

# **Determinants of Foreign Direct Investment in Thailand: Chinese Investors in Chiang Mai, Thailand**

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## **Abstract**

The objective of this study was to examine the determinants affecting the foreign direct investment from Chinese investors in a developing country-Thailand. Many theories attempted to explain the reasons and motives for the multinational enterprises (MNEs) to go abroad. This paper concentrated on the idea of the eclectic paradigm, also known as the OLI Model, stand for “Ownership, Location, Internationalization”, created by John H. Dunning. The researcher of this study added value to the literature by indicating that the characteristics of local people matter for foreign investment in Chiang Mai. In-depth interviews with 10 Chinese investors were conducted by the native mainland Chinese research assistant. Ten interviewees included five restaurant owners, three business owners, one souvenir shop, and one Chinese language school. Thematic analysis was applied to analyze the data.

**Keywords:** Foreign Direct Investment, Chinese, Chiang Mai Province

## **Introduction**

Foreign direct investment (FDI) is necessary to the developing countries' economies and emerging-market economies. A country needs to enhance the competitiveness of the country's economic performance in order to compete with other countries. Foreign direct investment is significant for developing the economics of a host country, especially in Thailand and other developing countries in the Association of Southeast Asian Nations or ASEAN (Chotchuang, 2014). For Walsh and Yu (2010), there are numerous benefits of the foreign direct investment for the host countries. First, FDI is more beneficial to long-run growth and development because it is a key source of technology and know-how that spillovers from foreign companies to domestic companies. Second, FDI helps in increasing job creation and employment in the host country (Jude and Silaghi, 1998). Finally, FDI helps human capital formation, contributes to international trade integration, and helps to create a more competitive business environment (Zahonogo, 2016).

Zmuda (2012) noted that during last 30 years China has changed from an underdeveloped agricultural country to one of the largest and most significant economies in the world. A major role in the transformation process of China's economy is to strengthen its position in the international economic system, known as foreign direct investment (FDI). Few years ago, the outward foreign direct investment from China has dramatically increased, especially in the Chiang Mai province. The director of the Thailand Research Fund (TRF), Suthipun Jitpimolmard said the number of Chinese tourists visiting Thailand has been increasing gradually, from only 770,000 in 2009 to more than 8.3 million in 2016 and over 9.8 million in 2017. The Chinese continue to travel to the Chiang Mai province due to being attracted by its significant northern style culture and it remains as one of the most popular destination in the eyes of Chinese tourists.

Moreover, the travel and leisure poll (a publication of the American Express Publishing Corporation) ranks Chiang Mai third in 2017 as one of the world's best cities.

The International Institute for Trade and Development (ITD) has entitled Thailand in being among the top five countries to expect a gradual rise of foreign direct investment after the ASEAN Economic Community (AEC) integration. According to the US News and World Report (2017), Thailand was ranked as the best countries to start a business. Chiang Mai is a popular destination for FDI as per Srimalee (2014) reported in The Nation news title "Chinese investors up demand in Chiang Mai" that up to 80 per cent of foreign customers are Chinese who run a business in Chiang Mai. The strong demands in Chiang Mai are on property, trading firms, and restaurants. Pongpatcharatorn (2013), the director of China Intelligent Center, stated that for Chinese Chiang Mai is positioned as a second home. Currently, the Chinese has gradually invested in Chiang Mai in the three main businesses: tourism, logistics, and real estates.

The attractive factors for investors include the cost of investment are cheaper than in China, natural resources, infrastructure, and easy-access from China. The majority of Chinese investors are in hotels and accommodations for Chinese tourists, followed by Chinese restaurants for Chinese tourists. Pongpatcharatorn (2013) also noted that Chinese businessmen have visited Chiang Mai and have seen the potential and investment opportunities to do business in Chiang Mai. The Department of Business Development, Ministry of Commerce, indicated that there is a continuous movement of Chinese investors and Chiang Mai is the main destination for them. The FDI of China is a partner with the Thai people with shareholders of 51 per cent Thai nationals and 49 per cent Chinese nationals (The shareholding of foreign investors, Thailand Board of Investment).

