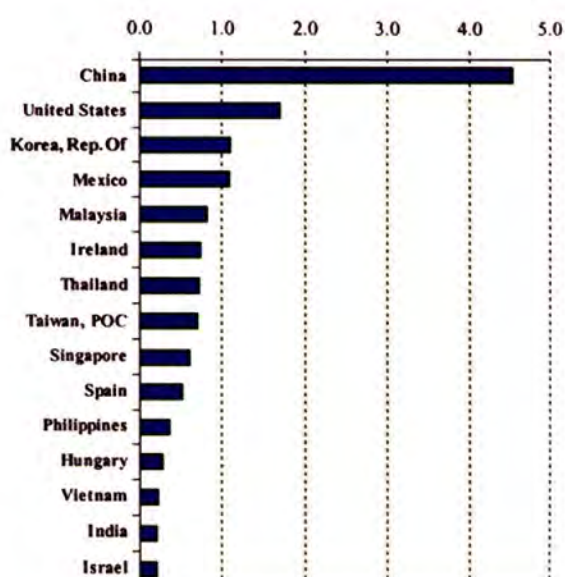
## World export market shares, 2000, and changes, 1985-2000

per cent and percentage points

15 economies with largest export market shares, 2000 (percent)



15 economies with the largest export market share gains, 1985-2000, (percentage points)



This slide is quite interesting as it makes a comparison between the actual growth of market shares in terms of exports by the first 15 economies, and the other graph presents the gains in terms of shares in world exports. It's mostly developed countries who have increased tremendously their level of exports and their share in the market overall. Also, some developing countries have managed to do very well in stepping up the level of their exports, and this is the case particularly with China, Taiwan Province of China, Mexico, the Republic of Korea and Malaysia. But the second graph indicates the dynamism of some developing countries, which have stepped up the actual gains in their share of total exports. And again we find that number one is China, followed by the United States; we have the Republic of Korea, Mexico, Malaysia, Ireland; Thailand has done very well in increasing its overall share in terms of gains in total exports. We have, also from your region, the Philippines, Vietnam and India.

What we can draw from this is that, in the period 1985-2000, the developed countries' share of total exports fell from 69% to 63% and in terms of exports of non-resource-based manufacturers the decline was more significant as it went from 82% to 67%. In Latin America, Mexico is gaining tremendous growth in the North American market, for obvious reasons, which were explained earlier on. Also, countries in Central and Eastern Europe have gained a lot in the European market, but your region's countries have been the winners that have been gaining in all markets.

#### **Foreign affiliates' share of exports**

*selected countries, latest year (\* Manufacturing only)*

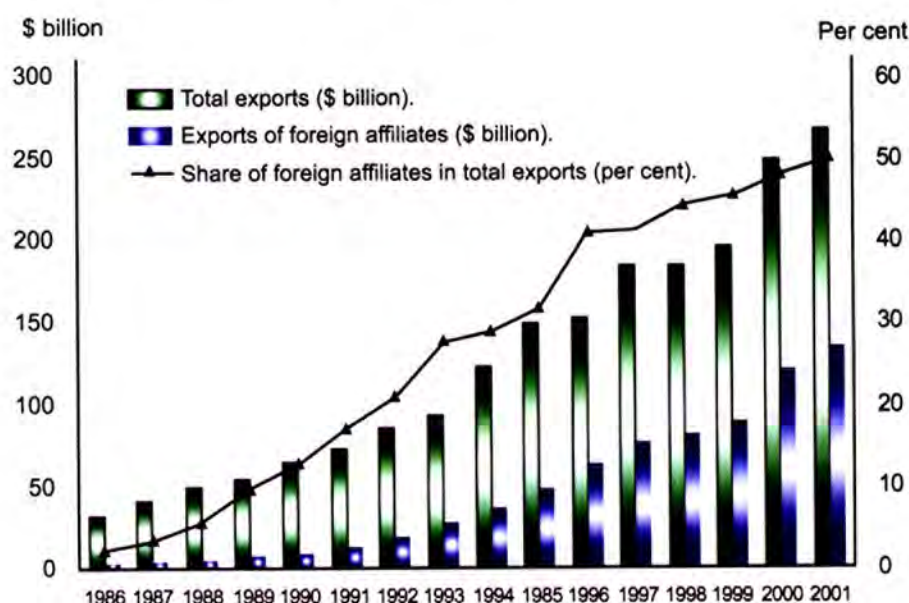
Ireland	90*
Hungary	80
Estonia	60
Poland	56
China	50
Malaysia	49
Czech Republic	47*
Canada	39
Sweden	39
Mexico	31
Argentina	29
Finland	26
Austria	26
Rep of Korea	15
Colombia	14
United States	14
Bolivia	9
Japan	4

Foreign affiliates account for high and rising shares in many countries that have seen an increase in export market shares. This is the case particularly in the electronics and automotive industries. In some countries the share is as high as 90% such as in Hungary. Malaysia is benefiting tremendously from the production of its foreign affiliates. Mexico is another that is benefiting a lot from its TNCs – 31%. We also have Argentina and the Republic of Korea in your region.

The interesting aspect here is to look at Japan where the level of the share of foreign affiliates in terms of exports is very, very low and this is for obvious reasons – it is quite difficult for foreign firms to establish business in the country.

### Share of foreign affiliates in China's total exports

1986-2001, USD billions and per cent



In the case of China, TNCs established in that country have increased tremendously their share of total exports. In the period 1986-2001, in green we have total exports in terms of billion dollars, and in blue we have the exports of foreign affiliates, again in billion dollars. You can see that the share has increased tremendously all throughout this period to almost 50% last year.

**The role of foreign affiliates in the exports of six selected countries**

Country (Year)	Total exports 2000 (US\$ bn)	Share of foreign affiliates in total exports (%)	Top three TNC exporters in 2000	Exports 2000 (US\$ bn)
China (2001)	279.6	50	Samsung Electronics IBM Nokia	1.5 1.5 1.1
Costa Rica (2000)	6.7	50	Intel Dole Food Del Monte	1.7 0.2 0.1
Hungary (1998)	25.	80	Volkswagen IBM Philips Electronics	3.2 2.2 2.0
Ireland (1998)	52.5a	90	Intel (1998) Dell Computer (1998) Microsoft (1998)	4.8 4.3 2.4
Mexico (2000)	180.4	31	IBM DaimlerChrysler General Motors	9.6 6.9 6.7
Republic of Korea (1999)	150.4	15	Amkor Technology Nokia Chip PAK	4.7 2.4 2.4

Here we have a selected number of countries illustrating the important role some foreign affiliates play in their total exports, particularly in the case of China, Costa Rica, Hungary, Ireland, Mexico and the Republic of Korea – very diverse economies I must say. There are some very significant TNCs which exported high levels in the year 2000 such as Samsung Electronics, IBM and Nokia. Again, it's mostly in the electronics and telecommunications areas. We have Costa Rica – a very small economy but a very successful economy as well in terms of attracting targeted investment and again it's in those two major industries, telecommunications and electronics, as well as in food – agrobusiness.

In the case of Hungary, it's mostly in the automotive industry with Volkswagen – a major producer in Hungary –and also electronics, IBM and Philips Electronics. The foreign affiliates, as I said earlier, contributed to 80% of overall exports from that country. In Ireland – a very successful and a very targeted country, TNCs play a major role in the economy and actually contributed the highest level in terms of share of export at 90%, but again in only a few industries. On the chart there is also Mexico and the Republic of Korea. This is really to highlight the importance of these large TNCs in the integration of some national economies.

Now, I would like to say a few words about corporate strategies which reflect the changes we have been witnessing in the global business environment. There are a set of underlying factors we have to be aware of and, as you know, there have been several concurrent trends which are responsible for the transformation of international production systems – barriers to international transactions are falling, spurred by globalisation, liberalization and technological innovation, including speedier transportation systems. We have also witnessed an intensification of competitive pressures.

Facing this situation, TNCs have adopted new responses to be able to survive and we have noticed a certain specialization within international production systems of TNCs, with different activities being performed in locations that offer the best conditions in terms of costs, resources, logistics and market access. The trend today in terms of strategies by transnational corporations is for the expansion of what we call efficiency-seeking foreign direct investment.

**When investing in export-oriented activities TNCs look increasingly for:**

- Access to key markets (e.g. EU, NAFTA)
- Adequate skills at competitive costs
- High-quality infrastructure and logistics
- Competitive domestic enterprises
  - in terms of cost, quality and timely delivery
- Presence of industrial clusters
- Efficient bureaucracy
- Locations that fit into their international production system

Here, we tried to put in a nutshell what are the motivations, what are the things TNCs look for when they invest in export-oriented activities. They are looking foremost for markets, large markets, to have access to key markets. This has been demonstrated by some large markets which have been very successful, like the European Union, as you well know; also, NAFTA and, in your region, of course we have ASEAN. So regional integration seems to be playing a very important role as a magnet for TNCs. These TNCs are also looking for adequate skills at competitive costs. A lot of industries have established themselves in some of your countries because of the availability of well-trained, skilled labour. This is again the case in Central and Eastern European countries

where a lot of European investments went because of the availability of well-trained populations. So development of human resources remains a major factor.

Also what TNCs are continuing to look for is the availability of high-quality infrastructure and logistics, and also the existence in domestic economies of competitive domestic enterprises in terms of cost, quality and timely delivery. A lot of companies are now outsourcing some of their non-core activities and they would like to find in these domestic economies those enterprises which can take over some of these non-core activities. Also, they are looking for the presence of industrial clusters. Again, we have some very successful examples, which I mentioned earlier – Costa Rica is one; the other one is Trinidad and Tobago and Malaysia. In Thailand, the automotive industry has been a very successful case.

The other major factor for most TNCs and any investor is the availability of efficient bureaucracy. Investors don't like red tape. They want a hassle-free environment in which to do business. Also, they are looking for locations which would fit into their international production system.

**Policy implications** *elements to consider in an integrated and coherent approach*

- Improve access to markets as well as supplies
- Incentives to encourage TNCs to invest in strategic activities, taking due account of WTO rules on export subsidies
- Involve TNCs in the upgrading of human resources
- Infrastructure development (e.g. EPZs, industrial and science parks)
- Financial support to strategic investments involving domestic and foreign companies
- Support the development of domestic suppliers and clusters
- Integrate FDI promotion in overall development strategy (*targeting, investment facilitation, after-care and policy advocacy*)

Consequently we can draw some policy implications in order to develop an integrated and coherent approach. One, which is related to what I said earlier, is to improve access to markets as well as to supplies. The other one is to consider the development of incentives to encourage TNCs to invest in strategic activities, taking due account of the WTO rules

on export subsidies. As you know, the World Trade Organization has adopted a new export subsidy code and this will introduce a certain discipline on member states on the use of export subsidies and this will undoubtedly affect the EPZs particularly.

The development of human resources is another key policy option - and TNCs can play a major role in upgrading skills. Some large corporations, such as Nestle and others, have programmes to train their staff on techniques that are required in order to conduct their business in an optimal manner.

The development of infrastructure – this goes without saying. Some EPZs will have to be more and more involved in the development of industrial and science parks. Financial mechanisms – financial support for strategic investments involving domestic and foreign companies. We also need to pay greater attention to the development of domestic supplies and clusters. And, finally, a very important element is to see how to integrate FDI promotion – the activities which are done by the investment promotion agencies, like BOI Thailand, in the overall development strategy of the country. And this will lead us of course to talk about the development of targeting strategies, investment facilitation, after-care - what we call corporate development support - and also to play a greater role in policy advocacy.

One of the policy implications is targeting what we call export-oriented foreign direct investment. You might legitimately ask: why target? This is important because, as I said earlier, there is going to be tremendous and fierce competition between countries. You are competing not only with developed countries, but also with other developing countries, and with your own neighbours in order to attract increased levels of foreign direct investment. In order to be able to face this competition, you need to focus your limited resources by targeting. This helps to meet the development objectives that have been decided for the growth of your own economy. This is also the most cost-effective way to promote foreign direct investment. You cannot waste money haphazardly. You really have to put the limited resources that you have into targeting specific sectors, industries and firms.

The other question is: what kind of export-oriented FDI to target? It's very important that a country starts with a kind of a SWOT analysis – to analyse your existing

trade and industry patterns. You have to consult with your existing investors, already established in your home economy, and you have to benchmark yourselves against competing locations within your region and outside of your region. You have to identify specific niches, specific industries, and specific sectors. This is a costly and long process. It is very important to integrate your targeting strategy into the overall development policy of the country and adapt it overtime. Once it has been developed, you cannot take it for granted. You have to review it; you have to look at it now and again in light of new developments.

We are faced with a major policy challenge to take advantage of transnational corporations' activities. It's not enough to open up to FDI. It is not quantity, it is quality. So the competition for efficiency-seeking FDI, as we have seen, is going to be fierce and not all developing countries will be able to attract export-oriented foreign direct investment in specific industries, so even a traditionally successful recipient – like we have seen in the cases of Malaysia and in Singapore - has to review and look again and upgrade into higher value-added activities to sustain their competitiveness and to continue to be attractive to foreign investment.

Also, what we have to be aware of is that high exports do not necessarily mean high value-added. There is a strong need to build linkages between domestic firms and transnational corporations that are established in your country in order to raise the local value-added and also make foreign direct investment less footloose. As you know, there is a large proportion of FDI which is mobile and which, once the conditions are not as good as they used to be, can go elsewhere. So it is important to develop links between international enterprises and domestic companies, and embed them in your domestic economy to make them stay for a long time; also, to facilitate knowledge and technology transfers.

Some concluding remarks: TNCs can contribute to the competitiveness of any given country but benefits are not automatic. Also, corporate strategies change, and open new opportunities for developing country exports, both in terms of manufacturers and also services. Services is a very dynamic sector with tremendous potential growth. Telecommunications is one very good example. Also, policies are key in order to move from static to dynamic gains. And that success requires a clear set of objectives. As I said

earlier, quantity does not mean quality in terms of FDI. It's also very important to understand your location's strengths and weaknesses, what you can offer, and also what you cannot. Emphasis should be on strengthening domestic capabilities, especially the development of your human resources. It's also very important to adopt a coherent and coordinated policy approach.

Thank you. If you have any questions, I would be happy to answer them.

### **Post-presentation**

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As I said earlier in my presentation on FDI Trends, each year we have a different theme, and in last year's theme we also focused on what has been happening in the area of promoting investment in terms of strategies and policies. And we found out in the analysis that we could witness what we call three different generations of investment promotion policies. The first generation really dates back to the 1980s. As you know – or maybe some of you are too young to remember – in 1974, there was a major crisis, the oil crisis and a lot of countries nationalized their industries and there was a very different set of policies from what we have witnessed in the early 1980s.

In the early 1980s, a lot of countries realized the importance of attracting foreign direct investment as a tool and as an engine to acquire additional financial resources and capital to develop their home economies, and also to transfer know-how and technology and to acquire better human resources training. A lot of countries have adopted new policies to open up their home economies, to liberalize their FDI regimes, and to reduce barriers to inward investment. This was through the enactment of specific investment codes. A lot of countries enacted new legislation in this area and also made efforts to strengthen the standard of treatment for foreign investors. A lot of countries used to look at foreign investors with suspicion, as taking over from them their national assets – but there was a major shift in attitude and those same investors were treated in a different way and were actually welcomed to come and invest in national economies. Also there were a lot of efforts to enhance the functioning of markets and this is what we call the first generation of investment promotion.

However, in the 1990s, countries realized the need to also have specific institutions dealing primarily, or mostly, with the business of promoting investment in order to attract foreign direct investment. A large number of investment promotion agencies (IPAs) were established during the 1990s, including in developed countries. There was a surge in the creation and development of these new agencies in developed as well as in developing countries in the 1990s. Of course, we have different kinds of institutions. Most of them are publicly run. In some countries there are both public and private institutions. We also witness different structures according to the special characteristics of each nation. In the case of Thailand, we have the establishment of BOI, which has been instrumental in promoting investments to Thailand.

The major objective of these institutions was to actively seek and to attract FDI by marketing the countries as locations. The first report or study that was done in this area was by a Harvard University professor, on marketing countries and places. It was the first attempt to look at countries as markets and as locations to market and sell in order to attract international investors. In 1995, conscious of the important role IPAs play, UNCTAD assisted in the establishment of the World Association of Investment Promotion Agencies (WAIPA), which has become today the world leading forum for investment promotion agencies to exchange experiences and to network.

Actually, we had the honour and privilege to hold WAIPA V in the year 2000 in cooperation with the Thai government and BOI Thailand in Bangkok, in parallel to UNCTAD X. The eighth annual conference of WAIPA will be held from 22 to 24 January, 2003 in Geneva at United Nations Headquarters. We are hoping to have more than 300 delegates from major IPAs around the world. The main purpose is to exchange best practices in the area of investment promotion. I hope that BOI Thailand will be one of the active participants, particularly as we are going to have a session on best practices. I do believe we have a lot to learn from BOI Thailand in terms of best practices in investment promotion and targeting. I think it will be very useful and helpful to have BOI Thailand participate in that event – in that specific session particularly.

So this is what was termed the second generation of investment promotion. However, what we have also witnessed is that most countries established these IPAs, and they were producing beautiful glossy magazines and brochures about their country and

about their location and about business opportunities. However, they were sitting and waiting for the investors to come. They were not making any effort to go and get these investors. Although the majority of countries had liberalized, adopted good investment regulatory frameworks; they had also reformed their economy and had quite good macroeconomic aggregates – yet, unfortunately, international investors were not coming.

