

Middle-Income Trap - should companies be worried?

An exploratory study of the potential impact by Middle-Income Trap on Sweden-related companies in Thailand

Elizabeth Merkoulova & Elin Karlsson Nycander

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Supervisor: Ola Alexanderson

Examiner: Johan Marklund

Department of Industrial Management and Logistics
Lund University, Faculty of Engineering, LTH



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Elizabeth Merkoulouva



Elin Karlsson Nycander

Abstract

The term *Middle-income Trap* (MIT) is relatively new, originating thirteen years ago, but has since generated significant debate. It is used by politicians to channel national reforms and has given rise to a vast amount of research about growth slowdowns in *middle-income countries* (MICs). The term describes the higher prevalence of *economic growth slowdowns* in MICs, which impedes their transition into high-income countries. Three quarters of the world lives today in MICs, many of which are dependent on the presence of foreign firms for continued growth and development. This master thesis has therefore explored the phenomenon from a new perspective - studying its effects on international companies.

We conducted the study with an exploratory purpose and an abductive approach. The phenomenon MIT was investigated through five factors identified in previous research by Eichengreen, Park and Shin (2013). These factors can be summarised as *Human capital*, *Political Regime Changes*, *External Factors*, *High-technology* and *Financial Instability*. Combined with the theory of internationalisation, a theoretical framework was developed. We applied the framework on Sweden-related companies established in Thailand. Quantitative and qualitative data was collected through 18 interviews on-site in Bangkok with Sweden-related companies.

It was found that even though all the five factors had an effect on companies, there was one MIT aspect that affected almost all companies regardless of their internalisation strategy: *Human capital*. More specifically, companies were affected by lack of certain competencies in the labour market. Many companies struggled to find good engineering skills, leadership skills and the combination of English knowledge and a specific skill. Today, this problem is solvable through higher salaries and by providing educations for employees. However, this issue could eventually lead to more serious consequences as it impedes the transition into a *technologically advanced economy*. It was concluded that MIT creates a peculiar labour market with effects reaching most companies, regardless of their field of work or strategy.

Keywords: Middle-Income Trap, Middle-Income countries, Thailand, International companies, Internationalisation, Globalization drivers

Executive Summary

Title

Middle-Income Trap - should companies be worried? An exploratory study of the potential impact by Middle-Income Trap on Sweden-related companies in Thailand

Authors

Elizabeth Merkoulova, Industrial Engineering and Management, Faculty of Engineering, Lund University

Elin Karlsson Nycander, Industrial Engineering Management, Faculty of Engineering, Lund University

Supervisors

Ola Alexanderson, Department of Industrial Management and Logistics, Division of Production Management at the Faculty of Engineering, Lund University

Background

There is evidence suggesting that after transitioning into a middle-income economy, a country's economic growth tends to stagnate. The country starts off with rapid economic growth which enables their transition from a low-income economy, however at middle-income levels, the country faces new challenges and is no longer able to sustain the high growth. This economic phenomenon has been recently described by researchers as the *Middle-Income Trap* (MIT). The term captures the difficulties *middle-income countries* (MICs) face with further development into a *High-Income Country* (HIC) due higher occurrences of growth slowdowns. The subject has gained a lot of interest by researchers and politicians as a majority of the world's population today lives in MICs. Several strategies of MICs rely on the presence of international companies to avoid getting "trapped" in the MIT. What is less known is how the international companies experience MIT and therefore, this study aims to explore the phenomenon from their angle.

Purpose

The purpose of this master thesis is to explore the economic phenomenon MIT from the perspective of international companies established in a MIT country.

Research Questions

One main research question was examined in the study:

- How does an economic situation in a country characterised by the MIT affect international companies?

The main research question was divided into two sub-questions:

- Which aspects of MIT affect international companies? What is the extent of their effect?
- Are there any specific corporate strategies which are affected more, or less?

Delimitations

The study was limited to Thailand and Sweden-related companies established in the country. The study did not investigate further whether the concept MIT exists or not.

Method

This master thesis was conducted with an exploratory purpose through an abductive approach. Our methodological choice was a combination between a quantitative and qualitative approach. Chosen research strategy was mainly a survey, combined with elements of a case study.

Conclusion

This study explored the economic phenomenon MIT from perspective of international companies using five factors linked to economic stagnation identified by Eichengreen, Park and Shin (2013). These factors were *Human capital*, *Political Regime Changes*, *External Factors*, *High-technology* and *Financial Instability*. Combined with theory of internationalisation, a theoretical framework was developed. The framework was applied on Sweden-related companies established in Thailand and 18 interviews were conducted on-site in Bangkok. It was found that all the five factors had an effect on the companies, however there was one MIT aspect that affected almost all companies regardless of their internalisation strategy: *Human capital*. More specifically, companies were affected by lack of certain competencies in the labour market. Many companies struggled to find good engineering skills, leadership skills and the combination of English knowledge and a specific skill. Today, this problem is solvable through higher salaries and by providing educations for employees. However, this issue could eventually lead to more serious consequences as it impedes the transition into a *technologically advanced economy*. It was concluded that MIT creates a peculiar labour market with effects reaching most companies, regardless of their field of work or strategy.

Keywords

Middle-Income Trap, Middle-Income countries, Thailand, International companies, Internationalisation, Globalization drivers

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List of Abbreviations

ASEAN	Association of Southeast Asian Nation
EEC	Eastern Economic Corridor
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HIC	High-Income Country
MIC	Middle-Income Country
MIT	Middle-Income Trap
USD	United States dollar
SEK	Swedish krona
THB	Thai Baht
TM30	Immigration Form TM. 30

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I. Introduction

The first chapter has the purpose of introducing the topic and assignment to the audience. It begins with a presentation of the background and context, acquainting the reader with the subject of research, followed by purpose and research questions, defining this research. The limitations of this study are also presented in this chapter.

I.1 Background and Context

A quick Google-search for *Middle-Income Trap* (MIT) generates 354.000 results within half a second. The term MIT is relatively new, originating thirteen years ago, but has since generated significant debate. It is used by politicians to channel national reforms and given rise to a vast amount of research about growth slowdowns in *Middle-Income Countries* (MICs) (Gill & Kharas, 2015).

The MIT phenomenon was first described by Garrett in 2004, who argued that the MICs are not able to compete with neither the *low-income countries' low-wage economy* or the *high-Income Countries' knowledge economy*. MIT as a term was later defined by Gill and Kharas in 2006. The World Bank published their research and soon the expression began to gain popularity with both researchers and policymakers (Gill & Kharas, 2015). However, there are still debates regarding the existence of the phenomenon and the term has yet no universally accepted definition.

Today, three quarters of the world live in MICs (Gill & Kharas, 2015). Many of these countries experience a similar growth pattern; they start as low-income countries and due to cheap labour, they attract foreign investment and enter a period of high economic growth. Eventually, this leads to the country reaching middle-income status. Afterwards, the growth tends to stagnate and the country fails to reach high-income status. Eichengreen, Park and Shin tried to understand during which circumstances countries experience economic growth slowdowns and published a paper in 2013, in which they identified national factors that correlate positively with economic stagnation. These factors will be used to identify characteristics specific of a MIT country.

Most studies conducted on the MIT investigate and discuss political and economic reforms needed to enable the transition to a high-income country. The discussions are limited to national strategy and national implementation. Due to prevalence of countries experiencing this economic phenomenon we believe there is a need of more specific research on the effects of the MIT. Many of the national strategies for MICs are still highly dependent on the presence of knowledgeable foreign firms to reach high-income status (Suehiro, 2018). Therefore, we want to widen the existing research by studying the impact of the MIT on international companies.

Based on the national factors identified by Eichengreen, Park and Shin (2013), we want to do a deep dive into the business perspective of the characteristics of MIT. By combining theory for internationalisation strategies, existing MIT research and our own explorative study, we want to explore how the MIT affects the companies' active in a MIT country.

1.2 Purpose of Thesis

The aim of our master thesis is to explore the economic phenomenon *Middle-Income Trap* (MIT) from the perspective of international companies established in a MIT country.

1.3 Research Question

Upon the purpose of the thesis, one research question has been formulated. Further, the research question has been specified through two sub-questions:

- How does an economic situation in a country characterised by the MIT affect international companies?
 - Which aspects of MIT affect international companies? What is the extent of their effect?
 - Are there any specific corporate strategies which are affected more, or less?

1.4 Delimitations

Within the project, certain limitations have been made to yield a feasible research area. The study will not investigate whether the phenomenon MIT exists or not. Instead, the focus is placed on the corporate environment in a country characterised by MIT.

The study is limited to Thailand. This delimitation was made due to the broad scope of countries affected by the MIT. After conducting a pre-study on the MIT phenomenon, it was decided for feasibility reasons to limit the research to one country. We identified several larger countries that recently entered middle-income level and contacted several Swedish Chambers of Commerce in these countries to establish a cooperation in order to retrieve interview subjects. The Thai-Swedish Chamber of Commerce were very helpful and therefore we chose Sweden-related companies established in Thailand as our research population.

The chosen population consists of international Sweden-related companies. They are a manageable number; approximately 60 Sweden-related companies are established in Thailand (Trade and Promotion Section, 2019). Further on, contact information to many of these companies is available through a cooperation with Thai-Swedish Chamber of Commerce.

2. Research Methodology

The second chapter presents the different choices of research methodology for this study. These choices within the methodological framework consider research purpose and strategy as well methodological approach and choice. All choices of methodology are motivated and discussed in order to give the audience a possibility to evaluate the result and comprehend the process behind. Furthermore, the design of the research process is explained together with thoughts regarding credibility.

2.1 Research Purpose

The purpose and alignment of the research determines which methodological approach should be applied. There exist four different purposes of research and more than one can be accurate for the same study. Höst, Regnell and Runeson (2006) have proposed a division as following:

- *Descriptive research* has the overall purpose of investigating and describing people, products and situations.
- *Exploratory research* aims to gain a deep understanding and knowledge about a subject, formulate questions and clarify concepts.
- *Explanatory research* seeks to explain phenomena, discover causation and predict future appearance.
- *Problem-solving research* tries to solve an identified problem.

The main purpose with our research is to explore the economic phenomenon MIT from the perspective of international companies established in a MIT country. A pre-study resulted in few answers, mainly due to how recently the concept of MIT was introduced and the limited amount of research about the corporate perspective. In order to narrow down the subject into a feasible scope, it was decided to limit the study to Sweden-related companies established in Thailand. As our aim with the master thesis is to gain deeper understanding of MIT from a new angle, the alignment of this research is considered to be exploratory.

2.2 Methodological Approach

Research can be conducted with different approaches to theory development. What determines the approach is whether the study is *theory building* or *theory testing*. These two contrasting ways of designing research leads to three different approaches, described by Saunders, Lewis and Thornhill (2019):

- *Deductive Research* is often connected to studies within natural science, as the main idea of the research is to prove an idea, theory or hypothesis by testing. If all premises in the test are true, the theory is confirmed and the conclusion must be true. The theory is general, and the study seeks to prove the theory in a specific case. This type of research requires a certain level of previous knowledge and theories within the subject. Deductive research does in general include elements as structure, hypothesis testing, quantification and generalisability.

- *Inductive Research* aims to generate or build theory based on data collected in the study. A specific case is used in order to form a generalised theory. Research conducted with an inductive approach is characterised by qualitative data and a less structured process. The research does also include what alternative explanations there are in the result. As the study aims to explore a subject, less knowledge is required from the beginning. This approach is more common for studies in social science.
- *Abductive Research* is an iterative process combining the deductive and inductive approach. An abductive study is often initiated by an observation, that also generates the conclusion, and the research aims to explain this observation by testing premises. Data is conducted in order to explore phenomena, identify patterns and form testable conclusions. This approach is considered flexible and suitable for different fields of research.

An abductive approach to theory development was chosen for this study. The corporate perspective of MIT may be unexplored, but there is previous research done on the issue in general. Furthermore, established theories within internationalisation of corporations exist. It is the chosen perspective, in which these two areas are combined, that lacks research. In order to explore this angle, the scope has been limited to Sweden-related companies in Thailand. These conditions do align with an abductive approach. An existing theory background exists but there is a need of further observations to explore the phenomenon. What this object of study will result in can be seen as quite intuitive, which also align with the approach. Another argument for this approach is the flexibility and the iterative process, as our research can need minor adjustments or changes along the way.

2.3 Research Strategy

The research strategy determines which method, or methods, the study should follow. Methods often used in master thesis are survey, case study, experiment and action research (Höst, Regnell & Runeson, 2006). According to this study, the methods survey and case study are considered most relevant.

- The *survey* method is suitable when the purpose is to describe and explain a study object. A population, or a sample of a population, could be contributing to the description. This method can consist of both quantitative and qualitative data. The design of this research is fixed, which implies it cannot be changed when the survey has begun.
- *Case study* can be used when creating a more detailed description of a study object. The study object is often contemporary and can be difficult to distinct from the surroundings. There is no aim of finding applicable in general, the sample do not support any generalised assumptions. Case studies do have a flexible design, in which it can be adjusted during the time of the study. Common ways of collecting data within a case study are interviews, observations and archive analysis. Quantitative and qualitative data can be collected in this research strategy.

These two methods are both fitting the purpose of exploring and describing the MIT phenomenon. Both methods are applicable with both quantitative and qualitative data, which this study will combine. Despite this, one method is concluded to be more appropriate for this study. The method survey suits better the overall aim of the study: to make generalised conclusions based on the result from this specific case study. The study seeks to investigate effects on a population and identify

patterns that could be applied in a larger context. Therefore, focusing on only a few study objects *case study* does not align as well with the chosen purpose. By using the method survey, we can create a questionnaire in a fixed design and test it on a sample from the population. The result could then be representative in a broader sense as we could draw a general conclusion from it.