### **Chiang Mai Province and the Chinese People**

The Bank of Thailand (BOT) collected the FDI data in Thailand and showed that from 1978 to 2003 the FDI inflow of US\$ 114.9 million came from China. Thailand and China had diplomatic ties and made a mutual agreement of economic cooperation in trading and investment; that is why the Chinese started to seek an investment in Thailand (Suvakunta, 2010). The empirical research by Suvakunta (2010) showed that China's FDI in Thailand contains textiles, light industrial goods, rubber, chemical, potash mining, food processing, nonferrous metal smelting, and banking, insurance, commodity inspection, hotels, restaurants and real estate. Currently, there are more than 200 Chinese companies that have been financed in Chiang Mai such as the Bank of China, ACBC, Huawei, and Hainan airlines.

Chiang Mai today is unlike yesterday since there are plenty of Chinese tourists. When talking about the "Chinese" nowadays, it mainly covers on the issue of them as travelers and investors. The new Chinese generations are now ready to take a risk in investing in a foreign city, especially Chiang Mai. The middle income Chinese have done financially well for themselves in settling down in Chiang Mai due to the low living cost and expenses when comparing the figures with China. The distance between Chiang Mai and China is not an obstacle, in contrast, it is more convenient to travel either by road or in the air. The article title "What's Really Behind Thailand's Hostility to Chinese Tourists", written by James Austin Farrell (2016), showed that the Chinese came to Thailand because of the affordability and accessibility in getting the goods for consumption. Moreover, they moved to Thailand to seek a business fortune and happiness in the 'Land of Smiles'.

The strong points for foreign investors to consider in Thailand as the destination for investment are as follows: a strategic location at the heart of Asia, a government policy promotes investment

and free trade area, no restrictions in the manufacturing sector and no local requirements nor export conditions (in harmony with WTO regulations), and recently, a long-term partnership with Alibaba (an online shopping network or Chinese e-commerce, co-founder and Executive Chairman Jack Ma) under the Thailand 4.0 model. In addition, the Thai government motivates the foreign direct investment by the means of incentives in six industrial sectors (agriculture and food, renewable and alternative energies, automobile, electronics, information and communication technologies (ICT), fashion, and high added value services (leisure, health and tourism) and eight years' tax exemptions for general companies (Board of Investment, 2017).

## **Literature Review**

Hill et al. (2016) argued that the globalization of the world economy has a positive influence on the volume of foreign direct investment. An outstanding example is Starbucks that see the whole world as their market, that is the reason why Starbucks (the coffee chains) had undertaken FDI to make sure they have a large market share. Historically, most outbound FDI have been concentrating in the developed countries such as United States, United Kingdom, Netherlands, Germany, Japan, and France. The attractive target for FDI rely on the developed nations for the reason that they are large, wealthy, dynamic, economically stable, having a favorable political environment, and is openly welcome towards FDI. Recently, the rise of Asian multinational enterprises has fascinated the major investors from Asian countries including China. China firms invested about US\$ 15 billion internationally in 2005 and in recent times the Chinese firms have turned their attention to developing nations such as Thailand.

### **Theories of Foreign Direct Investment**

Menipaz and Menipaz (2011) stated that the foreign direct investment continues to grow rapidly despite the economic crisis and the global economic slowdown during 2008 and 2009. The main reasons for the growth of FDI are globalization, strategic alliances (SA), and mergers and acquisitions (M&A). Globalization means that companies export their products to markets around the world. The growth of strategic alliances and mergers and acquisitions also caused an escalation in the FDI. The Business dictionary defines SA as:

Agreement for cooperation among two or more independent firms to work together toward common objectives. Unlike in a joint venture, firms in a strategic alliance do not form a new entity to further their aims but collaborate while remaining apart and distinct.

M&A refers to the consolidation of companies or assets. Merger happens when one company seek shareholder's approval: the acquired company finishes and becomes part of the acquiring company after the consolidation. On the other hand, acquisition is where the acquiring company gains the majority stake in the acquired company, but the name and legal structure remain the same.

### **The Ownership, Location, Internationalization Framework or OLI Paradigm**

The main theory in the area of international business is related to the analysis of multinational enterprises (Sharmiladevi, 2017) and the two theories that dominate this scenario are the "Eclectic Paradigm" or "OLI Paradigm" (Dunning, 1988) and the "Transaction Cost approach" (Buckley, 1991). The eclectic paradigm (also known as the OLI Framework) was developed by professor Dunning who offered a general framework explaining why the multinational enterprises would make an overseas investment. There are three main factors in the structure of theory: firm-specific advantages (ownership), location-specific advantages (location) and internalization advantages. A company should obtain all three advantages before running the FDI (Barney, 2000). Dunning suggests that companies invest out of the country when (1) they

possess a firm-specific advantage that enabled them to compete with a local firm, (2) they are able to internalize firm-specific advantage, especially controlling production and distribution through foreign subsidiaries, and (3) they believe that the host country have specific advantages such as political stability, market growth, and trade barriers (Dunning, 1993).

