China’s Go-Out Strategy: Chinese Foreign Direct Investment in Thailand

Pittaya Suvakunta*

The policy of “Four Modernizations”, declared by Deng Xiaoping in 1978, aimed to open China to the outside world. The Chinese government not only has tried to attract foreign investment into China, but also has supported Chinese enterprises to make outward foreign direct investment (FDI) to seek experience overseas. From 1975 to 2002, the amount of Chinese investment in Thailand was the largest in ASEAN countries. Moreover, Chinese foreign investment in Thailand is determined by the so-called “Go-Out Strategy” involving the investment in foreign countries. Motives behind her investment in Thailand are to find market and resources there. These are China’s significant mechanisms in expanding her investments. Thailand has great potential in geo-economic aspects as investment base facilitating the distribution of Chinese merchandise to ASEAN and world market.

1. Introduction

China’s outward FDI go to both developing and developed countries. For this reason, traditional theories about the Multinational Corporations (MNCs) of both developed countries and developing ones can be used to explain China’s strategic decision in stepping up outward FDI and to guide the government in formulating strategies and policies. The study of Chinese FDI covers the investment by Chinese enterprises outside the home country. Such investment

* PhD. Candidate in Integrated Sciences, College of Interdisciplinary Studies, Thammasat University, Thailand. The author thanks Associate Professor Dr. Chulacheeb Chiwanno, Dr. Juajan Wongpolganan, Dr. Surasak Chithanakij, Mr. Sitthiphon Kruarttikan and the anonymous readers for their helpful comments of the earlier drafts. Also he would like to extend his gratitude to the Thailand Research Fund through the Royal Golden Jubilee Ph.D. Program for funding this research.
involves a long-term relationship, and reflects a long-term interest in and control of resident entity by a foreign one. It comprises three components: equity capital, reinvested earnings and intra-company loans. Under a definition by the US Department of Commerce, FDI consists of ownership or control directly or indirectly, by one foreign person of 10 per cent or more of a foreign entity (Belli, 2000 and Frost, 2004, p. 2).

Most theories on FDI seek to answer three fundamental questions: why do firms invest abroad; what factors determine location of investment; and the means by which foreign firms compete in unfamiliar environments. Early engagements by economists and organizational theorists with these issues led to a number of hypotheses on this issue. Hymer’s posit was that foreign investing firms possessed superior knowledge that enabled them to collect rents on knowledge assets (Hymer, 1976). Buckley and Casson argued that multinational enterprises replaced external markets with internal transactions and thus lowered transaction costs (Buckley and Casson, 1976). Porter holds a view that success in attracting investment can be measured by demand analysis, supporting industries and firm strategy (Porter, 1990). Kojima’s argument was the marginal expansion of industries (Kojima and Ozawa, 1984). And Dunning’s argument was the eclectic paradigm provides an ownership, location and internalization (OLI) advantage-based framework to analyze why and where MNCs would invest abroad. Such investment could be resource seeking, market-seeking, or strategic asset-seeking (Dunning, 1993, 2000, p. 20). And four types of overseas investment activity, in which the strategies of intellectual property right exploitation and internalization lead to, are to secure access to raw material, to secure market access, to secure access to proprietary technology, and to gain the benefits of international diversification (Wall, 1997, p. 14).

Dunning proposes that firms invest abroad when (1) they possessed a firm-specific advantage that enabled them to compete with local firm, (2) were able to internalize firm-specific advantage,
such as controlling production and distribution through foreign subsidiaries, and (3) believed that the host country demonstrated specific advantage, such as political stability, potential for market growth, trade barriers and costs (Dunning, 1981, 1993). And Wang identifies motivations with “Chinese characteristics” such as a political motive, as seen with Taiwan and Hong Kong (Wang, 2002, p. 203). Generally speaking, the government permits outward FDI primarily within the context of its national identity.

Many ideas on the reason why firms invest abroad are applicable to China, but there are also some particular reasons to be considered particularly those relating to state involvement, and China’s outward concerns for the national interest (Lerche and Said, 1995, p. 28). Why Chinese firms have made outward direct investment? There is no dispute that global FDI flows have increased dramatically in the last three decades. Prior to the start of economic reforms in 1978, the Chinese government opposed FDI inflows and instead premised its industrialization on self-reliance and economic independence. Deng Xiaoping’s reforms, particularly the enactment of the Chinese-Foreign Joint Ventures Law of 1979, changed this policy almost overnight (Wu and Chen, 2001, pp. 1235 - 1254).

The first wave of foreign investment swept away old ideas about the evils of the multinationals, and by the 1980s the government began actively encouraging not only inward FDI but also outward direct investment by enterprises as well. Chinese firms, mostly state-owned enterprises, have gradually expanded their business presence overseas (Wang and Chan, 2003, pp. 273 - 301). As a result, an average annual foreign direct investment outflow of China had grown from US$ 0.4 billion in the 1980s to US$ 2.3 billion in the 1990s. By the end of 2003, China’s accumulated investment stock was estimated at US$ 37 billion. The Chinese authorities have so far approved some 7,000 outward investment projects of non-financial firms covering a whole range of businesses including trade, transportation, resources exploration, tourism, and manufacturing in 160 countries (UNCTAD, 2003).
Although China’s overseas investment started in the 1980s after the market reform, the significant investment take-off happened in the 1990s when the Chinese authorities began giving support to Chinese enterprises expanding investment overseas. As China’s fast-growing economy has drawn in more foreign investment capital and huge foreign reserves, the Chinese government can afford to allow more outward investment flows. Also, the 10th National Development Plan (2001 - 2005) says clearly that it would increase China’s overseas investment in order to boost international competitiveness of Chinese firms (Kasikorn Research Center, 2004).