Although the most suitable method for this study is a survey, some elements in the research align more with a combination of the two methods. These elements are mainly within the data collection where the survey method does not give enough coverage. It is explained by the complicated nature of our subject; it is difficult to capture all the nuances by only using a survey. To properly investigate the subject and gain deeper understanding, the method requires interviews and observations. The population for the study will not be extensive, which makes it possible to combine the survey method with a case study approach. Therefore, the data collection in this study will be a combination of the survey and case study methods.

2.4 Methodological Choice

Data collected within research is often described as *quantitative* or *qualitative*. The two types of data represent the methodological choice; which data will be collected in the research. Quantitative data is information about quantities; values that can be counted or classified. Examples are amounts and frequency. With quantitative data, it is possible to do a statistical analysis. Qualitative data is instead words and descriptions. This data is not measurable in the same way and therefore, sorting and grouping are more proper ways of analysing the qualitative data. Combinations of quantitative and qualitative data are common in complicated research problems (Höst, Regnell & Runeson, 2006).

Our methodological choice is a combination between a quantitative and qualitative approach. Our research regards a complex and broad issue and a combination of approaches would have a more comprehensive coverage. In order to measure and compare effects of MIT on the population, quantitative measurables are in favour. Although, the coverage of this broad issue is difficult with only quantitative data. Another disadvantage is the lack of information on cause and effect, as well solutions. In order to fill this gap in data, a qualitative approach is needed to complete the research.

2.5 Research Design

The research design describes the working process of the study. According to the methodological choice of abductive research, the process needs iterative elements. On the contrary, the research strategy survey requires a fix design which implies a more linear design. Thus, a combination of a linear process with iterations is in order.

The process itself includes several phases with different characteristics. To organise the project and plan activities, a division into six different phases has been performed. These phases are in chronological order but with continuous iterations. The iterations are mainly feedback loops, arising when new information and observations could change earlier conditions.

1. (Pre-Research)
2. Define and Plan

3. Research
4. Data Collection
5. Evaluate and Analyse
6. Discussion and Conclusion

In the initiating phase, Pre-Research, the study object was observed and noticed. A short research was conducted in order to explore the topic and determine if it could be appropriate as a study object. External contacts were initiated with several Swedish Chambers of Commerce. As the result of the first phase was positive, the official process could start.

In the step of Define and Plan, the scope of the study was determined. In close collaboration with our supervisor at LTH, we came up with a design for the research questions, delimitations and purpose. The research methodology was also discussed and planned in general. A schedule for the process was established. According to the plan of gathering data abroad, extensive planning was in order. Further contact and preparations with the Thai-Swedish Chamber of Commerce took place.

The following phase, Research, involved searching for proper literature and sources for the study. It was conducted with a focus on reliability; implying a usage of credible material. The research did mainly consist of building up the theory chapter, but also setting the context of Thailand. Parallel to this work, the questionnaire was assembled. Another step in this phase, was the investigation of the population as well selection of a sample. The selection of a sample from the population was done in an ad hoc manner, depending on the contribution of contact information from the Thai-Swedish Chamber of Commerce.

Data Collection was done mainly through interviews on-site in Thailand. In order to prepare the interviews, one test interview was performed in advance. It gave us valuable feedback for the further process of data gathering. We conducted 18 interviews with companies during this phase, including the test interview. All these interviews followed the same interview guide and questionnaire including both semi-structured and structured elements. Quantitative and qualitative data was collected. We were both present at all interviews. One of us interviewed the company representative while the other one took notes. In case the interviewee agreed, we also recorded the interview session. Afterwards, the notes and recordings were carefully summarised. Almost every interview was conducted at the office of the representative and took between 30 to 60 minutes. One interview was done over the telephone.

During the end of this phase, we had a separate session with Business Sweden to get an overall perspective and discuss our observations. This session did not follow the ordinary interview guide and therefore the interview is not mentioned in the result.

When the data gathering was completed, the process continued with phase of Evaluation and Analysis. Massive data material was gone through and interpreted. Some minor shortages were discovered in the interview guide and therefore adjusted. One question was removed as it did not contribute with any relevant information and the response scale was aligned for all statements. Further, the analysis was done connecting the theoretical framework to the found results.

Following the analysis, the last phase of Discussion and Conclusion took place. We answered the research questions and evaluated the overall study. All discussions were summarised and main findings were presented. Upon this result, future research was considered and described in the chapter

of conclusion. The whole research process itself was also examined and questioned, in order to propose improvements and discuss source of errors in the methodology.

2.6 Credibility

It is of great importance to critically review in what way the research is done, regardless of which methods are used. One way of doing this is to look at the credibility in a study, which covers different aspects of the research. These aspects are in most cases categorised as reliability, validity and representativity (Höst, Regnell & Runeson, 2006). Several actions in our research process could be done in order to ensure credibility, all mentioned below.

2.6.1 Reliability

With *reliability* in a study, the same results would appear if the research was redone. Reliability proves that the result does not reflect or depend on random circumstances or appearances. There are numerous ways in order to avoid unreliability in a study. Firstly, by being accurate and transparent in the process, the reader can assess the quality of the method. Another action towards reliability is to work carefully when choosing the sample in the population (Höst, Regnell & Runeson, 2006). In order to test reliability, there are several ideas. One way of them is to repeat an element, exemplified by giving the same test later (Bell & Waters, 2016).

Ensuring reliability in our research has been essential during the whole process. Several pro-active arrangements have been done following the description of the concept. In the beginning of the study, it was prioritised to choose the literature and sources in a correct manner. We primarily used academic sources and acknowledged authors in order to form the theory. If the academic sources did not cover the wanted areas, we completed our research with sources of high trust. Appropriate documentation of the process has also been conducted. The presentation of the method could therefore be transparent and possible for the audience to review. A continuous audit on our method by our supervisor has also improved the reliability.

The selection of the sample within the research was done in collaboration with the Thai-Swedish Chamber of Commerce. The conditions made the selection less flexible but it was done in a careful manner and afterwards transparent documented.

2.6.2 Validity

Validity is measuring if the conclusions are supported by the conducted research. It is important to evaluate if the posed questions are measuring or describing what was required. Likewise, to control what data is founding the conclusions. Securing the validity in a study is considered complex. Triangulation, when studying the same object with another method, could be an alternative (Höst, Regnell & Runeson, 2006).

Working with validity is an ongoing process in the study. One main factor in ensuring validity is the contact with the supervisor, who could review the research from an external view. Feedback along the way improves the validity. One kind of triangulation is present in the study, as both quantitative and qualitative approaches have been used to complete each other.

2.6.3 Representativity

Representativity is describing how well the result represent the population. The sample is of high importance and shortages as falling offs can jeopardise the representativity. As some methods are not expected to result in any generalising conclusions, the representativity is not equally important. By describing and motivating the context for the study, the representativity can be improved (Höst, Regnell & Runeson, 2006).

The population has been represented by a sample, selected through an ad hoc approach. Contact information to companies was received from the Thai-Swedish Chamber of Commerce in Bangkok. Accordingly, the sample is the companies we could get in contact with through the chamber. Although the process of selecting companies within the population was determined by these conditions, the resulting sample could be considered having good representativity. A fair mix of companies with different characteristics participated in the research. There was a fair coverage in industries, establishment years and purpose of establishment.

3. Theory

In the third chapter, the theoretical framework which this study is based upon is described and motivated. It is divided into two separate parts. The first part of the theory presents the concept MIT, followed by the second part regarding internationalisation of companies. Chosen theories and frameworks are motivated and discussed in the chapter.

3.1 Overview Middle-Income Trap (MIT)

3.1.1 Introduction to the Phenomenon

The MIT phenomenon was first described by Garrett in 2004, who argued that MICs are not able to compete with neither the low-income countries' *low-wage economy* nor the *knowledge economy* in high-income countries. He presented the idea that the growth of MICs tends to stagnate due the inability to compete with the richer countries' advanced technology as well the poorer countries' lower costs. Garrett divided the countries into three groups based on their GDP and then compared their economic growth rate over time. He then found that the MICs had a lower growth rate compared both to the low-income and high-income countries (Garrett, 2004).

The term *Middle-Income Trap* was first defined by Gill and Kharas in 2006. The World Bank publication popularised the expression and gave rise to a vast amount of research (Gill & Kharas 2015). There are still debates regarding the existence of the phenomenon, and the term has yet no universally accepted definition (Pruchnik & Zowczak 2017).

3.1.2 Middle-Income Countries (MICs)

The World Bank (2019a) defines a MIC by a GNI per capita between 1,006 and 12,235 USD. The classification includes two categories; the *lower middle-income economies* with a GNI per capita between 1006 and 3,955 USD and *upper middle-income economies* with GNI per capita between 3,956 and 12,235 USD (World Bank, 2019a). There are 47 countries classified as lower middle-income and 60 countries classified as higher middle-income. 107 countries in total are considered to belong in the middle-income classification (Prydz & Divyanshi, 2019). MICs represent a large and diverse group, including all four BRIC countries, Brazil, Russia, India and China, but also significantly smaller economies such as Belize and the Marshall Islands (Chappelow, 2019). Together the MICs make up for three quarters of the world's total population (World Bank, 2019a).

During these last decades, there has been a significant economic growth in many parts of the world. As a result, many low-income countries have today reached a middle-income status (Prydz & Divyanshi, 2019). However, few MICs have during the same time managed to reach a high-income status. From the 101 countries classified as middle-income in the 1960's, only 13 of them succeeded to reach a high-income status by year 2008 (Larsson et al. 2016). Between the years 2008 to 2019, the number of low-income countries was reduced from 51 to 31 and the amount of high-income countries increased from 67 to 80. Meanwhile, the group of MICs grew from 99 to 107 in 2019. When China and India reached the middle-income level, there was a significant reduction of the population in the

low-income group (Prydz & Divyanshi, 2019). The population shift can be observed in the figure 3.1 below.

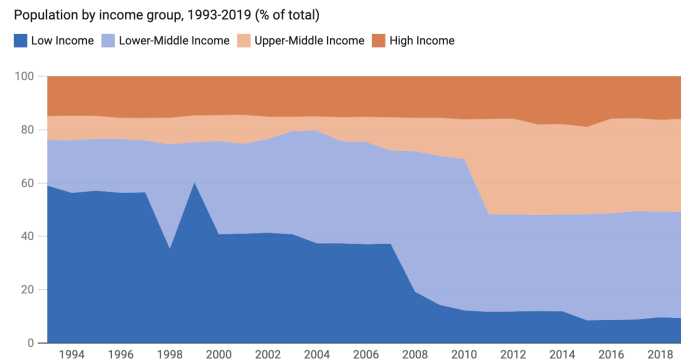


Figure 3.1: The diagram illustrates the population per income group as defined by the World Bank between the years 1993-2019 (Prydz & Divyanshi, 2019)

3.1.3 Literature on the Middle-Income Trap

There has been a large amount of research made on the subject of the MIT. In this paragraph, the main ideas in a few popular studies supporting or opposing the existence of the MIT will be summarised.

3.1.4 Against Middle-Income Trap

In a study from 2014, Pritchett and Summers argued that there is significantly more evidence that rapid economic growth is followed by deceleration due to the regression to the mean. It is a statistical phenomenon where an extreme variable, in this case the above-average growth rate, will tend to go towards to the population mean (the average growth rate). They further argue that the main indicator for economic deceleration is rapid growth and not the income level. Since the countries that have entered the middle-income category recently experienced a rapid growth, the authors believe that the economic deceleration is a result of the regression to the mean, rather than evidence for existence of the MIT (Pritchett & Summers, 2014).

Im and Rosenblatt (2013) provided a different argument against the MIT. They discussed the issues with the lack of a universal definition of the term and questioned whether the thresholds for the MICs are absolute or relative. By studying historical data on the transition between the classifications of level of income, the authors find that the probability to move from an upper-middle income to high-income is the same as moving from lower-middle income to upper-middle income. Therefore, they conclude there is a lack of evidence supporting the existence of MIT. However, they agree that term MIT is useful for creating policies, as it identifies specific challenges experienced by MICs (Im & Rosenblatt, 2013).

3.1.5 Supporting Middle-Income Trap

Aiyar et al. (2013) studied economic growth slowdowns without regards to income level classification. They found that the economic growth slowdowns were more prevalent in MICs compared to both poorer and richer countries. They used 15 different definitions for MICs in their work and found that growth slowdowns were consistently more prevalent in middle-income

economies despite the definition. Their result proved the existence of a link between income level and economic growth slowdowns.

Eichengreen, Park and Shin (2013) aimed to identify at which income levels growth slowdowns were most prevalent. Using historical data, they found evidence that growth slowdowns occur at a higher frequency around two different modes; around a per capita GDP of 10 000-11 000 USD and around 15 000-16 000 USD. Additionally, they tried to understand under which circumstances countries experienced economic growth slowdowns, identifying five factors and studying their link to growth slowdowns.

3.1.6 Summary and Choice of Framework

In the paragraph above, popular research for and against the existence of the MIT was presented. The conclusions drawn from each research varied. Even though the existence of the MIT is debated, according to Im and Rosenblatt it is useful for policies, as it identifies specific challenges experienced by MICs (Im & Rosenblatt, 2013). Three quarters of the world's population is currently living in middle-income economies (World bank 2019a), therefore there is an increasing interest to understand the growth slowdowns that occur at middle-income levels. Even though lacking a universal definition, MIT is a term aimed to describe the higher prevalence of growth slowdowns in MICs. Eichengreen, Park and Shin (2013) did not only find that economic slowdowns are more prevalent at middle-income levels, they also identified potential underlying factors behind these slowdowns. These factors will be implemented as a part of our framework to evaluate the businesses exposure to MIT.

3.1.7 Five Determinants of a Growth Slowdown

The authors define an economic slowdown and present three conditions that need to be satisfied to identify slowdowns in economic growth episodes. Firstly, an economy must have a defined period of growth of at least 3.5%. Secondly, the growth must decelerate at least 2% between two defined periods of growth and lastly, the GDP per capita has to be 10 000 USD or more (Eichengreen, Park & Shin, 2013). The time period in their study was set to seven years.

