Multi-National Corporations in Thailand
An investor's point of view
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"Multi-national Corporations" (MNCs) is one of those subject matters which in recent decades brought about sharply-divided opinions among governments, planners and board-rooms. This division often pitted the industrialized countries against the impoverished, and developing nations, because their political system and economic orientation were not compatible with one another. Initially, this was not an unexpected or surprising phenomenon. After all, MNCs in the “fifties” and “sixties” invariably originated in, and operated from the affluent and market-economy countries. Since these powers were perceived by their ex-colonies, which only recently gained their independence, and had yet to develop their own political and economic order, as masters of exploitation, so were the MNCs based in these developed countries.

With such political over-tone and simplistic assessment, a large majority of the Third World countries, encouraged and abetted by centrally-planned economy representatives, became severely critical of the role and purpose of Western multi-national corporations. At the same time, some of these multi-nationals, driven excessively by profit-motive and un-restrained by any sense of social responsibility, did in-deed pursue a course of blatant exploitation and even adopt some corruptive practices, which lent further credence to the already-prejudiced views of the members of the Third World.

The “sixties” and early “seventies” were then a difficult period for rational and objective discussions on MNCs. The North-South dialogue became a forum for polemics and rhetoric. Each side was trying to make and score a point. The spirit of cooperation and mutual understanding was lacking, and multi nationals were easy victims of confrontation and economic nationalism. What went by the wayside was the contribution that MNCs could make to national development of the receiving countries, if their role and responsibility were to be defined, and terms of entry worked out between them.

There were, however, some countries, unfettered by narrow nationalism and political bias, which owed the original success of their semi-industrialized economies, to the massive inflow of multi-national ventures. This group of countries, led by the economic "Gang of Four" as they are known - Hong Kong, Singapore, South Korea and Taiwan, concentrated on exchange-earning export- oriented industries of textiles and electronics. Their elevation to the category of "New Industrializing Countries (NICs)" has, therefore, placed the role of MNCs in a more balanced perspective.

Infusion of foreign capital, either direct or in the form of joint ventures, has been viewed by these countries as an important source of much-needed finance.

Furthermore, because of their capability to provide technology and know-how, MNCs have thus been regarded as major vehicles for transfer of technology.

Foreign capital's contribution to growth assumes that those industries that are being financed, act as catalysts for growth, in other sectors of the economy. In poorer countries, however, MNCs may not be the ideal source of finance or technology. Technology may be cheaper elsewhere-and may not necessarily be appropriate, that is, not easily adapted and assimilated locally.

It is hence the prerogative of each country to be selective, and to determine for itself the advantages and disadvantages of inviting MNCs, be they from the West or the East, to set up their business. Thailand - free from Western colonialism, did not feel inhibited in trying to attract the interests of multi-nationals. Our success in this area is, however, limited and not one of which to be proud! There are a variety of reasons for such short-coming, many of which are real and internal and others - bureaucratic and artificially-created. When we look back to the "fifties", we know that both South Korea and Taiwan (and even Singapore) were way behind us in the manufacturing sector. Yet, not only were they able to catch up with us, but in 1984 they are so far ahead of Thailand that it is practically impossible to keep pace with them.

<u>The Role of Multi-national Corporations (MNCS) as perceived by foreign investors</u>

I. Multi-national Corporations' prime interest is in carrying on a viable business operation over time, while earning satisfactory returns on their investment. Profits, of course, are essential to provide some of the funds for future reinvestment and for distribution of dividends to shareholders. However, MNCs are not in business in Thailand, or any country, to earn quick returns, recover their capital and then withdraw. On the contrary, when an MNC embarks on a new venture or makes new investments for expansion and modernization, it intends to remain in that country for an indefinitely long period -- for as long as successful operations can be carried out.

II. MNCs invest abroad-generally in response to attractive opportunities, and Thailand with its relatively stable political environment, strong economic performance and growing domestic markets has attracted great interest. Thailand's abundant natural resources have attracted sizeable investments in the exploration for oil and gas and minerals development, such as tin mining. Competitive-cost conditions, proximity to low-cost material inputs, availability of appropriate labour, a growing domestic demand, and foreign barriers to import, have spurred foreign investment in other areas such as manufacturing.