An eclectic paradigm is a theory that provides a three-tiered framework for a company to follow when determining if it is beneficial to pursue foreign direct investment (FDI). The eclectic theory paradigm is based on the assumption that institutions will avoid transactions in the open market when internal transactions carry lower costs. The researcher of this study considers Dunning's OLI paradigm as factors affecting foreign direct investment. Dunning (1988) argued that the "OLI" or "eclectic" approach suits the study of foreign direct investment, especially for the multinational enterprises (MNEs). Recently, Sharmiladevi (2017) noted that the OLI offers a holistic framework to identify and evaluate the important factors persuading foreign enterprises. To this, the OLI paradigm is capable in explaining the activities of FDI. Ownership advantages address the reason why firms go abroad, location advantages focus on where an MNEs chooses to locate, and internalization advantages have an affect on how a firm chooses to run its business in a foreign country (wholly-owned subsidiary, exports, licensing, or joint venture).

The extent to which the multinational enterprises depend on doing the foreign direct investments include the competitive advantages of firm's ownership advantages of one country over others, for instance access to assets that can generate income. The success of a foreign company in another country benefits from having lower operating costs, being able to earn higher revenues, having monopoly control over a local resource, and managing the economies of scale. Second, the location of these activities by firms outside their national boundaries can also determine their success rate. The location advantages can be defined as three categories: economic, social, and political. Economic advantages contain the quantities and qualities of production features, market size, transportation and telecommunications costs. Social or cultural advantages embrace distance between the home and host country, attitude towards foreigners, and language and cultural differences. Political advantages include the general and specific government policies that affect inward FDI flows, international production, and intrafirm trade. Finally, the firm's ability to internalize markets and generate money gives them a distinct advantage in the market (Sharmiladevi, 2017). The OLI theory predicts that internalization compensations will lead the MNEs to a preference in wholly owned subsidiaries over minority ownership.

The OLI theory stated that entry mode decisions are determined by the composition of three sets of advantages as perceived by enterprises:

- Ownership advantages: advantages that is specific to the nationality and nature of the company-owner;
- Location advantages: advantages arising from the fact that various locations can provide different resources, institutions and regulations related to the revenue and production costs;
- Internalization advantages: advantages associated with the transfer of ownership advantages across national boundaries within own organization.

### **Ownership**

The ownership condition or firm specific advantages are that the firm must own some asset that generates enough value to make it worth the extra costs of multinational production. This asset might be a blueprint, a patent, or copyright. These assets can be applied to production at different locations without reducing their effectiveness. Examples include product development, managerial structures, patents, and marketing skills. A pharmaceutical company, for example, may own a patent on a cholesterol drug. This patent gives the firm market power (since other

firms cannot produce this drug) which increases the firm's profits. Other kinds of assets include things such as managerial talent, a brand's reputation, or some other intangible capital owned by the firm (Ruhl, 2016; Sharmiladevi, 2017).

### **Location**

This is a country specific advantages, a multinational firm operates in more than one country. To make this worthwhile, there must be some advantage from operating in that location. One type of location advantage is a saving in transportation and tariff costs. This kind of advantage is most important for goods that are expensive to ship abroad or to export. For instance, it would be cheap for McDonald's to produce Samurai pork burger in Thailand, rather than import from the USA. This is called horizontal foreign direct investment. In contrast, another location advantage might arise from differences in production costs across countries. For instance, assembling iPhone requires low-skilled labor. If low-skilled labor is cheaper in China compared to the United States, then phones may choose to assemble in China rather than in the United States. This is called vertical foreign direct investment (Sharmiladevi, 2017).

### **Internationalization**

The internalization advantage says that there must be a gain from keeping the international expansion within the firm. One way an internalization advantage arises is when the firm's assets (its ownership advantage) are easy to copy. Producing within the firm, rather than licensing to an outside firm, may make it easier for a firm to protect its assets. Another internalization advantage occurs when it is difficult to write a contract between two firms for the good or service to be produced. In this case, it may be easier to produce within the firm and retain complete control over the process. If one condition is not met, it may be most profitable to organize in a different way (Sharmiladevi, 2017).