So, of course, they started to wonder why those investors were not coming to their home economies, and this wave started particularly in developed countries but also in some developing countries who realized: it's not enough to liberalize, it's not enough to have good laws and regulations or to have an agency as a window to provide general information about the country, and about opportunities in the country. You need more. You need to adopt a more proactive attitude towards the business of promoting your country or your location as an investment site. It's quite a competitive world and you cannot be successful in attracting those investments unless you go out there and knock on doors.

This is what we call the third generation – investor targeting. It's a proactive approach towards attracting foreign investment, and it targets foreign investors, not only at the sector level but also at the firm level. As we can see, in the FDI process, we have actions that can be made by the investor and we also have actions that can be performed at the level of the investment promotion agency.

When investors first consider an investment, they need to make a choice of location. At the beginning they have the whole world within which to locate their investments. The first step is to develop a “long list” of sites, of possible locations where they can go and set up their business. At the end of the day, they will need only a short list and only one preferred location, which will be really viable for their specific investment and which meets their business requirements.

It is very important that the investment promotion agency is able to target and communicate with that specific investor, to be able to identify through the conduct of a SWOT analysis what are the strengths, weaknesses, opportunities and threats the country has and identify the specific sectors where your country offers the best comparative advantages, and *match* your comparative advantages with the needs, requirements and

strategies of a transnational corporation. So you need to target those firms and you also need to communicate with them. The second major action by an investor is to actually make the investment, and this requires specific activities and specific actions by the IPA. This is what we call facilitation - facilitating investment.

The next major step is to manage the investment, once the TNC has established itself in your country and is doing business. This will require very close attention on the part of the investment promotion agency to follow up, in order to see that this investor is happy, is expanding, is flourishing, is making profit in your specific economy and country. This is what we call corporate development support (CDS). This is very important, and this is also one major component of our training: how to develop links with the established investors. Most of the new investment, the re-investments--the expansion in terms of FDI--comes from your already-established, already-existing investors in your home economies, so you really have to take care of your established investors.

In some countries the percentage can be as high as 80%. In other countries it can be 40-50% new investments or expansions coming from already-established investors. So it's not only Greenfield investment. Greenfield investments are very important and new investors are very important to attract, but they only represent a small fraction of the investments that are derived from already-existing investors in your own country. CDS is also important because, as I said earlier in my previous presentation, you have to develop special links and special programmes between international enterprises that are established in your home economy and your domestic enterprises in order to embed their activities in your home economy.

Now, I would like to give the floor to Mr. Marc Proksch to present the principles of investor targeting.

**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT  
(Public Organization)**

**TRANSCRIPT**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**"Principles of Investor Targeting"**

**Presented by  
Mr. Marc Proksch, Economic Affairs Officer  
International Trade and Investment Division, UNESCAP**

**Bangkok, 18 September, 2002**

หน้าจาง

**Presentation:**  
**“Principles of Investor Targeting”**  
**Mr. Marc Proksch, UNESCAP**

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Thank you Khun Pruthipong. Sawasdee krub. The reason why the microphone is not there is because I have it now – I stole it from there. So later if you want to ask some questions, we will have to share or you will have to come down here. But don't worry. I'll probably be walking around a bit, because I'm not the kind of person who likes to sit very long – it makes me restless.

I heard that the crowd consists of diplomats. Most of you are diplomats. There are also some other people among the audience [from] academia, some from the private sector. The presentation that we are going to deal with - the topic is investor targeting. The presentation is actually made by UNCTAD. As you know, I'm from ESCAP – Economic and Social Commission for Asia and the Pacific, which is one of the five UN regional commissions. So it is very natural that UNCTAD and ESCAP collaborate in this regard. In various areas we have very good cooperation and investment is one of them.

ESCAP itself is also now developing a training course on investment promotion and facilitation for the countries in Indochina – Cambodia, Laos and Vietnam. We do this together with the Brooker Group, which you may know is based here in Thailand. We will try to replicate this course also for other less developed countries in the region, and no doubt we hope to engage UNCTAD and also other multilateral agencies in this effort. You must be familiar with MIGA [The Multilateral Investment Guarantee Agency]. MIGA has a toolkit on investment promotion. We also do quite some work with MIGA. The presentation I will give will focus on investor targeting but I will also talk around it a little bit to put the concept of investor targeting in context, because it is not something that you can really discuss in isolation without understanding where it comes from and how it fits in the overall investment framework.

I would start by asking: who is in the diplomatic service here? Because that is the target group. Who is in the diplomatic service, and who is going to be sent abroad? May I ask your name please?

**Ambassador Chitriya:** I'm Ambassador Chitriya, Director of the Institute of Foreign Affairs.

**Mr. Proksch:** You are going to be based abroad? Not yet? Okay – let me ask one very concrete question. Suppose you are sitting on a plane to a European country, for argument's sake. And next to you is a director of a leading company who has no investments in Thailand. Now, one of your tasks is to go to that country and generate investment. What are you going to tell the gentleman? First of all, you're thinking: this is a prime target. I need to convince this man that he should invest in Thailand. What are you going to say? "I think you should invest in Thailand. I'm confident that you should invest in Thailand because –?"

**Amb. Chitriya:** Well, it's got all the facilities for investors. The basic framework is there. There are a lot of matching firms to cooperate with, in terms of joint ventures...

**Mr. Proksch:** Yes. That kind of argument is very good. It's very obvious. But the point is, if I were that director I'd say: yes - for that reason we have investments in a lot of countries, because a lot of countries have the framework, a lot of countries have investment law, a lot of countries have domestic companies that can match. So – why Thailand?

**Amb. Chitriya:** Well...we have better everything. (Laughing). We have to think about the industry first. I'm thinking more in general terms at the moment but if I'm going to a specific firm, I would need to do more homework than [I could] in the two minutes you've given me here.

**Mr. Proksch:** And this is exactly the process of moving from a general promotion framework to what we call investor targeting. Because coming up with the generalities [regarding] why somebody should invest in your country, you'll probably come up with the same arguments that other countries will use. Now, in Thailand, in

the past it was very easy. Thailand was the only market economy in [a] region basically consisting of isolated economies. Vietnam, Laos, Cambodia, Burma, China – these were all really no-go areas for investors; communist countries, closed countries. Not market-friendly, not investor-friendly. You had the Vietnam War which led to an influx of Americans to Thailand. It was familiar. They knew the Thai people were very friendly, very nice people. It was a very good living environment. Tourism came because the culture is of course very exotic.

So these of course is what generated investment in to Thailand – to the extent, in my opinion, that in Thailand there was a kind of complacency where you think: well, we have all these attributes that other countries around us don't have. Investors know us. They will come. But now of course, over the last ten years, the situation is changing. Countries that before were isolated and closed are opening up. These countries have huge markets. These countries have a huge pool of very well-trained and educated labor. These countries have strategic positions, ports – strategic locations in the overall Southeast Asian framework, which benefited Singapore, for instance.

China, of course, is the prime example. China doesn't need to do investment targeting at this stage because everybody wants to go to China. China just has to open its doors, say "Come in" and they'll come in. There's really no need to be anything specific – at least not at this stage and at least not for the reason of attracting investment. If you want to attract investment because it is in line with your development policy and your development goals, maybe you want to be more specific and that is where investor targeting, once again, comes into play. But if your overall goal is to really stimulate your economy and attract foreign direct investment, for some countries, basically like for China, it's enough. China's membership in the WTO is, of course, a clear example why this country is generating a lot of investment right now. Vietnam is signing a bilateral investment treaty with the United States –it's a boost to investment.

For Thailand, some very important questions have to be asked. The first question is really – how do we stand in [relation] to other countries? What is our competitiveness? Our traditional competitive advantages may no longer be valid. So

the point is - how do we develop those competitive advantages? If you don't do that, you can target investors, no matter what you want. But they won't be overly convinced, because if you target an investor you have a certain industry that you want to attract because it's in line with your development plan, it's in line with the competitive advantages of your location. Or so you think. As far as Southeast Asia or East Asia is concerned, it will not be difficult for an investor to find a similar competitive location and a similar attractive package in any neighboring country. In fact, you may find out that there is no reason why a particular investor would want to invest in Thailand at this stage rather than in any of the neighboring countries, which are at the moment more dynamic, more promising and forward-looking. So the whole idea of building competitive advantages in a country is extremely important.

And this is not so easy for Thailand because for too long it has been so easy. For so long the investment came in anyway. But now some important decisions have to be made. Infrastructure, of course, is a very important consideration. The legal framework is one thing. Implementing it is another thing. The third issue is human resources. In Thailand, the human resources are not well-trained enough to really cater to the next wave, the next generation, of investment because no longer can you really rely on the traditional labor-intensive flow of foreign direct investment that utilizes low skills. Now foreign direct investment across the board is really looking at, at least, a semi-skilled [workforce] and other packages that will boost their operations and that will boost their return on investment. Once again, in other countries they are really scrambling to catch up.

It's certainly not too late. Thailand is still the hub in Southeast Asia. Thailand still has market advantages over the other countries. Thailand has a long-term relationship and experience with foreign direct investment, so it still has a definite advantage. But it should capitalize on it. It should not rest on its laurels. It should really utilize this and improve on it.

Now with regard to investment targeting - investment targeting is of course one aspect of an overall investment promotion strategy and an investment promotion strategy is usually made by a particular entity which, on the basis of well-defined development goals, goes about his business to define locations and industries that it

wants to attract to those locations. As was pointed out this morning, basically under the second generation of investment promotion, the establishment of investment promotion agencies was part of that.

I have often wondered though, if a country was so great as an investment attraction, then why would it actually need an IPA? I met some investors that said, you know, the fact that a country sets up an IPA means that they are in trouble because, apparently, there is something not completely right. Now the switch in IPAs has gone from many cases where they have been successful in overall investment promotion to actual targeting, which has made them kind of equivalent to what you have in business or in a corporation known as marketing. So investment targeting is an aspect of the whole marketing exercise but it's the end stage of it.

The first stage of the whole marketing exercise is image-building. Image-building is important for countries like Cambodia, Vietnam and Laos – [to fight the] image that they are closed, that they are isolated, that they are not investor-friendly. In the case of Thailand, you might think “we don't need image-building; we are long past that stage. Everybody knows Thailand's image – it's open to business, it's friendly, it has a large pool of labor. All these elements are there.” But as I said, as Thailand's competitive advantages are now slowly being eroded, and especially in the wake of the Asian crisis in '97 – speaking to investors abroad, the image of Thailand is not always universally positive. There are certain aspects that investors take into consideration.

The 1997 crisis of course revealed basically the mess that the private sector was in. It revealed the lack of particular regulations that regulate business. The level of corruption, of course, was exposed to a large degree. And this has undermined Thailand's image somewhat. Some of the stories that came out with regard to chasing the foreigners to open their books, open their doors and ad hoc invasions of companies because they were accused of undermining the Thai economy – these were very isolated cases but it helped somewhat to affect the image abroad of Thailand as an investment destination.

The good news is that all of these elements that might negatively affect Thailand's image are similar abroad. Corruption in Vietnam is worse than here. The legal framework in other countries is still worse than here, so that's still a good point. But once again, they are working very hard to rectify that situation so you should not stay behind. You should really work in this area to do something about that.

An investment promotion strategy then, and an investment promotion agency – one defines the other. You cannot have an IPA, in Thailand it's the BOI, just for general investment promotion, but it must also be really specific, and working to deflect the negative image that may be floating around abroad, but which may not always be accurate. I noticed, talking to some investors abroad – they still think there's a war in Vietnam or they think the Khmer Rouge is still in Cambodia. This is a clear example where there's a negative image [behind] why someone does not want to invest in a country and that image is wrong. Also, in the case of Thailand there are some prejudices.

Most investors know Thailand – they have a long-established investor presence here and the '97 crisis did not kick them out. They stayed because they believed in the long-term prospects. And recent surveys have also pointed out that the general outlook of investors for Thailand is positive. But you want more than that. If you really want to do investor targeting, you really want to reach out to specific companies and you really want to affect how they think about what Thailand is all about. What are their images of Thailand?

We will see later on that one of the ten Golden Rules of investment targeting is being the investor's eyes and ears. Think as the investor does. Do not think that they see your country as you see your country. And when you engage an investor and you find out how they see your country, you may find that there are some prejudices here or some images that are not true – before you can really start generating or targeting investment you really need to do something about that image. Because if you try to get someone to invest in your country, and that company has an image about you which is not overall positive, or maybe wrong, you will not succeed.

So image-building is a very important aspect of the marketing process, of the investment promotion process before you really can go to targeting. But they are not completely isolated from each other, because investor targeting means that you are not going to target an industry group or even a country – actually, you do that, but you go further than that. In the end, you really target a particular company. You even target a particular person in that company that has influential decision-making powers, like the CEO or the person in charge of overseas investments. These are the kinds of persons that you want to affect. Their image of your country is the most important, and they are the ones, in the end, who will decide if your country gets the investment or not. By doing so you actually add to the competitive advantage of your country, because many countries still do not realize the importance of this, of a proactive attitude to targeting particular investors in key industries to come to your country. So if you do that and other countries don't, then you are on the right road.

One of your main upcoming competitors is Vietnam. I think that is going to be your major competitor in the years ahead. But Vietnam is still in its general first and second generation phase of investment promotion. They have not really moved forward to investment targeting. We're helping them now, so you better watch it. But the whole point is that, as far as investment targeting is concerned, they really do not have the resources and the knowledge to do that. What they do is they send teams abroad with nice Powerpoint presentations like we have here and say, come invest in my country because we are doing very well and we have a lot of investors that are very satisfied. This is probably not going to be good enough – they go all over the place but they fail really to get investments.

Does that mean Vietnam didn't get investments? No, they got a lot of investments but not because of the targeting initiatives. They got investments because of the bilateral trade agreement with the United States. They got it because of improved liberalization of the investment climate. [Investors] came in because of the huge potential market in Vietnam – almost 80 million people. That is why they came in. So once again, the whole investment targeting aspect needs to be put into context. It is not an isolated affair. It is something for countries that are well established as an investment destination but want to target a particular industry that will be beneficial for that country and that shows that they are moving forward in the development

cycle, that they are improving their competitive advantages. Because, otherwise, if you just go to target a particular investor and say, come to my country because this location has competitive advantage in this and this and this, and basically your competitiveness is standing still [and] not moving forward, the investor, sooner or later, is going to find out.

The other thing that investors will do is that they will talk to investors that are already in your country. So another aspect which we will not address so much today but which cannot be emphasized enough is after-care. If you make existing investors happy, they'll spread the word. They'll go back to their own country and say "you have to invest in Thailand because the service that you get from the BOI is really fantastic, and all the things they promised us, they actually delivered; the location they ear-marked for us, the cooperation they gave in getting visas and work permits was absolutely state-of-the art." That will help out your competitive advantage overall and it will single out your country as a very attractive investment destination - even more so than another country where this kind of assistance does not exist but where there are very generous incentives.

In the end, incentives are not a very important consideration for investors. It is a minor consideration. But when push comes to shove, you may find that having a very proactive IPA doing a superior job in giving really targeted assistance may be a better competitive advantage than having generous financial incentives. Unlike incentives, the targeting exercise probably does not cost all that much. It will not cost the government budget all that much.

When you target investors, you need to know what kind of investors there are. There are all kinds of investors. There are investors that are resource-seeking. There are investors that are market-oriented. There are investors that are efficiency-seeking, as we saw this morning. We have investors that really invest for strategic purposes, to acquire assets; especially, efficiency-seeking and strategic assets-seeking investors - [they are] a product of globalization. There's more and more. Most of the investments in the past 5-10 years have been mergers and acquisitions. Mergers and acquisitions is not necessarily the kind of investment that you want, because the best investment that you want is a Greenfield investment - from scratch. Or at least, second best, investors

that are already in your country who will re-invest. It's good enough. So it's very important to know, if you target an investor, what kind of investor it is, and whether that investor really fits into your development plan and the needs of your country.

The company itself, of course, will look at several characteristics. If they want to invest in Thailand, they will look at the market characteristics of your country, if it is a market-seeking company. It will look at cost factors – will it be cheaper for me in the long run to be based in Thailand or will it be cheaper for me to be based in Vietnam?; availability of natural resources, if it is relevant; the infrastructure framework – if you talk about locations in Thailand, probably companies are not so eager anymore to invest in Bangkok; policy framework – and the coordination, the coherence of the policy framework; and business promotion and support, like for instance what the BOI does and, I'm sure, also the national Chambers of Commerce. So these are very important considerations. You need to know this when you target a company – what a company is looking for in a location. This is part of the targeting exercise. Targeting an enterprise means knowing of that particular enterprise what are the priorities of that enterprise, what its strategic objectives are, what it is looking for in a particular location.

Well, if you want to promote a certain location, you have to, as I said, promote a certain location's image. Once again, going back to generalities by saying our location is very good, it has good natural resources, or it has a nice market – the general kind of items that you can find in other locations too - will not be good enough. What you need to develop is a unique selling proposition. This is a concept developed by MIGA where you really need to figure out in detail why this location would be more advantageous than other locations. We are not talking about Thailand as a location – we are talking about locations within the country and similar locations in other countries.

I know that the Thai government wants to develop the country outside Bangkok, and the BOI has defined different zones with different incentives for investors to go there. But, though you can give very generous incentives for an investor to go to Isan, you may find that he still doesn't want to go [because] it's simply not competitive enough. So if you want to promote northeastern Thailand as

an investment destination, you need to define a unique selling proposition why an investor should go there and not somewhere else. At the moment of course, we have to be realistic. It's a little difficult to find anything in Isan that would be competitive for an investor.