In responding to these competitive factors, it is important to note that MNCs do not cause shifts in international trade competitiveness among nations, but are responding to shifts which are already taking place. MNCs have an extraordinary capacity to take risks and mobilize resources, on a scale that is difficult or impractical for many national companies. In doing so, MNCs are promoting international specialization in production among nations and increasing the benefits of international trade to both importing and exporting nations by helping to raise overall living standards.

III. When considering investments, MNCs are concerned that the basic "rules of the game" affecting foreign investment will remain relatively stable or predictable over time. MNCs also want a fair shake, a chance to compete fairly without policies which discriminate against them or favour local companies. Changes in tax/fiscal regimes, import/export quotas, controls on prices and profit repatriation as well as enforced sell-outs and expropriation, are viewed negatively by MNCs.

The right of governments to adopt such policies is not disputed; however, such policies often can disrupt the adjustment of an economy to current circumstances, rather than furthering it. The MNCs cannot demand that relationships remain utterly unchanged and MNCs must recognize the need for reasonable regulation; they must respond flexibly to demands for new arrangements, and demonstrate that they too can make sacrifices required for the common good. Host countries should ensure that new rules and regulations are not arbitrary, and that they are likely to accomplish the goals intended; that they allow the investment to obtain a return commensurate with the risk taken; and that they are coordinated among the various government agencies.

IV. MNCs also have obligations. MNCs generally see their most important responsibility as producing a high quality product or service efficiently, at a competitive price, so to earn a profit. Profits are not just a motive, but a standard of efficiency, in a competitive industry and an essential condition for staying in business, thus enabling the MNC to provide continued economic benefit to workers, consumers and host-governments alike. It also goes without saying that in all of their business dealings, MNCs must abide by the letter and spirit of all national laws. In these days of instant communication, if a multi-national catches the headlines in one country, the news is quickly flashed around the world (be that news good or bad). Thus MNCs cannot risk misbehaviour as it could ruin their international as well as local reputation. Many MNCs have, therefore, adopted strict and explicit policies, that demand the highest ethical behaviour of its employees. As a result, practices unofficially yet commonly followed in Thailand, often cause delays and inefficiencies in operations.

A second level of corporate responsibility lies in a sensitivity and responsiveness to the indirect impact of business operations on the society-at-large. The operations of MNCs must be consistent with national goals. Promoting economic growth, improving the standard of living, reducing social inequalities, increasing employment and expanding technical capabilities are but a few of the fundamental objectives of government. MNCs generally accept these responsibilities and advance national goals not simply because it is the right thing to do, but because such behaviour promotes their successful long-term operation in the host country.

Among the most common ways in which MNCs have a positive indirect impact, is by training nationals in technical/managerial skills, the introduction of more advanced technology and environmental conservation.

i) It is the policy of some MNCs to train nationals to manage their affiliates worldwide. Extensive training courses are offered both in Thailand and abroad, for Thai employees, and rotational assignments overseas are provided for high potential employees.

ii) The size and resources of MNCs make them a prime agent in transferring and introducing new technology across boarders. R&D programmes are costly, and the financial capabilities and operating scope of MNCs allow support of the necessary effort.

iii) Protection of the environment is of great importance to MNCs, and energetic efforts are continually made to improve their products and their manufacturing process.

MNCs also generally accept a third level of responsibility for the general well-being of the society in which they live and work. MNCs provide financial and technical support for programmes in health and education, community development and promotion of national cultural activities. Such efforts reflect an awareness on the part of the MNCs, that future operations will be affected by the broader social environment of the country in which they operate, and it is in their interest to improve this environment.

V. Criticisms against MNCs

i) The large size of MNCs has been cited as evidence of power over national economies. Because of their vast assets and geographic scope, MNCs are sometimes viewed as immune from control by national governments and have been accused of bringing about the rise and fall of currencies, impeding the development of local industry, etc.

MNCs typically make large investments which can pay off only over long periods of time. Under-handed activities may suffice to grab a quick profit; but will almost invariably hurt the good relationships upon which long-term health depends. Most wealth is tied up in fixed assets which are a hostage to good behaviour. Governments have established tax systems under which MNCs must operate; they collect data on financial and operating results, and they control operations through regulations and permits. MNC success does not reflect an ability to avoid control; on the contrary, MNCs owe their long-term success to their ability to adapt to national requirements and goals. An example of this locally, is Thailand's interest to have local participation in multi-national subsidiaries, resulting in a heavy influx of joint venture operations.

ii) MNCs are viewed as a potentially disruptive influence, particularly in developing countries. The introduction of labour-saving technology when there is unemployment, paying wages in excess of the going rate, increasing local incomes, which lead to increased consumption of imports, the remittance of dividends and burdening limited infrastructure are examples of such claims.