- Without a location advantage, the firm could produce in its home country and export to serve other markets.
- Without an internalization advantage, the firm could license its production process to a separate foreign firm who produces the good or service.
- Without an ownership advantage, it is unlikely that the firm can produce enough value to exist at all.

### **Motives of Foreign Direct Investment**

As the world economy turns into being more globalized trade barriers and capital movements become easier. More and more developed countries move their funds to less developed nations aiming to set up businesses and take advantages of lower investment cost, labor costs, and favorable exchange rate (Thaker, Ee, and Narayanan, 2017). Thailand receives the inflow of foreign direct investment from Chinese investors who target the Chiang Mai province. These inflows generate an employment of such factors of production such as labour, land, resources, and capital that results in an increase in the GDP. For developing nation such as Thailand, it considers the FDI as the most secure type of international capital flows out of all the available sources of external finance available.

Most literature reviewing in the determinants attracting FDI inflows into a country cover exchange rates, interest rates of capital, and openness of the economy (Thaker et al., 2017). This study aims to investigate the fundamental factors that drive FDI in Chiang Mai, Thailand. Data from the trading economy shows that the foreign direct investment in Thailand increased by 18,427 billion THB in February 2018. According to the Santander Trade Portal, foreign direct investment has been a vital section of Thailand's economic development. One of the main

reasons attracting foreign investors are the government's seven-year strategy plan to stimulate investment under the Thailand 4.0 model.

The top three FDI inflows to Thailand is Japan (26.3%), Singapore (20.9%), and Taiwan (9.2%) and the main industrial sectors are services with the number of 35.9 per cent, followed by paper and chemical goods (21.6%), and agricultural products (19.2%) (Board of Investment, 2018). The empirical research by Suvakunta (2010) showed that the Chinese governmental policy of "Four Modernizations<sup>4</sup>" declared by Deng Xiaoping in 1978 intended to open China to the outside world. In the meantime, to attract foreign investment into China, the Chinese government has been supporting Chinese enterprises to make an outward foreign direct investment (FDI) to seek some experiences from the outside world.

Notably, the amount of Chinese investment in Thailand during 1975 and 2002 was the largest in ASEAN countries (Suvakunta, 2010). The motives for developing economic investment overseas for China's include resource seeking, market seeking, strategic asset seeking (Dunning, 1993, 2000), technology-seeking and efficiency seeking (Wu and Sia, 2002).

**1. Market-and export-seeking investment:** after China's "open door" policy, Chinese investors need to achieve diversification and earn foreign exchange. This type of investment is regularly conducted through the trading companies in foreign host countries (Suvakunta, 2010).

**2. Resources seeking investment:** this is to ensure a stable supply of certain resources in which China has scarcity (Suvakunta, 2010).

**3. Technology-seeking investment:** this is to help China increases the global value chain which can be done through having more advanced technology from nations higher in development pathway (Suvakunta, 2010).

**4. Efficiency seeking investment:** the seeking of investment overseas is necessary in the time of rapid expansion in the domestic and external markets during the last decade. Technology and skills transferred from foreign partners are needed in the production.

**Table 1** Motives for Chinese investors in Thailand's foreign direct investment

<b>Market seeking investment</b>	<ul style="list-style-type: none"> <li>- develop products/services for Thai market</li> <li>- identify and enter new markets for the finished products firms</li> <li>- major customers/suppliers moved to Thailand</li> </ul>
<b>Resources seeking investment</b>	<ul style="list-style-type: none"> <li>- seek and secure natural resources</li> <li>- seek low cost and specializes labour</li> </ul>
<b>Technology seeking investment</b>	<ul style="list-style-type: none"> <li>- acquire technological capacity and advancement</li> <li>- access better infrastructure in host country</li> </ul>
<b>Efficiency seeking investment</b>	<ul style="list-style-type: none"> <li>- appreciate a lower cost of firm establishment</li> <li>- risk spreading</li> <li>- reducing tax burden</li> <li>- satisfy with the economies of scale (low production cost)</li> </ul>
<b>Strategic asset seeking investment</b>	<ul style="list-style-type: none"> <li>- alliances to promote long-term corporate objectives</li> <li>- build a base for business in south-east Asia</li> <li>- acquisition of a reputed brand</li> <li>- gain oversea organizational skills</li> </ul>