But, as was pointed out this morning, for any location to be ear-marked as an investment destination, you need to do a SWOT analysis. You need to define its strengths, its weaknesses, its threats and its opportunities. Something that may not be there today may be there in the future. For instance, in northeastern Thailand, you have the development of the so-called east-west economic corridor, which goes all the way from Danang in Vietnam all the way to the Burmese coast – it cuts straight across Laos and northeastern Thailand. Many investors probably don't know about this, but this is being built. This is being done at the moment. This is, of course, an ideal way of developing your particular strategic advantage for that particular location. So if you want to attract investment in a particular location, that location needs to have a convincing attraction to attract investors. That convincing attraction is not more generous incentives than anywhere else, because in the overall strategic decision-making of an investor choosing a location, incentives are not the major consideration.

When it comes to specific targeting – how will that proceed? What is specific targeting all about? It starts of course from defining locations where you want to attract investment – doing the SWOT analysis and ear-marking different locations according to their strengths and weaknesses. Then you have to do a very comprehensive research of the industries that could potentially match with your investment location. Out of these industries, you're going down into sub-sectors, and you're going down to individual companies in the end. And that is, in the end, when you start doing investment targeting.

In the end, if you have defined those particular enterprises in particular countries that you think would match your location best and for whom those locations would yield an acceptable return on investment – you write to them. You write to them, and you start that letter with a general slogan saying why this location is so good. For instance: Dear so and so, I'd like to bring to your attention that in this and this location, this major development is taking place; or, this and this company

already established there made such and such profit. Something that catches their attention.

Then, as a follow up, you call the investor up. Of course, you need to know whom you are calling up and whom you are addressing. You cannot start a letter with Dear Sir – you need to have the specific person in charge. How do you find that out? Well, there are on the internet lots of company databases that give you all the information. You have Compass, Hoover, Dun and Bradstreet - they all give you online detailed facts and figures of particular companies that you may want to earmark. They also give you information that helps you in earmarking particular companies that may want to invest in your location. And that is a very important exercise, because if you don't do that exercise very well, and you find out that you're targeting the wrong company, of course in the end the whole exercise will backfire.

So in the end, you call them up. Basically, the aim of that call is to organize a visit, to make a presentation of your location. That presentation needs to be straightforward. It needs to be well-prepared. It needs to give actual figures, actual information. It should not dwell on non-relevant aspects. The main objective of such a visit is really to convince the investor that he or she should come and pay a visit to that particular location to check it out. From that moment, we are past the investment targeting stage and are really looking at after-care. The moment the investor comes to your site, of course, you need to prepare the site visit very well. You need to know exactly the schedule – make sure it doesn't take too long because investors don't have much time. Time is money, in the private sector, as we all know – so it needs to be very well prepared.

It is important that there is only one agency, or one individual in charge in that agency, for one particular investor. If it is one individual, that individual will be held accountable – so that individual has a motivation to give it his or her all to make sure that the project will be successful. What you see in many countries is that there are too many agencies, too many people involved in the so-called investment targeting exercise – confusing each other in the process, working against each other in the process and not being able to come up with a very consistent and coherent message.

So this brings me now to a dilemma because basically we are talking here about Thai diplomats that will go abroad and that will presumably have some kind of investment promotion or targeting function. But, as we will see when we go to the slides, it is a single agency leadership that is very important, if you have an IPA and you have – it's the BOI. So the BOI should be in charge of this exercise. Now if you, as a Thai diplomat, are posted abroad and you have to do this investor targeting, do you do this as an official of the Ministry of Foreign Affairs or do you do this as an official of the BOI? To whom do you report? This is the kind of conflict that needs to be resolved.

Ideally, I think the BOI should post somebody who has this expertise, because it is a skilled job. You need particular skills for this. [The BOI should] post one of its officials overseas in that particular embassy, to work in that embassy as a BOI staff member to target investors in that particular country. With that I think you'd have very good investment targeting. That does not mean that you, as diplomatic staff, don't have a function in overall investment promotion. Yes, you have. You have a function in image-building. You have a function in [ensuring] that a country has the right image about your country and about specific locations where you want to attract the investment. For the explicit targeting, you need to have somebody from the IPA to do that kind of exercise. Otherwise, you get the same conflicts of interest, different reporting and so on.

You must realize that in the end, the whole exercise from image-building all the way down to investment targeting and getting particular enterprises – you may target 10,000 enterprises, at least on your short list, and you may in the end generate only one or two investments. So you need to ask yourself whether that is worth the trouble. Well, if that investment is very big, like in some countries - over a billion dollars - then probably yes, because the resources that go into this exercise are not nearly that amount. For yourself or for the agency, there is a kind of cost-benefit analysis to figure out what kind of exercise really fits into your mandate and your resources to do that.

Investigation of specific corporate priorities. You do this during your search, during your selection process because if you find out that the strategic priorities of a

particular company that you wanted to target will not fit with the advantages that your location can offer – you strike him out. It will be a useless exercise. This is why this exercise is so important; because if you didn't know about that, you would waste your scarce resources in going after a particular company, not knowing its strategic priorities and only find out in the end that they will not come to your location because that location just does not fit with its corporate objectives. So you need to know about them.

You can find out about them by contacting the relevant people in the particular company, contacting national Chambers of Commerce in a particular country, and by going online. The internet has a lot of information. But, as we know, information changes all the time. Companies change all the time. Their addresses change. CEOs change. So even online, even though it's updated very regularly, you may find outdated information. So the best thing is to call the company up, get the secretary on the phone and get the information that you need. Most of the time they will give it to you.

Confidential promotion to specific corporate executives. The confidentiality principle is very important because, in the whole targeting exercise, you get so much down to the nitty gritty that certain things will be discussed that may be very interesting news to that company's competitors. So you must make sure that the competitors will not find out about it, and that if the company has shown its readiness to invest, you're not going back home to find a big article saying so and so company has expressed an interest to invest because of these reasons and so on... telling information that a company does not want to have divulged. So whenever you use the company's name for public relations purposes, always make sure that the company has given its consent, that it agreed that you can use their name as a speculative investor, or as a prospective investor and that there is no sensitive information.

Single agency leadership – I've pointed that out. Really, one agency should be in charge. Not even single agencies but single individuals for single investment targeting projects.

We come now to the ten golden rules – I don't know how "golden" they are. They are in fact principles of common sense. But common sense in practice is not always so easy to follow because sometimes it is so important to get a particular investment that you go overboard in attracting that particular investment, losing track of what really needs to guide that whole exercise.

Do your research carefully. Of course, I've pointed that out. You will do a lot of research, to come down in the end to those particular companies that you want to target. You need to make databases of those companies. You need to know their sales, you need to know their competitors, you need to know their suppliers, you need to know the other countries they have invested in, you need to know whether they have already invested in your country, you need to know their corporate objectives, you need to know what kind of products they sell, to whom they sell it, where they sell it. All this information is important for you in order to figure out whether the company will fit into your particular location.

Use the investor's eyes and ears, as I've pointed out before. Make sure that the company talks more than you do, so that you find out how the company sees your country, how the company sees that location, how the company sees his or her investment and how that fits in with their particular objectives so that you can react to that. Concentrate on listening. Too many salesmen – because that's basically what it is, you want to sell your location – too many salesmen talk too much. They talk too much and say their location is so brilliant without really taking into account what the objectives are of the person that they want to attract.

First impressions count. In the module actually, there's a very interesting line that says you never get a second chance to make a first impression. I think that's very good. If your first impression is very bad, I think you can forget about the follow up. That means that all of these months that have gone into your research and everything that you have done to come up to that particular company, if you show up half an hour late, or you're not dressed properly, or you come up with the presentation and you're fumbling through it and you cannot find your way, or you address non-relevant facts and you see that everyone is looking at their watch – you know already, you've failed. So that is a very important consideration, to be brief - that the first moment is very

straightforward, that you give accurate and correct information, that you're reliable and truthful, that you're not going to promote a location and say this location can offer you this or that and say we have this or that when in fact it's not true.

Many countries did that. This happened also in the other Indochina countries like Vietnam, Cambodia and Laos. They lured investors with the most beautiful scenarios and some investors actually bought it and they came. So in the early 90's, mid-90's, the disappointment of investors in those countries was enormous and you actually had a divestment. So now, especially, a country like Vietnam has to do major image-building again to rectify the mistakes that they made in the beginning – because the investors came and they found out that the investment climate was actually very bad. There was no assistance at all. There was no after-care, no assistance in the facilitation of the implementation of investment; local officials and national officials did not coordinate at all and worked against each other - all kinds of elements that investors didn't know before. But when they found out, they told the other companies back home.

In the first phase of our project in Indochina, we had a consultant who went to talk to some companies in California and they said: Vietnam? No, no – they get very bad news from Vietnam. It's not a very viable investment destination. They had just given up. If you then go to California to do investment targeting, you'll be locked out. You won't get very far. So always make sure that you portray an accurate picture of your location. If you say to an investor “we know your corporate objectives, our location can meet you in this and this way; in the other ways we have a little bit of a problem, but we are doing our best to solve it and we'll bring it up with the government and we're going to build this road – and it's all planned and it's actually true”, [it] will probably be much more positive than if you promise the sky and [then] not be able to deliver it.

Understand investor needs. This is of course very important. If you have a location with excellent infrastructure, but no retail markets and you have a company that is really aiming to sell their product at the local market – for them, the infrastructure in that particular location may be less important than the existence of a very proper intermediate market system with wholesalers and retailers. For an export-

oriented company, they wouldn't give a rat's ass about how many people they have in that location – they want to know whether you have a good port. So match your actual advantages with the needs of the investor. Always promise what you can deliver – we've touched upon that.

Always exceed client expectations. How do you know what the client expects from you? You can find out by listening. Then you find out what the client expects. If the client expects you to help them with this and that and give them this and this information – top that. Give him more that would be relevant for him which he did not expect, without going overboard and being too pushy. It takes a skilled individual, an experienced individual to find the balance, to know where the fine line is to strike the balance. You need really qualified people for this investment targeting exercise.

Rule 9. Maintain client confidentiality. I've told you why this is important. Again, it's basically common sense. And Rule 10 is – focus on the real project. You would not want to go to your presentation, to engage the investor on the particular project you have agreed on, and start talking about all kinds of other things which are really not relevant. Always stay focused and stick to the point.

So these are the ten rules. You can think of probably more rules, or define them in a different way, but it basically comes down to these kinds of principles, which are once again common sense. But, as I said, in your enthusiasm to promote investment, common sense is sometimes lost. It is important to a coherent framework that you apply all of them.

Having said this now, I want to make a few comments on the situation in Thailand, especially related to the presentation made this morning. On the basis of the presentation made this morning, you can see how investment targeting should be put into context. We had some very good examples in the world where investment targeting has been practiced. We know the cases of Ireland, Scotland. Costa Rica was mentioned. The Czech Republic has done it. In this region, Malaysia of course has been very good at investment targeting. What was interesting to note is that, over the last year, in those countries investment has actually gone down, whereas investment in a country like China has gone up tremendously and I don't think China did very

much investment targeting. So it really shows that you can do a lot of investment targeting, but it really depends on the overall global economy, your national economy and your national competitive advantages which define, in the end, whether you can effectively promote investment or not. If that competitive advantage is not there, if your investment climate does not have a minimum of specifications - investment targeting by itself will not help. It is not in isolation.

I don't know to what extent the BOI is targeting investment. I will leave that to the presentation they will make this afternoon. Apparently, they are also stepping it up now to do investment targeting as well. I found it interesting to see that Singapore's investment inflow, even in the downturn year of 2001, is still 2-3 times as high as the inflows to Thailand – whereas Thailand is much bigger than Singapore. I'm not comparing Thailand and China - because it's obvious why China is big, because it's a big country – but if you compare it to Singapore, and Taiwan, which is also much smaller than Thailand, [they] have much larger investment inflows. Is that because they do investment targeting? I'm not so sure. I know the Singapore investment board is doing some investment targeting, and Taiwan too – but the overall strength of these countries is not investment targeting. It is really their overall competitive position, their drive to innovate, their well-educated human resources.

The point is, if Thailand is going to be one of these competitive countries that can establish that competitive advantage, then it will be the investment targeting exercises, the small details that will make the difference. In the end, in the third generation, all countries at a similar level of development will do those similar kinds of exercises, they will have a similar kind of laws. It's interesting to see the investment laws of Cambodia, Laos and Vietnam – they're all basically the same. The good thing about the Cambodian law is that it is an investment law, it's not a *foreign* investment law – which means both domestic companies and foreign companies are treated the same. Very positive. Strong competitive advantage for Cambodia. It's a small thing, but it works on the investor's perception of a country. So investment targeting, in the end, is really for countries that are in a similar situation, that have similar locations with similar advantages.

That is why I asked the question in the beginning. There are many, many countries, many locations that can offer the same incentives to the same investor. But it is the quality of the investment assistance that you as a country can deliver—the professionalism, the kind of assistance that you can deliver before the investment is made, during the investment and after the investment is made, to make sure that [the investor] remains happy—which can and will be a competitive advantage for a particular country.

In Malaysia, they did investment targeting. They're building this multimedia, this super corridor – whatever it is. But you can see from the figures how investment in Malaysia has plummeted. I don't know the precise details behind that – maybe, once again, there's a little bit of an image [issue] here, and September 11 has come into play. But, in the long run, if you are competitive as a country, and Malaysia is very competitive, MIDA—the Malaysian Industrial Development Authority—is a prime example of how investment promotion should be done, and how investment targeting should be done. They are doing a very good job, but still investment plummeted. Because you know, if somebody decides to fly a plane into the World Trade Center then you can do investment targeting if you want – but [the new global climate] affects everything.

So, once again, you need to put it into perspective. See it as an additional element in your overall investment promotion strategy, to create just a little edge, to give your case just a little edge over your competitor, like in the business sector. Many companies sell the same product. But it is the way they service the customer and just the little extra that can make the difference between sale or no sale. And that is going to be the same for countries. I will stop here. If there are any questions, please go ahead.

## MORNING Q&A

**Mrs. Nazha Benabbes Taarji:** Thank you very much Marc, for this very good presentation. I just wanted to say that the role you as diplomats can play in the promotion of your country, of Thailand, and also in targeting investors can be very, very important because the traditional nature of diplomacy has changed and you are representatives not only of your country but also of your economy and of the private sector. You can play a key role backing the efforts of BOI Thailand and representing them in the duty stations where you are located.

We have examples of existing diplomats networks developed by a number of countries such as in Israel or Canada. These networks have proven to be very cost-productive and very effective in attracting and raising capital to both Israel and Canada. There are also other countries such as France that have devised what they call the Ambassador's system. Actually, the president of "Invest in France", the investment promotion agency, has the rank of an ambassador, as they have realized that this allows better access to top executives of transnational enterprises. Of course, when you want to meet and call on a CEO of a major company, when you have the title of an ambassador, right away you are accepted and he or she will find the time to meet with you, to give you the opportunity to present your business opportunity or project. If you don't have that glamorous title, you might not be able to open that door.

You are also, as I said, very much in a position to make a link between BOI and your country. There are two major target populations in the duty station where you are located. One is, of course, all the TNCs which have invested in your country and which have their headquarters in the country where you are located. So it is very important to identify them, to have this information from BOI and to go and make a call on those companies because, as you know, even with the same TNC there is a lot of competition going on between affiliates, and if the affiliate which is established in your home economy is not productive and is not doing very well, the headquarters might decide to close it down and relocate it in another location. So, you have to help your own affiliates, which are already established, to stay and remain competitive. It

is important to establish privileged links with their headquarters and with the senior executives in that specific duty station.

The other thing you can do in addition to image-building – I think you can also help BOI's efforts in terms of targeting and getting contacts with firms. For example, the other population which is very important to target abroad is your own expatriate communities. As you know, in some major capitals you have large Thai communities, and you have some very dynamic entrepreneurs in those communities. You have to establish links with them. You have to meet them. Go and have lunch with them and find out what are the opportunities, what kinds of businesses there are and if they can relocate back in Thailand and open new businesses. India is doing a very interesting programme in this area with their expatriate communities around the world. They have been quite successful in attracting some of their very successful entrepreneurs in the United States and elsewhere to invest in India. They also produce a magazine just on what's happening with their expatriates, and which businesses they have established and in which sectors - to make the link. So this is, as I said, another population you can aim at, as diplomats. Thank you.

**Participant:** My question is, I'm still not very clear about your graph on performance index and potential index. Is the criteria only the proportion of FDI to GDP? And what is the difference between performance and potential? That is my first question. The second question is, in terms of the investment promotion that you classified into three generations, it seems like a path to go along. Is it necessary for a country to follow that path, in the sense of moving from one stage to the next?

**Mrs. Benabbes Taarji:** Concerning the first question, the FDI performance index is, as I said, the ratio of FDI inflows and GDP – the performance, the actual strength of your economy. The other index, the potential index, is based on a set of criteria of economic indicators. I don't have them all in mind. You can find the exact definition and set of indicators utilized to calculate the ratio in the World Investment report 2002. It's a more complex index. But we have to take both indices with a grain of salt. We have to be careful. All these indices only help us to understand what's going on, but they are not absolutely correct in terms of results. They just help us to make an analysis of trends.

Concerning the second question, yes, being in one generation doesn't preclude a country from bypassing another generation. Some countries, for instance in this region, particularly in the Pacific and some countries in Africa – are still struggling with the first generation. That doesn't mean they have to wait with that generation before going to second – they can bypass and do three at the same time, to catch up. There are constantly new developments and countries need to adapt and reform and change the regulations to meet those new developments, so we will always have reform. We will always have new rules of the game, and consequently, new laws and regulations. So that will stay with us.