These situations do sometimes occur; however, they are not necessarily adverse to the country. In aggregate, the benefits to the host country of direct and indirect increases in employment, economic growth and overall balance of payments benefit, often outweigh any individual negative impact. It is important, however, to keep host governments informed about plans and to work out cooperative solutions when problems do arise.

iii) There is often a concern over the division of benefits between MNC and the host country. This issue is evident in Thailand very clearly in the government's negotiations for price and equity participation, in the development of up-stream petroleum ventures. Much of this concern is based upon the belief that there is a fixed amount of benefit from foreign investments, although some benefits such as knowledge/skills acquired by the labour force and subsidiary investment impetus are difficult to quantify; and that one party can gain only at the expense of the other. As there is no such fixed limit of benefits, the restrictive measures intended to increase benefits to the country, are likely to have the effect of reducing such benefits by discouraging foreign investment. MNCs are most likely to make their greatest contribution where government policies are well established, predictable and non-discriminatory.

iv) It is often argued that MNCs prevent the growth of locally-owned enterprises by aggressive and unfair competition. MNCs global operations do provide some advantages in terms of operating flexibility and diverse sources of supply. However, many governments have given special privileges such as tax incentives, exclusive dealing rights and outright subsidies to national or state owned firms.

<u>What do we, the Thai investors, look for in MNCs?</u>

i) Mutual Benefits -- This is essential for any type of long-term relationship - be it between individuals or organizations. Of course, we all have different ideas as to what benefits we seek. Some look for sizeable dividends; others want to reduce risk through diversification. If the benefits sought by the parties involved differ too much, it is likely one or all will be dissatisfied. So, before thinking about the specifics of an investment, the investor must have a general goal he can look to for direction.

I hope that the Thai government, and we in the Thai business community, would always keep this in mind. So that, when an investment is proposed, the first question asked is: "Will this yield the benefits I desire?". The second question: "Does it yield benefits desired by the other party?". If either answer is "no", or even "maybe", chances for long-run commitment, enthusiasm and satisfaction diminish.

In so-far-as joint public/private sector projects are concerned, there is always a possibility that the objectives and interests of the partners are not parallel and such joint ventures may find it very difficult to operate. In that event and in nonstrategic sector, a 100% private venture with Government exercising all the necessary controls through permits, taxation etc. may turn out to be the most practicable mode of enterprise.

ii) Value-Added Product -- Thailand has long been a major food grain supplier to the world. The importance of this grows, as grain exports of other countries decline. Our major exports are rice, tapioca and corn -- typically in an un-processed form. On the other hand, Thailand has relied on imports of processed consumer goods to improve the standard of living. This is a common situation among developing nations.

Thailand's development is no longer in the infant stage. Rather, we are now right in the middle of industrialization. The Thai Government has urged the private sector to expand and modernize the country's industrial base. The Board of Investment provides incentives to attract this kind of investment. Most importantly, investors have responded by putting up their capital. So value-added is no longer a good idea to which people pay lip service. It is a good idea that is being put into practice more and more every day.

Yet, this is not to say there haven't been problems along the way. Nothing worthwhile is ever trouble-free. Often value-added projects require imports of various raw materials not available locally. Here investors face import duties imposed by the government to alleviate trade deficits or protect a related industry. To avoid these risks, Thai investors have become more interested in manufacturing products which use locally abundant agricultural products as material inputs. Examples are canned products, both fruits and sea food. An ideal but not yet fulfilled example of high value added product using simple. agricultural raw material is "chemo-papain", a pharmaceutical substance derived from papaya latex.

iii) Transfer of Technical Know-How -- Thai investors want to learn better ways of doing things. We are interested in the latest production technologies, computer systems and management practices. To obtain this knowledge, we look to the multi-national corporations who are in the fore-front with modern techniques.