Source: adopted from Li et al. (2014: 298)

<sup>4</sup> Xiaoping's Four Modernizations include Modernizing Agriculture, Expanding Industry, Developing science and technology, and Upgrading China's defense forces

### **Benefits of the Foreign Direct Investment**

For Soni (2017), foreign direct investment ensues when an individual or investor from one country acquires the controlling interest in an entity of another country. The investor operates and manages the entity and its assets as part of the multinational business. FDI plays a multidimensional role in creating positive outcomes for the host economies. For instance, FDI helps generate benefits by bringing in non-debt-creating foreign capital resources, technological advancement, skill development, new employment, spill-overs and allocative efficiency effects. Nonetheless, FDI also causes negative effects on the host economy when the costs of the market power of large companies generate high profits. It is argued with the various existing empirical evidence that the positive consequences counterbalance negatives. This means that FDI provides economic benefits for the host country's economy (Soni, 2017).

It is argued with the various existing empirical evidences that the positive effects counterbalance negatives, therefore, FDI provides economic benefits for the host economy. Both urban and rural areas obtain direct and indirect advantages at macroeconomic and microeconomic levels from FDI. Hill et al. (2016) illustrated that the main benefits of inward FDI for a host country comes from resource-transfer effects including employment, balance-of-payments, and economic growth. While the benefits for home country comprise home country's balance of payments if the foreign subsidiary generates demands for home country exports of capital instrument, intermediate goods, and complementary products. Employment effects occur when foreign company requires the personnel from the home country. The home country's multinational enterprises learn how to acquire the valuable and significant skills from foreign firms and transfer the capabilities back to the home country.

### **Research Objective**

The objective of this study was to explore the determinants of foreign direct investment in Thailand. The researcher studied the Chinese investors who invested in the Chiang Mai province. With this objective, the research question is "what are the factors attracting foreign direct investment for Chinese investors?".

### **Research Methodology**

The researcher of this study used a qualitative method to gather and analyze data, and to aid in exploring the determinants of foreign direct investment from Chinese nationals residing in the Chiang Mai province, Thailand. Due to the objectives of this study, in-depth interviews are used as a method of data collection. A researcher used interviews to get empirical data about society by asking people about what they experience in their lives. The goal of the interview was to collect data that helps the researcher truly understand what people experienced (Silverman, 2010). Research participants would be interviewed to illuminate, in greater depth, information in relation to the motives they invest in Thailand. For Burgess (1982), in-depth interviews are significant because interviews allow the researcher to ask for more information to support more understanding, give a different perspective about the respondents' experiences, and collect interesting points based on their own experiences.

The main purpose of using qualitative interviewing for this study was to understand the reasons why they chose Chiang Mai as an investment destination. The interview is conducted on a one-on-one basis and the interviewees were the Chinese investors. Since the researcher of could not speak Chinese, the interviews are conducted by the native mainland Chinese research assistant where the researcher were at the field sites and listened to the conversations. The open-ended

questions focused on gathering data that will lead to a textural or structural description of the experiences, and eventually offer an understanding of the common experiences of the research participants (Creswell, 2009). A series of follow up prompts or topics to frame and focus the interview conversation has been prepared in advance by considering the research aim. The aim of probing is to draw out and dig deeper personal stories, experiences, and meanings related to the motives of a foreign direct investment from each participant.

### **Snowball Sampling Method**

Since there are a lot of Chinese investors in the Chiang Mai province, a research population is “hard-to-reach” (Baltar and Brunet, 2012). Marpsat and Razafindratsima (2010) have briefed the main features that explain a population as hard-to-reach: (1) the population of interest are quite low, (2) numbers of the population of interest are hard to identify, (3) the common interest is not easy to detect, and (4) the behaviour of the population of interest is unknown. Under these barriers, the accessibility to the information is appropriately strict to the snowball sampling. According to Baltar and Brunet (2012), snowball sampling is a useful methodology in exploratory or descriptive qualitative research, especially in the studies that have few respondents or require a high degree of trust to initiate the contact (hard to reach/hard to involve population).