While UNCTAD estimated that China’s accumulated investment stock grew into US$ 35 billion at the end of 2002, China’s official statistics of approved investment overseas only shows the figure of US$ 9.34 billion at the end of 2002. Experts believe that the Chinese statistics underestimate the actual amount of FDI stock as it excludes reinvested earnings from exports or loans raised in foreign capital markets, intra-company loans and non-financial and private sector transactions. Many Chinese conglomerates also use international financial centers such as Hong Kong as the bases from which investment was made. The Exim Bank of China had provided billions of dollars of loans and guarantees for Chinese companies overseas and serves as a major instrument that facilitates Chinese overseas investments.

With full government support and fast business expansion both at home and abroad, an increasing number of Chinese firms have emerged as some of the largest MNCs from developing countries. Chinese enterprises listed among the top 50 largest MNCs from developing countries grew from 7 firms in 1994 to 12 firms in 2001 and 15 firms in 2004. These huge Chinese conglomerates include State Grid, Sinopec, China National Petroleum, China Life Insurance, China Mobile Communications, Industrial & Commercial Bank of China, China Telecommunications, Sinochem, China Construction Bank, Bank of China, Shanghai Baosteel Group, Hutchison Whampoa, Agricultural Bank of China, COFCO and
Chinese investments are scattered over many countries, around 60 percent of total Chinese investment was destined to Asia, followed by North America, Africa and Latin America. Top investment destinations are Hong Kong, the US, Canada, Australia, Thailand, Russia, Peru, and Mexico. Most investments in developed countries are in services. Although most Chinese investments in Western countries are in services and information and communications technology (ICT), their investments in developing economies are concentrated in resource exploitation and light industries such as textile, shoes, bicycle, motorcycles, electronics and electrical appliances.

The motives of Chinese investment overseas: The United Nations has identified five primary types of FDI from developing economies, which provide us with a framework to analyze Chinese investment overseas. According to the UN, the motives for developing economies investment overseas, such as China’s, can be classified as: market-seeking, export-oriented, resource-seeking, technology-seeking and efficiency seeking (United Nations, 1993, Wu and Sia, 2002).

Market-and Export-Seeking Investment: During the initial stage of China’s “open door” policy, Chinese overseas investment often stemmed from the need to achieve diversification and earn foreign exchange. Market-and export-seeking investment is often conducted through the establishment of trading companies in foreign host countries. This helps to promote Chinese exports in various ways. First, trading companies act as the marketing and distribution channels for the sale of raw materials, semi-finished, and finished goods to host-country industries and consumers, and help Chinese exporting firms earn foreign exchange. Second, these companies provide host-country market knowledge through market information collection and research for parent companies in China. Third, these trading companies also act as “spotters” for investment opportunities in their respective sectors. This role is usually performed...
by representative offices set up in host countries, which are often the precursors to large-scale investment (Wu and Sia, 2002, pp. 44 - 45). For example, Hangzhou provincial enterprise’s joint venture with a rubber plantation in Malaysia to produce “student shoes” for the protected (62 per cent duty) Malaysia market, and Shanghai Bicycle Corporation’s plant in Ghana and two plants in Brazil which together produce 800,000 bicycles for the local market (Wall, 1997, p. 27).

Resources seeking investment: The motive is to ensure a stable supply of certain resources which China has a shortage. Fishery, forestry and minerals extraction are some of the key industries that China targets. China is dependent on Australia for supplies of base metals such as iron ore, aluminum, and manganese. For example, China’s largest investment projects in Australia include the canner iron ore mine, in which the China Metallurgical Import and Export Corporation holds a 40 per cent share (A$ 280 million). The joint venture ensures that China will be able to secure 200 million tons of iron ore supply from Australia, over a period of 30 years (Cai, 1999, pp. 868-869). In Southeast Asia, Chinese companies have focused on Malaysia’s rubber, paper and base metals, and Thailand’s agriculture, rubber, and chemicals products. For example, in June 2001, Sinochem Chemicals made a US$ 1.5 million investment in Thailand for an antioxidants plant with a 1,000 ton capacity, of which 30 per cent of the plant’s output will be exported. In Malaysia, a massive MYR 2.9 billion (US$ 760 million) joint venture between a Malaysian and Chinese partner was also established in January 2001 to produce pulp and paper in Sabah. The project, in which the Chinese partner holds a 64 per cent stake, is the largest single investment made by a made by a Chinese investor in Malaysia to date (Wu and Sia, 2002, p. 45). With China expecting to maintain its rapid growth, the need to secure overseas resources by investing in commodity-producing countries will continue to rise.

Technology-seeking investment: in order for China to climb the global value chain, it will have to seek more advanced technology from countries higher in development path. There are several ways to
that, thorough technological transfers from foreign partners engaging in joint venture, by acquiring stakes in foreign firms with more advanced technology, by assimilating advanced technology from foreign firms into domestically produced products through technology-licensing, and by the purchase of advanced equipment through foreign affiliates at a lower price (Cai, 1999, p.869). China has relied heavily on technology transfers and licensing, usually via joint ventures with Western and Japanese partners For example, in 1988 by the Shougang (Capital) Iron and Steel Corporation of Beijing of 70 per cent of the equity in the Californian company Masta engineering and Design Inc., in order to obtain access to the US company’s high technology design capability in steel rolling and casting equipment (Wall, 1997, pp. 24-25). The Chinese firm Capital Group has had a mobile phone production agreement with Nokia China since 1995. Drawing from the technology gained through technology-licensing and transfers, the company has since branched out on its own into designing and manufacturing mid-market handsets, competing with other foreign players in the Chinese market (Wu and Sia, 2002, p. 46). In December 2004, Lenovo Group’s US$ 1.25 billion acquisition of IBM’s PC business promoted new media speculations and fascinations about global ambitions of Chinese companies (Business Week, 2004).