Concerning the establishment of IPAs, I think most countries have specific agencies to promote investment but today, because of the scarcity of resources, they need to focus. They cannot afford to open an agency and wait for the investors to come. They really need to devise strategies, not only for promotion but also for targeting - according, of course, to the resources they have available. They cannot do sophisticated targeting – we didn't have the opportunity in one day to share with you all the techniques for proper targeting – but if we had the opportunity to do it, you would realize it's a very long-term process. It's not done in one go, and it's also very costly. You can do it with smaller budgets, but the word of wisdom is that you have to focus.

You cannot promote all sectors. This is a waste of resources. You have to focus on a few sectors which really have a comparative advantage, so of course you will be doing the third generation right away. Like I said, it's better for countries to go on and do third generation investor targeting at present, which has proven to be the most cost-effective. But, as Marc has rightly said, investor targeting will not help you to absolutely attract those investments and those investors you absolutely want and need.

There are other factors. Transnational corporations have their own strategies and that's why it's very important that we are aware of what those strategies are. The other word of wisdom is that those strategies are evolving in time according to on-going competition in the world and the changes in production systems in the world. So we have to be aware and we have to adapt our strategies. It's not “once and for

all.” In the case of Malaysia, MIDA is one of the most successful IPAs in the world who has managed to attract significant levels of FDI throughout the last decades. They have done a tremendous job, and yet today they are faced with a drastic decline in overall FDI inflows.

What’s the reason? Again, the reason is competitiveness – there’s a change in strategies. Singapore is another country. I think one of the most successful targeting programmes in the world has been developed by Singapore and they are constantly adapting their targeting strategy according to new developments. “Locate in Scotland” – today the Industrial Development Agency of Scotland” , they have changed the name of their investment agency - have adopted a new strategy. Ireland- they did a tremendous job and yet today they are faced with a fall in overall inflows to that country because of the change in competitiveness and also in the requirements of transnational corporations who are looking for cost-efficiency-seeking FDI, so they will go and relocate where they can make bucks, because at the end of the day the motive of any enterprise, whether it’s domestic or international, is profit. It’s risk versus profit. They cannot function or survive if there is no profit to be made. So if there is a higher profit to be made anywhere in the world, and there are the right conditions, they will go there.

**Mr. Proksch:** One more comment in addition to this. If you talk about the three generations of investment – I can already think of a fourth that has already been done by many countries. That is, the promotion not of inward investment but the promotion of outward investment. As a diplomat posted abroad you’re not only going to be the eyes and ears of companies you want to attract to Thailand but you should also be the ears and eyes of Thai companies who want to invest abroad so that you pave the way for them to go abroad. After all, what is investment promotion about? You don’t promote investment for investment promotion’s sake. You want to promote it in order to develop a country, to make a country more competitive. But you see the most competitive countries today, like the United States and [those in] Europe, have as much outward investment as they have inward investment. It is really a two-way street. So, while inward investment is important, be also proactive in promoting your own Thai companies to invest abroad.

**Participant:** My question is to Marc. I would like to ask you about the importance of personal relationships that...most diplomats may be keen in this matter, but at the same time, we have to think about good governance. How [do we] ensure good governance at the same time? The second question is - I would like you to elaborate on Rule Ten that you mentioned: "Focus on real project." And the third question - I think we would like our foreign investment projects to benefit our economy, but at the same time, how do we ensure that businesses will have more transfer-of-technology? And another small question, if you have very limited resources in your office, how do you allocate resources to improve your image and how much of that should be allocated to investor targeting? [By investor targeting, I mean] not only sectoral targeting, but also firm by firm. That's very costly in operation.

**Mr. Proksch:** Well, Rule number 10 - "focus on the real project" - is the project that is targeted, the investor that is targeted - the investor you targeted for a specific investment, for a specific location. When you engage that particular investor, you focus on that particular project - you don't start talking about all kinds of other opportunities. You may do that after that particular investment has been ensured, and you may bring to the investor's attention that there are other opportunities as well. Do not start obscuring the whole picture [and] losing the focus of your targeting exercise.

With regard to personal relations, personal relations doesn't mean you have to start asking for kickbacks. There is not necessarily a conflict between having personal relations and good governance. As I said, ideally, Thai diplomats can be used for image-building, whereas the exact targeting exercise should really be done by professionals from the BOI posted abroad for that purpose. If that is difficult, then as a diplomat you can still do that. There is no reason why you as a diplomat can't go and target a particular investor but it depends on your job title. A real senior official like the ambassador himself, I don't think would be appropriate to do that job. You need to have specific officers in the economic department of your embassy for that particular purpose, and who have been trained for that purpose. Then it is alright. But always keep in mind that with a single agency leadership, which should be the BOI - if the Ministry of Foreign Affairs is going to do this exercise, then you [must] have very clear-cut coordination, because then you may have friction between the two.

With regard to resources, if you have scarce resources – this demonstrates the importance of the investment targeting exercise. If you don't do the investment targeting exercise appropriately, you waste your resources targeting too many industries and too many companies who may not fit your requirements and their own requirements. Sitting behind a desk and doing online research and picking up the phone and asking some questions and getting the information that you need doesn't cost much money. But if you [spend] a lot of money on company visits that, in the end, did not fit your requirements and their requirements for the investment, you've wasted your resources. The amount of resources specifies how many countries you can target, how many companies you can target at any given time and only focus on the top 5 or 10 that really matter, depending on the resources that you have.

The last question. Transfer of technology. Now with the WTO agreement, countries have their hands bound more and more on what they can request of foreign companies to contribute to the local economy. But let's not forget – a foreign company comes to *invest* in your country not to *develop* your country. A foreign company comes to make a profit. If you have the proper laws and regulations in place – the proper social laws, the proper environmental laws, the proper taxation laws and so on, where you don't really discriminate between your national [or] domestic companies and foreign companies, and you stick to the rules, then there's no reason why that particular company should not make a contribution to your country.

You cannot force a company to transfer technology, but the company *will* employ your people – it will employ Thai workers who will work with that technology, so there is an implicit transfer of technology anyway. With all these patent laws and WTO and TRIPs agreements and I don't know what – you cannot demand from a company “if you do not transfer this technology, we will not attract your investment” because you may be on the losing end. The company will say, “Well, I have plenty of choices. I'll go to Vietnam.” And, in the long run, that country may benefit. That country may get the technology anyway because, after all, their workers are working for that company, they work with that technology. They may leave that company and set up their own business. So some transfer is taking place anyway. If transfer of technology is your objective, and you want to target high-

technology industries but you do not have the infrastructure for that, then you can demand what you want, but it will not fit.

**Mrs. Benabbes Taarji:** Just one comment I would like to add. Concerning the decline in FDI, we are aware we're going to be facing two threats. One, I would call the "race to the bottom" which means that a lot of countries, in order to attract as much FDI as possible, might run the risk of attracting *any* FDI, not paying attention to social and environmental risks. This is one of the major threats countries have to be aware of. The other is what I call "race to the top." In order to attract increased FDI, a lot of countries will be devising incentive programmes and out-bidding each other, giving more and more to a foreign and transnational corporation. This is, again, a big danger. These are the two dangers we have to be aware of.

On corporate governance, the issue you have raised, yes it's going to become a major issue, particularly in light of what happened in the year 2002 with the big corporate scandals, particularly in the area of accountancy. So, it's something which I think will affect international business greatly, and which will be more regulated. We have seen that the US government has moved swiftly in terms of devising new regulations to control the activities of transnational corporations and particularly to introduce more transparency, accountability and responsibility of CEOs and senior executives of transnational corporations.

But these laws, we are aware, are not necessarily applicable or compatible with national laws. We have seen this already in some countries like Germany, which has already started initiating new regulations which are more in line with their own national regulations. Other countries in the EU are also adopting new regulations and probably in developing countries there is something along those lines. So, corporate governance has become an important issue and UNCTAD has a large programme - actually there is a whole Branch which is working on this issue - to see how to develop and protect the interests of developing countries and particularly how to look at this issue more in depth.

**Khun Krit (MFA):** I'd like to remark that diplomats should not look only to target investment of FDI inflow but also we have the duty to promote investment of Thai

companies abroad as well, because these days Thailand also has the capacity to invest abroad. We have companies investing in China, in Vietnam. So I'd like to ask you, the other way around, do you have "golden rules" for successful investing in Vietnam, for instance? How should we think about promoting our businesses to invest in other countries, [for example in] China as well?

**Mr. Proksch:** Well, I think the whole purpose, what we are trying to do in ESCAP is to make investment promotion courses country-specific. These courses are, at this stage, [on] inward investment, so we are designing an investment promotion training course specifically for Vietnam, and for provinces inside Vietnam. It is a good idea though to design courses for outward investments also. I don't know if UNCTAD has anything in this area. It should not be too difficult to do. Once again, it is really a function of overall competitiveness, you know, to what extent you can really engage in outward investment. But, even LDCs have engaged in outward investment in order to get technology. It's very interesting. Some LDCs want foreign direct investment in order to get technology, but no company wants to invest in a country that is "least developed" so what they do is invest abroad and get that technology pro-actively. It's a very interesting concept.

The other thing with outward investment is that it is often done not necessarily by big companies but, especially with developing countries, by small and medium enterprises. In Asia and the Pacific there are lots. Singapore, Taiwan, all these countries--even Thailand investing in Indochina--are [doing so] with small and medium enterprises. They're not necessarily the big ones. So this can be linked, I think, and a course to that effect should be designed. But it should then be focusing on business strategy, because it is really a function of the business strategy whether it should invest abroad or not. The government can help in paving a little bit of the ground for this exercise, but if the company is not ready for outward investment, and if it's not part of its business strategy then, you know, it may be difficult. So this course – I don't know for whom this course should be designed, [whether] as a business strategy or for officials to promote it, [because] it's not on the same wavelength. But in any lecture I have on foreign direct investment, I stress the outward investment as much as the inward investment in promoting a country's competitiveness.

**Mrs. Benabbes Taarji:** Just to supplement what Marc has said, UNCTAD published in 2000 a Handbook on Outward Investment Agencies and Institutions, which has been recently updated. It contains also some analysis relating to types, structures and salient trends in this area. It's quite interesting and I think a number of developing countries can learn from the experience of other countries on how this is done by some agencies like SOFI, a Swiss public institution that is promoting and encouraging Swiss enterprises to invest abroad.

The focus is on small and medium enterprises because the big transnational corporations don't need assistance – they know how to conduct their business. It's the small and medium-sized enterprises who need to get contacts, who need to get information about the location where they are going to establish themselves, who need to get all this support. So they need a specific agency to help them, and provide some handholding before establishment. This is also the case for a lot of small and medium-sized enterprises from Italy, who are investing quite dynamically, particularly in the Mediterranean region. So there are certainly lessons to be learned and developing a course on this is a good idea.

**Khun Krit:** I'm speaking of this in the context of South-South cooperation. As you said, it involves SME businesses. I'd like to make some small remarks on the work on these issues. I think the investment that we've been talking about, it seems to me, is focused on the manufacturing sector and we have hardly mentioned or highlighted the services sector, which is becoming more and more important, particularly for the SMEs that can provide services. These are quite capable of providing services in the tourism sector [as well as] others. So, if UNCTAD can make some kind of study on how to target the sectoral investments—not only in manufacturing, because I think manufacturing belongs mostly to the TNCs these days—but TNCs also invest in services sectors a lot as well. I'm talking about the small and medium-sized businesses that developing countries can [develop]...

**Mrs. Benabbes Taarji:** Yes, we are aware of this need. We have already developed what we call sectoral promotion. We're doing this actually for Jordan, where we have been helping them not only to devise their strategy for promoting the mineral sector but also how to promote it – developing the tools and how to target specific investors

to go to specific minerals actually. This can also be done for other sectors such as tourism. Sectoral promotion is something we are doing, but mostly at the national level. We also did some training at the regional level. We actually did one last year in the area of tourism for the countries in the Pacific, because it's the major area of attracting FDI to that region, as they are small island countries. They were interested to see how they could devise a strategy to promote tourism as a group.

**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT  
(Public Organization)**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**Afternoon Session:**

**BOI and Corporate Perspectives on Investment in Thailand**

**Presented by:**

**Ms. Booskorn Vutivijarn, BOI**

**Mr. Christopher Bruton, Dataconsult Ltd**

**Mr. Stuart Dean, General Electric, Southeast Asia**

**Bangkok, 18 September, 2002**

หน้าจาง

**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT  
(Public Organization)**

**TRANSCRIPT**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**"Investment Policies, Legal and Institutional FDI Framework  
and Practices in Thailand"**

**Presented by  
Ms. Booskorn Vutivijarn  
Senior Investment Promotion Officer, BOI  
On behalf of Mr. Supat Limpaporn, Senior Executive Adviser  
of the Board of Investment, Thailand**

**Bangkok, 18 September, 2002**

หน้าจาง

**Presentation:**  
**“Investment Policies, Legal and Institutional FDI Framework and  
Practices in Thailand”**

**Ms. Booskorn Vutivijarn, BOI**

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Distinguished Guests, Colleagues, Ladies and Gentlemen,

Thank you very much for your kind introduction and warm welcome.

I am pleased to have the opportunity to speak to my fellow colleagues in the Royal Thai Government. Many of you will be embarking on an exciting assignment overseas in the near future.

Although not all of you will represent our nation officially as diplomats, in a sense, you are all “ambassadors” for Thailand. Your job will be to create goodwill between Thailand and your host nation, lend an empathetic ear, provide accurate information, and uphold the honor of our kingdom with grace and dignity.

Of course, one of your specific responsibilities will be to promote Thailand as a Land of Investment. There can be little doubt that, over the past decade, foreign investors have made significant contributions to the industrial development of Thailand, in terms of technical advancements, financial support, training and management skills, and more. And as we have heard today from our other esteemed speakers, foreign direct investment is vital to the continued health and well-being of the Thai economy and society.

My speech today will cover four basic areas. I will begin with a summary of Foreign Direct Investment in Thailand in 2001 and the first eight months of 2002. Then I will go into depth about the BOI’s roles, policies and services, the investment opportunities in Thailand, and finally the role you can play in promoting investment here.

## **FDI 2001**

Ladies and Gentlemen,

Last year, the Board of Investment approved 575 foreign investment projects totaling in value of 209.6 billion baht, a figure that was only 1% less than in 2000.

While the total number of projects declined, a key element of the revised policy we introduced in August 2000 was to focus on quality of investment, not quantity, so the drop in number of projects is not surprising, and I am pleased to say that the overall quality of investment was quite good last year. Japan maintained her traditional role as Thailand's most important investor nation, with 257 approved projects investing 83.4 billion baht. Investment from Europe, the US, Singapore and Hong Kong rounded out the top 5.

Overall, electric and electronic products remained the most attractive sector for foreign investment last year, with 173 projects approved, followed by metal products and machinery with 135 approvals. In terms of investment value, chemicals ranked first, thanks to large projects from multinationals such as General Electric, Bayer, and Mitsui, followed by electric and electronic products.

As with the economy in general, towards the end of last year, investment applications began to pick up and have continued to be strong in the first eight months of 2002.

## **FDI 2002**

We have set an ambitious target for investment in 2002 of US\$4 billion. And we are certain this target will be topped easily. In fact, through August of 2002, we have already attracted US\$3.9 billion in investment.

Leading the charge has been new investment in agricultural products and metal products, both of which have tripled in value compared to the same period last

year. Investment is also strong in the electronics-electrical industries, the chemical-plastic-paper industries, and service and infrastructure industries.

And, before I move on, let me point out that FDI plays a significant role in economic development, as the export earnings they generate far exceed the value of imports.

In sum, the message about FDI in 2001 and the first half of 2002 is that despite the external shocks, foreign investors continue to find Thailand a good place to do business.

### **BOI Roles and Policies**

I would now like to take a few moments to familiarize you with the role and policies of the Board of Investment, which is the Thai government agency responsible for administering incentives and providing services with a view toward encouraging investment in priority areas. It is comprised of two bodies: the Board itself and the Office of the BOI.

Chaired by the Prime Minister, the Board is responsible for administering the investment promotion law and establishing overall policy guidelines. Although currently an agency within the Prime Minister's Office, as you may know, from October the BOI will be moved to the Ministry of Industry.

This makes good sense, actually, for the Minister of Industry is the vice-chairman of the Board of Investment and understands our mandate to improve the competitiveness of Thai industry. It will also create a synergy with other MOI organizations such as the Department of Industrial Promotion, enabling us to work together to help increase productivity.

In any event, the Office of the BOI is the administrative arm of the Board, with its headquarters in Bangkok, six regional offices within Thailand, and five overseas offices: in New York, Frankfurt, Tokyo, Osaka, and Paris.

Thai investment promotion policy has five broad objectives:

**First**, we want to attract the kind of investment that will speed up economic recovery. Quality of investment, therefore, is more important than sheer quantity.

**Second**, we recognize the need to continue to generate prosperity in provincial areas in order to reduce the gap between rich and poor in Thailand.

**Third**, we recognize the importance of strengthening the international competitiveness of Thai industry.

**Fourth**, we understand the need to develop activities and industries that will form the basis for further industrial linkages, thereby further enhancing the country's competitiveness.

**Finally**, we recognize that Thai investment policy must be transparent, with all investors being treated fairly.

Within these general guidelines, the BOI aims to help investors in three main ways:

1. To reduce the risks associated with investment;
2. To reduce the initial investment costs and to improve the overall rate of return on investment; and
3. To provide support services at all times.

To reduce risks, the BOI offers guarantees against nationalization or competition from new state enterprises. We also grant permission to bring in foreign nationals to perform investment feasibility studies or to work under promoted projects; to own land for carrying out promoted activities; or to engage in other business-related activities.