Using historical data between the years 1957 and 2010, they found evidence that growth slowdowns occur at higher frequency around two different modes; around a per capita GDP of 10 000-11 000 USD and around 15 000-16 000 USD. This implies that growth deceleration might occur in steps rather than during one single incident.

Eichengreen, Park and Shin (2013) acknowledge that the existence of purely mechanical relationship between level of income and a growth slowdown is unlikely, and therefore identified five determinants that are correlated to the economic slowdowns.

Human Capital

Human capital is a factor describing the workforce. The empirical data this factor takes into consideration is the education level. Eichengreen, Park and Shin (2013) found evidence for a correlation between higher university education level and a lower probability of economic growth slowdowns. When conducting the study, the level of education was divided into two separate variables, one capturing the total amount of schooling years and the second one the total amount of

years of secondary or higher education. They found that higher amounts of secondary or higher education were strongly negatively correlated with an economic slowdown.

Political Regime Changes

The factor Political Regime Changes takes into consideration the changes in the political environment on a national level. In the study by Eichengreen, Park and Shin (2013), the political change was separated into positive and negative. The positive being a change where the country became more democratic and the negative being when a country became less democratic. The researchers found in general no correlation between political change and economic growth slowdowns. However, if they separated the negative change and positive change, they found that positive political change was associated with higher likelihood of an economic slowdown.

External Factors

This factor captures the correlation between external factors and economic slowdowns. In this study, trade openness is distinguished from terms-of-trade shocks and global GDP growth. The researchers, Eichengreen, Park and Shin, believing that there might be a stronger correlation between external shocks and the probability of an economic slowdown in a more open economy, analysed the variables terms-of-trade shocks and global GDP in levels, intertwined with trade openness.

Technology Content of Export

This factor takes into consideration the percentage of high-tech export versus the total export. The researchers found that higher percentage of high-tech goods in the total export was linked to a lower probability for an economic slowdown.

Financial Instability

Financial Instability looks into the effect of financial crises. Various kinds of financial crisis were included in their study such as currency crises, banking crises, debt crises and inflation crises. Eichengreen, Park and Shin found that many of these crises accompanied only a limited amount of growth slowdowns. However, financial crises such as stock market crises relatively often occur before or after a growth slowdown. Their research suggests that there is a correlation between a financial crisis and a growth slowdown, which Eichengreen, Park and Shin propose is due to the crisis resulting in lower investment in the country.

3.2 Internationalisation Strategy

A general definition of the concept *internationalisation* is defined by Cambridge Dictionary (2020, n. p.) as “the action of becoming or making something become international”. Grant (2019, p.270) defines internationalisation in the context of strategy analysis as “the extension of business of across national borders”. A similar interpretation of the concept is described by Hollensen (2017), as something that happens when companies expand their activities into markets abroad. The view on internationalisation may be aligned today, however the range of theories and models within the area is broad (Hollensen, 2017).

The global market of today has made the internationalisation of companies a common move. Even to the extent that there are some companies considered *born global*. The majority of companies still do

not become international immediately and need to act to reach the global scene (Hollensen, 2017). However, it is not a new theme; The Economist reported in year 1909 about the internationalisation of shipping after a conference on this matter (The Economist, 1909). Later on, the concept was developed into theories; Vernon introduced the *product cycle hypothesis* 1966, where he discussed different modes of internationalisation (Hollensen, 2017). In 1975, the *Uppsala internationalisation model* was introduced by researchers at Uppsala University. They found, after analysing the internationalisation of Swedish manufacturing companies, a sequential pattern for entering the international market (Johanson & Vahlne, 1978). The theories and models have then evolved among the years with new focuses and findings. Today's interest in internationalisation comes from the importance of networks rather than focus on export and foreign direct investment (FDI) as it was before (Hollensen, 2017).

3.2.1 Yip's Globalization Framework

Depending on the company's nature and home market, there is a variation in motives for the business to become international. A framework named *Yip's globalization framework* is fitting to understand these different drivers. The framework consists of four categories called drivers; market, government, competitive and cost (Johnson et al. 2017).

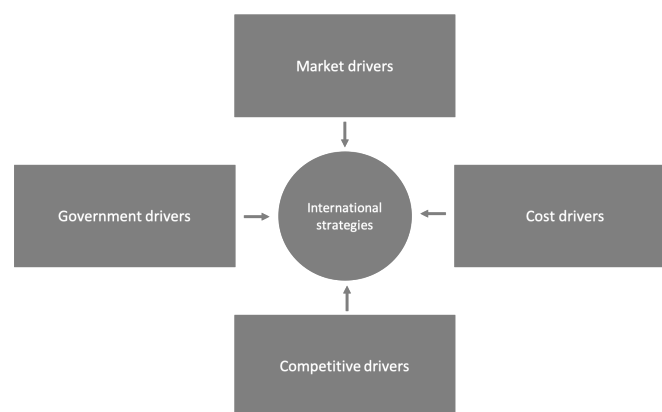


Figure 3.3: *Internationalisation drivers within Yip's globalization framework, adapted from Johnson et al. (2017, p.280)*

Market drivers

These drivers describe how benefits of standardised markets work as a reason to go international. There are three different drivers within this category: *similar customer needs and tastes*, *global customers* and *transferable marketing* (Johnson et al. 2017).

- *Similar customer needs and tastes* leads to a potential entry to an international market without major adjustments for the chosen market.
- The second component of the market driver is the possibility to serve *global customers*. The group of global customers consists of international companies which today have standardised their needs regardless of which countries and end customers they are targeting. These companies expect the same levels of service and quality regardless in which country they buy their products.
- *Transferable marketing* refers to the possibility to reuse the same or similar marketing in other markets.

Cost drivers

When the aim is to receive cost advantages, the cost factor is the reason for going international. Three different drivers are found within cost (Johnson et al. 2017).

- The first driver within lowering costs, is the benefit of *scale economies*. A company can scale up their activities to reach volumes bigger than at the home market. In some areas this is crucial, e.g. when the fixed costs are high and advantageously can be split on a higher volume.
- *Favourable logistics* is the driver which finds potential in new locations as a way to optimise logistics. The results could be higher cost efficiency and cuts.
- Another cost driver of internationalisation is utilisation of other *countries' expertise and advantage areas*. One way to understand these areas is by using Porter's Diamond, further described below.

Government drivers

Governmental reasons to go international can also be divided into three separate drivers (Johnson et al. 2017).

- The first one is a result of many years of less strict regulations for investments and trade globally, like reduced trade barriers. This driver can be summarised as *reduction of barriers to trade and investment*.
- Another driver is *the liberalisation and adoption of free markets*, found today in a lot of countries which has accelerated the internationalisation possibilities.
- *Technology standardisation*, the last driver, refers to how initiatives for standardisation from the government improves the chances outside the home market.

Competitive drivers

Drivers within competitiveness is the last category of drivers within the given framework, described by Johnson et al. (2017) as below:

- *Interdependence between countries* is described as the need for coordination within the global business environment. Today, a company's value chain can be spread out all over the world. International presence can therefore be important in order to have control over these international parts in the value chain.
- Another driver within competition relates to how other companies can use the *advantages of doing business in different markets*, e.g. when one market is going bad it is possible to rely on another one.

3.2.2 Porter's Diamond

One of the cost drivers by Yip describes the potential advantages with an international establishment due to a country's expertise or advantage areas (Johnson et al. 2017). In order to understand these areas, Porter's Diamond can be utilised. The framework divides the competitive benefits generated by national/locational advantages into four different areas (Porter, 1990).

- *Factor conditions* consider the benefits of available resources (natural, human and economic). It implies that production or services are more suitable in the country depending on the given resources. E.g. good supply of cheap energy promotes an industry which benefits from that condition.

- A vital advantage in an area could be established networks and clusters. It implies possibilities for the company to engage in crucial partnerships and alliances. This factor is summarised under the name *Related and supporting industries*.
- Demanding customers in the home market can force a company to adapt, improve and innovate. This is called *Home demand conditions* and can be a competitive advantage in order to grow a sustainable and qualified business.
- The area of *Firm strategy, industry structure and rivalry* describes how national context and domestic rivalry can influence a company's organisation and strategy. Tougher competitive conditions force the foreign company to improve, innovate and adapt in order to maintain their business.

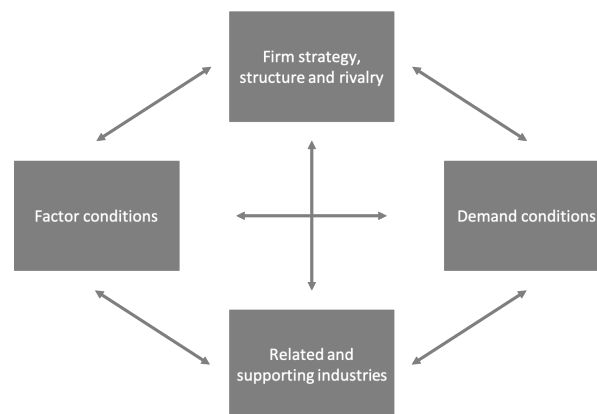


Figure 3.4: Porter's Diamond, adapted from Porter (1990, p.77)

3.2.3 Market Entry Strategies

When a company has chosen to enter a foreign market, it must decide which market entry strategy to implement. There is no correct answer, instead many companies customise their strategy by adjusting an already established strategy (Hollensen, 2017). This decision is considered to be one of the most crucial in the internationalisation of a company (Wrona & Trąpczyński, 2012).

One way of categorising market entry strategies, based on the research model from Wrona and Trąpczyński (2012), is to divide the strategy into three different modes. Hollensen (2017) explains the model as how the modes are going from externalising to internalising. The model divides the modes upon ownership. Maximum internationalisation is therefore defined by 100% ownership of a subsidiary, found within the category of hierarchical modes. The method does not consider the situation with majority-owned companies which in practice implies almost full control.

The first category with maximised externalising is the *export modes* (Hollensen, 2017). Export is the most common initial entry strategy and implies low risk and high flexibility but also low control. Within export, different modes can be identified; indirect export, direct export and cooperative export.

- Indirect export means the company does not export themselves. Instead an external party, e.g. trading firm, is responsible for export.
- Direct export implies the company is having contact directly with a foreign firm which is responsible for their business in the given market.

- Cooperative export occurs when several firms together contact a foreign firm which takes the responsibility to export to the given market.

Next category according to Hollensen (2017) is *intermediate modes* which are characterised by split ownership and therefore, shared control and risk. The main modes in this category are contract manufacturing, licensing, franchising and joint venture/strategic alliances.

- The entry mode of contract manufacturing implies that the company has foreign production managed by an external party.
- Licensing is similar to contract manufacturing, but often implies a longer time perspective and more activities from the value chain involved in the agreement.
- Franchising is a concept of selling a business service.
- The last mode is joint venture and strategic alliances. This strategy describes the possibility of engaging in a partnership with other companies in order to enter a foreign market.

The third category, *hierarchical modes*, is defined by high control of the entire value chain. The strategy implies high risk and low flexibility. Within this category, multiple modes are possible; sales and production subsidiaries as well sales and service representatives. A company can even put the whole value chain in a foreign country as a region centre. Different solutions are possible as long as the subsidiaries are fully owned (Hollensen, 2017).

3.2.4 The Choice of Theory and Frameworks

In order to fulfil the aim of this thesis and answer the research questions, corporate strategies need to be identified and appropriate theory to build the research upon is required.

Internationalisation theory is considered most relevant to focus on, according to the choice of population of international establishments. Several theories and frameworks within the area of internationalisation have been identified and presented concisely in this chapter. Out of these, two strategic decisions have been identified as crucial and therefore will be investigated further: the main purpose of the establishment and the market entry strategy. One additional framework has been added, Porter's Diamond, in order to clarify one of the main purposes (cost drive).

The main purpose for establishment in a foreign country is seen as a vital decision for a company. By looking at this main purpose, we can gain understanding of what expectations and dependencies the company has in the country. By using the model *Yip's globalization framework*, we will be able to divide the population based on the main purpose of their establishment. Yip has created a framework where each main purpose can be categorised as a *driver* (Johnson et al. 2017). His model is relevant and covers internationalisation motives in a well-structured and pedagogic way. Therefore, this study will mainly use the framework by Yip in order to describe and analyse the population.

It is of great importance to choose a proper market entry strategy when internationalising a business. Wrona and Trąpczyński (2012) are proposing to categorise the different strategies into modes. Their system of modes is a way to describe the population and deeper understand international establishments. This perspective of internationalisation will be completing Yip's framework.

All these models are recognised as fundamental within internationalisation research and therefore are well motivated to use in this study.

3.3 Summary Theoretical Framework

Today, three quarters of the world's population live in a MIC; this diverse group consists of 107 countries. MIT is a term describing the stagnation that often occurs in rapidly growing countries after reaching middle-income level. The original idea was that MICs are “trapped” due to their inability to compete with neither the rich countries’ knowledge-economy, nor the poor countries’ low-costs. There is an ongoing debate whether MIT exists or not. Entering a middle-income level comes with a new set of specific challenges and according to Im and Rosenblatt (2013), regardless of the existence of “trap”, the term MIT is useful as it identifies these specific challenges. Eichengreen, Park and Shin (2013) found evidence that economic growth slowdowns occur at a higher frequency at middle-income levels. These researchers did not believe in a strictly mechanical relationship between income level and growth stagnation. Therefore, they identified five factors; *Human capital*, *External factors*, *Financial Instability*, *Political Regime Change* and *Technology content of export*, linked to economic slowdowns. These factors will be used in our framework to evaluate the companies’ exposure to the MIT. The second part of the theoretical framework consists of internationalisation theories, where the main focus is on Yip’s globalization framework. In order to describe and categorise the given population, Yip’s framework will be utilised. Yip introduced four different categories with drivers for internationalising; *Market*, *Cost*, *Government* and *Competition*. Identifying the main driver for internationalisation, allows one to more granularly study the effects the five factors have on the companies.