Efficiency seeking investment: although an abundant supply of land and cheap labor in China has reduced the need to make efficiency seeking investment overseas, there is nevertheless an emerging trend of such investment from China. Due to rapid expansion in domestic and external markets in the last decade, coupled with technology transfers from foreign partners operating in China, many Chinese firms have reached critical mass in the home market and attained sufficient knowledge. Consequently, some are seeking new outlets for their production, either through exports or through setting up production bases in developing countries. In some cases, Chinese companies attempt to circumvent trade barriers, or reduce transport cost to third market, by establishing production bases
outside China. These companies can then use the export quotas of host countries for third markets, or gain access to preferential tariff rates. In recent years, China has been exporting large amounts of textile fabric to countries such as Thailand and Indonesia for reprocessing there, in order to dodge import quotas imposed by the US. The ASEAN Free Trade Area has also enticed some Chinese companies like TCL, a state-owned consumer electronics maker, to take advantage of lower tariffs by setting up operations in ASEAN (Wu and Sia, 2002, p. 46).

The objectives of the paper “China’s Go-Out Strategy: Chinese Foreign Direct Investment in Thailand” are to describe the investment pattern of Chinese companies in Thailand, and then to study the intention and strategies of its actors. The paper will deal with three main issues: (1) China’s investment trend in Thailand (2) The motives of China’s outward FDI and (3) The Chinese companies in Thailand.

2. Empirical Analysis: China’s Investment Trend in Thailand

The policy to promote outward investment and to establish a supporting system was included in the 10th five-year plan (2001 - 2005). The “Go-Out Strategy” will require new skills and capabilities to combine and manage disparate businesses across borders. With this in mind, Chinese domestic companies are increasingly nurturing the relevant skills and expertise they need to overcome the management and governance challenges they face as they integrate into the international business arena (Zhang, 2005). The government is becoming more supportive of Chinese companies expanding globally. Various government agencies such as the National Development and Reform Commission (NRDC), the Ministry of Finance, the Ministry of Commerce and the State Administration of Foreign Exchange (SAFF) have all developed policies encouraging Chinese Companies to expand overseas.
China’s overseas investment is rapidly expanding with the progressive implementation of the “Go-Out Strategy,” the Chinese companies are found to be more enthusiastic in investing abroad. China’s investment trend in Thailand will be influenced by future Chinese economic relations with ASEAN. In light of the upcoming China-ASEAN Free Trade Area (CAFTA) scheduled in 2010, it is likely that China will increase its trade and investment activities with the region. Thailand could be chosen as a manufacturing and export base of Chinese products to the ASEAN region. Thailand stands to gain from the growing economic partnership between China and ASEAN as the country has close cultural and ethnic ties with China.

Apart from Thailand, many countries also target China as a source of investment capital. The huge foreign reserves of China, coupled with the fast growth of Chinese conglomerates, could lead to huge investment outflows in the near future. Investment offices from Malaysia, Singapore, as well as Thailand have already been set up in China to attract more Chinese investment. Therefore, Thailand’s BOI should set clear goals and strategies in China and play a pro-active role in attracting Chinese investors. Thai companies should also set an eye on Chinese companies to form joint ventures and business partnership in both domestic and overseas markets in order to increase their international presence.

2.1 The Official Data: Chinese Outward FDI in Thailand

The official authority for collecting FDI data in Thailand is the Bank of Thailand (BOT) and it lists the flows of FDI for use in its BOT statistics. From 1978-2003 the BOT has registered and FDI inflow of US$ 114.9 million from China. And the Board of Investment (BOI) publishes its listings of approved investment projects (contracted project) according to the international standard of minimum 10 per cent foreign equity stake, reported in 1987 - 2005, 145 Chinese companies and past approval of 161 projects, with the
value of 31,505.7 million baht. Thai Ministry of Commerce reported in 1997-2003 that there were 60 companies. And the data from Chinese-Thai Enterprises Association revealed that there were 58 Chinese companies. And the data from China, MOFCOM reported in 1979-2003 that there were 245 projects of Chinese investment in Thailand with the value of US$ 263.8 million. In contrast, the Chinese embassy in Thailand reported that there were only 69 Chinese companies in Thailand, whereas the data from UNCTAD in 1979 - 2002 revealed that the Chinese companies invested 234 projects in Thailand with the value of US$ 214.7 million (Table 1).

### 2.2 Development of China’s Outward FDI

The appropriate way of analyzing the data is to group years into the segments corresponding to the natural development of the Chinese Outward policy since 1978. The changing political rational behind Chinese FDI 1978 has gone from “getting-in” to “going-out”.

**Table 1** The Comparison of Available Company listings and official FDI Statistics

<table>
<thead>
<tr>
<th>Official</th>
<th>Number of Projects companies</th>
<th>Number of Chinese</th>
<th>Value of Investment US$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOFCOM (1979 - 2003)</td>
<td>245</td>
<td>-</td>
<td>263.8</td>
</tr>
<tr>
<td>Chinese Embassy in Thailand</td>
<td>-</td>
<td>69</td>
<td>-</td>
</tr>
<tr>
<td>BOT (1987 - 2003)</td>
<td>-</td>
<td>-</td>
<td>114.9</td>
</tr>
<tr>
<td>BOI (1987 - 2005)</td>
<td>161</td>
<td>145</td>
<td>31,505.7 (Million Baht)</td>
</tr>
<tr>
<td>Thai Ministry of Commerce (1997 - 2003)</td>
<td>-</td>
<td>60</td>
<td>-</td>
</tr>
<tr>
<td>Chinese-Thai Enterprise Association</td>
<td>-</td>
<td>58</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: Selected statistics and company lists UNCTAD (1979 - 2002); MOFCOM*
The first stage is between 1978 and 1991. Thailand and China had diplomatic ties and made an agreement of economic cooperations in trade and investment, other Chinese started to make an investment for seeking experience in Thailand. In 1985, the governments of Thailand and China signed an agreement on the establishment of Chinese-Thai Joint Economic Cooperation Committee and an agreement on mutual investment protection, pervading improved conditions for investment cooperation (MOFCOM, 2005). During the first stage, this comprised the initial period after opening the Chinese economy when the Chinese political rationale towards outward FDI could be characterized as “selective acceptance.” Still, oversea investment was proposed as one among many policy measures for economical reforms (Kvisgaard, 2005, pp. 26 - 27). As Zhao Gufu states in an interview, “The investments were extremely selective and limited in scope and only some of the biggest trading companies were allowed abroad.” No data on Chinese investments in Thailand are available for this period until an agreement on mutual protection of investment with China was signed in 1985.

