



Global Value Chains: Implication for Investment Policy

2. What Causes The Rise of Global Value Chains?

- **Development of mechanized transport**

(Before development of mechanized transport such as railways and steam ships, international trade was reserved for the most expensive commodities, like spices or silk. With mechanization, land and sea transport became easier and more reliable, allowing production and consumption to be more geographically dissociated)

- **Information Technology (IT) Revolution**

- **A series of political and institutional breakthroughs (tariffs cut, multilateral Agreements etc.)**

(Together these facilitated internationalization of industrial processes, opening the way to what became global manufacturing. Cheaper and faster intercontinental communication allowed businesses and production centres to coordinate more easily, leading to the unbundling of the production process and its international fragmentation)

2. What Causes The Rise of Global Value Chains? (Continued)

- The Emergence of “Factory Asia

(Reflects the demand for both massive and customized manufacturing emanating from US market, with an adequate supply potential in Asia)

- The process of “factory-less” industries started in niche markets

(Firms focusing on developing their branding and marketing comparative advantages, while outsourcing production to external suppliers, initially within the country, but increasingly also using foreign)

3. Foreign Direct Investment (FDI) and Global Value Chains

- FDI has accelerated development of global supply chains and contributes to structural and geographical diversification TNCs
- Its principal aims are to “slice up” production process and seize comparative advantages particular to each participant in supply chain
 - Efficiency-seeking FDI
 - Market seeking FDI
- Some FDI will boost exchanges (in particular in intermediate goods) while others will reduce it
- FDI has been instrumental in the shift to international production networks and countries that have experienced the largest FDI inflows have also seen the largest expansion in merchandise exports
- The fragmentation of production presents producers in developing countries with an opportunity to widen their export market

3. FDI and Global Value Chains (continued)

- **The distinction between “them” and “us” that has traditionally defined our way of thinking about imports and exports is increasingly outmoded. Products are no longer “made in Japan”, or “made in USA ”; they are truly “made in the world”**
- **This new reality has profound implications on several counts. In particular, it redefines the nature of trade relations that are now characterized by a much closer inter-relationship.**

- **National Boundary;** From geographical boundary to economic boundary
- **Degree of Freedom in policy formulation;** Less independence
- **Competitive Edges;** From comparative advantage to competitive advantage
- **Economic Performance;** From GDP to GNP ?
- **Collaborative Network;**