To help reduce the initial investment costs and improve the overall rate of return, the BOI offers an attractive range of tax incentives, including exemption or reduction of import duties on imported machinery, exemption or reduction of import duty on

imported materials and components, and a corporate income tax holiday of up to eight years.

To promote decentralization of industrial activities away from Bangkok, the BOI has divided the country into zones.

**Zone 1** consists of Bangkok and the five central provinces around Bangkok. **Zone 2** is the 10 provinces that surround Zone 1 and the developed provinces of Phuket and Rayong.

Approved projects in Zones 1 and 2 receive reductions in import duties for machinery and exemptions from corporate income tax and import duties for raw materials of products for export.

**Zone 3** comprises the remaining 58 provinces, which have low-income levels and less developed infrastructure. Zone 3 is designated as an Investment Promotion zone and projects that locate there are eligible for stronger incentives than in Zone 1 or 2. We reserve maximum incentives, however, for projects in the 18 least-developed provinces of Zone 3.

By maximum incentives, we mean that projects locating in these 18 provinces will receive 8-year corporate income tax exemption, a 50 percent corporate income tax reduction for years 9-13, import duty exemption on machinery, and deductions for infrastructure costs, as well as water, transportation, and electricity costs for 10 years.

We know that to compete in the global markets of the 21st century, international standards certification is rapidly becoming a prerequisite. Therefore, we require projects of 10 million baht or more to obtain international standard quality standard certification, such as ISO 9000.

In addition, we have made protection/preservation of the environment one of the designated “priority activities,” that will receive special incentives.

Specific activities in agriculture and agricultural products; environmental protection/preservation; technological and human resource development; basic transportation infrastructure and services; and targeted industries will receive an eight-year corporate income tax exemption, and import duty exemption on machinery, regardless of zone.

Although our policy remains substantially unchanged from the revised policy we introduced in August 2000, we made an administrative change earlier this year by instituting a cap on corporate income tax exemptions in order to improve good governance. The cap was purposely set high — at 100% of investment — and the vast majority of projects will receive the same level of benefits from the tax holiday as under the prior system.

Finally, I think it is important to point out that our investment regime is among the most liberal in the region. We have no export requirements, no local content requirements, and no foreign equity restrictions in the manufacturing sector.

### **BOI Services**

The BOI recognizes that investors do not live by incentives alone, and so we have made a concerted effort to beef up the level of services offered investors.

In addition to staffing the overseas offices with some of our best people, we have strengthened our **BOI Unit for Industrial Linkage Development (BUILD)**, which enhances the relationship between local parts and component manufacturers and end-product assemblers.

One of the BUILD initiatives is the **Vendors Meet Customers Program (VMC)**, which enables assemblers to locate cost-effective sources for their parts and components. Every three weeks, BUILD organizes factory visits in which local parts and component manufacturers meet with buyers representing end-product assemblers. This way, the buyers and suppliers gain first hand knowledge about the latter's needs and the former's capabilities. BUILD also offers comprehensive computerized

information on subcontracting opportunities in Thailand as well as support for foreign buyer firms seeking sourcing networks in Thailand.

Over the past six years of the BUILD program, a Taiwanese company called Delta Electronics, which employs 19,000 Thais, increased local content of their products to 60% with the help of the BUILD program. And at a recently held BUILD Fair, Delta sourced more parts and said they expected to reach local content levels of 80% in 2003. We believe that Delta Electronics is not alone, that many foreign companies are learning to trust and appreciate the high quality and value of products made in Thailand.

I also need to mention a program that developed from BUILD, the **ASEAN Supporting Industry Database**, or **ASID**, which the BOI developed on behalf of ASEAN. The goal of this program is to expand the scope of ASEAN's supporting industries by serving as the region's industrial yellow pages. By harnessing the communications power of the World Wide Web, ASID can reach the global marketplace to make the world aware of the capabilities of supporting industries in ASEAN member countries.

The ASID home page, which is located at [www.asidnet.org](http://www.asidnet.org), contains a wide range of information about more than 11,000 supporting industry companies throughout ASEAN and provides communication links to facilitate electronic commerce between ASEAN suppliers and foreign purchasers.

The BOI offers assistance to investors in a variety of ways. We have created a One-Stop Service Center for Visas and Work Permits to enable the processing of visas and work permits within three hours. We also operate a Foreign Experts Services Unit to facilitate investors in obtaining permission for foreign skilled experts and technicians to remain in Thailand to work on promoted projects.

### **BOI Going Forward**

As I suspect you are all aware, part of the government's program is to facilitate a transition from reliance on physical and financial capital toward human and social

capital. The task of the Board of Investment, therefore, becomes one of translating the national agenda into a BOI agenda, and in doing so “work smarter, not harder.”

We are, therefore, reorganizing the BOI into four main units, covering **four key roles** (intelligence-gathering, marketing, linkage-development, and problem-solving).

We will adjust our role from being primarily a regulator, thereby freeing up staff to be more intelligence-based and more proactive in the formulation of policy. We will study local and international trends to identify industries that have high potential and in which Thailand has the capability to compete and make appropriate recommendations about to the government.

This intelligence-based unit will also work to provide investors with information about some of the “hidden” opportunities that exist in Thailand, in addition to established industries, such as agriculture, electronics, and automotive.

The second focus will be on marketing Thailand to the world, seeking to develop strategies to encourage domestic investment, foreign investment, and overseas investment by Thai businesses. We need to let the international business community know about Thailand as a country, its image, its politics, society, and economy and to tell the world that Thailand has a new leader, with a sound and ambitious vision for the 21st century.

The third key BOI unit will be involved in development of industrial linkages. This unit will build on the work of the BOI Unit for Industrial Linkage Development (BUILD), and will focus on targeting specific industries, not through the use of tax incentives, but through other means, such as incentives for location, supporting industry cluster development, and development of a more technically-skilled work force.

We need to look at multi-dimensional development, where sectors and sub-sectors are interrelated. After all, with very few exceptions, industries do not stand alone. The chemical industry is a good example of what I mean, where upstream and down-

stream development are all integrated, and lead to production of parts and components for a host of industries, including electronics and automotive. By focusing on the whole picture of an industry the country can make better use of our limited resources.

Finally, we will make concerted efforts to create an enabling environment for investment.

We recognize that investors do not base decisions solely on tax incentives, and we will, therefore, increase the range of added-value services to provide information to investors that will enhance the investment environment. We will also continue to work with the foreign business community to solve investor problems to create a more user-friendly investment environment for all investors.

Thanks to the cooperation and efforts of the many ministries and government officials, many of you here today, we believe we are fulfilling our policy objectives and helping to make Thailand an attractive destination for foreign investment.

However, we must acknowledge that the global investment environment is in the midst of transformation. Competition for FDI has been high. As you can see on these three regional maps, MIDA, Malaysia's investment promotion organization, and EDB of Singapore alone have significantly greater presences across the globe than Thailand does. And of course with China joining the WTO, FDI flows to China will increase, possibly at the expense of Thailand. Accordingly, we need to adapt to this changing environment, and to accomplish our objectives, the BOI has set out a series of five key strategies.

With the impending implementation of such multilateral trade agreements as AFTA and GATT, and the further reduction of tariffs on machinery and raw materials, it is undeniable that the importance of tax-based incentives is rapidly diminishing. It seems clear, then, that for Thailand to remain competitive in the eyes of the global investment community, we must work to reduce disincentives for investors.

Accordingly, we have made solving investor problems a top priority. The BOI wants to be investors' business partners, and we are committed to playing a coordinating role with other government agencies to make sure investor concerns are not only heard, but also addressed in a serious way, by the responsible Ministries.

The BOI is, therefore, in the process of holding consultations with investors, both in Thailand and abroad to hear, first-hand, what problems the investment community feels are the most important. Removing obstacles to doing business in Thailand is, in fact, being taken very seriously not just by the BOI, but also by the entire government. Indeed, the Prime Minister chairs a standing public-private sector committee that systematically addresses issues raised by the private sector.

The BOI is a member of the committee, so we know what issues are being worked on. Issues raised by investors that are not being addressed by the Prime Minister's committee will be taken up by the BOI.

A second focus of my administration is to become more proactive in the targeting of investors, in order to improve both the quality and quantity of investment, which will help develop and enhance sustainable growth in the Thai economy.

Accordingly, we have targeted three major regions for our advertising, marketing and promotional focus: the regions of Europe (primarily the countries of the EU), Asia (especially, Japan, China, Singapore, Taiwan, and Korea), and North America (US and Canada) will be beneficiaries of this new focus. We will plan more missions to these regions, and will send our mobile units to visit them with greater frequency as well. In addition, we will open additional overseas offices in these regions to ensure that we provide more individualized service to these countries' investors. Later this year we expect to open an office in China, and additional offices in the US and Japan are planned for next year.

Having identified target regions, the next step involves strengthening our overseas networking in these three regions. As part of our increased international focus, we will seek cooperative agreements with public and private sector

organizations, including other investment agencies, banks, and provincial governments. For example, we recently signed joint marketing pacts with four Japanese banks, and we are looking to sign similar agreements with banks in Europe and the US as well.

By entering into these arrangements, we improve the bi-lateral flow of information for the investment community, and this will help us understand how we can better serve investors. In addition, these programs will facilitate investment, as the banks will target investors interested in overseas investment and will introduce them to the opportunities Thailand offers.

We will also have our overseas offices work to develop local-to-local promotional programs with provinces and cities in target countries. We are looking to establish “sister city” relationships that will attract investment into Thailand and provide opportunities for foreign businessmen to improve their global competitiveness.

And, finally, we want to work more closely with our friends from public and private sector organizations, including Chambers of Commerce, both within and outside Thailand.

At the same time we are improving the way we network with and target investors, we want to improve overall Thai competitiveness, particularly at the SME level. To put it simply, we are sending a “wake-up” call to Thai SMEs about changes in the global marketplace. They have to be made aware of the need to adopt “industry-best” technology and practices and they have to better understand the importance of skills training and technology transfer.

Our purpose here is two-fold. Not only will it help Thai industry itself become more competitive, but it will also provide foreign investors with sources of supply that are better able to produce for the global marketplace.

Before moving on to specific industries we are targeting, there is one more role for the BOI that I would like to discuss with you this afternoon, and that is the marketing of community enterprises.

What we want to do is to help Thai SMEs improve their capabilities at the grass-roots level, and we will work with other Ministries to ensure that promising SMEs receive maximum government support. The BOI will then choose the most promising of these enterprises and will help them with marketing. We will also encourage foreign SMEs to participate in these “community enterprises,” by providing assistance in areas such as technical assistance and foreign market access.

By focusing on quality projects and trying to improve them, we believe we can create success stories that can then be replicated in other villages around the country. We know we can count on your support of our efforts to improve the competitiveness of these SMEs.

### **Investment Opportunities in Thailand**

A few moments ago, I mentioned that we are focusing our marketing efforts on three key regions.

We have also identified five sets of target industries that either: offer high long-term growth potential; need to be strengthened to be able to compete effectively in the global marketplace; or need to be expanded and extended to take advantage of their competitiveness.

Having identified the industries, the next step is to develop policies, measures, and marketing strategies specific to each industry, taking into consideration their needs, based on factors such as competitiveness, market potential and levels of technology.

One more point about target industries, and one I want to be clear about, is that while there will be specific policies for these targeted priority activities, our overall

policy will remain the same. Non-targeted sectors will not see any backtracking, nor are there any plans to reduce incentives, in any way, shape or form. Our intention is to augment existing policy, not replace it.

These five target industries all offer significant opportunities for investors, starting with agro-industry, where Thailand has abundant natural resources, cost-effective labor and proven production capabilities. We already are, of course, the world's largest exporter of rice, canned tuna, rubber, and canned pineapple. We believe, then, that there are numerous opportunities to build off these fundamental strengths to help the sector transition to higher value-added agro-processing by improving product quality, yields, and sustainability.

The automotive sector is another of our target industries and it is clear that we have proven capabilities in this industry as well. Almost every major auto assembler has made Thailand its home. They have found that Thailand's combination of cost-effective skilled labor and ability to source parts and components locally is key to global competitiveness. Indeed, Thai auto exports have more than tripled over the past five years, and that trend is certain to continue, as assemblers increasingly shift regional production into Thailand.

This expected growth in export markets, as well as revitalized domestic sales (vehicle sales are sharply ahead of last year), translates into opportunities for parts and component manufacturers - not only for OEM, but also for replacement parts, and motorcycle parts, as well.

The next target industry is fashion, particularly leather, garments, and jewelry. While Thai craftsmen are well respected for their artisanship, there are opportunities to improve product design and to build up Thai products and brands, and we recognize that foreign expertise is needed in these areas.

Electronics, including ICT, is the next target industry, and one that is key to Thai competitiveness and our transitioning to a knowledge-based economy. Thai

electronics goods have long been widely accepted in global markets. The challenge here is to move up the ladder from simple assembly to higher-value-added processing.

The final target industry is what we call high-value-added services, which includes IT software services, printing, and long-stay tourism.

### **The Role of Thai Diplomats and Officials**

Ladies and Gentlemen:

The BOI and Thailand need your help. In order for the world to come to us, we need to go to the world. We are working hard to expand our global presence, but it is our great hope that you will take on the following roles to encourage foreign investment in Thailand.

Please familiarize yourself with the BOI Objectives and Policies I have reviewed here today. Certainly, it would be helpful if you were familiar with the contents of such basic brochures as “A Guide to the Board of Investment” or our BOI website. If you are familiar with Thai investment policy, then you will be more effective as our ears and eyes. In this rapidly changing environment that is truly a global marketplace, companies are considering expansion overseas all the time. We suspect that, as representatives of the Thai government, you may hear from time to time of foreign investors who may be interested in Thailand. An introduction, especially one from the Thai Embassy of the host nation, can be a powerful start to a mutually beneficial relationship between the investor and the BOI.

We also want to develop the Team Thailand spirit wherever the Royal Thai Government is present. In Japan, Team Thailand consists of the BOI, the Department of Export Promotion and the Thai Embassy in Tokyo, a powerful investment promotion tool that has helped strengthen the important relationship between Thai and Japanese industry, directly resulting in increased investment in Thailand. Long-term trust between the BOI and potential overseas investors is not easy to build. But with

your cooperation, we can form a Team Thailand in your host nation, and create opportunities for the betterment of our country.

In closing, it is my sincerest hope that, as a member of Team Thailand, you will emphasize to our friends overseas that the Thai government, at the highest levels, is committed to improving the overall investment environment, and to a free open-market economy.

Thank you for your kind attention. I will be happy to take any questions you may have now.

### **Question and Answer Period**

**BOI (Ms. Booskorn):** Before the questions, I would like to introduce to you the BOI website. All information publicized by the BOI will be on our website. We have been awarded for three years for this website. The website address is as you can see here <http://www.boi.go.th>. You can find updated information relating to investment promotion policy as well as news about doing business in Thailand from this website as well.

**Mr. Proksch:** Small question. What is the role of provincial and local officials in attracting investment to their respective locations? Is it all centralized in BOI in Bangkok? Or what is the role of provincial authorities, the provincial governor - do they have special offices to deal with investment?

**BOI:** It's half decentralized. The analysis of projects for investment promotion is still done at the head office in Bangkok, but to facilitate convenience for investors, we give the power to provincial offices – they don't have to come to Bangkok to release machinery from customs, or for paperwork of course or for land ownership or for raw materials release from customs. For the paperwork, we authorize them to do it on the central authority's behalf. But they cannot give incentives themselves.

This is because we have different committees to consider a project. If the project is under 14 million baht, we have a meeting once a week. Members at the meeting [include] the director within the BOI office. If the project is over 40 and up to 500 million baht, it will go to the sub-committee meeting, and the members of the meeting will be not only from the BOI staff or the BOI director, but will also [include] representatives from the private sector and other government agencies, like the Ministry of Industry or the Ministry of Science and Environment. If the project is [worth] over 500 million baht, it will go to the board meeting which is held once a month.

But the regulations and the way we consider the project is the same, and it is stated clearly in our book, or whatever we publish on the web, that we try to make it as transparent as possible. You can check [it yourself] - if you are under the same criteria, you will get the same incentives. It is not negotiable. I don't know if this is good or bad, because in Singapore you can do that, but in Thailand, it's different from the way we govern the country. I think the more transparent it is, the better.

**Participant:** When you talk about the target industry, what are the criteria for setting that target industry? That is the first question. The second is – you talk about the automotive and IT industry, that we recognize that we have to move up from [being] a mere assembly location to more value-added activities. I agree with that. But the question is – how do we do that and what has been done by BOI in the past in that area? Thank you.

**BOI:** Firstly, for the target industries, we have to see what is the potential we have for these industries that, at least in the first stage, we can easily promote. Of course we have to weigh the potentiality that we have and also – are we in need of these industries? For example, agriculture. We have an abundance of resources and we cannot avoid the truth that a large number of the Thai people are in this industry. We aim not only to promote the country's national resources but to promote the Thai people as well because sometimes people understand that BOI only promotes foreigners and only promotes big investments. For the BOI, even if you have a business worth only one million baht – excluding cost of land and working capital –

you can come to us, no matter who you are, Thai or foreigner. So agriculture is the best example for this kind.

The automotive industry. You may have heard that Thailand is the Detroit of the East. I think this is true because all the major auto assemblers that you can name – they're all here. Once they are here, we can promote further linkages and [sub-industries] like parts and components. So we still have plenty of room for these industries. The electronics industry – we cannot {...inaudible...} that, because if you see from the beginning, you can see the trend of this industry and the export value from Thailand comes from the electronic industry. So this is a factor behind why we classify this as the targeted industries.