The political rational for the future Chinese economy had been cleared and the decision for pursuing a Chinese market economy had been made and the stance towards FDI can be described as “inclusive allowance.” Thailand in this period is disregarded, the statistics are dominated by the inflow of investment in agriculture products, and towards the end of the period there is an interesting upsurge of investments in low-tech light industry. And, BOI approved 41 projects valued at 5,993.5 million baht (BOI, 2006). The BOT data confirms the expected entry of the construction companies and trading companies and confirms the general trend (BOT, 2003). These are normally precursors for actual industrial investment.
The second stage is between 1992 and 1997. It began with Deng Xiaoping’s “Southern tour” in 1992 to push the economic development in China. As a result, a number of Chinese companies initiated their investment in Thailand. When outward investment had been accepted as a term of development, Jiang Zemin then publicly endorsed that companies could go abroad, in 1992 and 1997. During the period, approval procedures for outward investment were gradually decentralized which eased the outward expansion. This endorsement was related to investments in Thailand, the amount of the approved projects rose and their character moved towards heavy industries sectors such as steel production, while agricultural products and chemical investments still played a role. And BOI approved 29 projects valued at 55,151.4 million baht. The period also witnessed the first major investment in consumer electronics, which was a reflection of the saturation of mid-tech industries in China. Concurrently the dataset registered more inflow of trade related to investment in the period.

The third stage lasts from 1998 until the present time. The Chinese government has supported “Go-Out Strategy.” The Asian Financial Crisis 1997 hit Thailand particularly hard. This fact was naturally reflected in the Chinese investment with inflow at its lowest level ever. The few investment projects registered during this period were very small value wise. The BOT surprisingly captured investments in real estate and construction investment at the end of 1999, which indicated that investors possibly are gaining more confidence in the property market and that the worst effects of the crisis might have been subdued. From 2000, Mr. Zhu Rongji explicitly called for companies to go abroad and that the government should implement a coordinated strategy for such investment. This should also be seen in connection with China’s entry in the WTO in November 2001. From 1998 to 2005, BOI approved 90 projects with the value of 20,357.7 million baht.

From a Thai perspective, the result of this encouragement was very visible. In 2000 the relative amount of investment doubled
and there was a general upsurge in trade and textiles industry. 2001 was the year when the Chinese investment pattern in Thailand really changed. China Worldbest Group made a stunning US$ 175 million, wholly owned investment in chemicals and textiles, mainly for export. Sinochem made a full equity stake of US$ 1.4 million investment in an antioxidant plant.

China’s FDI in Thailand includes textiles, light industrial goods, rubber, chemical, potash mining, food processing, non-ferrous metal smelting, and banking, insurance, commodity inspection, hotels, restaurants and real estate. And Chinese investors pay attention to engineering projects, contracting and labour service cooperation. Some of these projects are infrastructure construction, water conservation, roads, bridges, ports, chemical plants, textile mills, hospitals and residential housing (PRC Embassy in Thailand, 2004).

In the meantime, there have been bilateral cooperations and multilateral cooperations between Thailand and China in the Greater Mekong Sub-region (GMS) and China-ASEAN FTA’s Framework. Through a period segmentation, it is possible to test whether these changes of policy are reflected in the Thai statistical data and to register the relative point of entry to certain sectors for a subsequent evaluation of politically related changes in investment motives.

2.3 Chinese Investment Projects

The Chinese company investment in Thailand (1987 - 2005): The Chinese companies’ interests is investment cover 52 projects in agricultural products, 32 projects in chemicals and paper, 24 projects in light industries & textiles, 19 projects in metal products & machinery, 17 projects in electric and electronic products, 12 projects in minerals & ceramics, and 5 projects in services, with the high percentage of China’s capital outflows in the chemicals and paper sector (23.71 per cent) value of 7,427 million baht and light industries & textiles sector (21.30 per cent) value of 6,713.5 million
5,105.9 million baht in agricultural products, 3,868.9 baht in metal products and machinery, 3,240.2 million baht in minerals & ceramics, 3,120.3 million baht in services and 1,984.9 million baht in electric and electronic products, respectively (Table 2).

Table 2 PRC’s Approved Investment Projects, 1987 - 2005

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number Projects</th>
<th>Cumulative Value (Millions baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Products</td>
<td>52</td>
<td>5,105.9</td>
</tr>
<tr>
<td>Minerals &amp; Ceramics</td>
<td>12</td>
<td>3,240.2</td>
</tr>
<tr>
<td>Light Industries &amp; Textiles</td>
<td>24</td>
<td>6,713.5</td>
</tr>
<tr>
<td>Metal Products &amp; Machinery</td>
<td>19</td>
<td>3,868.9</td>
</tr>
<tr>
<td>Electric and Electronic Products</td>
<td>17</td>
<td>1,984.9</td>
</tr>
<tr>
<td>Chemicals and Paper</td>
<td>32</td>
<td>7,472.0</td>
</tr>
<tr>
<td>Services</td>
<td>5</td>
<td>3,120.3</td>
</tr>
<tr>
<td>Total</td>
<td>161</td>
<td>31,505.7</td>
</tr>
</tbody>
</table>


These Chinese companies cover agricultural products (e.g., Changlong Foods Co., Ltd., Hua Tai Rubber Co., Ltd.), minerals & ceramics (e.g., New Moon Industrial Co., Ltd., Rung Siam Fertilizer Co., Ltd.), light industries & textiles (P.H. Garment Manufacturing Co., Ltd., Worldbest Group.), metal products & machinery (e.g. Asia Thai Thong Metal Co., Ltd., Holley Hangshen Electric (Thailand) Co., Ltd.) electric and electronic products (Linkword Electronic (Thailand) Co., Ltd., Compass East Industrial (Thailand) Co., Ltd.) chemicals and paper (Tonrich Plastic Factory (Thailand) Co., Ltd., Thai Chong Chemical Industrial Co., Ltd.) and services (Tong Thai Real Estate Co., Ltd., Phuket Merlin Co., Ltd., Rojana Real estate Co., Ltd.) (BOI, 2006).