4. Setting the Context: Thailand

The fourth chapter aims to describe areas of interest in order to understand the context. In this master thesis, the country of Thailand is considered relevant context according to the purpose and the limitations of the study. The chapter provides useful information that gives an overview of the country as well more detailed information in relevant areas.



Figure 4.1: *Flag of Thailand (Country flags, 2020)*

4.1 Thailand Introduction

Country	Thailand, the Kingdom of Thailand (former Siam)
Population	69 428 524 (2018) (World Bank, 2019b)
Official language	Thai
Capital	Bangkok
Area	513 115 km ²
Religion	Buddhism (95%), Islam (4%), other (1%)
Currency	Baht (THB)

Table 4.1: *Country information (Embassy of Sweden, 2019)*

4.2 History

The first independent kingdom of Thailand, Sukhothai, was founded approximately year 1240. Another kingdom named Chiang Mai followed in year 1296 (Nationalencyklopedin, 2019a). These kingdoms combined the earlier faith in spirits with Buddhism, and together created a political ideology. The origins of the Thai alphabet and first sentences in Thai are dated back to these first kingdoms. The religion, royal power and state have since this period of time been closely connected in Thailand.

In the middle of 14th century, the former kingdoms were replaced by Ayutthaya (1351-1767), also called Siam. The kingdom Ayutthaya gained control over a significant area in today's Thailand. The capital of the kingdom was an important trading city in the 15th century and described as one of the wealthiest and biggest cities in the East. After repeated attacks by the Burmese and internal struggles, the kingdom fell. A new kingdom, *Bangkok*, was established and is still present today. Similar to Ayutthaya, the kingdom Bangkok expanded their area and played an important role in international trade. Siam remained as the name of country for several centuries but was changed to Thailand in year 1939 (Nationalencyklopedin, 2019a).

By the end of 19th century, the region of Southeast Asia was dominated by colonising countries. The kingdom was under pressure but remained independent through trading agreements and sacrifices of land. Thailand is today seen as the only country in the region which was not colonised. The pressure by colonists continued in the beginning of the 20th century which forced Siam to transform into a modern society and nation. This development strengthened the kingdom, but a coup d'état in 1932 changed the long tradition of monarchy (Nationalencyklopedin, 2019a).

4.3 Politics and Government

4.3.1 Politics 1932 -

The country has been through multiple internal conflicts over the state of affairs. In 1932, after several decades with monarchy, a coup d'état changed the political regime. Thailand became a constitutional monarchy as a result of the event and transformed from a monarchy with absolute power in the royal

court. Despite this, the king still has an informal but significant influence on the politics. The reigning King of Thailand today is Maha Vajiralongkorn Bodindradebayavarangkun, who inherited the throne after his father in 2016 (Embassy of Sweden, 2019).

Following the regime change to a constitutional monarchy, elections have frequently been annulled and coup d'états replaced one another. Some of the recurring movements were more of a democratic nature but has been followed by further coup d'états and military actions. During the elections in year 2001 and 2005, a party named Thai Rak Thai won with a billionaire in the lead. The military answered in 2006 with a coup d'état and announced a military general as the new prime minister. The election in the following year was dominated and won by the same billionaire from Thai Rak Thai, though reshaped as PPP with a new prime minister candidate. The new candidate became prime minister but had to leave his position. His successor was also forced to leave. In the same event, their party became dissolved (Embassy of Sweden, 2019).

The following years, 2008 to 2011, the country was governed by a coalition formed by the earlier opposition, the Democratic party. Despite this regime shift, the years were dominated by conflicts, occupations and violent demonstrations. Thailand was divided into two sides; one supporting the billionaire and the other one the royal court. After the events turned more dramatic and violent, the military was called in to clear up the situation. In the following election 2011 the winner was again the former prime minister from the billionaire party. This time, his sister took over the role as prime minister. A couple of years later, new conflicts made her dissolve the existing parliament and announce a new election (Embassy of Sweden, 2019).

The election in February 2014 was also dominated by conflicts and struggles. Due to the situation, the military junta declared a state of emergency throughout the country. The junta governed the country a few days after the declaration and has been in charge of the country's affairs until 2019 (Embassy of Sweden, 2019).

After almost 5 years with the military junta in charge, a parliamentary election took place in March 2019. It resulted in a coalition between the new party Phalang Pracharat, the Democratic Party, Bhumjaithai and other small parties. Phaland Pracharat is seen as friendly towards the junta. The Prime Minister since then is a former general officer in the Royal Thai Army; General Prayuth Chan-O-Cha (Embassy of Sweden, 2019).

4.3.2 Government

The parliament in Thailand consists of a Senate and a House of Representatives. A new constitution was adopted in 2017 which states that the 250 members of the Senate will consist of representatives from different sectors in the society and representatives appointed by the military. The House of the Representatives is elected every four years by public elections (Nationalencyklopedin, 2019).

4.3.3 Human Rights

Temporary constitutions and emergency laws have been used regularly by the military junta to hurry or circumvent legal processes. In 2010, the country suffered from political struggles and mass demonstrations. Numerous constitutions were adopted to handle these events. Over 90 people was

killed due to violent actions by police and military in order to stop the demonstrations. No one was held responsible for these actions (Nationalencyklopedin, 2019).

In the yearly World Press Freedom Index, by Reporters Without Borders, Thailand was ranked number 136 out of 180 countries (Reporters without borders, 2019). Thailand's low ranking is explained by the limited freedom of press and speech. A national council appointed by the junta in 2014 is currently spying and censoring journalists and bloggers in Thailand. During the election in 2019, the television channel owned by the opposition was shut down. Criticism against the military junta could lead to violent consequences which are supported in their legislation (Reporters without borders, 2019). Criticism against the monarchy is also restricted by the law (Nationalencyklopedin, 2019).

Even though Thailand has been pressured internationally, they have still not criminalised torture, forced disappearance and arbitrary detention. Human right activists have disappeared or been murdered and no legal processes were initiated in those cases (Nationalencyklopedin, 2019).

4.3.4 Corruption

Corruption in Thailand is a widespread problem in the society, present both in the state and justice system (Nationalencyklopedin, 2019a). The Corruption Perception Index by Transparency International (2018) ranks Thailand as 99 out of 180 countries. According to their research (Transparency International, 2019), a majority of the asked people consider the police to be the most corrupt institution in Thailand. 78% answered that "most or all police officers were corrupt" (Transparency International, 2019, p.10). The same survey showed that 72% thought the government is doing a god job fighting the corruption. An anti-corruption court, mediator and an administrative court are among the recent governmental initiatives to fight corruption (Swedish Ministry of Foreign affairs, 2018).

4.4 Economy

Economic growth	4.1%
GDP	504 993 billion dollars (World Bank 2019c)
Inflation	1.1%
Unemployment rate	1.1%

Table 4.2: *Economic overview 2018 (Embassy of Sweden, 2019)*

Thailand is the second largest economy in the region after Indonesia (Business Sweden, 2019) and the economic growth during year 2018 was 4.1%. Forecasted growth by the World bank for the following three-year period is estimated below 4% (World Bank, 2019d). The economic growth has since the coup d'etat by the military in 2014 been stimulated with actions; one of the initiatives are Thailand 4.0. Despite these actions, Thailand is still below the average growth rate in the ASEAN region (Embassy of Sweden, 2019).

Thailand made a quick transition from a low-income to a middle-income economy. During the recent years the country has experienced a growth slowdown. Between the years 1960 to 1996, the economy grew on average 7.5%. After the financial crisis, between the years 1999 to 2005, the economy grew on average 5% (Worldbank, 2019j). Slowing down further to an average of 3.5% in 2005 to 2013 and reached the lowest at an average of 2.5% between 2014 and 2016. During 2017 and 2018 the growth increased on average 4.1% (Worldbank, 2019k). Today, Thailand's GDP is categorised as a upper middle-income according to the World Bank (Worldbank, 2019j).

4.3.1 Household Economy

In these past years, there has been an increase in household debt in Thailand and the issue has been followed closely. The subject gained more attention recently due to a noticed acceleration of debt in 2017. The level of debt is approximately 78% of the GDP, significantly higher than the average for emerging markets, which is 40% (Bank of Thailand, 2019a). A recent study by Bank of Thailand (2019a, p.24) found that "Thai people are indebted from an earlier age, remaining so for longer, and in a larger amount than before".

4.3.2 Currency

Thai baht has been regaining value since the devaluation during the Asian financial crisis. Today's weighted-average Interbank exchange rate is 30,110 baht per US dollar (Bank of Thailand, 2020). Similar levels have not been noticed since May 2013. Although the baht is getting stronger, it is still significantly lower than the pegged exchange rate before the crisis in 1997 (Trading Economics, 2020). The increase of Thailand's currency is not typical for emerging markets; only Russia's currency has advanced more this year. The strong baht can be explained by the expected growth in GDP, low inflation rate and their position in bullion trading (Teso, 2019). The Bank of Thailand is taking action to keep the baht on a sustainable level, lately by relaxing the rules to facilitate capital outflows (Bank of Thailand, 2019b).

4.3.3 Financial Events

The Asian financial crisis began in Thailand in July 1997, and soon spread all over East Asia and Southeast Asia (Chappelow, 2019). Thailand experienced the first occurrence of unemployment in the country's history (Nationalencyklopedin, 2019a). In order to tackle the crisis, Thailand, South Korea and Indonesia received supporting loans from the International Monetary Fund (IMF). The conditions of the loans led to higher taxes and interest rates. Thailand also made major budget cuts to improve the economic situation (International Monetary Fund, 1998).

Several factors triggered the crisis. During that time, the region had some of the most successful emerging markets with rapid growth and improving living standards. This gained a lot of international interest, which was followed by foreign investments (International Monetary Fund, 1998). This led to major increases in economic inflows; Thailand's export inflows increased with 18.5% each year between 1986 and 1995 (Nationalencyklopedin, 2019a). What remained unnoticed was the economic weaknesses of these emerging markets: Thailand had problems keeping up with the development of the economy as well underestimating the importance of a well-structured financial system. In addition to this, the exchange rate was pegged to the US dollar which favoured the extensive export

(International Monetary Fund, 1998). These conditions contributed to a massive “moral hazard” and an overheated market, with unrealistic property and stock market values. Also, the debts in the private sector were at an unsustainable level (Chappelow, 2019).

An agreement in 1995 led to a connection between the US, German and Japanese currency. The connection of currencies resulted in improved competitiveness for German and Japanese export. As a consequence, the successful export from East Asia was threatened. It also became harder to maintain the currency pegs as well as taking loans in US dollar. Thailand acted by unpegging their exchange rate to the US dollar. Their action had major consequences for their currency baht, which fell dramatically. One country after another in the region followed and devalued their currencies. The currency values fell, international loans got much heavier and the crisis was a fact (Chappelow, 2019).

In Thailand, the crisis is more known as the Tum Yum Kung crisis (Deboonme, 2014). It is seen as the worst economic crisis in Thailand’s history and the Thai population was affected in several ways. Thai currency Baht dropped dramatically against the dollar and the international loans as a result doubled in value. Almost every company had to make cuts and a lot of people lost their homes due to unemployment, salary reductions and inability to pay mortgages.

4.3.4 Business Climate

The rapid increase of economic growth during the last 40 years has resulted in a transformation from an agrarian society to an industrialised MIC (Business Sweden, 2019). Thailand’s main activities today are services (55.8%), manufacturing (35.8%), agriculture (8.3%). Export has a large impact on the economy as it stands for 75% of the GDP (Embassy of Sweden, 2019). Key industries in the country are manufacturing of automotive, electronics, electrical appliances and processing food. Thailand is considered to be a regional hub within these industries. They are the leading producer of automotive in the region as well significant worldwide. Among the electronics and electrical appliances, they hold the second place in the world within export and production of hard disc drivers (HDD) and within production of air conditioning. Other important production areas are integrated circuits (IC), semiconductors, computers and refrigerators. The tradition of agriculture and the natural biodiversity have earlier led to a recognised position in the export of rice. Today, these conditions have resulted in advantages within the food processing industry (Netherlands Embassy in Bangkok, 2017).

The value of Thailand’s total export of high-technology was 44 795 billion USD in 2018 according to the World Bank (2019e). The value of high-technology products within the export has been increasing during the last couple of years, which can be seen in figure 4.2 below. As a comparison, the export of high-technology products from Malaysia, Vietnam and Indonesia were worth 90 396 (year 2018), 74 136 (year 2017) respectively 639 billion (year 2018) USD (World Bank, 2019e).

