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# The changing dynamics of Thai multinationals after the Asian economic crisis

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**Abstract**

This paper investigates the dynamic of Thai multinationals after the Asian economic crisis through the analysis of FDI statistics and two in-depth case studies. The paper concludes that there was a shift in the dynamic of Thai multinationals' international expansion. While the pre-crisis international expansion relied more on networking capabilities rather than industry-specific technological skills, the post-crisis adjustments of Thai multinationals displayed a different strategy that placed much more emphasis on strengthening their industry-specific technological capabilities. In particular, Thai multinationals have placed more emphasis and commitment to the development of industry-specific technological capabilities, as well as transforming their personalised, relationship-based networks to more transparent and formal ties. The paper bears implications on the emerging multinational literature. Unlike the incremental nature of their predecessors from East Asia, the rapid rise of Thai multinationals before 1997 bypassed gradual technological process through the use of networking capabilities. However, the sustainability of networks-based competitive advantages will depend on its flexibility to change, as well as its complementary role toward industry-specific technological capabilities.


*Keywords:* Third-world multinationals; Emerging multinationals; Multinational enterprise; International expansion; Thailand; Asian financial crisis; Networking capabilities

## 1. Introduction

The role of developing countries as recipients of foreign direct investment (FDI) has a long history dating back to the nineteenth century when Latin America and Asia were important host countries to European investors (Jones, 1996). On the contrary, these countries' role as outward

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investors has only been recognised just over the past two decades. Although the study of multinational enterprise (MNE) has been a fundamental component of the international business literature, the academic discourse on MNEs has overwhelmingly been drawn from firms originating in advanced economies of the US and Europe. Much less focus has been placed on multinationals from developing countries, despite their increasing prominence in the global economy.

The unbalanced empirical representation is equally striking within the stream of research on 'third-world multinationals'.[1] Pioneered by the 1983 publications of Lall and Wells, the 'third-world multinationals' literature has been predominantly based on firms from a limited set of developing countries, notably the more industrialised emerging economies of East Asia and Latin America. Among the most recently researched home countries are South Korea, Taiwan, Hong Kong, India, Brazil, Mexico, and Chile (see, for example, Yeung, 1998; van Hoesel, 1999; Mathews, 2002; Beausang, 2003). With the rise of China as one of the world's economic powerhouses, Chinese multinationals are also increasingly attracting attention in this academic domain (see, for example, Zhang, 2003; Deng, 2003; UNCTAD, 2006). The heavy emphasis on these countries inevitably leaves out other developing economies that are home to many emerging multinationals.

Southeast Asia is one region that has emerged as an important source of FDI. The region accounted for the third largest amount of outward FDI stock among developing economies in 2005, following East Asia and South and Central America (UNCTAD, 2006). Yet, few studies have been undertaken on Southeast Asian multinationals relative to their East Asian counterparts. While there are some similarities, for example, being considered 'latecomers' when compared with developed-country multinationals, there are considerable differences between East and Southeast Asian multinationals in their growth and international expansion. Among the key variables that contributed to the diversity of multinationals from East and Southeast Asia are differences in home country conditions, diversity in their stage of development, degree of transnationality, choices of diversification and international expansion strategy, and ethnic origins (Pangarkar, 2004). For example, it is often argued that the less developed economic and political institutions in Southeast Asia gave rise to business systems and organizations that relied heavily on networks and relationships and were often organised as large and diversified business groups (see Lim, 1996). On the contrary, the more market-oriented economies of East Asia, i.e. Hong Kong and Taiwan, generated multinationals that were more likely to be small and medium-sized enterprises (Li, 1994). Given these differences, some conclusions drawn mainly from East Asian multinationals may not be entirely applicable to other 'third-world multinationals'. Whether multinationals from different developing countries share a similar pattern of internationalisation, and whether their competitive advantages are similarly derived are among the questions that warrant an in-depth investigation.

Another aspect that the existing literature has yet to systematically address is the impact of the 1997 Asian economic crisis on the international expansion of multinationals from Asian developing countries. While various theories have been posited on the causes of the crisis, much less has been discussed on the impacts of the crisis on firms' behaviour and competitive positions. In the immediate aftermath of the crisis, many of the East and Southeast Asian multinationals withdrew from a variety of their overseas operations to focus on domestic survival. Although some time has passed and the trend toward recovery of outward FDI flows from the region was notable (UNCTAD, 2006), questions abound whether the post-crisis international expansion of

[1] Yeung (1994: 302–303) strongly criticised the term 'third-world multinationals' as 'imperialistic' and 'not a fruitful way to conceptualise the nature of international business'. Although the term has been associated with the established stream of 'third-world multinationals' literature, this paper uses the terms 'developing countries' or 'emerging markets' instead of 'third world'.