These companies are involved in manufacturing (computer hardware, garment, machinery and electronics), resource extraction
(coal, mining), food processing, power generation, petrochemical and chemical plants, telecommunications, and the IT industry. Some of the larger investments have been undertaken by companies such as Dalian West Pacific Petrochemical, China National Electronics Import and Export Corporation, Haier, and China Minmetals Corporation. It is interesting to note that among Chinese companies investing in Thailand are Dongguan Nokia, and Intel China, all subsidiaries of well known companies headquartered abroad.

The main aim of oversea FDI by Chinese companies was to organize China’s rapidly expanding international trade and secure natural resource inputs, although there was some mainly market seeking investment in manufacturing operations outside China.

3. The Motives of China’s Outward FDI in Thailand

The motives for Chinese outward FDI are generally similar to those for FDI from other developing market economies (United Nations, 1993, Dunning, 1993, 2000 and Wall, 1997). China’s outward FDI has increased rapidly for several motives. There are many push and pull factors that encourage Chinese companies to expand their business abroad in Thailand. Specifically, the following major motives can be discerned in Chinese outward FDI.

3.1 Market-and Export-seeking Investment

The growth of Chinese industrial conglomerates propelled by fast domestic consumption and rising exports urges these enterprises to expand their global brands and international presence. Among the best know brands are Lenovo, Haier, TCL and Huawei. With substantial local market bases, these brands are venturing into offshore markets in substantial ways. Some groups even take over local companies to increase local distribution networks and market shares. Chinese companies have all attempted to increase their exports through foreign investments and forming business
partnership with local companies. Some also move to transfer certain industries such as textiles to other low-income countries in order to avoid trade restrictions of Chinese-made products in World markets. Thailand is characterized by its the open market economy with the population of 62 million. The increase of Chinese investment in Thailand depends on the close geographic location and thus becomes the good market in the region. As a result, Chinese manufacturers are naturally looking abroad for new markets with less competition and higher profit potentiality. The setup of trade and representative offices were the first step to enter the Thai market along with the construction companies that have been a favorite pet of Chinese authorities and have received extensive supports in exporting Chinese engineering skills and contract labour. By the end of 2001, more than 2,200 contracts per engineering project and labour service had been signed totaling US$ 2,176 million (Chinese Embassy in Thailand, 2003). Chinese company investment is an attempt to seek market in constructions (e.g., China State Construction Engineering (Thailand) Co., Ltd., CHEC (Thai) Co., Ltd., CWE (Thailand) Co., Ltd.) and trade (e.g. Teo Thai Trading Development Co., Ltd., Representative Office of China Shipbuilding Trading Co., Ltd. (Thailand), Hua Xiang Company Limited., LORIC-Thai International Co., Ltd.) (China-Thai Enterprises Association, 2002).

Also, Chinese companies invests in trade, service, and tourism (e.g., Teo Thai Trading Development Corp., Ltd., Shipbuilding Trading Co., Ltd., Hua Xiang Co., Ltd., Yunnan Travel (Thailand) Co., Ltd., and Thai Xi Hu Co., Ltd. and airline company (e.g., China Southern Airlines, Air China, China Eastern Airlines, China Southwest Airlines, China Yunnan Airlines and Xiamen Airlines) Transporation (e.g., COSCO (Thai) Holding Ltd., Gold Ship Co., Ltd., Cosiam Transport Co., Ltd., and China Shipping (Bangkok) Co., Ltd.). And Thailand has industrial locations supported by the BOI, for example Hemaraj Land Development Co., Ltd. (Public Company), Rojana Industrial Park, Amata Cooperation and Win Coast Industrial Park
Meanwhile, Chinese investment in Thailand can benefit from the same investment with other members of ASEAN because of the free trade area in ASEAN which will be effective in the year 2010. As Liu Chongming says during an interview “Chinese companies have money, expertise, experience and technology so they can increase their potentiality to seek new foreign markets.” He Junfeng also shares his opinion during an interview that, “The government should be aware of the problem of competition between Chinese companies and foreign companies in China, so that the representative office of Chinese investment in Thailand can establish market networks among neighbors and members of ASEAN.” For instance, before the ASEAN Free Trade Agreement came into effect, some producers like China Worldbest Group., TCL, Haier, and Huawei, has already set up manufacturing operations in Thailand to take advantage of AFTA’s preferential tariff rate and sell their goods competitively. Chinese companies are also locating their manufacturing plants in other countries in order to export to other advanced markets.

3.2 Resource-Seeking Investment

China’s oversea expansion has also been driven by the need to secure access to raw materials and natural resources. As its per capita natural resource endowment is poor, China needs to acquire a stable supply of resources to sustain its rapid economic development (Wang and Chan, 2003 p. 285). China’s industrialization requires a constant supply of global commodities ranging from oil and gas to steel, plastic, resin, and rubber. China has been forced to invest offshore in order to secure the flow of these raw materials and commodities.