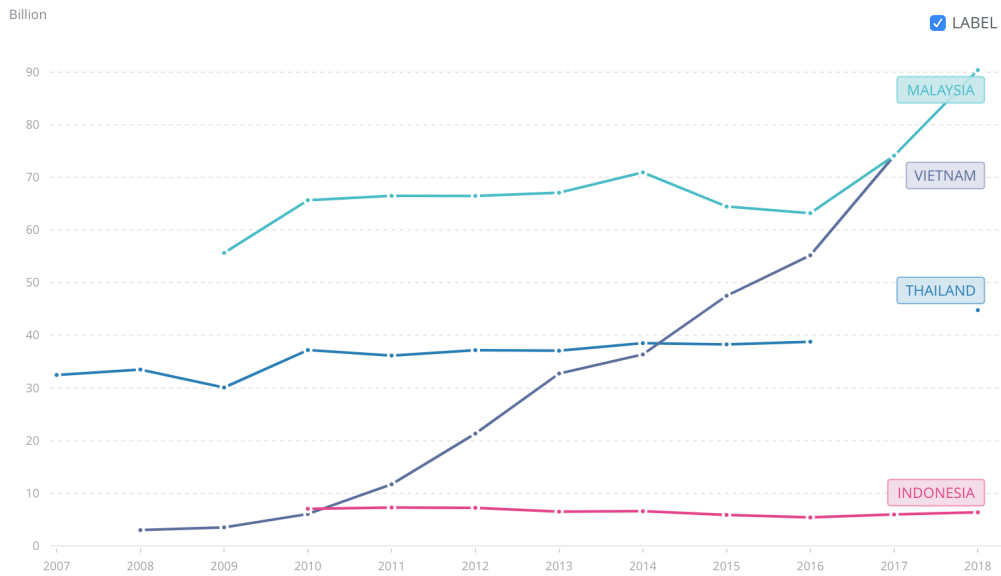


Figure 4.2: *The value of high-technology export in Indonesia, Thailand, Vietnam and Malaysia during the years 2007-2018 (World Bank, 2019e)*

Despite an increase in the total value of high-technology export, the amount is decreasing in relation to the total export from Thailand. Today's level marks 23.34%, compared with 27.81% of total export in 2007. The levels of high-technology exports out of total exports between the years 2007 and 2018 for Indonesia, Thailand, Vietnam and Malaysia are illustrated in figure 4.3. A declining percentage can be seen in Indonesia similar to Thailand. Meanwhile, Malaysia and Vietnam have increased their share of high-tech products (World Bank, 2019f).

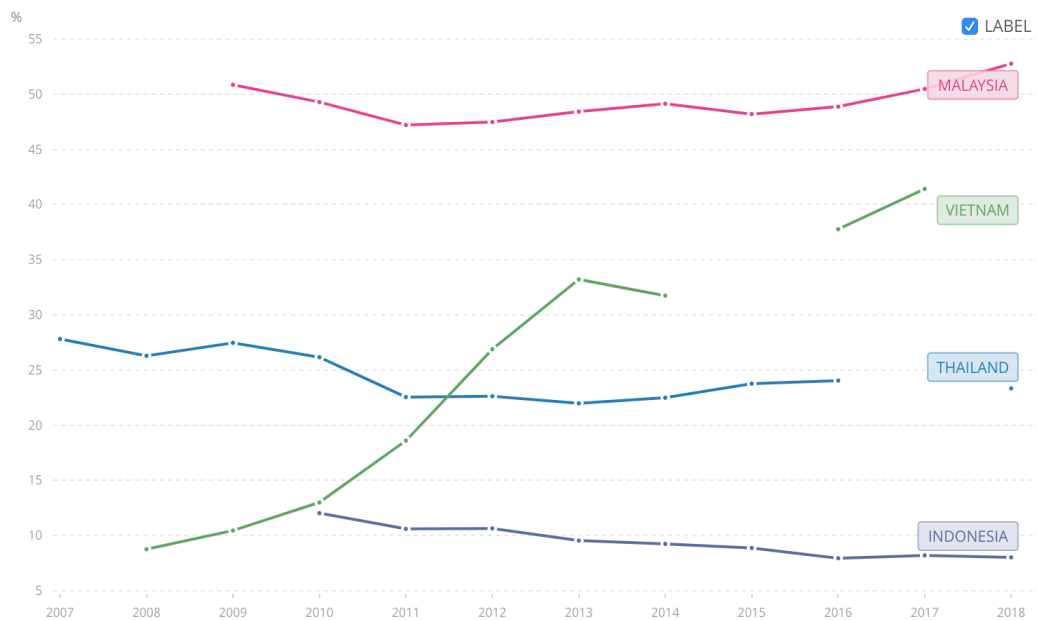


Figure 4.3: *High-technology exports out of total exports from manufacturing in Indonesia, Thailand, Vietnam and Malaysia during the years 2007-2018 (World Bank, 2019f)*

The World Bank (2019g) ranked Thailand as 21 out of 190 in the *Ease of Doing Business Index* of 2020. Thailand has improved since 2014, when the country dropped to ranking 47 after several years of being in the top 20. They maintained their lower ranking for three years but began to receive higher rankings again in 2017 (World Bank, 2019g). Another annual ranking measuring business conditions in Thailand is the *Global Competitiveness Report* (Schwab, 2019), in which competitiveness is measured. Responsible for the ranking, the World Economic Forum, appointed Thailand position 40 out of 140 nations in the 2019th edition.

The forecast of next year's salary levels marks a 5% increase on average. The highest increase is anticipated in the automotive sector; 5.5%. The voluntary turnover rate in companies was 12.8% in 2018, a minor increase from the year before (Mercer, 2019). According to Robert Walters Salary Survey 2019, the main reasons to change jobs are career advancement, pay rise, better benefits and improved work-life balance. The survey also estimates 15-20% salary raise when changing back office positions and 20-30% raise when changing front office positions. They also found that 35% of the professionals expected their salary to increase more than 10% during 2019 (Robert Walters, 2019). Furthermore, a survey by Mercer showed a decrease in traditional jobs and an increase in new ones. It is discussed how these new jobs demand another kind of skills. Holistic capabilities including behavioural and cognitive skills are on demand, as well as knowledge connected to the digital transformation (Mercer, 2019).

4.3.5 Thailand 4.0

The policy *Thailand 4.0* was initiated to face the economic challenges in the transformation towards a high-income country. One of the main economic challenges for Thailand is avoiding the MIT (Netherlands Embassy in Bangkok, 2017). Today's goal is to achieve an innovation-driven economy according to Bonggot Anuroj, Deputy Secretary General in Thailand Board of Investments (2018). The general idea of the policy is to target and support innovation, creativity and technology. These kind of policies have replaced each other during the years. Thailand 1.0 was the first policy and had a main focus on agriculture. The second policy, Thailand 2.0 focused on light industries and the following Thailand 3.0 was centered around heavy industries (Anuroj, 2018).

According to Thailand 4.0, the main solution to enable the transformation into a high-income country is by attracting foreign direct investments. It will be done through adapted frameworks, in which foreign investments benefit from incentives, facilitations and policies. Another pinpointed solution is the development projects Eastern Economic Corridor (EEC) and Special Economic Development Zones (SEZs) (Anuroj, 2018). With these projects, Thailand aims to create industrial zones for companies to place their investments. The main advantage of EEC, located in three provinces in eastern Thailand, is the high standard of provided facilities and infrastructure (Netherlands Embassy in Bangkok, 2017).

Some industries have been listed as targeted in the policy. These are divided into two groups; the first group consists of existing industries in Thailand that would benefit from becoming more technologically advanced. These industries are agriculture and biotechnology, smart electronics, affluent medical and wellness tourism, next-generation automotive and food for the future. The other targeted group, named the S-Curve, consists of new sectors they want to address. These are biofuels

and biochemical, digital economy, medical hub, automation and robotics, aviation and logistics (Anuroj, 2018).

4.4 Demographics

Today's population of Thailand is over 69 million people. The population increases every year and has doubled since 1968, but the growth has begun to stabilise during the recent years. Almost 50% of Thailand's population still lives in rural areas and makes the country one of the least urbanised in the region. Bangkok Metropolitan Area is dominating the urban areas with close to 14 million inhabitants. Other cities are significant smaller in population (Nationalencyklopedin, 2019a).

4.4.1 Education

In 2003, Thailand introduced a compulsory and complimentary nine-year education. After the compulsory elementary school, a higher secondary school of three years follows (Nationalencyklopedin, 2019a). The enrolment into secondary school increased from 31% in 1990 to 78% in 2011 (World Bank, 2019h). 68% of the girls and 77% of the boys were in 2009 enrolled in the higher secondary school. Compulsory education was initiated already in 1921, but Thailand was not able to fulfil this requirement until late 20th century (Nationalencyklopedin, 2019a). Estimated literacy rate in 2015 was almost 93% (World Bank, 2019i) of the adult population.

Within higher education, Thailand has approximately 150 universities, colleges and research institutes. 40% of younger men and 49% of younger women in Thailand were enrolled at this level of education in 2009. The most well-known university in Thailand is Chulalongkorn University in Bangkok (Nationalencyklopedin, 2019a).

The quality level of the education in Thailand has been questioned and received critics regarding the school curricula and quality. Another problem is the differences in education standards, mainly between urban and more rural, poor areas. Despite these issues, teachers' status has been unaffected and remains high. In order to cope with the shortcomings within the education, the government aimed a sincere part of the budget on the development of the education system and new reforms. Although, it is a slow process and the improvements need to be awaited (Nationalencyklopedin, 2019a).

The English proficiency in Thailand is ranked low. In 2019 Thailand dropped ranking compared to the previous year and was rated 74 out of 100 countries in English proficiency (EF, 2019).

4.5 Foreign relations

4.5.1 ASEAN

The Association of Southeast Asian Nations (ASEAN) was established in 1967. Their initial aim was to enhance and promote cooperation within the region. The foundation of the association was the assumption of equal value and partnership. The wanted effects were peace and development among the nations. The initiators of ASEAN, likewise its first members, were Thailand, Philippines, Indonesia, Malaysia and Singapore. Nowadays the association has grown and consists of ten

members, now including Vietnam, Brunei, Burma, Cambodia and Laos (Nationalencyklopedin, 2019b).

The main results of the work in ASEAN are in politics and security. They have also initiated the agreements ASEAN Free Trade Area (AFTA). Another aim of the association is to pursue politics at the global arena with EU, China and Japan e.g. (Nationalencyklopedin, 2019b).

4.5.2 The Thai-Swedish Relationship

The relationship between Thailand and Sweden was established several years ago; the first diplomatic relationship is documented in 1883. A couple of years earlier, the first agreement took place with the purpose of friendship, trade and shipping between the countries. Today, the two countries share a close relationship according to the streams of tourism and migration between Thailand and Sweden. The Embassy of Sweden declares approximately 330 000 swedes visit Thailand every year (Embassy of Sweden, 2019).

The Swedish export to Thailand had a value of 4 460 million SEK year 2017. On the other side, the import from Thailand to Sweden was worth 4 527 million SEK the same year. Though high levels of trade, a decrease in Sweden's export to Thailand by 17% was noticed in 2017 (Embassy of Sweden, 2019). According to the Embassy of Sweden, approximately 60 companies related to Sweden are established in Thailand. These are characterised by having a parent company in Sweden, joint ventures with Swedish companies or local companies owned by Swedish citizens (Trade and Promotion Section, 2019).

According to Business Sweden in Thailand (2018), the main motives for Swedish companies to engage in Thailand are the customer base and the strategic location (figure 4.4). Another key factor for entering Thailand is the infrastructure and established value chains, which are considered to be well developed. Cost effectiveness is also an advantage when doing business in Thailand. This insight is based on an annual survey done by Business Sweden among Swedish companies present in the country. Upon the question "What are your main reasons for establishing in Thailand?" (Business Sweden, 2018, p.11), a clear majority stated their main purpose is selling to the Thai market. A smaller share of the respondents stated manufacturing for Thai market or export as a main reason, as can be seen in figure 4.5.

What are the key drivers behind establishing / keeping a presence in Thailand for your business?
Rank options



Figure 4.4: Swedish companies' key drivers of entering Thailand (Business Sweden, 2018, p.13)

What are your main reasons for establishing in Thailand?
Multiple choice

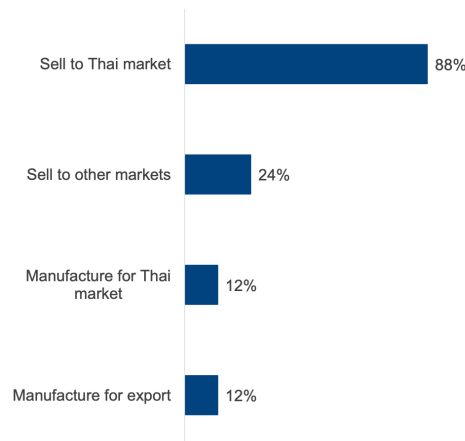


Figure 4.5: Swedish companies on how their main reasons for establishment in Thailand (Business Sweden, 2018, p.11)

Challenges for Swedish companies in Thailand are price sensitivity and competition in the market. This is explained by the maturity of the Thai market today, according to Business Sweden (2018). Other recognised challenges are problems finding skilled labour, bureaucracy, corruption and the unstable political landscape (Business Sweden, 2018).

A Thai-Swedish Chamber of Commerce was formed in 1989 and has 30 years later nearly 130 members. Their members are mainly Sweden-related companies and cover both multinational corporations and smaller start-ups. The main purpose of the chamber is to identify opportunities and challenges within trade and business for Thai-Swedish companies. They offer a variety of activities and functions in order to support their members, e.g. networking events, advocacy and promotion of Sweden (Thai-Swedish Chamber of Commerce, 2020).

5. Empirics

The chapter of empirics consists of an introduction to the empirical study and the result. The result is presented in three different parts, following the structure of the interview guide. In the first part of the result, characteristics of the population are presented and the division of the population into drivers. The second part represents the result from the questionnaire and the third part is the result from the interview questions.

5.1 Introduction to Questionnaire

Originating from the work of Eichengreen, Park and Shin (2013) we apply the factors that their research identified into the national environment of Thailand and break them down into specific consequences that they could give rise to. Eichengreen, Park and Shin (2013) were able to find a correlation between certain quantitatively measurable aspects of each factor and a growth slowdown. Our research is about investigating *how* these factors affect a business. This research is not restricted to only capture quantitatively measurable data. Because the factors are broadly defined, it was decided that it would be too unreliable to directly ask the participants to rank them. Instead, potential consequences of these factors were identified prior to the interview and concretised into statements. These statements were created by applying the factors into the national environment of Thailand together with theoretical framework for internalisation strategies. The result is the questionnaire, which comprises the second part of the interview. Acknowledging that there might be additional relevant information encountered on-site, the interview also includes a third part with open questions.