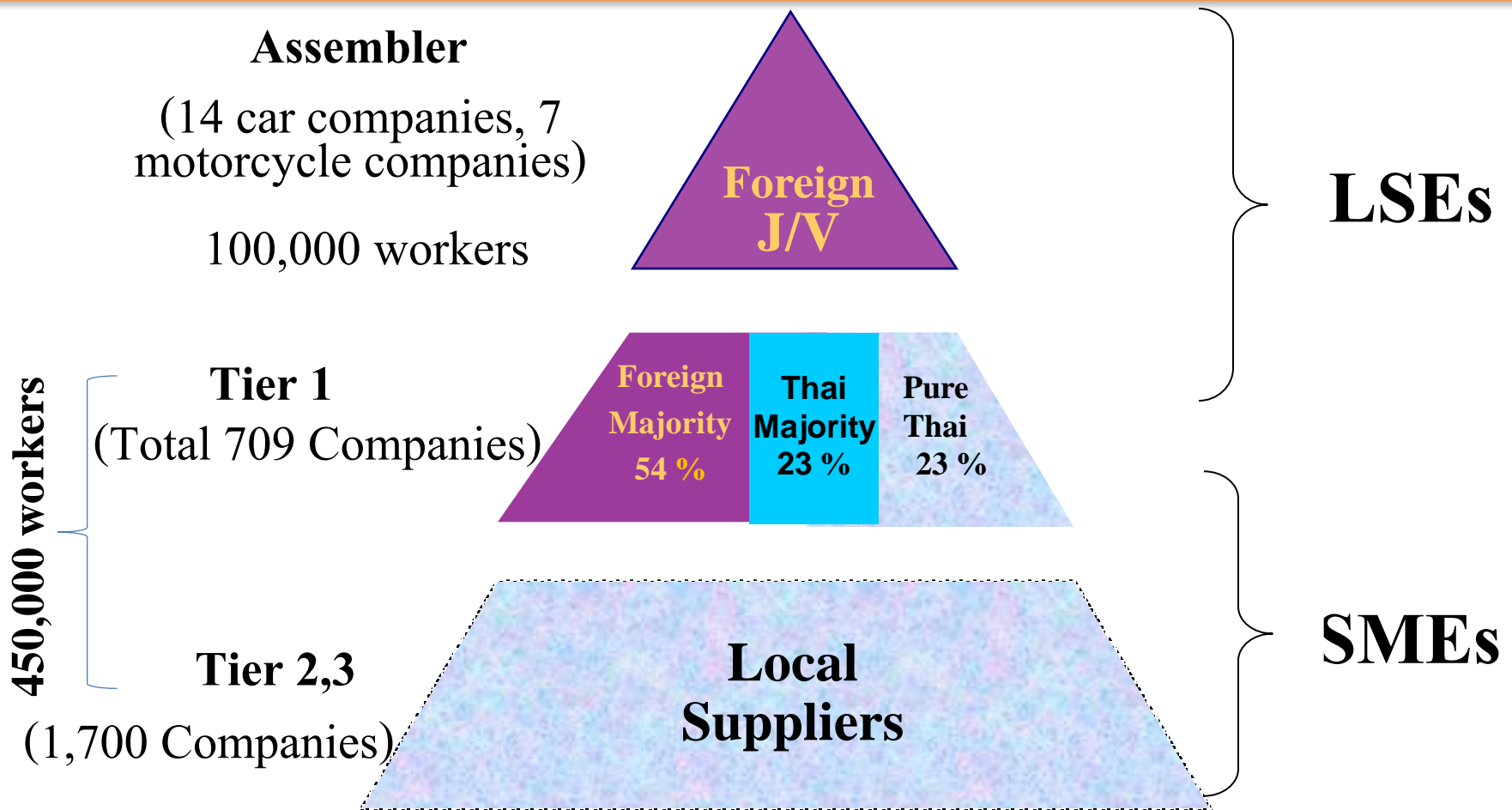
5. BOI's Investment Policy VS GVCs

- Thailand has industrialised partly by joining global value chains
- The objectives include job creation, export, technology transfer/development etc.(priority of objectives change over time)
- Different industries might have different production model and each activity in GVCs has different value and impact to host country (low value/low-skill level **VS** high value/high-skill level), therefore targeting FDI in the right activity in GVCs (at the right stage of economic development) is needed
- The concept of “ missing link” in local industry’s value chain is used to target FDI in the needed activity

5. BOI's Investment Policy VS GVCs (cont.)

- **FDI's some benefits to host country is not automatic, need some institutional mechanism to benefit from them**
- **Investment policy has been coordinated with economic policy and industry policy**
- **Moving from joining GVCs to building regional value chain (encourage outward investment)**

Example : Thailand Automotive Industry



[* LSEs : Large Scale Enterprises SMEs : Small & Medium Enterprises]

Top 100 Global Suppliers 2010

Present in Thailand

Japanese Global Suppliers

- | | |
|--------------------|-------------------|
| 2. Denso | 46. Bridgestone |
| 4. Aisin Seiki | 49. Tokai Rika |
| 13. Yazaki | 57. Showa |
| 15. Sumitomo | 61. Mitsuha |
| 16. Toyota Boshoku | 66. Asahi Glass |
| 18. CalsonicKansei | 72. Stanley |
| 19. JTEKT | 74. Akebono Brake |
| 20. Hitachi | 82. Sanden |
| 28. Toyoda Gosei | 84. F-Tech |
| 33. NTN | 92. Alpine |
| 34. NSK | 94. Pioneer |
| 35. Mitsubishi | 98. Omron |
| 39. NHK Spring | |
| 40. Koito | |
| 41. TS Tech | |
| 43. Takata | |

28/29 Companies

Other Global Suppliers

- | | |
|--------------------|-------------------|
| 1. Robert Bosch | 44. Federal-Mogul |
| 3. Continental | 47. Michelin |
| 6. Faurecia | 50. GKN Driveline |
| 7. Johnson Control | 52. Goodyear |
| 8. ZF | 56. Grupo Antolin |
| 11. TRW | 58. Bayer |
| 12. Delphi | 59. TI Automotive |
| 14. Lear | 65. Draexlmaier |
| 17. BASF | 67. American Axle |
| 21. Valeo | 73. Rieter Auto. |
| 22. Visteon | 84. F-Tech |
| 23. Autoliv | 86. Hayes |
| 25. Mahle | Lammerz |
| 27. Dana | 93. 3M |
| 31. BorgWarner | |
| 36. Teneco | |

