Proceedings of 3rd International Conference on Interdisciplinary Humanities and Communication Studies
DOI: 10.54254/2753-7064/56/2024.21244

Foreign Direct Investment and Industrial Upgrading in Developing Economies: A Case Study of Thailand, Malaysia, and Indonesia

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Abstract: This article explores in depth how FDI becomes a key driver of industrialization in Thailand, Malaysia and Singapore. Through the detailed investigation of these countries for foreign enterprise policy, research found that the construction of protecting the rights and interests of foreign investors of open and transparent investment environment, attract a lot of international capital and advanced technology, can promote the upgrading of industrial transformation in developing countries, accelerate the labor-intensive economy to the development of technology-intensive economy, for the sustainable development of these countries laid a solid foundation. But at the same time, the establishment of foreign enterprises also depends on the attractiveness of national policies to these enterprises, and the direct impact of policies is an important factor in whether foreign enterprises are willing to enter these countries. The establishment of preferential, open and transparent policies for foreign enterprises is an important condition for developing countries to realize industrial transformation by using foreign capital.

Keywords: Malaysia, Indonesia, Thailand, Foreign-funded company, industrial transformation and upgrading

1. Introduction

Since the middle of the 20th century, southeast Asia, especially Thailand, Malaysia, has experienced unprecedented industrialization transformation, foreign enterprises in terms of technology transfer, strengthen the export competitiveness, investment to strengthen infrastructure has made great contribution, so the foreign investment in the process of industrialization in these countries irreplaceable value[1].The openness measured by net FDI inflow and total imports in Malaysia 0.529, and Thailand 0.472[2]. However, this shift will not succeed if governments do not implement a series of efficient and forward-looking foreign investment policies, Indonesia, for example only 0.292[2]. This study deeply explores how foreign companies affect the domestic industrial transformation from these three aspects.

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2. Literature review

Foreign companies have not only played a key role in infrastructure construction, but have also laid a solid foundation for the rapid development of the manufacturing industry by investing in key sectors such as transportation, communications and energy[3]. At the same time, through technology introduction, foreign investment has helped these countries shift from traditional labor-intensive to technology-intensive manufacturing industries [4]. Foreign enterprises have also brought advanced management concepts and methods, greatly strengthening the competitiveness of these countries' natural resources exports[5].

Foreign investment can bring about advanced technology. In the field of technological innovation, foreign-funded enterprises are like accelerators of international technology dissemination, and their presence and activities in Southeast Asian countries have a profound impact on the regional technology ecology and industrial pattern[6]. By setting up R&D centers, cooperating with local enterprises to carry out R&D projects, technology licensing and transfer, these enterprises not only introduce the world's leading technological achievements into the local area, but also promote the rapid dissemination and application of new technologies and processes. Cooperative R&D projects are an important carrier for technical cooperation between foreign-funded enterprises and local enterprises. By jointly bearing R&D costs and sharing R&D results, the two sides can not only effectively reduce innovation risks, but also realize technological complementarity and mutual borrowing in the process of cooperation, and jointly promote industrial upgrading and technological progress. The study also shows that an open, transparent, fair and attractive policy environment for foreign investment can attract more high-quality foreign investment inflows, promote the development of technology-intensive industries, and accelerate the technology diffusion of foreign enterprises to local enterprises. At the same time, a reasonable screening mechanism can also ensure the quality of foreign investment, avoid the entry of low-technology and high-pollution projects, and protect the country's industrial safety and ecological environmen [7]. An example of this one is Intel Malaysia, a leading semiconductor manufacturer with a strong presence in Malaysia. Intel's investment in the country has not only contributed to the growth of Malaysia's electronics and semiconductor industry but has also fostered technological advancements and innovation. This, in turn, has created a ripple effect, spurring the development of ancillary industries and supply chains, thereby accelerating Malaysia's industrialization. The number of R&D centrers in Thailand and Malaysia is around 60-70, the number of R&D centrers in Indonesia is around 14 [8].

The establishment of foreign companies has strengthened the export competitiveness of natural resources. Malaysia and Thailand, with their rich natural resources such as mineral and agricultural resources, combined with export-oriented strategies, have effectively attracted foreign investment into resource-intensive industries and promoted industrial upgrading and economic growth [9]. Foreign investment not only brings capital and technology, but also promotes the efficient development and utilization of resources, improves the export competitiveness, and lays a solid foundation for the two countries to improve their position in the global market[10].For instance, Shell Malaysia (a subsidiary of Royal Dutch Shell), has played a crucial role in Malaysia's energy sector. Shell's investments in oil and gas exploration, refining, and distribution have ensured a stable energy supply for Malaysia's industries, homes, and businesses. Additionally, Shell Malaysia's commitment to renewable energy sources and clean technologies has helped Malaysia transition towards a more sustainable energy future.

Foreign companies can improve their local infrastructure. After the construction of foreign companies, due to the needs of trade and business operation, often need to build a large number of infrastructure. Such as roads, ports, electronic signal towers and many other facilities. These facilities have a great role in improving industrial productivity. In the field of telecommunications, Huawei

Thailand has made a significant contribution to the establishment of fewer than 50 signal towers in the country[11]. This has facilitated the digital transformation of Thailand industries, enabling them to adopt smart manufacturing practices and enhancing their global competitiveness. Foreign companies' demand for high-quality infrastructure has prompted the government to increase investment and improve the level of regional transportation, communications and other infrastructure, laying a solid foundation for economic development. At the same time, the jobs brought about by these infrastructure projects also reduce the unemployment rate in these regions, stimulate the regional economic development, and provide valuable human resources for industrial upgrading and long-term development [12].

3. Conclusion

Thailand, Malaysia and Indonesia all belong to Southeast Asian countries. In the half century from 1950 to 2000, the industrial added value of Indonesia, Thailand and Malaysia experienced significant leaps, and together they painted a magnificent picture of the industrial prosperity of Southeast Asia. Although all three countries have adopted export-oriented industrialization strategies, embraced global economic integration, attracted foreign capital inflow and deepened manufacturing, and become the core engine of rapid domestic economic growth. However, Thailand and Malaysia have attracted foreign investment through carefully designing and effectively implementing a series of policies and measures, which has not only successfully attracted a large amount of international capital inflow, but more importantly, foreign investment has brought advanced technology and investment infrastructure, improved the export competitiveness, and vigorously promoted the transformation and upgrading of local industries. By 2000, Malaysia accounted for 0.7367% of the global industrial map, with an industrial added value of us $69.258 billion, indicating a significant increase in its industrial strength. At the same time, Thailand followed closely, with the industrial added value reaching us $46.347 billion in 2000, accounting for 0.4930% of the global industrial added value, and has made remarkable achievements in industrialization[7]. Thailand has also shown strong resilience in the face of the same financial crisis, and the industrial sector has steadily advanced in the face of adversity, making a significant contribution to the economic recovery. As for Indonesia, due to a certain degree of trade protectionism, the number of foreign companies built is relatively small, and they do not enjoy such preferential treatment, resulting in difficulties in industrial transformation.

This shows that developing countries should embrace the global market and formulate tax cuts, special economic zones and preferential land policies. Foreign companies are given certain preferential and convenient conditions to attract foreign capital to establish companies in China. Thus, infrastructure construction, technology transfer and export advantages can help developing countries to better realize the transformation of industry from labor-intensive to technology-intensive, and greatly promote the improvement of industrial productivity

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