As Thailand is a country with substantial agricultural resources; basic staples such as rice, vegetables and fruits are abundant. As China has an increasing problem in feeding its growing
population, the match for such a motive is present. Given the geographical proximity of the two countries, it is quite feasible that Thailand could continue being a supportive food chamber for China. China has also actively encouraged the import of fruits and vegetables from Thailand to China through the Thailand-China Free Trade Agreement of 2003 and the ASEAN “Early Harvest Programs” which came into effect on January 1, 2004. Under this program, both sides have reduced tariff on about 600 agricultural imports between 2-5 per cent and have agreed to abolish these tariffs by 2006 (BOI, 2005).

Thailand’s agriculture sector is the most prominent part of Chinese investment. It has attracted significant resource-seeking investment in areas such as fertilizer and rubber production, along with efficiency-seeking investment. According to the Chinese embassy in Bangkok, while trade-related investments were the dominant form of Chinese investment in the past, manufacturing investments, especially in machinery production and assembly trade, have risen in recent years (Wu and Sia, 2002, p. 51).

The Chinese also invested in raw materials and resources in Thai agriculture, (e.g., Pan Asia (Thailand) Co., Ltd., Siam Preserved Foods Co., Ltd., Thai-China Flavours and Fragrances Industry), rubber products (e.g., Hua Tai Rubber Co., Ltd., Thai Yok Rubber Co., Ltd., Latex Industries Co., Ltd.), Para woods (e.g. Choosak and Punnee Leader Co., Ltd. and T.C.L. Parawood Co., Ltd.), fruits and longan fruit (e.g., In Pung Co., Ltd., Changlong Foods Co., Ltd., Shangsiirikankaset Co., Ltd.) and aquatics (e.g., T.S. Wattana Co., Ltd. and Chanthaburi Aquaculture Fram Co., Ltd.) (BOI, 2006).

3.3 International Diversification

There are many reasons why normally risk-averse entrepreneurs may engage in FDI in order to reduce the risks, or their perceptions of the risks, involved in their business activities the risks may be political or economic in origin (Wall, 1997, p. 16).
Thailand has proved to be a favorite’s place of Chinese investors as it ranked as the top investment destination in ASEAN and number five worldwide (UNCTAD, 2003). Since signing a free-trade agreement with China in 2001, economic activities in northern Thailand in particular have increased dramatically. Chiang Rai has been the focus of both the Thai government and Chinese investors (Khamtita, 2003). The location of Thailand has a comparative advantage over other ASEAN nations in being a logistical route from South China. The route attracts China to invest in Thailand and enlarge the economies of the two countries.

Moreover, the country’s geographic location could be an advantage once road and river transport linking China and the Mekong sub-region have been improved. A special economic zone in Chiang Rai province has been set up recently to attract Chinese investors. The Chiangsaen-Kunming Industrial Estate, a Thai-Chinese joint venture, has thus been formed as a hi-technic industrial zone to be located there. It was reported that the estate has already attracted many investors from China in five aspects namely, agriculture, communication, human resource, investment and Makong development. And Chiang Rai is a strategic province in the northern part of Thailand as the “gateway” to Indo-China, South Asia, and ASEAN.

Chinese companies have shown their interests in making an investment in Thailand in regard to agriculture, electronics and electrical appliances, chemical and paper ceramic, as well as Light Industries & Textiles and textile. Accordingly, BOI has played a role in approving investment from foreign countries and to setup the Chinese Desk in 2003 to support the Chinese companies for trade and investment between the two countries. And in 2004, the Board of Investment of Thailand signed a memorandum of understanding on investment cooperations with branches of the Chinese Council for the Promotion of International Trade in Beijing, Yunnan, Shanghai, Sichuan and Jiangsu. The memorandums are meant to create a network of investment cooperation between Thai investors in China.
and Chinese investors in Thailand as well as setting target industries with high potential for the investors. Thailand wants to attract Chinese investment for its rubber, automobiles and electronics industries (BOI, 2004).

The Chinese government’s strategic interest in CAFTA is seen as a bone for the southern Chinese province of Yunnan. This province during the economic development of China has found itself very far from Beijing both geographically and politically. Yunnan has been given the opportunity to become the Chinese gateway to ASEAN and expect to profit substantially in the coming upsurge in bilateral trade and investment. China has already announced that it has set a target to triple the bilateral trade by 2010 (BOI, 2004).

The international diversification has also been characterized by intents to dodge trade barrier trade and quotas to local and third country markets. This trend existed before China joined the WTO but has also continued after that. In recent years there have been inflows of this kind of investment in manufacturing processing in Thailand, especially in garment processing and other textile related investment for sales in the third countries (Kvisgaard, 2005, p. 34).

At the beginning of the new millennium when ASEAN made of first moves to create a FTA, China saw this as an opportunity and the choice fell on Thailand as a convenient trade and production hub inside ASEAN.

4. The Chinese Companies in Thailand

Most of the investment made by Chinese companies in Thailand has been dealt by state enterprises and officials in ministries of the government, cities or special economic zones. Afterwards, Chinese government reformed the enterprise, by giving consent to private sector to get involved in implementation in the forms of private enterprises. Although the implementation is carried out by private enterprises, the central and local governments, and sometimes local communities have held a large number of shares in
the enterprises. Chinese investment by state enterprises includes the following companies: China Worldbest Group, Thai-China Flavours and Fragrances Industry Co., Ltd., Tong Ren Tang, China State Construction Engineering. Moreover, it should be noted that after the 1997 economic crisis in Thailand, some private enterprises like Huawei and Haier did go out (table 3).