29/71 companies



Opportunities: Components Needed in Thailand

- ✓ Automatic Transmissions
- ✓ Continuously Variable Transmissions (CVT)
- ✓ Traction motors for automobiles; e.g. Hybrid or fuel cell cars
- ✓ Regenerative Braking System
- ✓ Electronic Stability Control (ESC)
- ✓ Rubber tires for vehicles



Integrated Circuit Cluster in Thailand

IC Design

- Rohm LSI
- Silicon Craft Technology

Assembly

- Microchip
- NXP
- Spansion
- Hana Semiconductor
- Circuit Electronics
- Millennium Microtech
- Stars Microelectronics

Wafer

- Sony Device Technology
- Sanyo Semiconductor
- Rohm Integrated System
- Toshiba Semiconductor
- Thai NJR
- Vigilant Technology
- Utac Thai

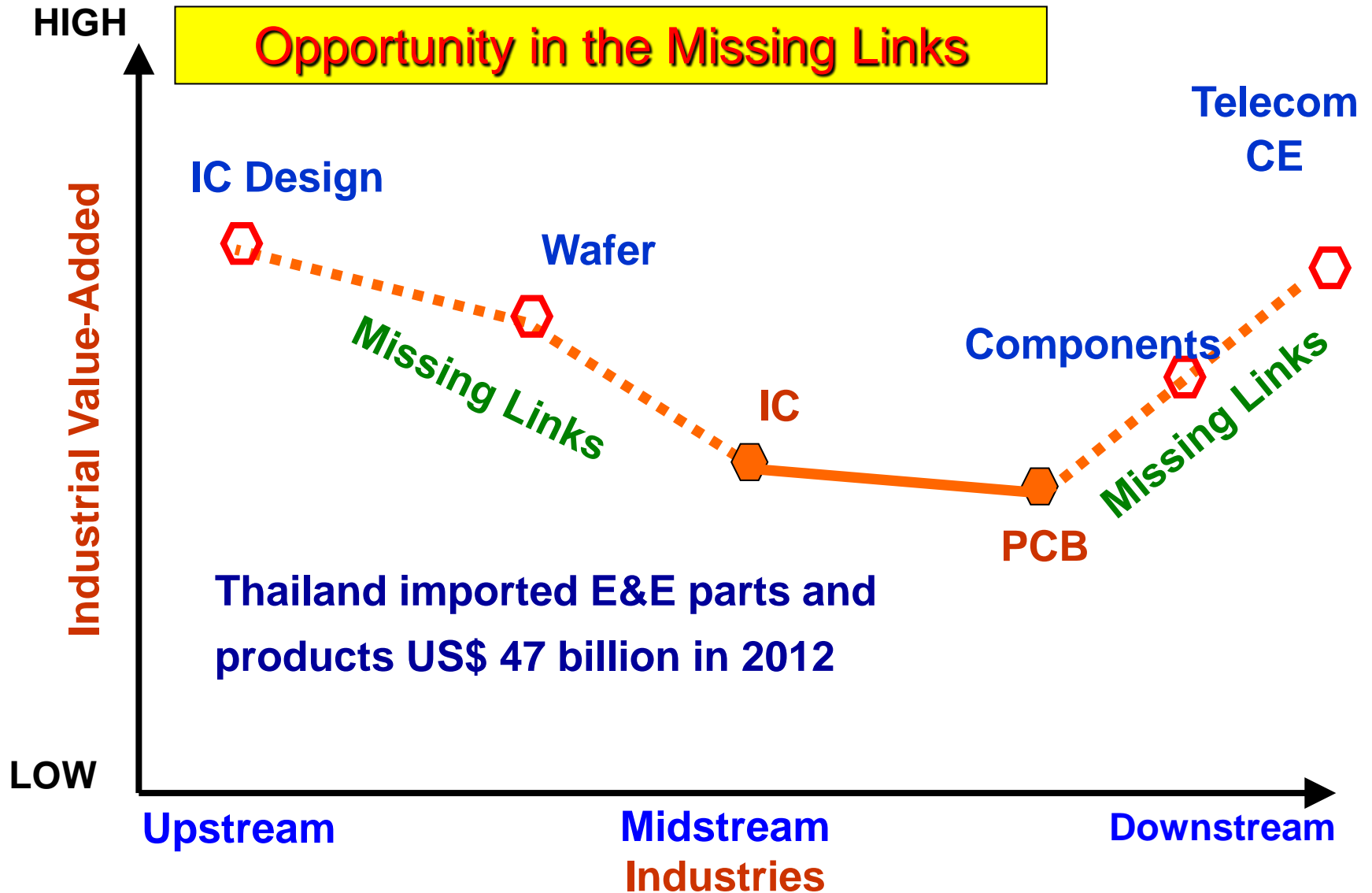
Lead Frame

- Sumiko LeadFrame
- TSP-T
- Rohm Mechatech
- Yamakin

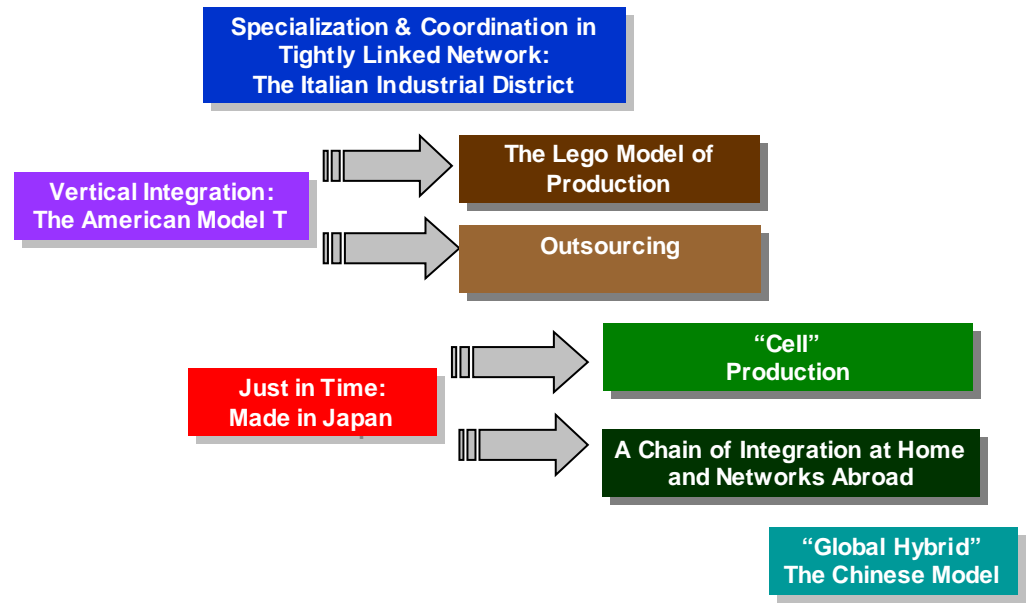
Testing

- Microchip
- Maxim Integrated

Investment Opportunity in E&E



รูปที่ 1.3 : พลวัตการเปลี่ยนแปลงในเครือข่ายการผลิตระหว่างประเทศ



6. Investment Policy (Past – Present – Future): Part of

Economic Policy



Industrial Promotion Act, 1954

- National Executive Council Announcement No.33 – Industrial Promotion Act, 1960
- BOI founded in 1966

- National Executive Council Announcement No.227
- Investment Promotion Act, 1977 (Amended 1991)
- Eastern Seaboard Development