Atkinson and Flint (2001: 1) defined snowball sampling as:

[...] a technique for finding research subjects. One subject gives the researcher the name of another subject, who in turn provides the name of a third, and so on. This strategy can be viewed as a response to overcoming the problems associated with sampling concealed hard to reach populations such as the criminal and the isolated

The data collection process started from the general conversation between the research assistant and the Chinese businessman (with personal connection). Then he recommended other Chinese businessmen in the Chiang Mai province. In particular, the researcher addressed the question of how many interviews were enough to reach data saturation (Guest et al., 2006). The number of interviews for a qualitative study to reach data saturation cannot be quantified. However, the researcher takes what (s)he can get (Fusch and Ness, 2015). Within this research, ten interviews were conducted. The researcher obtained no new information and no new theme during the seventh to the tenth interviews with the Chinese investors. Data saturation is reached when there is enough information to repeat the interview (Fusch and Ness, 2015; O'Reilly and Parker, 2012; Walker, 2012) and when further coding is no longer achievable (Guest et al., 2006). As the total number of ten interviews, there were five restaurant owners, three business owners, one souvenir shop, and one Chinese language school.

### **Thematic Analysis**

Data analysis in this study is based on the data and the researcher went through and analyzed the data from the interview transcriptions, and on highlighting the significant sentences or quotes that offered an understanding of the way the participants experience the phenomenon (Creswell, 2009). The important themes, then, are used to write a description of what the participants experienced. Interview analysis started with transcribing the recorded interviews and transcriptions generated verbatim data where the researcher found the themes related to the overall research aim. Then each question is analyzed along with the themes related to that question (Krueger, 1998).

## Research Results

In the literatures of international business and foreign direct investment, most research is concentrating on identifying the micro and macro determinants of FDI. There is a scarcity of research focusing on the theoretical exposition of different types of FDI. This study, therefore, follows the explorative research designed to critically analyze the Dunning's OLI paradigm. This paper indicates that the eclectic paradigm explains the motivations of Chinese investors in undertaking foreign direct investment in the Chiang Mai province. By analyzing the OLI paradigm and the motives attracting foreign direct investment (Table 1), the researcher contributes to the new model that combine the two aspects. However, the new theme is emerged during the interviews which is called "characteristics". This refers to the context of Chiang Mai itself and the individual characteristic of the people living in Chiang Mai.

### Analysis of Themes

**1. Ownership:** During the interviews and the field sites visited, it is found that most of the Chinese businessmen formed the business under "single proprietorship" or "small business" model. The majority of the interviewees noted the easiness and simplicity of running business in Thailand:

"Chiang Mai is the best to run and own business because few amount of money is needed to invest."

"It is easy to have a restaurant in Chiang Mai, just bring money."

In addition, some of the interviewees reflected the ownership advantage in "market entry mode" in doing international business:

"Chinese tourists do not like Thai food that much and I don't think they want to eat local Thai food during their stay. They miss their home food of course, and the Chinese restaurant in Chiang Mai is a good choice for them."

"Chinese people like to eat "Mah Lah" and there are not yet this kind of restaurant in Chiang Mai. I am the first one and I think I will get a lot of Chinese customers here."

"Nowadays, there are a lot of Chinese students and I think they want and miss Chinese food while they are studying in Chiang Mai."

"There are more than 40,000 Chinese people living in Chiang Mai and the number expands rapidly. The cost of living and investment are cheap in Chiang Mai, also the tuition fees in the international school are affordable for new generation' Chinese family to send out their children to live in Chiang Mai."

In analyzing the data received from the Chinese investors in Chiang Mai, the researcher found the contradiction with the OLI's Dunning paradigm. The competitive advantage of ownership factor includes the size of individual businesses, the monopoly power, and the production factor to create value-added. The Chinese investors in this research operated a single-owned business, they had power to specify the price of products and type of businesses themselves. Moreover, the hidden point was that they entered Thailand and run a business under foreign direct investment mode.

**2. Location:** The location-specific advantage included the raw materials and natural resources seeking. This meant an investment allowed the production costs, labour cost, tax payment, and logistics costs were cheaper than doing business in China. The Chinese investors provide information about the reasons why they are interested in investing in Chiang Mai province. One of the reasons was the natural environment of Chiang Mai province where they feel relaxed and refreshed. The feelings when they visited the province was attractive to them to run a business. The majority of Chinese investors noted that:

“The weather in Chiang Mai is perfect, sometimes I think it is better than Bangkok and Phuket. There are a lot of locations to consider, apart from many tourist destinations.”