5.1.1 Human Capital

Human capital is described as the current level of education in the country. Eichengreen, Park and Shin (2013) used the total amount of school years, and the prevalence of secondary or higher education. We wanted to see the effects of this measurable aspect of Human Capital from the perspective of the companies. Issues that lack of education gives rise to is lack of competences in the workforce. Therefore, the questions aim to explore whether the companies consider finding the right competencies to be an issue, whether they experience a lack of secondary or higher education and what specific competencies the companies experience there being plenty of and lack of.

5.1.2 Political Regime Changes

Eichengreen, Park and Shin (2013) define in their study political development towards democracy as positive, and away from democracy as negative. To define if the direction of the political regime in Thailand as positive or negative is complex. Therefore, the political situation and recent movements will therefore not be evaluated based on this definition in order to fulfil the purpose of the thesis. What is relevant is to measure whether the political situation today, and its recent changes, has any noticeable impact on the international companies. Since Thailand had many political regime changes in the last decades and are currently under a military junta, the questions are aiming at understanding in what ways this political instability affects the companies.

5.1.3 External Factors

This factor measured the correlation between market openness and external events to the probability of an economic slowdown. Since the chosen population of companies in our research consist entirely of Sweden-related companies in Thailand, we expect certain difficulties with testing this factor as the entire population of companies all are to some extent international players. Therefore, the focus is on finding deviations between exposure to specific external factors in the Thai market compared to the other subsidiaries of the company. Thus, being able to understand whether their subsidiary in Thailand is more sensitive to external factors.

5.1.4 High-technology

This factor was specific to begin with as the researchers looked into correlation between the percentage of high-technological export and probability of an economic slowdown. We wanted to understand in how this factor could affect an established business and how the companies perceived the presence of high-technology in the country.

5.1.5 Financial Instability

This factor included data from regional and local financial crises. Since Thailand faced a major economic crisis in 1997, we chose to ask the companies what their experience of this event was. The major consequence of the crisis in Thailand 1997 was an enormous drop in foreign direct investments. Therefore, we were also interested in investigating how this affected the companies. Since the crises occurred over two decades ago and we wanted to maximise the number of participants, we decided to also include the companies that entered after the crisis by asking whether the crisis had an effect on their establishment strategy.

5.2 Result

5.2.1 Survey Population

The number of companies interviewed in this study is 18. A complete list of the survey population is found in table 5.1. All participating companies are related to Sweden. All interviews were conducted with one or two representatives from the companies. The majority of the interviewees held high positions in the organisation, such as vice president, managing director or similar. Other less frequently occurring positions among the interviewees were sales directors and business managers. All of the representatives had a deep understanding of the company's business. The representatives had different backgrounds, approximately half of the interviewees were originally from Sweden. Almost all of the interviewees had previous international experience and many of the interviewees received their higher education in a high-income country, such as Sweden, Singapore and the USA.

Companies	Establishment year	Employees in Thailand
Anonymous company	2000	Unknown
ABB Ltd.	1978	1000
AstraZeneca (Thailand) Ltd.	1983	210
Atlas Copco (Thailand) Ltd.	1993	220
Autoliv (Thailand) Ltd.	1995	3500
Axis Communications (Thailand) Ltd.	2007	7
BillerudKorsnäs Asia Holding Ltd.	2013	1
Camfil Farr (Thailand) Ltd.	2004	52
Electrolux Thailand Co.,Ltd.	1977	137
IKEA Purchasing Services (Thailand) Ltd.	1988	31
Molnlycke Health Care (Thailand) Co., Ltd.	1990	1100
Munkfors Trading Co., Ltd.	2012	1
Nordic Power (Asia) Ltd.	1999	10
Pacific 2000 Co., Ltd.	1989	8
Saab Thailand (HQ in Asia Pacific region)	1998	12
Scania Siam Co., Ltd.	2000	230
SKF (Thailand) Ltd.	1987	134
Volvo Group (Thailand) Co., Ltd.	2000	800

Table 5.1: *The population consisted of 18 participating Sweden-related companies.*

5.2.2 Results Part I

The first part of the result represents the structured interview with questions about the company. The aim with this initial part of the interview was to gather information about their establishment, organisation and activities in order to understand their business in Thailand.

Division of Population

All participating companies were asked about their main purpose with their initial establishment in Thailand. Upon these answers, all companies have been appointed one main driver out of four possible. The result is illustrated in figure 5.1 below. A majority of the population was grouped as market-driven companies. Four companies, 22%, were considered cost-driven. None of the interviewed companies' main purpose of the establishment were considered fit into the drivers' government or competitive.

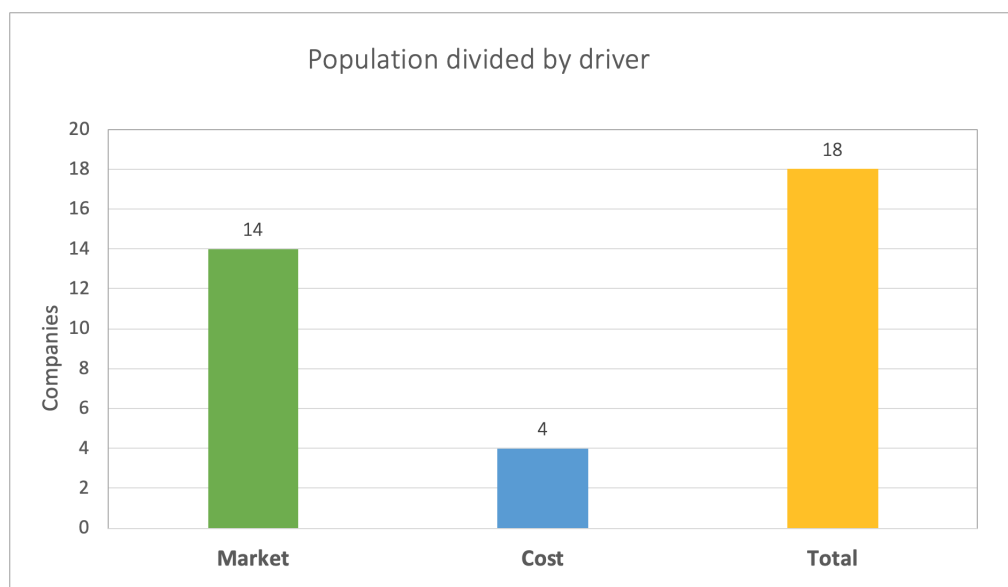


Figure 5.1: *Division of population into drivers*

Market-driven Companies

The majority of the companies were considered to be market-driven. These companies are diversified regarding establishment year and activities. On average, they have been established almost 25 years. Most companies are subsidiaries fully owned by a Swedish, or Sweden-related, global parent company. Most of them entered the country in a similar pattern; starting in a small scale with direct export or a joint-venture. Eventually when the business grew, the companies established their own subsidiaries.

Sales represent the market-driven companies' core business in Thailand. Common setups are sales offices with connected service offerings and basic marketing. A support function for resellers and distributors can also be included in these setups. Several market-driven companies started with one single sales office but have expanded their business over time and do include more of their value chain today in Thailand. These developed companies are often significantly larger and have all essential functions of a company on-set in Thailand. Manufacturing is present among some of these companies, mainly to serve the Thai market and the region.

A few companies within this group have different characteristics. They are a local or regional organisations and offer services only at the local market. These companies are in average established earlier than the rest of the market-driven companies.

Cost-driven Companies

Although there are only four companies within the cost driver, they represent bigger organisations according to the number of employees. Cost-driven companies have on average been established more than 26 years in Thailand. All companies belong to global corporate groups related to Sweden. Their main activities are manufacturing or purchasing, with an overall focus on export. Most cost-driven companies are well-established, larger organisations with all basic functions of a company present in Thailand.

The process of establishing in Thailand for cost-driven companies was through joint venture or directly by a wholly owned subsidiary. Today, all companies are wholly owned subsidiaries to a Sweden-related parent company.

5.2.3 Results Part 2

The results in this section are gathered from the questionnaire, the second part of the interview. The questionnaire consisted of five sections corresponding to the factors described in the theoretical framework. Each factor was divided into several statements, described below as Q1-Q5. Participants evaluated the statements by ranking them from ‘disagree’ to ‘agree’. These rankings have been transferred into a gradation with a minimum value of -2 and maximum value of 2.

Human Capital

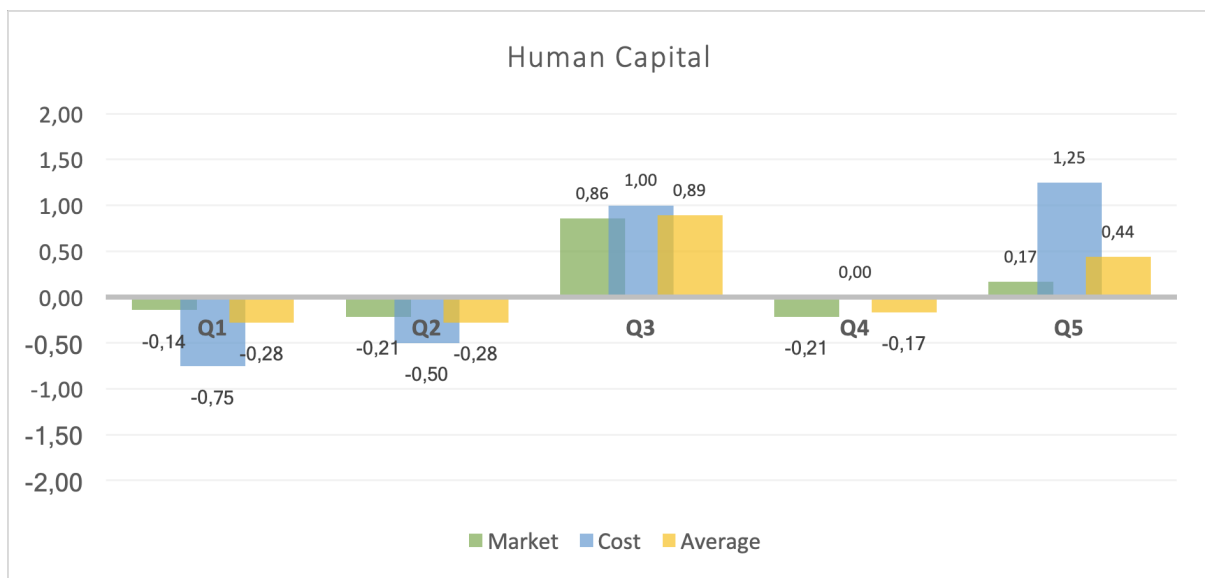


Figure 5.2: The average ranking of Human Capital

Q1. Lack of right competencies when recruiting

Statement: It is easy to find the right competencies for your job positions in Thailand.

As illustrated in the graph above, the market-driven companies consider it more difficult to find the right competencies than the cost-driven companies. Although, the average result shows that companies in general managed to recruit the competencies they require.

Q2. Lack of secondary or higher education when recruiting

Statement: It is harder to fill the positions that require secondary or higher education.

The graph shows that market-driven companies found it slightly harder than cost-driven companies to recruit people for positions that require secondary or higher education. The result still implies that companies, on average, do not agree that there is a lack of secondary or higher education when recruiting.

Q3. Lack of English knowledge in the workforce.

Statement: There is a lack of English-knowledge in the workforce.

Market and cost-driven companies were more aligned in their responses in Q3. Both groups experienced a lack of English skills in the workforce.

Q4. Lack of IT-skills in the workforce

Statement: There is a lack of IT-skills in the workforce.

The perception of IT-skills was neutral by the cost-driven companies, while the market-driven did not see any lack of IT-skills on average.

Q5. In general, harder to hire managers

Statement: In general, it takes longer time than average to fill a manager position in Thailand.

Both groups ranked this issue above zero, agreeing that it takes longer time than average to fill a manager position in Thailand. The cost-driven companies considered it more problematic.

Political Regime Changes

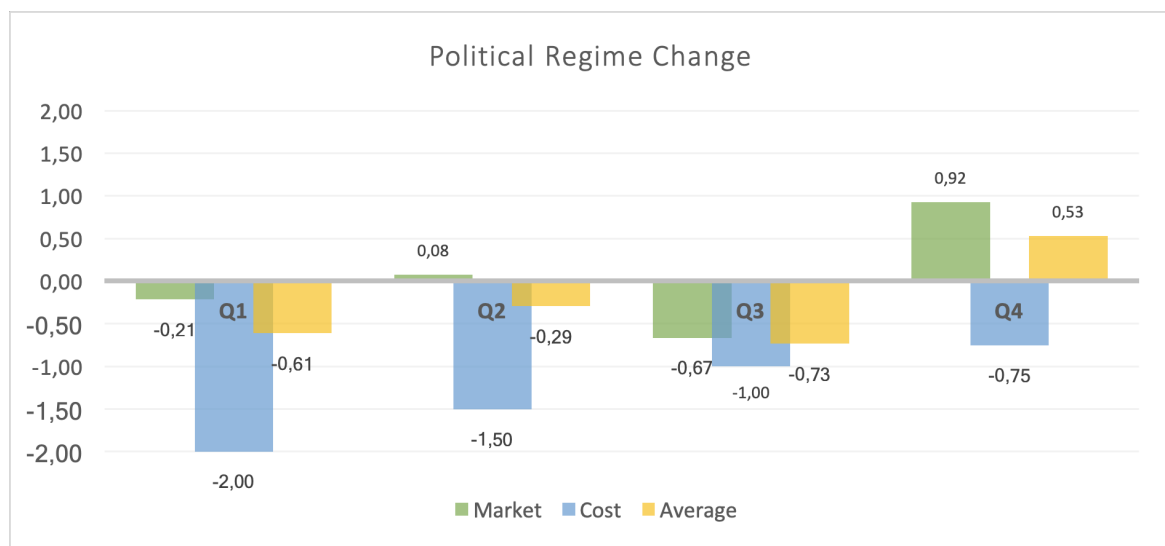


Figure 5.3: The average ranking of Political Regime Changes

Q1. Effects of political instability on investments

Statement: Your company's investments in Thailand have been affected by political instability during the last two decades.