Relaxation of investment Promotion criteria

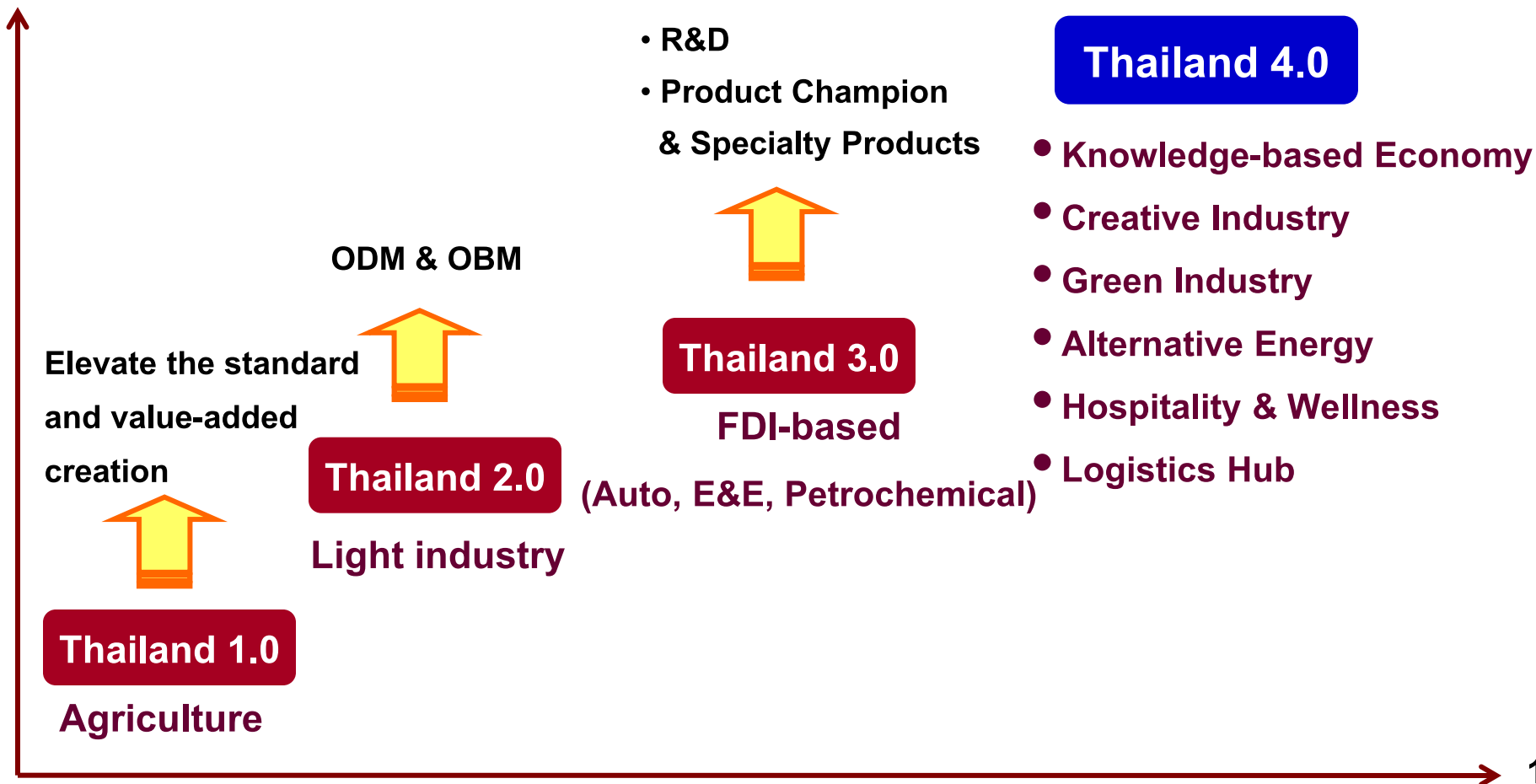
- Announcement no. 1/43
- Amendment of Act no. 2001
- Increase CAP
- Adjust the rules and regulations to conform the WTO's
- Focus on proactive marketing strategy