For the automotive industry, we're doing quite a lot. We have the BUILD program. We're involved with many activities both in Thailand and overseas to help them with both investors and the labor. For the labor, we set up a [special] unit to work closely with the vocational schools in order to develop skilled labor. Also, for the assemblers themselves, or the foreign manufacturers, we introduce them to the suppliers, and let them know that they don't need to import or start from the beginning. This is another way for them to move up, to make their own higher-end, value-added parts and components.

For the IT – we didn't do much on this, we have to accept that. Lately, we've just been promoting it. We can just give them the maximum incentives and let the industry go alone by itself. For example, if you set up a software development company and you are in Bangkok then you get an 8-year corporate income tax and that's all. Now, we'd like to move on to coordinate with universities and also to big companies overseas to develop programs. We plan to do it like that.

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**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT  
(Public Organization)**

**TRANSCRIPT**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**"Corporate Perspectives on Thailand's Investment Promotion"**

**Presented by  
Mr. Christopher Bruton  
Director, Dataconsult Ltd & Mekong Regional Associate**

**Bangkok, 18, September, 2002**

หน้าจาง

**Presentation:**

**“Corporate Perspectives on Thailand’s Investment Promotion”**

**Mr. Christopher Bruton, Dataconsult Ltd**

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**Amb. Xuto:** Good afternoon. This is the last program on our agenda for today’s workshop. It will feature these two gentlemen beside me, who are both very proficient in their respective fields. I will give the floor first to Mr. Christopher Bruton.

**Mr. Bruton:** Thank you, Mr. Ambassador. At last you’ve got in front of you a couple of real investors. I am of the SME variety. I have invested in Thailand and have been happy to do so, so you have in front of you a happy investor, which is good to have. And Stu Dean, a good friend of ours, represents the other end of the scale, because GE is one of the largest companies in the world, one of the largest international investors and also a company which of course invests in a number of fields in Thailand. I’m hoping that Stu will be telling us that he is also a happy investor as far as GE is concerned. We ought really to have an *unhappy* investor, and I tried to get one or two to come, but they were a little bit cautious about confronting a large number of government officials like yourselves and wondered if they would escape safely if we brought them in, so they’re not here today.

What I wanted to talk about today was to introduce some of the trends that we find—in working with multinational companies—are significant for investment, and also talk about what the globalized multinational corporation is beginning to look like; to describe the changing perspectives of industrial location, which affect investment promotion and the competitive advantage aspects which are very important these days; look at the economic attractiveness of the different countries and then introduce some more specific things, from our own Economist network, about how the different aspects of the investment matrix are rated in terms of Thailand.

As it happens, I chose to make a comparison with Vietnam which is interesting because all through the day I’ve been hearing comparisons between Thailand and Vietnam, so it’s a fortunate coincidence that I’ve also chosen to do that.

I work a lot in Vietnam. I'm quite positive about the country. But as you'll see, Thailand doesn't have to worry too much about competition from Vietnam because you're very well ahead.

The whole world has changed and we have to keep up with those changes. We went, first of all, through an era of politics, where there were nation-states and power was mainly militaristic. That was the colonial area. We then moved into an era of economics, after the Second World War, where we saw trading blocs like the European Union, NAFTA and the Council of mutual Economic Assistance in Eastern Europe, ASEAN, and APEC. Here collective solidarity was the big issue. What we're really moving into now is an era of technology, where there is a globalized community, the WTO, free trade and power by knowledge rather than by money. It is innovation and the forces of natural competitive advantage which are going to be the dominant factors. So economics has overcome politics and technology is now dominating economics and also, therefore, politics. What we have to consider now is, to a much greater extent, the technological rather than any of the other factors involved. This is a threat as well as an opportunity that we have to face.

The era of technology is going to give a lot of advantage to the already advanced markets. So, though there will be some opportunities for what I like to call shooting stars—those new entrants that somehow jump up—if you're not already an advanced country, you're going to face a very big threat in the coming years. Some of the statistics on the global flows of investment are showing that the “haves” are having more and the “don't-haves” are having even less, so it's becoming more and more difficult for new entrants to get ahead.

There are four levels of competitiveness. The advanced economies are fighting the emerging economies. Eastern Europe and South America have to fight against emerging Asia. Northeast Asia is fighting against Southeast Asia and the more advanced countries of ASEAN have to fight against the less advanced countries. Thailand really doesn't seem to come too far up on the matrix so this is a big problem for us. This is one of the issues which we have to face when we are competing for investment in the globalized economy. Higher technology, larger financial flows, and globalization are all directing multinational corporations to locate, to a significant

extent, in the more advanced rather than the emerging countries. So you have to have the opportunity of an emerging powerhouse, which you can achieve by size or by innovation, if you're going to be able to jump the queue and get into that level. This is the challenge that we face.

There are five key driving forces which accentuate the competitive advantage of the global players. The first one is financial market access. The second is knowledge versus resources, the issue of who has that knowledge, who leads in the skill race; the third is e-business, with the only alternative being no business at all, and where e-advancement is looking to come fastest; the fourth is environmental sustainability – who is protecting the world best?; and the fifth is a slightly different issue – the demographic issue. Now, for the first four, all of us need to be a bit concerned, because who gets the finance? That tends to be the highly viable countries, the triple-A-rated countries. Who leads the skill race? That tends to be those with the best educational systems. Does Thailand have the best educational system? That's a question you have to ask yourselves. Where is e-business moving fastest? Does Thailand show up as a leader in this respect? Who is the most environmentally conscious? Go out on the street and ask yourselves, as you breathe the air, that question.

The demographic issue is a little bit different, because advanced societies tend to have age-group imbalances – they have aging populations. So, population growth and the disappearance of population is another issue which we have to contend with. We don't only have to look at the demographics of today, but also the demographics of the long-term future. This competitive advantage is one of the issues that we have to look at when we are talking about different countries.

Then there are the potential key weaknesses which can affect a developing country's competitive advantage. The question here is, where does Thailand stand between the advanced and the developing countries? Clearly not at the most advanced level. Clearly not, also, at the least developed level. You're somewhere in between. And the extent to which you're moving along from the less developed to the most developed will determine how far these weaknesses can have impact on your

competitive advantage when you're talking with multinationals about investing in this country.

Market openness is a major issue. What kind of unequal treatment and handicaps are placed on foreign investors? What speed of commitment do you have toward liberalization? I think a lot of issues will come to mind in that context. Secondly, infrastructure – the vicious circle of poor infrastructure which creates higher costs, which reduces attractiveness to investors, which thereby reduces the financing availability for infrastructure - so it's a downward spiral which is very difficult to reverse.

Human resources is a third issue. Lower educational investment means low work skills. It means poorer productivity. It means higher costs. It means a possible source of "brain-drain" of limited skills to more developed countries. So this is again a high risk which you have to bear. The rule of law – different rules or imposition of rules for different people; lack of safety and security; poor transparency in official dealings - how do you rate in this context? When people are found guilty in official tribunals and then exonerated or are able to escape the penalties – does this create a good image?

Critical market mass is another major issue. Markets which may be too small, which may be ill-developed or fragmented are not really worth accessing directly by multinationals. The multinationals will want to sell into such a market, but they may not find it worthwhile to actually invest here. And some companies may even decide to move out. They may say, "Indonesia is not as rich a country as Thailand, but it's a bigger one, and we want the bigger market more than we want the richer market." Then they decide to move as, recently, a company decided to do, from Thailand to Indonesia.

Now let us turn to the globalized multinational of tomorrow. What kind of characteristics do they have? You have to watch very carefully, from a policy point of view, to see how companies are changing in their structures. Companies are changing dramatically. They're merging all the time. We have ourselves found that, out of a critical mass of maybe 100 or 150 companies that we were dealing with 3 or 4 years

ago, they have now significantly diminished. It's still the same people, the same operating units but there are now only about 100 companies instead of 150. The others merged into other companies, so that there are fewer, bigger, rationalized companies in existence, and this means changes in the patterns of investments that multinational companies make around the world.

So what are some of the characteristics that I see in this? First of all – a greater standardization of components for competitive sourcing, contrasted with customized end-products to meet individual needs. This is most evident in the automotive industry. I work rather closely with one major motor manufacturer, and it's really fascinating to see how they're trying to go for standardization against individualization. You'll be able to order your own car on the internet by saying what you want, and they will be able to provide you with a car, produced for you – but with standard components. So we are going both towards individualization and towards standardization.

There is also another definite threat - leaner, meaner organizations with integrated sourcing and supply chains along with advanced logistic supports. What we are seeing now is logistical support which is called "24-7-12" 24 hours, 7 days a week, 12 months a year – the sun never sets on the sourcing process. Worldwide sourcing – delivery-based on optimal cost and time efficiency using logistic hubs – the just-in-time to minimize stock and finance in transit. Increasingly this is what is happening. For security reasons, it may be regionalized, rather than globalized, but there may only be one hub, which might be Singapore in this region, where advanced logistics enable this to take place.

Turning to intangible assets. Brains, brands, skills, and innovation are gaining relative ascendancy over tangible assets like factories, warehousing, and dealer networks. It's the intangibles - like the brands, like the skill complex, like the innovation – which is the most important thing. Global production, risk and knowledge management, which is monitored and controlled online by a globalized, virtual-headquarters network – already, a number of advanced companies are working on this kind of concept. So you don't really need a global office. You don't really need a regional office. It's all happening 24 hours a day on an internet basis. E-

business systems for automated production, stock replenishment and customer relationship management – you don't even have to have your dealer request replacement or replenishment of stock – it happens automatically. All these things have a big impact on localization, on investment in a particular country. Automation in the mechanical age was implemented very slowly, but in the IT age it's going to get much faster and result in much more fundamental organizational change. This is a very, very significant influence which you need to monitor all the time, because you might well be chasing after yesterday's company, whereas effectively, you've got to look to tomorrow's company.

Changing perspectives of industrial location obviously are going to affect investment promotion. Globalization trends can lead to fewer, larger-scale industrial locations for individual multinational companies or groups that won't need to have a plant in every country. So this is a major concern that you're going to have to deal with. Tariff reductions under market access schemes like the WTO or AFTA could result in much broader trade flows, but narrower investment flows. They won't have to locate in all ASEAN countries, they would locate in just one ASEAN country, so this means a lot more competition for yourselves. We really have to look at two trends. First of all, larger manufacturing hubs to service clusters of regional countries. At the same time, planned specialization – “one country, one product.” Well, you all know, “one village, one product” – so “one country, one product” is a natural development from that concept to spread industrial activity while still preserving benefits of scale economies.

Multinationals do have hearts, at times. They do have minds. They do have social responsibility. So they're not necessarily going to walk out on you and say, “well, we're leaving.” What they may say, though, is “we're going to produce one thing in your country and another thing in another country.” So, you have to be ready for that. Companies have already done that, as you probably know, in Thailand, in recent times.

Investment promotion does need to take account of competitive advantage. I think the important thing, though, is that there is no single matrix of competitive advantage. The attractiveness of one particular country does depend on a particular

industry and even on a particular company. Companies don't all think alike. Don't despair if one company says no to Thailand. Another similar company may very well say yes.

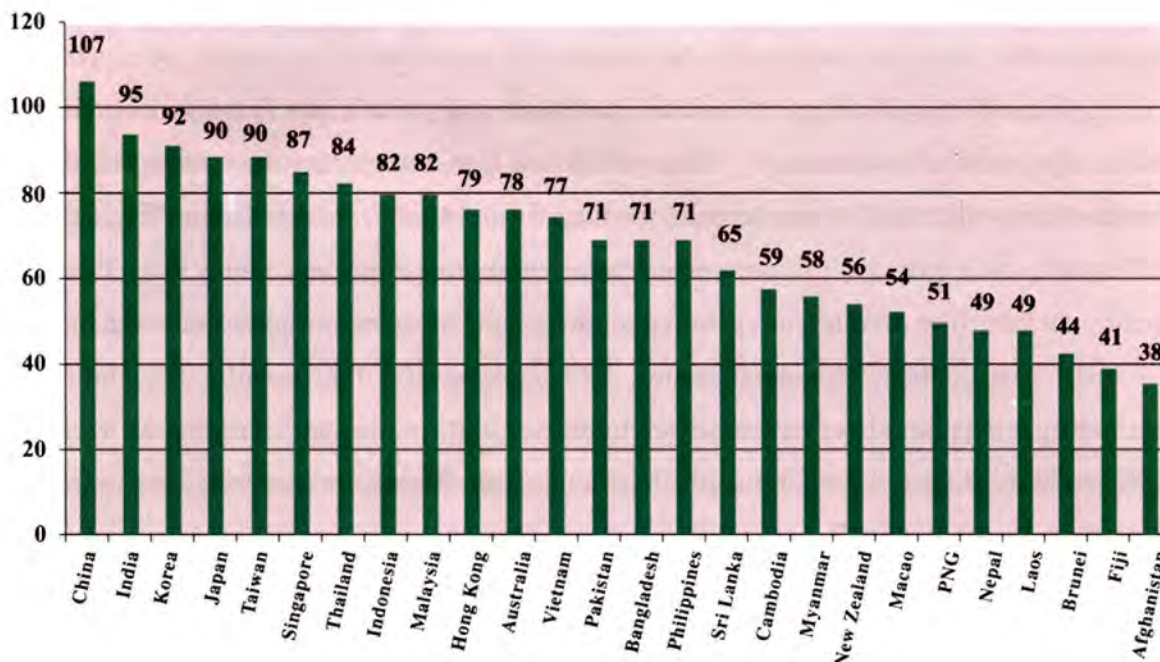
Generally speaking, companies in particular industries look on things like, first of all, the political environment – how stable and how transparent the country is; the economic environment – the strengths of financial indicators; market factors like size, affluence, trade growth; the natural resource endowment that a country may have; policy factors, like private enterprise encouragement, investment, taxes and existence of restrictive controls; financial issues, like banking and fund availability; labor, including costs, quality, availability, labor regulation, labor harmony as well; infrastructure, like utilities, transport, business services; and then special investment incentives.

There's a lot of pressure against special investment incentives these days. A lot of the multilateral agencies say: you shouldn't give special investment incentives, it's not the level playing field that we're trying to work towards and also, companies don't really need them; their locational choice will be based on all the other factors. Special investment incentives, the sort of inducements that you give to the company to come to your country, are not considered really necessary. I'm not quite sure that that's the case.

I think Thailand's policy, as discussed in the session just now, where not only do you give incentives to companies to come to Thailand but also give incentives to locate in certain regions rather than in other regions – they are clearly a necessity for the time being. So, you need to look at those incentives very, very carefully to make sure that they really are incentives. If you're going to give tax breaks to companies for a certain number of years, just calculate how many years it takes before the company can actually make a profit after it begins its operations. It always depends on the individual country and the individual company.

**Economic attractiveness of ASEAN and Asia-Pacific countries**

*(one company's viewpoint)*



*(Sum of individual rankings of 4 indicators, namely: GDP volume, GDP growth, population and per capita income. Best possible result 120.)*

Here, I'm looking at the economic attractiveness of ASEAN and Asia-Pacific countries from the point of view of one particular company, a company that we work with. This company did individual rankings of, basically, four indicators – GDP volume, GDP growth, the population of the country and per capita income – and some other significant factors with a matrix giving a total possible score of 120, and this is how the result emerged. It's a good thing we're not in Afghanistan. China came out top. India came out second. South Korea came out third; Japan fourth; Taiwan fifth; Singapore sixth; Thailand seventh – not so bad, because we are ahead of Indonesia, Malaysia, ahead of a lot of countries. So Thailand was fairly well-placed in this. Now, this is not one of those scorecards that you see everyday in the newspapers from one or another organization. What I have just described was something that one company developed in its headquarters, working closely with its in-country associates to determine the attractiveness of particular countries.

My associates in the EIU have also done a ranking of countries, which they do regularly, twice a year. They base this on their own assessments, on the assessments

of other think-tanks, and on talking with multinational companies, so we do get a number of inputs for this matrix. I'm not saying they're right. I'm not saying it's the best available, and I'm certainly not saying it's my assessment. It's their assessment, not mine. I'm just presenting it to you. There are 60 countries in the world survey and 16 countries in the Asian region which go into this matrix. There are two periods which are used: the past, which is 1997-2001 and the future, which is 2002-2006. The best attainable score on the general index is ten and on the individual characteristics is five.

What I've done is to extract from these sixty countries just two countries – Thailand and Vietnam [refer to appendix attached]. It just so happens I've chosen Vietnam, firstly because I've worked there a lot; secondly, because there's a lot of talk these days about the country being a potential competitor of Thailand and also it gives you a contrast between one more and one less developed country. Thailand is rated 33<sup>rd</sup> out of the 60 countries – both in the past and in the future. It doesn't seem to get any better. But it doesn't get any worse though, which is a good thing. Vietnam actually was rated 51 in the past and 54 in the future. This doesn't mean necessarily that Vietnam is getting worse. It just means that some countries are getting a lot better, faster, and this is the really key thing, of course, that you have to consider.

I'll just stress a few of the main points on this. First of all, Thailand is rated rather favorably for issues like foreign trade and exchange controls. It gets 11<sup>th</sup> in the world total, both in the past and in the future, which is very high. Vietnam is quite low – 56 in the past and improves a bit in the future to 48. Whenever one is involved in foreign trade or exchange controls, Thailand is rating very, very high. So when you look at companies, think about those factors – how important are they to that company? Thailand is rated favorably for taxation issues. Surprising, isn't it? 14<sup>th</sup> in the past and 15<sup>th</sup> in the future, in terms of the world ranking. So, don't increase taxes, because then you'll lose some of your ranking. Vietnam is low – 41<sup>st</sup> and going down probably to 44<sup>th</sup> in the future because other countries are getting better. Vietnam is not very well rated there. Thailand was rated favorably in the past for labor markets at 18 in the world ratings, but now forecasted to drop to 48<sup>th</sup>, whereas Vietnam was well rated – 28<sup>th</sup> in the past and improving to 27<sup>th</sup> in the future. So that is a very, very big question mark. I think if you look in general terms you will know there are a lot of

indicators that, from a labor market point of view, Thailand is deteriorating somewhat in competitiveness.