Table 3 Chinese companies in Thailand

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Type of Organization</th>
<th>Industry/Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Worldbest Group</td>
<td>State-owned enterprise</td>
<td>Natural/Synthetic Fibers, Citric Acid, Fiber Residue, Printing &amp; Fishing Textile</td>
</tr>
<tr>
<td>Thai-China Flavours and Fragrances Industry Co., Ltd.</td>
<td>State-owned enterprise</td>
<td>Flavours and Fragrances Industry</td>
</tr>
<tr>
<td>Tong Ren Tang</td>
<td>State-owned enterprise</td>
<td>Medicine</td>
</tr>
<tr>
<td>China State Construction Engineering</td>
<td>State-owned enterprise</td>
<td>Construction</td>
</tr>
<tr>
<td>Huawei</td>
<td>Publicly Listed Company</td>
<td>IT Service Trade</td>
</tr>
<tr>
<td>Haier Group</td>
<td>Publicly Listed Company</td>
<td>Electric</td>
</tr>
</tbody>
</table>


4.1 China Worldbest Group

China Worldbest Group: The biggest-ever Chinese investment project in Thailand, in Rojana Industrial Park of Rayong Province, 222 kilometers southeast of Bangkok in 2001. China Worldbest Group firm deals to invest in three large-scale project worth US$ 175 million (or 7,883.7 million baht), Thai labour 2,016 and foreign labour 218 (www.tdctrade.com, 2007). Yan Ting-ai, Chinese ambassador to Thailand, told “the project signaled that the China-
Thailand economic cooperation entered a new era. The signing ceremony of the project between China Worldbest Group and Thailand’s Rojana Industrial Company on 28 August 2001 in Beijing was also witnessed by Chinese Premier Zhu Rongji and visiting Thai Prime Minister Thaksin Shinawatra.” And Zhou Yucheng, president of the China Worldbest Group, said the first phase of the China Worldbest Group project would include the construction of a spinning factory, a textile printing factory and a citric acid lab. Zhou said his group would invest more in Thailand in the future and make the country its production hub in Southeast Asia (File://G:\China company\Biggest-ever Chinese Investment Project in Thailand Breaks..., 2007).

4.2 Thai-China Flavours and Fragrances Industry Co., Ltd. (TCFF)

TCFF’s factory was built on 17 acres in Lad Bua Luang District of Ayuthaya, in 1989. Sathaporn Kietthanakorn stated during an interview, "the company investment, with the value of 70 million baht. There are separate dedicated factory for: essential oil distillation solvent extraction chemical synthesis spray drying flavour compounding research and developmenté. TCFF is a joint venture between Thailand and China to manufacture fragrances, flavours, essential oils and extracts for the cosmetic, food and pharmaceutical industries. TCFF is the first company in Thailand to produce natural essential oils and is even today one of only a few companies worldwide that control the whole process of production from the collecting of raw plant materials, distilling essential oils and creating and producing finished fragrance and flavour compounds that go into thousands of consumer, households and industrial products worldwide (File://G:\China company\TCFF1_files\1_his.htm, 2007).

With experienced professional staff and dedicated equipment and technology, TCFF is equipped to extract these valuable essential
oils from plants sources such as roots, stems, leaves, flowers fruits and gums. TCFF has facilities for solvent extraction, distillation and manufacture of aroma chemicals. Researchers in an effort to produce purer and more concentrated forms of natural and novel products have developed techniques of capturing these. These materials may be simply single natural chemical isolates used as they are or may be further reacted to produce more novel notes for use in modern perfume or flavour creations. Using aroma chemicals means that their purity and quality can be accurately controlled and used to produce characteristic effects in fragrances and flavours. They are therefore especially valuable to the creative perfumer or flavourist.

4.3 Tong Ren Tang

Tong Ren Tang, the leading producer of traditional Chinese medicine with a history more than 300 years, has started to explore the overseas market with five joint-venture companies overseas to handle local sales as well as several pharmacies in Hong Kong, Britain, USA, Australia and Thailand. It has formed its unique feature in pharmacy, on the basis of traditional craftsmanship and modern scientific method. It produces therapeutic Chinese patent medicine with 24 drug forms and over 800 varieties per year. Tong Ren Tang promises to produce more and better drugs to contribute to the people’s health around the world (File://G:\China company\Traditional Medicine Company Eyes Overseas Market.htm, 2007).

In addition, the pharmacy in Thailand, which began a trial operation in 2001, has been welcomed by the Chinese in Southeast Asia and has begun to make a profit. The Beijing Tong Ren Tang (Thailand) Co., ltd was established In March 2001. In Thailand, where most people subscribe to traditional Chinese medicine, and have heard of Tong Ren Tang, this drugstore is like a Chinese honey pot for Thai beers (Li, 2000). Tong Ren Tang is about to seize opportunities and meet challenges, and decide to continue its reform and innovation. It will organically combine the traditional idea of
Traditional Chinese Medicine (TCM) with modern science and technology to contribute development of TMC.

4.4 China State Construction Engineering Corporation (CSCEC)

CSCEC was established in 1982. As an important and backbone state-owned enterprise under the administration of the Central Government, it has operated actively in both domestic and overseas markets with construction and real estate business as its core business. Under the guidance of the reform and opening-up policy of the party and government, with correct leadership of higher authority and warm assistance of all sectors of society, and through hard work of the leaders and staff for decades, CSCEC has become the largest construction enterprise and the largest international contractor in China.

Confronting with new situations after China’s entry into WTO, CSCEC now, with completely new ideas, scientific management and fine-quality services, strictly follows the development to be thought of commercialization, systematical operation and scientific management, focuses on sorting out the relationship between parent company and its subsidiaries, optimizes allocation of resources, and actively promotes the readjustment of the property rights and industrial structure of 5 key backbone enterprises and 12 traditional backbone enterprises including 8 engineering bureaus and 4 design institutes. In this way, CSCEC will strive to become one of top-ranking transnational enterprises in the world (www.cscec.com.cn/english/co_.htm, 2007).