Special measures and incentives

- New vision
- Sustainable investment policy

6.1 Thailand's Future Industry Direction

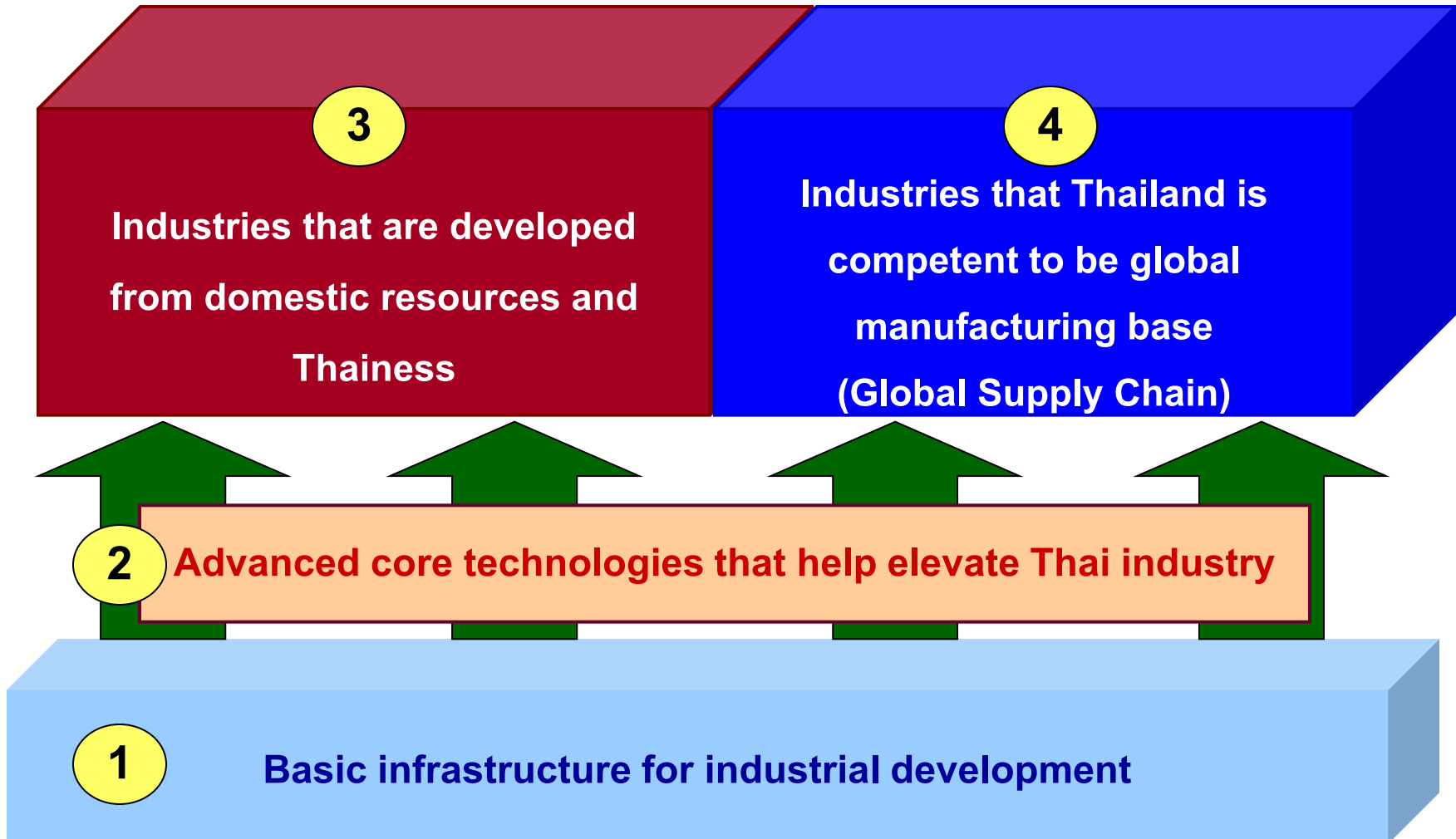
(Data compiled from 11th National Economic and Social Development Plan and Thailand's Industrial Development Plan)



Promote investment to restructure Thai economy for sustainable development and to overcome “Middle Income Trap”

- **Promote competitiveness development and value creation of industrial sector**
- **Promote green industry to drive balanced and sustainable growth**
- **Promote new industrial clusters in the regions to create new investment concentration**
- **Promote Thai overseas investment in order to increase competitiveness of Thai businesses**

6.3 Future industries to be promoted



➤ Industrial Foundation

1. Basic infrastructure and logistics (e.g. industrial zone, power generation from natural gas, tap water or water resources for industrial purpose, transportation and mass transit, commercial airport and logistics center).
2. Basic industry (e.g. steel, petrochemicals, pulp and paper, machinery)
3. Medical device and scientific equipment (e.g. medical device, medicine, medical food, scientific equipment)
4. Alternative energy and environmental services (e.g. power generation from renewable energy, recycling, wastewater treatment and industrial waste disposal service, Energy Services Company: ESCO)
5. Services that support industrial sector (e.g. R&D, HRD, engineering design, software, calibration services, ROH, trade and investment support office)