“There are a lot of natural resources to find when doing business in Chiang Mai.”

“The land in Chiang Mai is perfect for investment and it is not so expensive.”

“Chiang Mai is the second largest province in Thailand, there would be excellent place to invest in the near future.”

“Chiang Mai is beautiful and the Chinese continuously visit this place. I think it is good to run some businesses here.”

Some of the interviewees mentioned the geography of a country that benefit them to export products to China:

“The logistics is convenient for us and the materials can be brought and sent to Thailand within a week.”

**3. Internationalization:** The internationalization advantage referred to the benefits from having control of production and prices, the ability to maintain product quality so that to protect the counterfeit of same products but offering lower prices. Under this theme, the researcher considers the Chinese investors seek an opportunity to invest in Chiang Mai, Thailand. Some of them said:

“I feel there are a lot of Chinese tourists and I see a chance to make money. The Thai government offers incentives to attract foreign investors.”

In terms of internationalization in Dunning’s paradigm, technology is another factor that attracts the foreign direct investment. However, from the interviews with the Chinese investors they did not seek technology in Thailand. Rather, they brought high and new technology into Chiang Mai and allowed Thai people to use them wisely. During the visit of Jack Ma, the use of e-commerce in buying and selling the products in Thailand was so popular. Chinese brought ‘Alipay’ and ‘WeChat Pay’<sup>5</sup> to Thailand and this made life easier, especially when we came into the “cashless society”. This application facilitated the Chinese tourists in Thailand to use mobile payments legally under the supervision of the Bank of Thailand. Some of the interviewees said:

“Thai people prefer cash while Chinese prefer Alipay, I see this as an opportunity to bring in money and invest in Thailand.”

“The use of Alipay and WeChat Pay allow us to make more money because customers are not too concern and worried about the exchange rate. The Thai government persuaded foreign investors to invest in Thailand, and Chiang Mai is the first place coming into my mind. In China, there's a lot of pressure from the government and we don't want to invest in China.”

**4. Characteristics:** Apart from the aspects in Dunning’s OLI paradigm, the new theme has emerged during the interviews. The Chinese people claimed that Chiang Mai is the best destination for them, it is an ideal vacation stay, and they have fallen in love with the hospitality of the local people in Chiang Mai. The director of the Tourism Authority of Thailand illustrated that the tourism in Chiang Mai during the last five years have been gradually expanding at a fast rate. In 2017, there were 2.9 million foreign tourists in Chiang Mai and 1.4 million are Chinese tourists (Chiang Mai National Statistical Office, 2017). From this data, the Chinese bring in 524,451 million TH Baht to Thailand. Therefore, it can be said that China is a powerful country that has a positive impact towards the Thai economy.

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<sup>5</sup> The most popular payment systems in China, it is an application that allows mobile payments through phone-scannable QR codes

The mainstream of the interviewees experienced a great service of mind from the people in Chiang Mai during their visit. They said:

“Chiang Mai is the number one tourist destination for Chinese tourists and when we visited, we received a sincere smile and we were very grateful for the hospitality.”

“Because Chiang Mai people are nice and they are willingness to help others, they are always smiling and being polite.”

“I am falling in love with the historical and cultural places here in Chiang Mai, that’s why I chose this place to run a small business.”

Some of the Chinese investors noted the lifestyle of Thai people was the magnet to them:

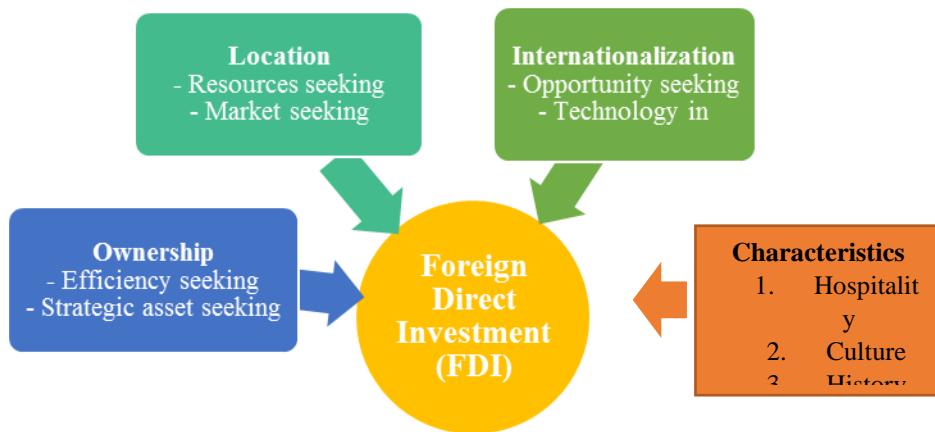
“I have to be in hurry in whatever I do in China, but I feel relaxed in Chiang Mai. When I opened a restaurant in Chiang Mai, I feel so good and it is so convenient to go out and looking around in Chiang Mai city.”