Regarding investment attractiveness, my own impression as somebody living and working within the country is that although we have had some mixed signals about the feeling of the degree of welcome-ness that foreign investors have in Thailand - there has been a lot of concern about certain sectors such as the retail sector - I did not detect such a deterioration in the feeling of warmth or welcome to foreign investors. But remember we're talking about people overseas. We're not talking about people already in Thailand. And it's perception which is everything. It's not what we *really* are like, it's what people *think* we are like that will finally make the impression. And the impression *appears* to be that Thailand is increasingly less welcoming to foreign investment. So you, as ambassadors of Thailand - in every sense of the word - need to work against that image and extend the welcoming hand because clearly there's a trend in the world to suggest that you are not as friendly. Nowadays as in the past, you *seem* to be very friendly, from what I can see here, but the feeling is that you used to be more so.

Thailand was poorly rated in infrastructure - 39 in the past, 42 in future - while Vietnam stays very poor, 58 in the past and 59 in the future, so infrastructure is not improving. Thailand also rated relatively poorly in market opportunity, 46 in the past but improving a lot to 31 whereas Vietnam remains very poor at 43 in the past and 44 in the future. Those are just some of the highlights of the survey.

So what does all this mean in terms of Thailand within the corporate investment decision-making process? Going back over the whole of what I've been saying, first of all, we're entering a world era dominated by technology for which Thailand is not currently too well positioned. A lot of emphasis is being made on technology but you've got a long way to make up. Thailand may be very well placed in ASEAN, but ASEAN itself is no longer well placed within Asia and still less within the globalized environment, so we're already in a hard playing field.

We have to emphasize strengths in market openness, in infrastructure, in human resources, in rule of law, in critical market mass or else to seek to overcome

those shortcomings. We've got to demonstrate Thailand's role in the regional and globalized investment situation, not as an individual country. I think this is one point that I would very strongly make. When you go out to talk to companies, don't think any longer that you are trying to market only Thailand. You have to remember that companies increasingly are looking at regions. With AFTA becoming a reality – it's already a reality but becoming a much starker reality within a short time – companies are looking regionally. So you need to emphasize the strength of the ASEAN region and Thailand's role in that region. That is very, very important. We have to respond to the decision-making criteria of multinational companies and differentiate the priorities of individual companies. They don't all think alike. And we must respond to the potentially deteriorating competitive advantage and those issues like labor, foreign investment, policy, image and infrastructure that I've mentioned.

Finally, how can investment promotion agencies and overseas diplomatic missions help to strengthen investment? The first thing, I think, is you must manage time and resources efficiently by concentrating on the strong points of Thailand's competitive advantage and those industrial sectors that respond to them. You have a lot of things to do, and you don't have the time adequately to do them all, so the most important thing is to manage your time by targeting. There's been a lot of talk this morning about targeting – but manage your time by concentrating on the most important issues where you have the best chances of success.

Recognize the forces of globalization by stressing positioning for regional roles – industrial hubs, specialization rather than generalization. Again, it's a prioritization, but this time on the basis of the country. Respond to the investor's aspirations and criteria. Don't emphasize Thailand's own needs. We all know what we need, but when you're trying to sell something, don't say "I need this" – try to find out what *they* need and how you can respond to it. This is just a standard sales pitch, but you've got to be salespeople in order to be successful.

Present the best case picture of opportunities but avoid the Dreamworld scenarios. We *are* trying to think positive. I think Prime Minister Thaksin's doing a very good job in this. It's no good getting up in the morning saying "we're going to fail" – for, if so, surely you will. You've got to get up in the morning and say "we're

going to make it, we're going to succeed" and then at least you might get part of the way there. I do think this a good strategy to adopt. It's a business strategy, it tends not to be a bureaucratic strategy, so try to learn from the businessman and try to present the best case picture. But don't rise out of this world. Don't say that every farmer is a potential Ph.D – there's a long way to go before that happens. Be realistic but look to the best.

Emphasize accurate, up-to-date information services and support services. The real sale will be made when the senior corporate executive comes for on-the-spot negotiation. You're not going to be able to make the sale in New York, or London, or Paris or somewhere like that. The sale is going to be made when the guy comes here and actually sees for himself what is happening in Thailand and what Thailand is like.

You've got to use a can-do and will-do approach, and it doesn't really cost all that much. But it's very important when a foreign investor comes to Thailand that his first impressions shall be favorable. And they can be – if we have a good welcome at the airport, if we have a good road into town, and if we have good hotels, all of which we obviously have here. But beyond that, when they come to see *you* – what sort of reaction do you give? You've got to make a very, very good impression. Small things count a lot - give the guy a nice cup of coffee, that sort of thing, because that does matter.

Do stress the plus points that respond to specific investor needs, using investment promotion incentives only as a back-up attraction rather than a compensation to offset reluctance. Don't use investment incentives as the big plus point. Don't proceed on the basis that, "you're going to lose a load of cash, but we won't charge you any taxes." That won't work. You've got to make sure that the investment promotion incentive is just what we call the cream on the cake. And then, I think finally, learn the role of what we call the consultative salesman of a high quality product – somebody who really goes out to find out the customer's needs, to see how we can stress those points that respond to them and to really respond effectively to a sales situation, because an investment situation is a sales situation.

So, get away from what I will have to call the bureaucratic tradition and go into a much more sales-oriented approach. Some countries do this very effectively. As you probably know, Singapore is very proactive in this respect. They go out and meet with companies. They don't wait for them to come to Singapore. They go out and find them wherever they are. Sometimes they go and find them in other people's countries. That's a good technique – you know, they go to a country where they know a foreign investor is having a hell of a time, and they say “Come to us, you'll do better” – and quite often they do. I'm not suggesting you adopt the same approach, but at least it's a technique which can be used.

**Amb. Xuto:** Thank you, Chris. I think questions should be directed to him later, after Mr. Dean has finished. Now, I would like to give the floor to Mr. Stuart Dean from General Electric and I hope that in your presentation you will give your perspective which may be a little bit different from what Chris just said about Thai policy towards foreign investment.

	Value of index (out of 10)						Global rank (out of 60 countries)				Regional rank (out of 16 countries)			
	1997-2001		2002-06		2002-06		2002-06		2002-06		1997-2001		2002-06	
	Thailand	Vietnam	Thailand	Vietnam	Thailand	Vietnam	Thailand	Vietnam	Thailand	Vietnam	Thailand	Vietnam	Thailand	Vietnam
<b>Overall position</b>	6.27	4.57	6.83	5.32	33	51	33	51	33	54	9	15	9	15
Political Environment	6.3	4.5	6.1	4.7	30	46	32	48	32	48	9	13	9	14
<b>Political stability</b>	7.8	5.5	7.3	5.5	22	40	24	43	24	43	5	12	4	12
Political effectiveness	5.1	3.6	5.1	4	31	50	36	48	36	48	9	13	11	13
<b>Macroeconomic Environment</b>	7.4	7.9	9.1	6.5	31	25	22	52	22	52	9	8	8	15
Market Opportunities	4.4	4.6	6	5.3	46	43	31	44	31	44	11	10	10	12
<b>Policy towards private enterprise and competition</b>	5.2	3.5	6.3	4.7	37	51	34	52	34	52	9	14	9	15
Policy towards Foreign Investment	7.2	5.5	7.2	6.1	29	47	37	49	37	49	5	12	10	14
<b>Foreign Trade and Exchange Controls</b>	8.3	3.8	8.9	6.6	11	56	11	48	11	48	4	16	5	14
Taxes	7.2	4.9	7.2	5.5	14	41	15	44	15	44	6	13	7	13
<b>Financing</b>	5.9	2.5	6.6	4.4	34	55	33	55	33	55	8	16	8	16
The Labour Market	6.4	6.2	6	6.7	18	28	48	27	48	27	5	7	14	6
<b>Infrastructure</b>	4.4	2.4	4.8	2.8	39	58	42	59	42	59	9	15	9	16

Appendix: Investment Criteria: the Business Rankings Model (detailed analysis continued)

	1997-2001			2002-06		
	Thailand	Vietnam	Regional average <sup>a</sup>	Thailand	Vietnam	Regional average <sup>a</sup>
<b>Political environment</b>						
1. Risk of armed conflict	4	4	3.6	4	4	3.5
2. Risk of social unrest	4	3	3.8	4	3	3.4
3. Constitutional mechanisms for the orderly transfer of power	3	1	3.1	3	1	3.2
4. Threat of politically motivated violence	5	4	4.1	4	4	3.9
5. International disputes or tensions	4	3	3.5	4	3	3.3
6. Government policy towards business	4	3	3.6	3	3	3.6
7. Effectiveness of political system in policy formulation and execution	3	3	3.4	3	3	3.3
8. Quality of the bureaucracy	3	2	3.3	3	2	3.3
9. Transparency and fairness of legal system	2	1	2.9	2	1	2.9
10. Corruption	2	1	2.6	2	2	2.8
11. Impact of crime	3	3	3.6	4	3	3.6
<b>Macroeconomic environment</b>						
1. Inflation	4	5	4.5	5	4	4.6
2. Budget balance as % of GDP	4	3	3.6	3	2	3.6
3. Government debt as % of GDP	4	3	3.9	4	3	3.8
4. Exchange-rate volatility	3	4	3.4	5	4	4.5
5. Current-account balance as % of GDP	5	4	4.3	5	3	4.5
<b>Market opportunities</b>						
1. GDP, US\$ bn at PPP	4	2	3.4	4	3	3.6
2. GDP per head, US\$ at PPP	2	1	2.8	3	1	2.9
3. Real GDP growth	1	5	3.1	3	5	3.8
4. Share of world merchandise trade	4	2	3.6	4	2	3.6
5. Average annual rate of growth of exports	3	4	2.8	2	5	2.8
6. Average annual rate of growth of imports	1	3	2	3	5	3.3
7. The natural resource endowment	3	1	2.5	3	1	2.5
8. Profitability	1	5	3.1	3	4	3.9
<b>Note : 5 = very good for business; 1 = very bad for business</b>						

Appendix: Investment Criteria: the Business Rankings Model (detailed analysis continued)

	1997-2001			2002-06		
	Thailand	Vietnam	Regional average <sup>a</sup>	Thailand	Vietnam	Regional average <sup>a</sup>
<b>Policy towards private enterprise and competition</b>						
1. Degree to which private property rights are protected	5	2	4	4	3	4.2
2. Government regulation on setting up new private businesses	3	3	3.4	3	3	3.7
3. Freedom of existing businesses to compete	3	2	3.4	4	3	3.6
4. Promotion of competition	2	1	2.8	3	2	3.4
5. Protection of intellectual property	2	2	2.9	3	3	3.4
6. Price controls	3	3	3.4	4	3	3.9
7. Distortions arising from lobbying by special interest groups	2	2	2.8	3	2	3
8. Distortions arising from state ownership/control	3	2	2.9	3	2	3.3
<b>Policy towards foreign investment</b>						
1. Government policy towards foreign capital	3	3	3.3	2	3	3.8
2. Openness of national culture to foreign influences	4	3	3.4	4	3	3.7
3. Risk of expropriation of foreign assets	5	3	4.3	5	4	4.4
4. Availability of investment protection schemes	3	3	3.2	4	3	3.6
<b>Foreign trade and exchange controls</b>						
1. Capital-account liberalisation	4	3	3.6	4	3	4.1
2. Tariff and non-tariff protection	4	1	3.2	4	3	3.9
3. Openness of trade	5	3	3.9	5	5	4.4
4. Restrictions on the current account	4	2	4.1	5	3	4.6
<b>Taxes</b>						
1. The corporate tax burden	4	3	3.3	4	3	3.6
2. The top marginal personal income tax	4	2	4.1	4	2	4.1
3. Value-added tax	4	4	3.9	4	4	3.9
4. Employers' social-security contributions	5	3	3.9	5	3	3.8
5. Degree to which fiscal regime encourages new investment	3	3	3.2	3	3	3.2
6. Consistency and fairness of the tax system	3	2	3.2	3	3	3.4
<b>Note : 5 = very good for business; 1 = very bad for business</b>						

Appendix: Investment Criteria: the Business Rankings Model (detailed analysis continued)

	1997-2001			2002-06		
	Thailand	Vietnam	Regional average <sup>a</sup>	Thailand	Vietnam	Regional average <sup>a</sup>
<b>Financing</b>						
1. Openness of banking sector	3	2	3.4	4	3	3.8
2. Stockmarket capitalisation	2	1	2.8	3	1	3.1
3. Distortions in financial markets	3	2	4.1	4	4	4.3
4. Quality of the financial markets	3	2	2.9	3	2	3
5. Access of foreigners to local capital market	4	1	3.1	4	2	3.8
6. Access to medium-term finance for investment	4	2	3.5	3	3	3.6
<b>The labour market</b>						
1. Incidence of strikes	4	4	3.6	4	4	3.8
2. Labour costs adjusted for productivity	5	5	3.9	4	5	3.9
3. Availability of skilled labour	2	2	3	2	2	3.1
4. Quality of workforce	3	3	3.2	2	3	3.3
5. Restrictiveness of labour laws	4	3	2.9	4	3	3.3
6. Extent of wage regulation	3	3	3.6	3	4	3.8
7. Hiring of foreign nationals	3	2	3	3	3	3.3
8. Cost of living	3	5	2.9	5	5	3.5
<b>Infrastructure</b>						
1. Telephone density	2	1	2.8	3	2	3.5
2. Reliability of telecoms network	3	1	3	3	2	3.6
3. Extent and quality of road network	2	1	2.6	2	1	2.8
4. Production of electricity per head	2	1	2.5	2	2	2.7
5. The infrastructure for retail and wholesale distribution	2	2	2.9	2	2	3.2
6. Extent and quality of the rail network	2	2	2.7	2	2	2.8
7. Quality of ports infrastructure	3	3	3.5	3	2	3.5
8. Stock of personal computers	2	1	2.8	3	1	3.3
9. R&D expenditure as % of GDP	2	2	3.1	2	2	3.1
10. Rents of office space	5	2	2.7	5	2	2.8
<b>Note : 5 = very good for business; 1 = very bad for business</b>						

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**INTERNATIONAL INSTITUTE FOR TRADE AND DEVELOPMENT  
(Public Organization)**

**TRANSCRIPT**

**INVESTMENT ISSUES FOR THAI DIPLOMATS AND OFFICIALS**

**"Corporate Perspectives on Thailand's Investment Promotion"**

**Presented by  
Mr. Stuart Dean  
President, General Electric (GE), Southeast Asia**

**Bangkok, 18 September, 2002**

หน้าจาง

**Presentation:**  
**“Corporate Perspectives on Thailand’s Investment Promotion”**  
**Mr. Stuart Dean, General Electric Southeast Asia**

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Good afternoon. Nice to spend some time with some up and coming diplomats in the government of Thailand. I’m not going to have very different conclusions from Chris. Obviously, Chris is an expert on Thailand. I noticed he has spent 30 years in Thailand – that’s more years than most of you have been around. I think one of the things I heard Chris say is that you all can play an important role in promoting foreign direct investment in Thailand, and I would absolutely like to second that opinion.

I’ve heard so many times since I’ve been in Asia that relationships are only important in Asia, and that they’re not important in the West. I think when you hear the investment story that GE has in Thailand, you’ll hear that the number one factor in these investments in Thailand were the relationships that we developed in advance of making investment decisions. I think for those of you that are in overseas assignments with the foreign service, you’re frequently the first impression that potential foreign investors will have of Thailand, and you’re in a unique position to kick off that first impression in a very favorable manner.

I hope that the GE story will be instructive to you. I’ve just received the UN study like you all did, and I was surprised to see that GE was the number 2 transnational investor around the world from 1998-2000, so perhaps there are some lessons here. I’m going to tell you a little bit about what GE has in Thailand, this afternoon, and probably more importantly, about how we got there and then a little about what we’ve seen as working very well in Thailand and perhaps some things that could work better in the future.

The upper left hand box you see here, I hope you can read the chart – you may know GE is a very diversified company, so we’ve got a number of investments across our various businesses. In total, we’ve invested close to 1.4 billion US dollars in Thailand. That’s more than 40 billion Baht. We have about 2600 employees now. What’s interesting is that, if you go back to 1992, we had zero investment in Thailand

and I think we had something like 25 employees back then. So in what is a fairly short time of ten years, we've become a significant investor in your country and a pretty significant employer. I hadn't really thought about how we got to today until I started thinking about this presentation, and I think there are perhaps a few lessons learned for you all in the process.

Our first investments were some of our smaller investments, which is perhaps lesson number one. Our medical business, which you can see up there [was] a 2-million dollar investment – was our first investment in Thailand. And it was primarily to invest to serve the local market, so we weren't talking about any exports coming out of this investment. So there wasn't very much excitement and it was a very small investment. I think some countries might say "there are no exports, if it's not big and you're not going to employ a lot of people – 20 people...what's the big deal?" But I think the first investment for any multinational company is so important for Thailand, or a similar country, to welcome, because it really gives us our first taste of what it's like to operate in a country and if the experience is good, it leads to a lot more investment down the road. I think you can create a virtuous circle by starting small, letting that foreign investor get a good experience and if they have a good experience, that's the best reason to come back with future investments.