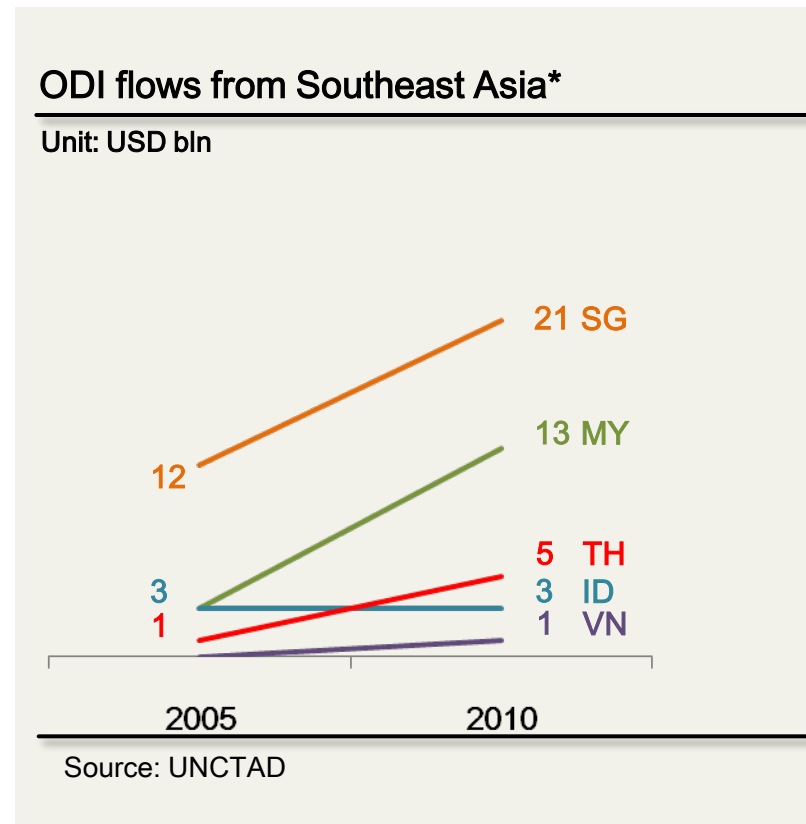
6.4 10 Industries to be promoted in the future

(2/2)

- Advanced Core Technologies that helps elevating Thai industry
 6. Advance core technologies (e.g. biotechnology, nanotechnology, advanced material technology)
- Industries that are developed from domestic resources and Thainess
 7. Food and agricultural processing industry (e.g. processed food, food additive, herbal extract, plant propagation and development, product from natural rubber, bio-fuel e.g. ethanol, bio-diesel)
 8. Hospitality & Wellness (e.g. tourism and sports promotion activities, Thai motion picture production and related supporting services, dedicated health center, retirement home and care center)
- Industries that Thailand is competent to be a global 's manufacturing base (Global Supply Chain)
 9. Automotive and other transport equipment (e.g. cars, motorcycle, train, electric train, aircraft, shipbuilding and maintenance)
 10. Electric and electrical appliances (e.g. electronic design, organics & printed electronics, HDD & SSD and parts, solar cells, white goods)

6.5 Thai Overseas Investment Promotion: Enhance competitiveness and to build Regional Value Chains

- Thai overseas investment is necessary to enhance industrial competitiveness, to overcome domestic resource limitations and to seek new business opportunities.
- Presently, the level of Thai overseas investment is quite low compared with neighboring countries.



6.6 Promote Thai Overseas Investment to Enhance Domestic Industrial Competitiveness, Generate National Income, and Increase Role of Thailand in the World

Objective	Sample of target industry	Form of investment
1. Seek raw materials which Thailand lacks	Jewelry, mining, tannery, fishery, forestry, energy, steel, and dairy farm	Joint venture with local investors to produce raw materials or primary processing products to supply industries in Thailand
2. Expand markets for domestic services or products	Food products, construction business, tourism business, plastic products (especially household appliances), animal feed, sales office, and distribution centre	100% investment or joint venture with local investors for producing finished goods by importing raw materials or semi-finished goods from Thailand
3. Maintain market bases or expand global market of Thai products (Presently, many Thai products lose their competitiveness due to higher production costs.)	Finished clothes, shoes, jewelry, and electrical appliances	100% investment, joint venture with local investors, or hire local investors to produce goods for exporting to third country, using lower production costs and GSP privileges.



Thank you