Prinklao Project 1 Part 1, US$ 15.4 million (1995 - 1999), and
Factory of Worldbest textile (Thailand), Co., Ltd., US$ 3 million
(2002), and The Rama VIII bridge 2001, 2,700 million baht (Sub
contract by CHEC (Thai) Co., Ltd. 800 million baht), Bangkok City
Hall 1,000 million baht and Rajada city 500 million baht, etc.

4.5 Huawei

Huawei is a private enterprise established in 1988 with
its headquarter in Shenzhen, China. It is a private high-tech
enterprise fully owned by its employees. Huawei specializes in
research and development (R&D), production and marketing of
telecommunications equipment, providing customized network
solution for telecom carriers in fixed, mobile, optical network and
data communications network. Sales in 2002 were 2.7 billion US$.
Huawei products have been put into wide applications in over
40 countries including Germany, France, Spain, Russia, Brazil,
Singapore and Thailand. Among Huawei’s 22,000 employees, 10,000
more are engaged in R&D. Each year Huawei invests no less than

Huawei set up its branch in Thailand. Thai Representative
Office of Huawei has a staff of over 350, 80 percent of whom are
local, which has become one of the mainstream equipment suppliers
in the Thai telecom market. Its products such as switch access,
mobile and transmission have all realized large-scale application,
with the sales reaching US$ 150 million. As early as 2000 Huawei
built Thailand’s national-level mobile intelligent network in
collaboration with Thailand’s largest mobile operator AIS, and it
was officially put to operation in the same year. In March 2002 AIS
started the fifth-phase capacity expansion and the network capacity
has reached US$ 6.5 million (File://G:\china company\People’s Daily
Online -- Opportunity, Challenge and so..., 2007). Huawei has been
growing with Thailand’s telecommunications industry and gradually
become a major equipment supplier in the market.

The Communications Authority of Thailand (CAT), one of the two largest state-owned telecom carriers in Thailand, officially announced that Huawei has been awarded its nationwide CDMA 2000 3G expansion network bid. The letter of intent (LOI) has been issued to Huawei in Thailand, and the contract, which is worth 7.2 billion baht (approximately US$187 million). In the project, Huawei, China’s telecoms equipment supplier, will CDMA2000 1x&1x EV-DO products and solutions in 51 of the 76 provinces in Thailand. Within the turn-key project, Huawei will also provide products in the areas of transmission, service & software and data communications (File://G:\China company\Huawei wins CAT deal.htm, 2007).

4.6 Haier Group

Haier is China’s largest home appliance brand and one of the world’s leading white goods home appliance manufacturers. Haier was founded in 1984 in Qingdao, Shandong Province, China and manufacturers home appliances in over 15,100 different specifications under 96 categories. By April 2006, Haier has obtained 6,189 patented technology certificates and 589 software intellectual property rights. Haier products are sold in over 100 countries. Haier is the official Home Appliances Sponsor of the Beijing 2008 Olympic Games (www.haier.com, 2007).

Haier Group has formed its second joint venture in Thailand with local partners led by TWZ Corp. (TWZ.TH), the Nation reported citing James Chau, Haier Group (Asia) managing director. Under the partnership, TWZ, a local distributor of telecom devices, will hold 51 percent of Haier Business (Thailand) Ltd., while Haier will hold 20 percent the rest will be held by other local partners. The new company will sell Haier products locally, including mobile phones, information technology products, and LCD television sets. Haier set up its first local joint venture, Haier Electrical Appliances (Thailand) Co., in 2002 with Distar Electric Corp. PCL (DISTAR.TH), which
makes home appliances (www.nationmultimedia.com, 2007). Thailand had the potential to be its production base for home appliances, especially air-conditioners and washing machines, for export to USA, Europe and ASEAN.

China investment to Thailand has increased since the establishment of diplomatic relations. There have been frequent mutual visits by the leaders of both countries and friendly cooperative relations have been developing rapidly in the fields of politics, economics, trade, military affairs, education, science and technology, culture, and other matters. Non-governmental exchanges have been increasing as well, greatly strengthening the traditional ties between the two nations (MOFCOM, 2005). Thailand’s contemporary disposition towards China is more favorable than other ASEAN states for a number of reasons. Thailand does not have any territorial disputes with China, unlike Malaysia, Vietnam, and the Philippines, which dispute island territories and sea boundaries in the South China Sea. Thailand’s sizeable ethnic Chinese population is well integrated into the Thai society and ties with China are not a factor in ethnic, political or economic considerations.

5. Conclusion

Chinese FDI in Thailand has significant by grown rate after China became a member of the WTO in 2001. Since then, China has pursued a “Go-Out Strategy” with significant economic and political roles. China has the biggest international reserves in the world with continuous economic growth. Moreover, it has many potential corporations, capital, technology and experience as well as FDI policy. Motives behind her investment in Thailand are to find market in Thailand, as well as resources and materials such as rubber, oil and natural gas, and cereals. Thailand’s location is advantageous in term of geo-strategy in the region. In addition, China has been supported by the policy and the privilege of Thailand and ASEAN members.
Important Chinese companies investing in Thailand include China Worldbest Group (The largest of Chinese company to invest in textile), Haier Group and Huawei (IT Service Trade and electric and electronic products) Thai-China Flavours and Fragrances Industrial (Flavours and Fragrances Industry), Tong Ren Tang (Medicine) and China State Construction Engineering (Construction). In sum, Thailand has great potential in many aspects as an investment base facilitating the distribution of merchandise to ASEAN and world markets.

References


Wall, David (1997) *Outflows of Capital from China*, OECD Development Centre Technical Papers No. 123


Websites

File://G:\China company\TCFF1_files\1_his.htm, 7 February 2007.
File://G:\china company\People’s Daily Online -- Opportunity, Challenge and so..., 7 February 2007.
File://G:\China company\Huawei wins CAT deal.htm, 7 February 2007.
Interview


Sathaporn Kietthanakorn, Managing Director, Thai-China Flavours and Fragrances Industry Co., Ltd., Interview, 10 March 2004.