We followed that with our consumer products business, primarily lighting and appliances – again, only to serve the domestic market. But again it was a very good experience from the GE point of view. And when we finally got around to looking at export-oriented investments in Thailand, and GE plastics needed another manufacturing facility in Southeast Asia for compounding high-technology resins, Thailand was the obvious place because of the good experience the company had had with its medical, lighting and appliance investments. The other reason we came to Thailand with that investment – which was a mid-sized investment [at] 20 million dollars – was the fact that you had begun to attract an auto industry here, and that's an important end-use market for our GE plastics business, so we were in part following our major customers in locating the plastics plant.

Then in 1996, we followed that with one of our first aircraft engine investments, actually it's in the lower right-hand box - that was called our middle-

river (MRAS) aircraft systems which was a repair and overhaul facility for airplane thrust reversers. This is a fairly important part of an airplane – if these things don't work while you're landing, you're in big trouble. So, quality and technology are big aspects of this investment and this was an important investment for Thailand to get.

Up to this point, by GE standards, all of these investments were fairly small. I think this point that we're talking about, on the role that you all can play and the role that relationships can play, and Chris's point that decisions get made when a company CEO comes to Thailand for the first time to see what it's really like on the ground – the whole game changed for GE in Thailand.

As part of our globalization initiative, we had an international board of advisers and actually it was organized by a guy named Anthony Salim, a leading businessman at that time, in Indonesia. We had a very good relationship with Anthony in Indonesia and Anthony put together a board of advisers for us here in Asia, and he chose Khun Anand [Panyarachun] here in Thailand. So over the next year or two, our senior GE executives got to meet the gentleman, and with the extremely astute leader that Khun Anand is – it had a drastic impact on, number one, the visibility of Thailand within GE, and it kind of symbolized how far Thailand had come as a developing country and increased the confidence of making some big investments here. So in 1997 and '98, we started making investments in our GE capital business, which you can see up there is our largest single investment in Thailand. We participated in the FRA loan auctions that the government of Thailand organized to help them recover from the Asian financial crisis in those periods of time, and GE out-bid most leading financial services firms from around the world to help restructure those loans and improve and speed up the recovery of the Thai economy following the Asian financial crisis.

But besides financial services, in 1999 we started the evaluation process for our single largest manufacturing investment in Asia – a silicone monomers plant - which you can see described in the lower left-hand corner. [It was] an initial investment of a quarter of a billion dollars – 10 billion Baht – [and that] is just the upstream portion of that investment [as there will] be later investments as well. Because of our great experience with Khun Anand, with the great experience with

previous investments, and the fact that the FRA loan auction worked very well for GE - it really made it a slam dunk to bring this very significant investment to Thailand. More recently, we followed that with another aircraft engine investment which we opened up just four months ago, which manufactures components for our aircraft engine business – mostly for shipment back to North America, so it's a 100% export business which is a great investment for Thailand to have. In fact, all of our manufacturing investments are primarily for export, in Thailand.

Looking back on our seven years of investment in Thailand - what's gone well and what can be improved? In terms of what's worked well – the Board of Investment has been a very friendly place for investors. We've always gotten very good service and, I think, very fair consideration for the things that we're looking for when we go to make an investment in terms of good location, good infrastructure, good utility pricing and incentives, where those are necessary for an export-oriented investment. I think Chris brought up a somewhat debatable point – are investment incentives necessary? I would say, for export-oriented investment – absolutely. Investment incentives are required to attract those investments! If Thailand does not want to compete for them, believe me export-oriented investments will go somewhere else!

A country can look at it as a real return on investment. You invest in the incentives up-front in order to generate foreign exchange from the exports that will come out of the foreign direct investment in the country. I think the returns that Thailand will get on GE's manufacturing investments will look very attractive over a 5-year, 7-year period. We've also been very pleased with the cost of operations here. Electricity rates are very competitive; good water treatment facilities, good roads; and the ports have been improved although there is still room for improvement in the ports. We've been very pleased with our workforces here in Thailand, both our manufacturing work forces, as well as our financial services workforces. For the manufacturing workforces, those are located throughout the country, and outside of Bangkok, and those have worked very well.

In terms of areas for improvement – there could be greater incentives. There's been a lot written about Thailand trying to establish itself as a regional headquarters. There are some incentives for companies that establish regional operating companies

here but typically companies will start off with regional representative offices, and there are no incentives for those, at least that I'm aware of, and so it's difficult for a company to get started in terms of putting a regional center in here. Customs remains an area for improvement, although there have been improvements over the last 5 years. The trouble is it's getting to be a much more complicated world when it comes to customs classifications and duty applications. With duties changing almost 3 or 4 times a year, it becomes a huge administrative task to keep those databases up to date, so there's improvement that's needed there. Work permits have been an issue for GE here, primarily in our financial services business, which is a concern going forward which may also impact future investments decisions in Thailand.

So, in summary, GE is very pleased with its position in Thailand, with over a quarter of a billion dollars invested to date and 2600 employees. We do have one regional office here, a very large regional office, for our global consumer finance business and I guess the lesson is, if we're going to make future investments, let's work together to make sure we keep those investments competitive. Thank you for your attention.

**Amb. Xuto:** Thank you, Mr. Dean. Now, we have some time left for questions.

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## AFTERNOON Q&A

**Participant:** I would like to seek your view – recently I have heard that after September 11, the important factor for an investment destination is not only economic condition or political condition but also the vulnerability to terrorist attack. What is your view on this vulnerability, for Thailand? Do you think Thailand is easy for terrorists to access, or do you think Thailand is very peaceful and may not have any event like this happen?

And, secondly, I would like to know – you can observe many investors, many ministers, many politicians, even civil servants bring big investors from big companies to meet with our Prime Minister. Do you think this kind of thing will create any confidence for the investor? Thank you.

**Mr. Dean:** On the first question. Absolutely, I think security is a much bigger consideration on future investment decisions after September 11. No question about it. However, I would still say, it's one of many considerations and the overwhelming driver is cost-efficiency in the system. It will obviously impact on where location decisions get made. I think Thailand is in very good shape. In fact, we just started an investment location study for one of our businesses, and Thailand is one of the primary potential locations for that. You look at two factors when it comes to security. Number one is the overall security risk in the country, but then you also look at the particular location and the factory site where you'd be putting the investment, and then evaluate the costs in order to secure that facility. Thailand scores very well on those points. We don't have major security concerns on any of our investments in Thailand today.

The second question [on] meeting with the country president. I think Chris made the point that company CEOs want to get the sense, at the highest possible level of government, what support there is for that foreign investment. For GE, we would not make an investment more than 100 million dollars in a country and *not* meet with the president of that country and know that he is fully supportive of that investment and would be there for us if we ran into issues. We have not met Prime Minister Thaksin, so I'm not one of the examples you mentioned, and I'm not sure which

examples you're talking about and whether investments will follow. But this is a long-term game. Right now, the world economy is in tough shape. There's not going to be a lot of new foreign investments, I think, over the next twelve months but the fact that people are out checking conditions is a good sign, and the fact that they're coming to Thailand is good news for Thailand.

**Participant:** On the issue of human resources that you mentioned in your presentation, Mr. Bruton, you have shown us in the [Economist] ranking that we are in a less favorable position in terms of the labor market and then you suggested that, perhaps, the labor-intensive sector is not something we should encourage, more or less – if we want to move up to skill-intensive sectors. In some sectors we are faced with the problem of lack of human resources, and that is the argument some of the local firms have put forward for the flow of knowledgeable workers from abroad...I just want to know the opinion of the foreign firms in terms of this issue of knowledgeable workers. How much is this an issue?

**Mr. Bruton:** I think this is the single most important issue facing Thailand in the future and it's an issue that is very hard to solve in the short-term. It's easier to build a road than it is to educate a person. You can build a road, so I'm told by the Prime Minister, in two years. You certainly can't educate a person in two years. It takes, depending on how much skill, 15-20 years perhaps. So it's a long-term issue and I think that it's generally recognized that the Thai educational system has two handicaps. First of all, there's a very high attrition rate at the lower secondary level. That has improved, but it's not improved enough; and secondly, that the quality of education, the nature of education may not correspond ideally to the requirements of the modern world.

So, combining the two, you are in a very difficult position – because, on the one hand, Thailand's labor is getting more expensive. On the other hand, it's not getting, really, any better, at least not for the foreseeable future. This puts the country in something of a quandary in relation to its neighbors. You have countries like Vietnam which have, very definitely, a very high emphasis on education – one advantage one can have from a socialist government is emphasis on social services and education and they do have good results from that. I think they will be a very

strong competitor because they have relatively low wages and they have relatively higher skills, so they're the other end of the matrix. You can imagine a matrix with high skill-low cost, high cost-low skill – we're in one end, they're in the other.

The Philippines also is another country where they have an incredible number of, probably, *over-educated* people which drives many of them to seek employment in the US and other countries. I think this is a major challenge. It need not be a problem for individual major investors. I'm sure Stu Dean will tell us that he has excellent workforce, but don't let him be misled by that, because if you happen to be GE you'll probably find, if you put an ad in the paper, that they'll queue in thousands to come and work for you. But what about the rest of us who don't have the GE name behind us? Overall, it's a very major problem and I don't have a very ready, short-term solution for that.

You have mentioned bringing in skilled workers. Singapore has to do that in many sectors. They bring in large numbers of laborers and they also bring in large numbers of middle-level workers, but Thailand may not choose to do that. It may not feel that they can control that number of foreign employees. You'll have to get them from other countries. From India, from China maybe, even Vietnam. Do you want to do that? I don't have a very ready solution to that except to target those industries which don't require large numbers of that kind of labor.

On the other hand, I don't think we should be too negative. One of the things that foreign investors always talk about in Thailand is that if they give a task to them, they can do it. I'm sure that you have had that experience too in your own working life. Thai people are extremely adaptable and they're also remarkably able to do things-often you find that they may not be able to do the things they "should" be able to do, but they can do the things that they are not expected to be able to do.

I do think that we shouldn't also be misled by the statistics. We shouldn't say that "we have a very low level of educational attainment and, therefore, we can't do this or can't do that." Several Thai leaders of business have built a huge business but they could barely read or write. I often think that being able to read can even become impediment – you spend so much time reading, you don't get on to doing things. A

lot of people get to do things because they can't read or write, so they just *do*, and they've achieved incredible success in those areas.

Again, I think it's a point of, don't get up in the morning saying "We can't do it. We're not well educated. We can't do this or can't do that." Actually, if we're determined to do it, we will do it. I think Thailand can achieve this. Looking at it from a multinational point of view, when the researchers come in, they won't be happy with the apparent human resource skill matrix of Thailand. That's the only concern that I have. You may be able to persuade them to not look at the statistics, but the fact is that, at the moment, things don't look too bright. I'd like to hear Stu's comment on that.

**Amb. Xuto:** Before I let Mr. Dean add on to the answer, let me tell you that just before I left Washington at the end of my career, a few senior executives from GE called on me at the Embassy and my request to them was to bring Thai workers from here to GE headquarters or what not, to upgrade their skill. I wonder what's been done about that.

**Mr. Dean:** As I indicated in my presentation and as Chris predicted, we don't have major issues with our Thai workforce. In fact, they've been great. Typically, Mr. Ambassador, the way we start up a facility is exactly as you requested us. We take a core group of workers, bring them back to the plant where that work is being done today, train them – and then they [become] the pioneers that get that plant up and running. We have used that technique in both of those aircraft engine facilities. They went back to the US for that training. For the plastics investment, they went to Singapore for that training and for the silicone monomer investment, they'll go to Japan for that training. That also gives a good sense of globalization of where these plants are moving.

I will say, and this might be of interest to you, we did do a location search for a call center, a global call center for our aircraft engine business. These are calls that come in from around the world from our airline customers and they are all in English and they all require some technical proficiency to answer those questions. We started with a list of five countries and Thailand did not make that list of five countries. So, I

think in terms of English-language training and in more technical degrees, there is plenty of room for improvement in Thailand.

On a more positive note, the financial services sector is extraordinarily well-developed. GE capital has found tremendous talent and that is the reason why we are moving our regional people from Hong Kong, from Singapore, from Korea to Bangkok into this regional center so I think it depends a little bit on the industry you're talking about. Perhaps, the financial services sector has been a little *too* over-developed as opposed to the engineering fields.

**Participant:** This is for Mr. Dean. As you said, the work permit area is one area that Thailand should improve, otherwise it's going to be a problem for GE in the future. Does this mean that GE may withdraw further investment in Thailand or relocate to another country in the region that offers more privilege than Thailand?

**Mr. Dean:** I think Thailand has gotten the last three investments GE has made in Southeast Asia, so again that goes back to the point – as long as we're having good experiences in Thailand, that's probably the number one factor in making new investments. So I would say, while there's room for improvement in those areas, like customs and certainly legal reform, Thailand is still a very attractive location for GE. No worries.

**Mr. Proksch:** The last person basically took my question away, but I still want to focus on the issue of financial incentives. Mr. Dean, you said that financial incentives are very important in Thailand, especially for export-oriented industries. How important have incentives been for GE's decision to locate export-oriented industries here in Thailand? Maybe I can re-phrase it in several other ways. If Thailand had not offered those financial incentives, would GE have made investments here or would [it] have gone somewhere else? And, if Thailand would take the financial incentives away today, which location would, without any financial incentives anywhere, be more competitive than Thailand? Or, would the conclusion be that, with financial incentives or not, we would be here anyway?

**Mr. Dean:** Well, I think the best example is our largest manufacturing investment in Asia, the 250 million dollar silicone monomers plant. Again please keep this in this room – we evaluated five countries for that investment. One country was too high-cost, both from a land and a labor point of view. A second country, despite the best incentive package, was too high-cost from a land point of view. They could not overcome that disadvantage. At the time we made the investment decision, which was back in 1999, we weren't comfortable with the operating environment in a third country to make the investment at that point in time. So, basically Thailand and another country in SE Asia were tied. Both had substantial incentive packages on the table. I can tell you that if Thailand did not have an incentive package on the table, that investment would have gone to that other SE Asian country.

But, again, Thailand and the 4<sup>th</sup> country were tied. Why did it come to Thailand? It was also because of the relationship we had with Khun Anand and the previous good experiences we'd had with the other investments here. So, do investment incentives make a difference in export-oriented investments? I absolutely think they're critical. Any company that's responding to their shareholders will shop that investment around the world. That's the nature of globalization.

Now, if the investment is just to serve the domestic market, then it's crazy to give any incentives for that – no reason at all, because people are coming for the local market. They can't go anywhere else for that local market. And I've seen investments given for local market investments and I think countries need to differentiate those two kinds of investments.

**Amb. Xuto:** Any more questions?...While waiting for more questions, let me ask you my question. Why haven't you moved your regional headquarters from Kuala Lumpur to Bangkok?

**Mr. Dean:** Well, we do have one of our regional headquarters here, and that's global consumer finance. And that would not be here if it were not for the very good success we've had with that investment. My regional office is located in Kuala Lumpur because, if you go to a map and look at Southeast Asia and look at flight connections,

the two best locations to be located are Singapore and Kuala Lumpur, and it's a lot less expensive for me to be in Kuala Lumpur.

**Mr. Bruton:** I don't know whether I picked up a message from you Stu that you thought that Thailand doesn't have incentives for regional headquarters but, of course, as of this year, we *do* have such incentives which include highly preferential tax rates, both for the company and for the individual taxpayer and a whole raft of other incentives to encourage companies to come here as regional headquarters, which might make a difference for GE. I think the basic thing, for those companies that I know who *do* have regional headquarters in Thailand, very often it's tied to their *local* operation. The fact that they have a substantial local operation here means that they can also have a regional headquarters here with minimal additional cost and that the other facilities that regional headquarters need to provide can also be quite adequately maintained here.

But I must say that the issue of regional headquarters, which was also mentioned in the BOI presentation, is one of the areas which Thailand seeks to develop. It does require a very substantial infrastructure capability which Thailand has a hard time in matching to Singapore. Singapore's costs are much higher than Thailand's, but it does have superb transport, superb logistics and superb facilities for regional headquarters. A lot of people would love to move to Bangkok because Bangkok's a much nicer place to live than Singapore, but the infrastructure that we need to support that is still not quite up to the standard that Singapore has, so I do think it's a very important area. I do also notice with interest that quite a number of companies are choosing Kuala Lumpur now as a regional headquarters. I think BMW recently decided to do that.

This is all a problem of competitiveness that you have to work with. It's rather like being part of a coalition government - half the time you're supposed to be supporting your coalition partners, half the time you're looking to the next election, wondering whether you'll be able to beat them. It's the same with your investment policy. Half the time you're supposed to be brothers and sisters in ASEAN and AFTA, and the other half of the time you're trying to push each other off a cliff in order to get an investor to come to your particular country. This is the problem that I

think we face, that so many of the ASEAN and AFTA countries have very similar characteristics and it's hard to beat them. I think, as Stu has pointed out, whether we're talking about physical investment in a manufacturing plant, or whether we're talking about regional headquarters, for example Kuala Lumpur and Bangkok – [they are] both pretty attractive places. But for you, Stu, you can be in both places so you have the best of both worlds.

**Amb. Xuto:** Actually, I would like to bring up that regarding the new set of incentives which prefer to aim particularly at attracting regional headquarters to Bangkok – Bangkok is, geographically-speaking, the hub of Southeast Asia anyway. I hope you'll bring that back to Kuala Lumpur with you.

Any more questions? If not, then thank you both for having come here and presented your points of view - the corporate perspectives - on investment in order to benefit not only Thai diplomats but also other officials of the Thai government who are present here today. Thank you.