The result indicates that the companies on average have not experienced an effect by political instability on investments. However, the answers from market-driven and cost-driven companies show slight deviations. Cost-driven companies saw no effect at all, while market-driven companies did not disagree as strongly.

Q2. Effects of political instability on growth

Statement: Your company's growth in Thailand has been affected by political instability during the last two decades.

Market-driven companies ranked this statement slightly above zero. It indicates that market-driven companies have seen minor effects of political instability on their growth. Cost-driven companies ranked the issue below zero, thus implying no effects of political instability on their growth.

Q3. Difficult for international companies to establish in Thailand

Statement: It is easy to establish an international company in Thailand today.

On average, the companies do not consider it to be difficult for international companies to open a business in Thailand. The responses on Q3 were more aligned between the two drivers, both market-driven and cost-driven companies do not experience the process of establishing a business as difficult.

Q4. Corruption is a concern among international companies

Statement: Corruption is a concern for international companies in Thailand.

The average result shows that companies consider corruption to be a concern. Looking at each driver separately, the results are not aligned. Cost-driven companies do not consider corruption to be a concern, while market-driven companies consider corruption to be problematic.

External Factors

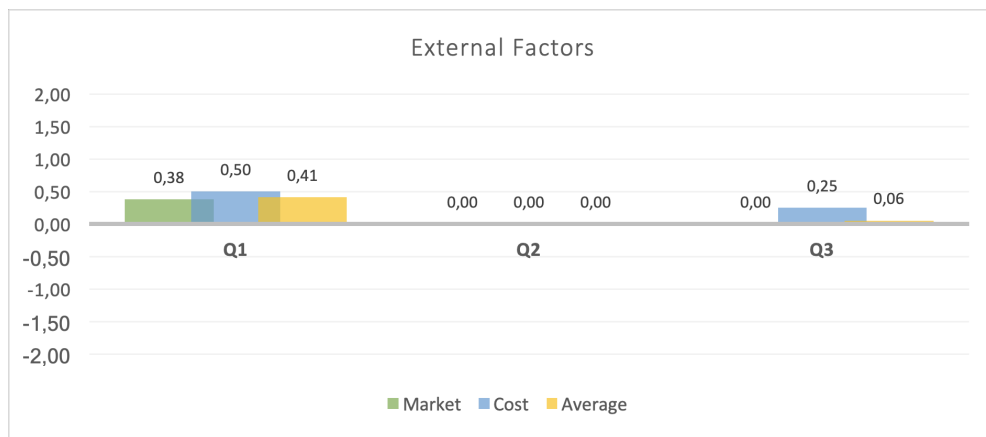


Figure 5.4: The average ranking of External Factors

Q1. Easily affected by external terms-of-trade shock

Statement: In case of an external terms-of-trade shock, your company in Thailand would easily get affected. *Terms-of-trade shocks describes a sudden, large, and enduring change either in import or export prices (IMF, 2008).*

The average result of both market- and cost-driven companies shows that external terms-of-trade shocks would impact their business. Cost-driven companies rank the potential effect slightly higher compared to the market-driven.

Q2. Growth follows world economy less accurate compared to other subsidiaries

Statement: The growth in the company in Thailand, follows the world economy less accurate than the average growth of all the subsidiaries.

The average result for market- and cost-driven companies is aligned; the ranked values are zero for both drivers. They are neutral regarding how the company’s growth follows the world economy compared to other subsidiaries.

Q3. Trade wars are a serious concern

Statement: The ongoing global trade wars are a serious concern for your company in Thailand.

This statement is on average ranked slightly above zero among the companies. Cost-driven companies agree that trade wars could be a concern for them. Meanwhile, market-driven companies are neutral regarding this issue.

High-technology

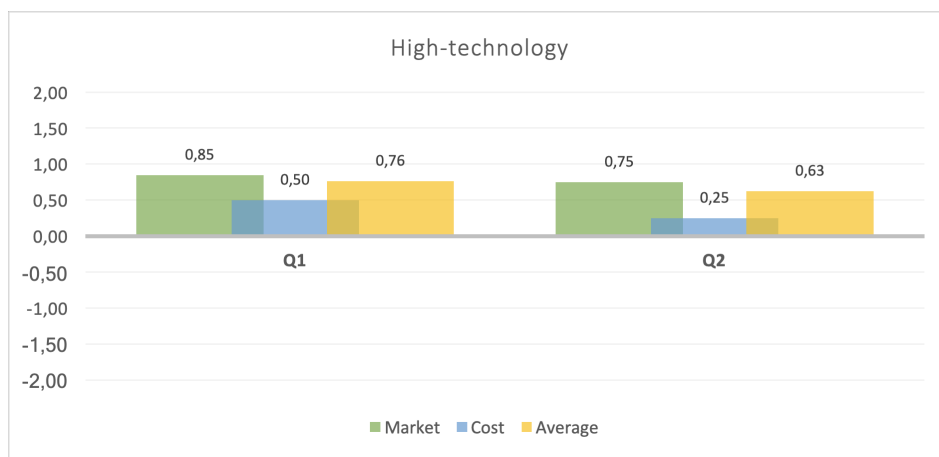


Figure 5.5: The average ranking of High-technology

Q1. The presence of high-technology is important

Statement: The presence of high-technology [high-tech] production in Thailand is important to your company in Thailand.

Both market- and cost-driven companies agreed on the importance of the presence of high-technology in the country. Market-driven companies valued this presence higher.

Q2. High-technology in Thailand is a part of the value chain

Statement: The high-technology [high-tech] production in Thailand is a part of your company’s value chain.

The results for Q2 are similar with Q1, but with a small decrease in the ranking for both drivers. Still, the result shows higher ranking among the market-driven companies.

Financial Instability [Companies established before 1997]

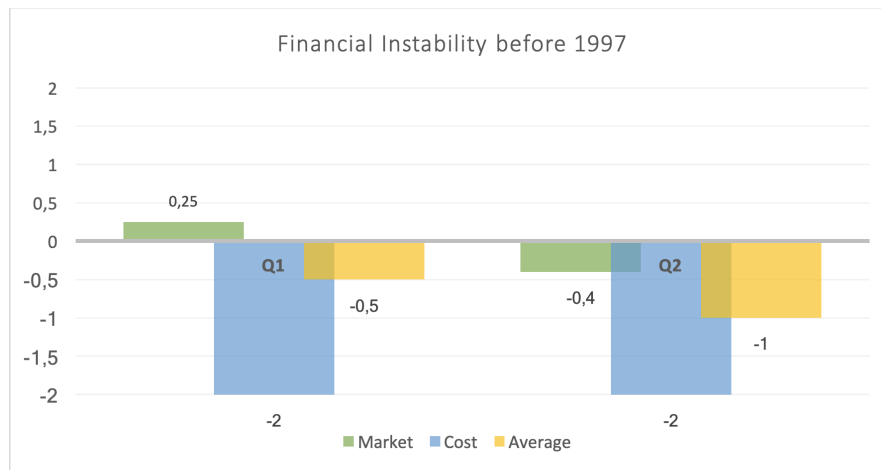


Figure 5.6: The average ranking of Financial Instability among companies established before 1997

Q1. Noticeable effects of Asian Financial crisis

Statement: Your company in Thailand was noticeably affected by the Asian financial crisis 1997-1999.

As shown in the figure 5.6, the result has a distinguished difference between the drivers. Cost-driven companies believe there was no effect at all by the crisis. Market-driven companies experienced minor effects by the crisis.

Q2. Effect by the overall drop of FDI

Statement: Your company in Thailand was affected by the overall drop of foreign investment in the country.

Earlier differences between the drivers are in this statement less drastic but still noticeable. Cost-driven companies do not see any effect at all by the drop of FDI, neither the market-driven companies. Though, the market-driven companies do not disagree as strongly as the cost-driven companies.

Financial Instability [Companies established after 1997]

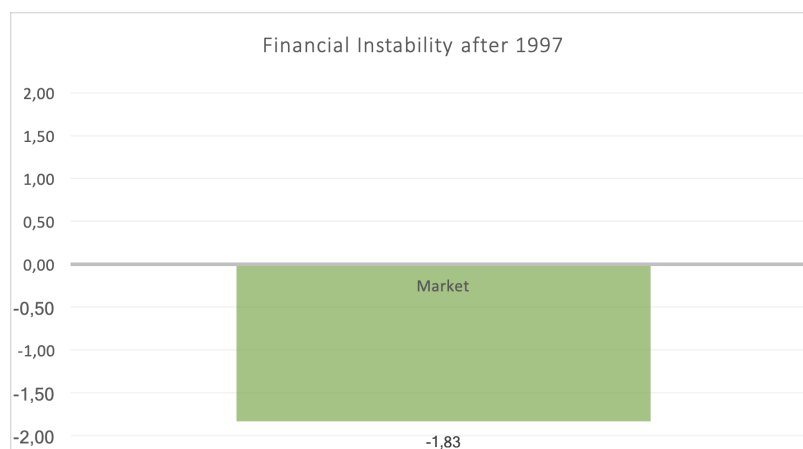


Figure 5.7: The average ranking of Financial Instability among companies established after 1997

Q3. Effects on establishment strategy due to the Asian financial crisis

Statement: The Asian financial crisis led to a change in your company's establishment strategy in Thailand.

The graph illustrates the response by market-driven companies established after 1997 regarding the potential effect of the Asian financial crisis on their establishment strategy. The result shows that no effect on the market-driven companies has been noticed.

It was not possible to draw any conclusions regarding effects on cost-driven companies established after 1997, due to an insufficient amount of companies in that range.

5.24 Results Part 3

The last part of the interview was conducted with a semi-structured approach. This interview followed the same order as the questionnaire; divided into the five factors from the theoretical framework. The result from this part of the interview is described for each driver.

Human Capital

Market

Almost all market-driven companies that were interviewed mentioned struggles when recruiting their workforce in Thailand. The skill that was most often described as problematic to find was good engineering. Although, finding labour with higher education in general was not considered a hard. It was often the combination of a skill and English knowledge that most companies seemed to struggle with. It was also mentioned by several companies, that in addition to a specific skill and good English knowledge, they also wanted the candidate to have prior international experience. Having such a specific recruitment profile, many companies struggled with finding people that would satisfy all their criteria's. Many companies acknowledged that the profile they are looking for is very attractive in the Thai labour market. They would therefore often compete with other international companies to be able to recruit people with these qualities. It was several times mentioned that one needed to offer a premium salary in order to attract this kind of candidate and that it was quite hard to retain these people, as they tended to switch between international companies.

Good leadership was another skill that many companies struggled with finding and recruiting. Several companies mentioned that it was hard to find good leaders. Many believed that this issue was due to the hierarchical structure in Thai schools and universities. Companies described that many of their employees would not question an order or tell off in case something would not be correct. With that said, many companies still had plenty of local managers. Some companies mentioned that they put an effort to make the workplace less hierarchical, because they believe it will increase creativity.

As mentioned before, previous experience of working in an international company was highly important for several companies. They explained that it otherwise takes a long time to educate employees about the culture and workings of an international company. According to several companies there are noticeable differences between the workings of an international company and a local company.

Some companies mentioned that there exists a gap in skilled labour. There are many highly educated with a university degree and many with a low education, but few in-between with vocational education. It was also mentioned by some companies that there is an increased interest in working in

an office, while less people are interested in working in factories. Other companies mentioned that there is a trend where the younger generation is becoming less interested in working for companies and more interested in freelancing.

It was stated several times that there has been a rapid increase in salaries for office workers. Several companies mentioned that increase in salaries is not necessarily followed by a corresponding increase in productivity. The GDP is growing slower than the salaries.

In almost all companies the majority of the employees were Thai. Many of the companies had only a couple foreigners from Europe. However, many mentioned that the education in Thailand does not correspond to level of the Swedish universities or other international universities. Several interviewees mentioned that they considered the Thai education to be much more theoretical and hierarchical, where the student is not allowed to question the teacher. Something to point out, is that the majority of the interviewees did not have a Thai education nor a Thai university degree, and a majority of them held high positions in their companies.

Several companies said that they had an overrepresentation of women, even in positions which in other regions are often dominated by men. Several companies also mentioned that they have a young workforce, with most of the employees below the age of 35.

Cost

The companies in the cost segment were searching for a similar profile as described by the companies with a market driver. They also found it to be most problematic to find good engineering skills and retaining them, due to the high competition for attracting this type of knowledge. Lack of engineering skills was described as a potential challenge for the transition to a more automatic production line.

They also mentioned that leadership- and English skills were harder to find. Many of the companies with production in Thailand said that they did not have any problems with finding manufacturing workers. The reason behind this was that they would educate their workers themselves and therefore did not require a lot of specific knowledge prior recruitment.

Some of the cost-driven companies also mentioned the rapid increase of salaries, however according to one company it is mainly for their office workers that salaries are growing so fast.

Political Regime Changes

Market

Many market-driven companies have experienced effects on investments and growth due to political instability. In some cases, plans for investments in Thailand had been changed to other countries because of political instability. A general instability is described by several companies as a major concern. It affects decisions and projects; it takes longer time and complicates continuity of business and investments. One opinion is that the instability supports a short-term focus in reforms, which is considered problematic for international businesses. Some of the companies struggled as a consequence of the demonstrations. Others consider all involvement from the military as a major threshold for their business and growth.

The stability in the politics these last years have been highly appreciated in the private sector, according to some of the interviewees. They rather see the military junta in charge and questionable elections than the instability to occur again. On the contrary, certain companies had the reasoning that the private sector does not care about the instability anymore. It has been unstable a long time, as in the whole region, but business and investments need to continue. Another perspective was that the private sector is distanced from the politics in certain ways and therefore less affected.