Traditionally, technical transfer has meant management training of staff. But now as one finds more Thais, and fewer expatriates, in management positions, this type of transfer has acquired a low priority. Instead, Thai investors now look for better and cheaper methods of production. Of course, not all new processes and methods will be adopted immediately; many are more advanced than Thailand needs, in its present stage of development. As we continue along the development path, more and more of these innovations will be added. It is from the multi-nationals where Thai investors will expect guidance to come.

As Thailand strives toward full industrialization, it is clear that progress in the agricultural sector is of paramount importance. Although our country is rich in resources, there is great opportunity to increase production yields. For some crops, tenfold increases are not un-realistic. Technical transfer is needed in areas such as genetic engineering and breeding, as well as new techniques for planting, harvesting, and applications of fertilizer, herbicides and insecticides.

Besides production, technical transfer is necessary for the manufacturing, processing and the marketing of the products. Appropriate technical “know-how” in processing, is crucial to the concept of "low cost/high quality". Thai investors are skeptical about the reliability of the claimed “know-how”. Therefore, we are usually seeking for the processing technical know-how that has been proved successful elsewhere at the commercial scale-as opposed to just the laboratory level.

Regarding marketing, the effective know-how of marketing management is needed for corporate survival in this immensely competitive world. Most Thai investors are very reluctant to enter into a joint-venture project which has no pre-arranged or contracted market. Thus, MNCs that are themselves the world's major distributors or users of the proposed product are the main attractions of the Thai investors.

iv) Broadening the Industrial, Commercial and Finance Base

Thailand has great opportunities to expand in these areas. To start toward this, we would like to see the multi-nationals already here, increase their investment profile. Those involved just in trading might progress to assembly. Those now doing assembly could move to manufacturing. To get this type of commitment, the Thai Government ought to provide an effective tele-communications system, a fair tax structure, workable immigration laws and reasonable foreign exchange control regulations.

However, MNCs can help to broaden the business base in Thailand by making greater use of Thai commercial banking facilities. For example, in addition to being a source of short-term funds, Thai banks could be involved in exchange transactions as well as participate in major long-term loan syndicates.

v) Compatibility with the Thai National Development Goals

Thai investors naturally feel attached to the goals laid out in the National Development Plan. Not only is this good for the country, it is also good for the investor, as attractive incentives are offered along the way. As such, the National Development Plan does not require sacrifice from investors. However, it does require commitment to the long-term well-being and prosperity of the nation.

As companies operating in Thailand, MNCs are expected to join in, and work to achieve, the National Development goals. Important means to do this are:

1) concentration on value-added projects;

2) transfer of technical “know-how”; and

3) expansion of the industrial base in Thailand. It should also be noted that this might be best done in the abundant field of Thai agricultural products, on which the country's economy is based.

The growing strength of the Thai economy, and the country's continuing political and financial stability, are considered to be major incentives to increased foreign investment in the economy, while bureaucratic red tape, cumbersome customs clearance procedures, slow decision-making, ambiguous tax laws, exchange control problems, lack of adequate patent/copyright protection and limits on levels of foreign ownership and ability to establish branch operations serve as major dis-incentives.

The main task that lies ahead of Thailand is not so much in offering new incentives or more attractive terms, but in removing disincentives to investment. I respectfully suggest that this be placed on the future agenda of the committee of Economic Ministers and the Joint Public-Private Sectors Committee. A comprehensive review of the entire question is in order, and deserves priority attention and remedial actions. Let's get on with the job of putting our house in order -- and the rest should take care of itself.

In this fast-shrinking but highly competitive world, where technologies used in the development of products, processes, and software are no longer the exclusive domain of one country, every multi-national to-day -- and that also applies to a Brazilian, Korean, Indian, Malaysian and Mexican, is obliged to develop a global manufacturing and marketing strategy. The concept of national markets is rapidly disappearing. There are now world markets of which advantage can be taken. The importance of exports to every major economy of the world to-day, is greater than anything else we have seen previously.

Governments all over the world have changed their basic attitude towards MNCs, and are assiduously courting them. We in Thailand cannot afford to sit back and feel complacent about the matter, or else we shall miss the boat once again.

The paper that I presented to-day is not intended to be a criticism of the past and the present, but rather “food for thought” for the future. That Thailand has not been doing too badly is generally accepted. The question we should ponder over, is whether and how we can do better in order to reach our full potential.