Geographic Implications Of Foreign Investment In Thailand's Industrialization

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Introduction

Rapidly growing industrial activities in Thailand are highly concentrated in the central region. Expanding industrial activities which are inducing unlimited urbanization in the central region coincide with the stagnated agricultural sector on which most provincial residents depend. This paper analyses the geographical implications of industrialization by detailing the present changing and unchanging distribution of industrial activities as well as different distribution patterns of foreign and local investment.

Geographical Implications of Industrialization in Thailand

Promotion of direct foreign investment (DFI) has been one of the key industrialization policies of developing East and Southeast Asia. Export processing zones (EPZs) are a typical measure through which national governments intentionally create advantageous conditions for DFI in specific locations by tax incentives as well as infrastructure provisions so that particular locations are directly integrated into the world market through production and export capabilities. Originally started by U.S. and Japanese multinationals' competition to look for advantageous locations as well as their efforts to maintain markets in spite of import substitution policies by the host countries, DFI in Asia now include those from Newly Industrialized Economies (NIEs) that used to be major host countries of multinational corporations (MNCs) and turned out to be investors for the less developed Asian countries due to their own increasing labor costs. In addition, globalization of operations by MNCs and recently even by small and medium-scale Japanese firms is pushing Southeast Asia and East Asia to become a large integrated production zone. Advancement in the technological capabilities of Asian NIEs (ANIEs), cost competition, and advanced transportation and communication as well as international protectionism
are behind this business internationalization. Thailand is one of the beneficiaries of these changes in Asia by successfully inviting large DFI (Ichikawa, 1990).

Thailand's Board of Investment (BOI) tax incentives to promote DFI have been a similar attempt to make the whole kingdom function like an export promotion zone, although the government later divided the nation into three zones with different tax incentives to reduce the heavy concentration of industrial activities and set up export processing zones to create specific promotional locations. Because of the government's pro-industry policies as well as relative social stability, Thailand is experiencing a boom in DFI particularly from Japan and Taiwan.

This kind of industrialization in ANIEs and the Association for Southeast Asian Nations (ASEAN), in general, is characterized as "export oriented" industrialization by its emphasis on foreign investment promotion. It seems that export-oriented industrialization differs in terms of geographical distribution of industrial activities from import-oriented early industrialization in European countries where inherent natural endowments and historical factors helped to develop industrial cities. Export-oriented industrialization has, at least partly, helped to induce highly concentrated industrial activities, as typically observed in Thailand, because of the following reasons: developing government policies to take advantage of economies of "agglomeration"; foreign investors' preference for infrastructure provisions in major or secondary cities; and relatively weak local industries located in rural areas (Kiyonari, 1990). In the case of Thailand, Bangkok and five surrounding provinces (called the Bangkok Metropolitan Region or BMR) produced 62% of Thailand's gross domestic industrial output in 1986 (Thailand Development Research Institute, 1989) and 76% in 1989 (Panayotou, Phanu, and Kritiporn, 1990a). According to factory registration data in 1989, at least 50% of all factories in Thailand were located in the BMR (Ministry of Industry, 1989).¹

In early import-substitution industrialization, the following initial conditions attracted DFI to Bangkok as an optimal industrial location in Thailand: political, commercial, and cultural center; the biggest population with the largest purchasing power; rich water resources; easy access to infrastructure, especially to Klongtoi Port, where imported intermediate and capital products are unloaded. Based on these initial conditions, the government gave priority in infrastructure construction to Bangkok.

Bilateral and multilateral loans were intensively spent in Bangkok on constructing infrastructure such as power stations, water pipe systems, highways, bridges, industrial estates, and communication systems. From 1961 to 1979, 24% of foreign loans were spent in Bangkok, followed by 15% in the north region. Approximately 33% of the loans were spent on projects with no specified geographical destination, such as purchase of airplanes, long-distance telephone services, railroad networks, agricultural financing, and education. In the northeast region, only 2.2% of the loans were spent during this period (Nishizawa, 1983). The shift to export-oriented

¹ The original text has a footnote that is not included here.