“The weather in Chiang Mai is similar to the weather in China, and the lifestyle of people here is smooth.”

## **Discussion and Conclusion**

The key propositions of the eclectic paradigm by John H. Dunning contain ownership advantages, location advantages, and internalization advantages. The “O” competitive advantages refers to the firms of one nationality possess over those of another nationality in supplying any particular markets. These advantages may arise either from the company’s privileged ownership of (or access to) or from the ability to coordinate these assets with other assets across national boundaries in a way that benefits them over their competitors. The “L” is the extent to which businesses choose to locate value-adding activities outside their home countries. The “I” reflects the extent to which companies perceive it to be in their best interests to internalize the markets for the generation and/or the use of these assets; and by so doing add value to them. Generally, the foreign investors operate outward foreign direct investment due to the benefits from production costs, entrepreneurial skills, returns on investment, raw materials, low wages, special taxes or tariffs advantages.

The researcher of this study agreed with Sharmalidevi (2017), in understanding the FDI, OLI paradigm offered a holistic starting point. However, the research findings showed the contrasting idea to Wu and Sia (2002) saying that technology seeking was the motive of inward FDI. This research showed that the foreign investors brought high and advanced technology into Thailand, not they were coming to seek it. Moreover, it is true to confirm that FDI helps economic growth as mentioned by Soni (2017). This research contributed to the new theory by arguing that the motives attracting foreign direct investment in Thailand, especially in Chiang Mai, consisted of four dimensions: ownership, location, internationalization, and characteristics of home country (see figure 1). This model can be applied to other country or context where the country’s background and culture is similar to Thailand. However, it is noteworthy to interpret the ‘characteristic’ theme as the “lifestyle” of Chinese people too. Miller (2012) shared his experience in “A relaxed and fun lifestyle in Chiang Mai, Thailand” noting that he escaped from a hectic business life in the U.S. and moved to Chiang Mai. He said Chiang Mai is the most relaxed of Thai cities and he found peaceful, friendly people, and climate ideal in doing business at home in Chiang Mai.



**Figure 1** Foreign direct investment of Chinese in Chiang Mai, Thailand

For host countries, inward FDI has the potential for job creation and employment, which is often followed by higher wages. In congruent with Thaker et al., (2017), FDI has been used more as a market entry strategy for investors due to the decline in trade barriers, tax incentives, resource transfer, increased productivity. However, there are a myth under the benefits of foreign direct investment, for instance, the Thai culture was swallowed and Zero-Dollar Tour. Under the Thai laws, the magic number is 51: 49, 51 per cent must be native Thai owner and 49 per cent can be foreigners. But are not there 100 per cent foreign business ownership in Chiang Mai or in Thailand?

Some of the research participants told the research assistant that if he pays 100,000 CNY to the customs he will get permitted to stay in Chiang Mai for 20 years. Some of the business owners married with Thai people in order to buy a land, condominium, or rent a house. While some of them have Thai people as shareholders in their business (nominee). These are all reflecting the dark side of foreign businesses in Chiang Mai that is in contrast with the internationalization theory. The international business theory mentioned the benefits of the local people having more income and more employment. However, in Chiang Mai nowadays, it was filled with Chinese investors who were the foreign subsidiary or having Thai people as the nominees.

It can be argued that having more foreign investors and businesses in Chiang Mai brought two aspects, comparing to the quote “every coin has two sides”. First, the unique northern Thai culture blew over since Thai people facilitated the foreign people in everything and everywhere. Second, local Thai shops and restaurants or hotels were not the choice for Chinese tourists since they chose the Chinese owners. This meant Thai people or Thai businesses could not sell their products or services, bringing no revenues and closed down, affecting from the domination of Chinese people and businesses. Restaurant show bad side did not open his mouth opened, no revenue because people who dominated everything.

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