The market-driven companies mentioned Thailand's complicated system of laws, TM30 and bureaucratic work as political improvement areas. They explain how TM30 is an initiative recently adopted in Thailand, in order to keep control over immigration. Although it was not the initial thought, it is now affecting the international employees in Thailand and creates a bureaucratic mess. All these areas complicate for international companies when running businesses, according to the interviewees.

In general, the companies think it is easy to open a business in Thailand. Although, one company mentioned that it takes a long time and a lot money to open a business in Thailand. Those companies which established early in Thailand were more optimistic; they compared the current situation with earlier conditions and considered it to be easier today. Companies established later were in general less optimistic.

Corruption is considered by several companies to be a serious problem. One company explain how they need to educate their employees in order to avoid corruption. Another strategy to tackle the problem was to recruit people with international experience, as they tend to have a better understanding of the non-tolerance of corruption.

Cost

A majority of the interviewed cost-driven companies believed the impact by the political instability on growth and investment is marginal. Several companies explained they have limited contact with the government and politicians. One company explained how contact with the government only occurred in case of a new establishment. The companies also claimed their sales are only slightly or not all dependent on the Thai market. Therefore, they are not affected by any impacts on the market by political instability. This is explained by their focus on the international market; some of them only exported. Although, one company mentioned that strikes and mobs resulted in difficulties to ship their products.

The cost-driven companies did not consider it difficult to establish an international business in the country.

These companies did address corruption as a problem; but not in their own business. They all follow local and internal laws and policies.

Several companies did mention improvements areas in order to attract and support foreign investments and international businesses in Thailand. Areas to improve, according to one of the companies, are the current bureaucratic workload and TM30. Another mentioned area is the general lack of reforms supporting and attracting FDI.

External Factors

Market

Almost all market-driven companies consider themselves to be easily affected by global events in a more overall context. Their value chains are global; products are often produced and shipped between different regions. Just one response differed from the others, explained by only having local long-term projects not depending on external factors.

Several companies believe their growth to be lower compared to other subsidiaries in the region. They explained this as a consequence of the overall more rapid economic growth in some ASEAN countries compared to Thailand. It is then reflected in the subsidiaries' growth in these countries.

The opinions are divided regarding trade wars. Some of the interviewees had strong opinions about the issue; they believed the matter to be concerning. Others did not consider trade wars to be problematic for their company. The uncertainty of the outcome of this issue is clear; companies do not know yet what the effects of the ongoing trade war between China and USA will be. One company was sure that Thailand will not end up as a winner in this trade war as one could think, instead Thailand is more likely to be negatively affected.

Cost

The result from the interviews with cost-driven companies showed two different point of views. Half of the companies consider themselves to be global companies and therefore affected by these events. On the other side, there are companies which consider themselves to be more isolated from external events.

There were mixed views on the companies' capability of following the world economy compared to their subsidiaries in other countries. One company explained the deviations in growth due to changes in the industry and the conditions specific to Thailand, not isolation from external factors. Other interviewees had few comments regarding this matter and just confirmed that their growth follows the average.

High-technology

Market

Many market-driven companies ranked the presence of high-technology as an important factor, however the reason varied depending on their industry and whether they had production in Thailand or not. Some companies argued that in low-income countries there is always a trade-off between choosing cheap labour or expensive investments. One company explained that they did not consider salaries to be the main reason for automation. Instead they considered the main reason for automation to be the need for improved efficiency and an ability to produce a steadier level of quality.

Almost all companies said that they believe that Thailand would benefit from further technological advancement and many interviewees mentioned that there is a need for upgrades in some industries to be able to keep up with other countries, such as China. One company mentioned that there exists some resistance to technological innovations, both political and financial. People are not always interested

in the most efficient solutions. As an example, centralised air conditioning and sun panels were provided. Both of the above mentioned would benefit Thailand yet are not utilised due to lack of interest. Another company mentioned the potential of automating and digitalising many of the administrative processes that exist today, which they described would be a more time efficient way of working.

Other companies discussed that it is very important to focus on technological advancement since Thailand is no longer a cheap labour production base anymore. They said that in order to find cheap labour, one would go to Laos, Cambodia or Vietnam. Since the wages are getting higher, the companies argued that there is an increasing need to automate and develop the production to use less people and continue being competitive.

There were also a couple of companies that did not feel affected at all by this factor. None of them did have their production in Thailand and their products were not technically oriented. They imported all their products and then sold them in Thailand. Generally, it tended to be technical and industrial companies that highlighted the need of technological advancement.

Cost

Most cost-driven companies also saw a need for more high-technological presence and further technological advancement in Thailand. Some companies plan on becoming more automated and high-technological, and discussed the rising need for good engineering skills to enable the transition to a more automated production. Meanwhile, another company said that even though the wages were rising in Thailand, the minimum wages are still very low which minimises the need for automation.

One company argued that they did not see the presence of high-technology as a competitive advantage for them, because the products they produce are very hard to replace with automation. Automation would eliminate the possibility to adapt the product design after various requirements their customer might have and therefore, they preferred to keep it less automated.

Financial Instability [Companies Established Before 1997]

Market

The responses regarding this factor point in different directions among the market-driven companies. One company explained how as a result of the financial crisis their sales dropped and a lot of people were laid off. Another company experienced an impact on their revenue by the currency fluctuations as they import all of their products. At the same time, a many of the companies did not consider themselves affected by this factor or believed the effect was marginal.

Cost

None of the cost-driven companies established before 1997 considered themselves as affected by the Asian financial crisis as the market companies. One company claimed that it was mostly the financial institutions that struggled during those years. Some of the companies instead found the situation favourable due to the weak currency, available workforce, decreasing wages and investment opportunities.

Financial Instability [Companies Established After 1997]

Market

The majority of the market-driven companies established after the crisis did not see any impact on their establishment strategy by the crisis. Several companies thought the rapid growth after the crisis was promising and believed in a reconstruction of the country. Therefore, Swedish company establishments and investments occurred close to the crisis.

5.3 Summary Empirics

The empirics resulted in both quantitative and qualitative data which have been presented in this chapter. Part 1 consists of qualitative results describing the characteristics of the companies and the division into drivers. A short summary of this results is found in table 5.2. Results from part 2, the questionnaire, is summarised in table 5.3

	Market-driven companies	Cost-driven companies
Key characteristics	<ul style="list-style-type: none"> ● 14 companies ● Diversified group regarding industries, est. year and activities ● An average est. time of almost 25 years ● Selling products is main activity ● Started as direct export or joint-venture ● Most companies are wholly owned subsidiaries today 	<ul style="list-style-type: none"> ● 4 companies ● Representing bigger organisations ● An average est. time more than 26 years ● Main activities are manufacturing or purchasing ● Overall focus on export ● Started as joint venture or directly by a wholly owned subsidiary. ● Most companies are wholly owned subsidiaries today

Table 5.2: *Summary of qualitative results in part 1.*

Factor	Statement	Market	Cost	Total
Human Capital	Q1. Lack of right competencies when recruiting	Disagree	Disagree	Disagree
	Q2. Lack of secondary or higher education when recruiting	Disagree	Disagree	Disagree
	Q3. Lack of English knowledge in the workforce.	Agree	Agree	Agree
	Q4. Lack of IT-skills in the workforce	Disagree	Neutral	Disagree
	Q5. In general, harder to hire managers	Agree	Agree	Agree
Political Regime Changes	Q1. Effects of political instability on investments	Disagree	Disagree	Disagree
	Q2: Effects of political instability on growth	Agree	Disagree	Disagree
	Q3: Difficult for international companies to establish in Thailand	Disagree	Disagree	Disagree
	Q4: Corruption is a concern among international companies	Agree	Disagree	Agree
External Factors	Q1: Easily affected by external terms-of-trade shock	Agree	Agree	Agree
	Q2. Growth follows world economy less accurate compared to other subsidiaries	Neutral	Neutral	Neutral
	Q3. Trade wars are a serious concern	Neutral	Agree	Agree
Technology Content of Export	Q1. The presence of high-technology is important	Agree	Agree	Agree
	Q2. High-technology in Thailand is a part of the value chain	Agree	Agree	Agree
Financial Instability Companies est. before 1997	Q1. Noticeable effects of Asian Financial crisis	Agree	Disagree	Disagree
	Q2. Effect by the overall drop of FDI	Disagree	Disagree	Disagree
Financial Instability Companies est. after 1997	Q3. Effects on establishment strategy due to the Asian financial crisis	Disagree	No result	Disagree

Agree	
Neutral	
Disagree	
No result	

Table 5.3: Summary of the quantitative results in part 2.

6. Analysis

In this segment, the different parts of the result are merged and analysed through the theoretical framework. The analysis aims to understand and evaluate the result using the established theory in order to find and conclude findings.

6.1 Population

According to Yip's Globalization framework, four different drivers can summarise the motives for internationalisation within a company. These drivers have been the framework for grouping the selected population upon their purpose with their establishment in Thailand. The division of the population resulted in 78% market-driven companies and 22% cost-driven. This result is aligned with expectations from the desktop study about Swedish presence in Thailand, looking at the Business Climate survey by Business Sweden (2018). Cost-driven motives are clearly not as attractive in Thailand as market-driven. Some market-driven companies had both manufacturing and sales in the country; the market-driver was initial and the cost-driven activities followed as a result of the market-driven activities. One reason behind this occurrence could be that the interviewed companies prefer their cost-driven activities located close to their targeted market. An explanation to the small amount of cost-driven companies in Thailand could be competition from other countries in the region to attract cost-driven establishments. If the country-specific advantages are similar, as low wages, the competition is considered tough. Some interviewees mentioned that several countries in the region are today considered more advantageous for cost-driven activities, which affect Thailand's chances as a potential location for these establishments.

Today's market entry strategies among the companies are considered to be mostly hierarchical modes. The establishments are majority or fully owned subsidiaries. During the initial entry, almost everyone started with intermediate or export modes in a smaller scale. This could be explained by wanting to test the location first and the strict regulations for ownership in international companies established in Thailand.

Yip described in his framework how the market driver appears when a company's current demand is found at a new market (Johnson et al. 2017). A company can then deliver the same or similar solution to a customer in a new market; implying that there is a new business opportunity. In Thailand, a lot of Sweden-related companies have recognised these opportunities. With a relatively recent transformation from agriculture into an industrialised country, many Swedish companies have found a new demand of their products and services on the Thai market. These companies are well-represented among the early establishments. As the business climate in Thailand evolved it resulted in further opportunities, and even more companies discovered the Thai market. This has resulted in new entrants during the more recent years. The transformation into a middle-income economy implies a growing middle-class in the country. A few examples of companies, clearly targeting the middle-class, could be seen among the establishments of Swedish companies. All the above-mentioned factors related to recently becoming a MIC explain the high amount of market-driven companies among the Swedish establishments.

Internationalisation motivated by cost efficiency is described as a cost driver in Yip's framework (Johnson et al. 2017). A common reason for cost-driven companies to go international, is to benefit from another country's advantage areas. Explained further in Porter's Diamond, Porter (1990) lists different factors representing potential advantage areas in a country. In this study, some establishment purposes in Thailand do align with the factors in Porter's Diamond. They have therefore been appointed the cost driver. Recognised factors among these companies are *Factor conditions* and *Related and supporting industries*. Factor conditions among these companies in Thailand are described as low wages within manufacturing. Related and supporting industries consider the key industries in Thailand, for instance their prominent position within the automotive sector. These country advantages mentioned by the cost-driven companies are aligned with the result of the desktop study of Thailand.

6.2 Human Capital

According to the theory about MIT by Eichengreen, Park and Shin (2013), the level of education is a factor affecting the occurrence of growth slowdowns. Researchers found that higher levels of secondary or higher education correlated negatively with growth slowdowns. The companies experience this aspect through the scope of competencies available in the workforce. Companies were able to find the competencies that they needed, however, many mentioned struggles when searching for certain skills such as good engineering, leadership and English.

In the questionnaire, on average both the cost-driven and the market-driven companies rated English skills to be problematic to find and recruit. During the interview, most of the companies explained that their main struggle was finding candidates with the combination of a specific skill required by the position and good English knowledge. The specific skill many companies looked for often required higher education. Together the result from the questionnaire and the interviews painted a similar picture: Sweden-related companies in Thailand experience a lack of English knowledge in the workforce. This can be partly explained by Thailand's recent transformation from a low-income to a MIC. It is only recently that education became available to the broader public and the net enrolment into upper-secondary education increased from 31% in 1990 to 78% in 2011. According to the questionnaire results, the companies did not experience a lack of secondary or higher education in the workforce. However, since many described it to be problematic to find the combination of a sought-after skill and good English, it implicates that there exists a lack of English knowledge even among people with higher education.

Many of the companies claimed that their workforce consisted mainly of younger people. As described in previous paragraph, most of the companies were looking for similar skill sets, mainly the combination of an advanced skill and English. The prevalence of younger people in the offices could implicate that the combination of English knowledge and higher education is more common among the younger generation. This could be an indicator of an ongoing improvement of the English education in Thailand. Due to Thailand's recent transformation from a low-income to a MIC, the educational system still needs more time adapt to the new competence requirements. It takes time for the skill to accumulate in the country. In order to properly learn English, one requires teachers with good English knowledge. Therefore, increased access to education does not instantly solve the problem. The lack of English experienced by the companies suggests that the need for English skills grew quicker than what the education system was able to provide. However, increased access to

education explains the younger age of many employees in the companies. The access to education increased significantly in the recent decade, explaining why the combination of higher education and English skills would be more prevalent in the younger generation.

In many companies, the majority of the employees were women. It was even mentioned by some companies that they had women in positions that were usually dominated by men. Why women were more prevalent in the office can be partly explained that there generally are more women studying at universities in Thailand compared to men. Since most of the interviewed companies looked for candidates with higher education, this is a possible explanation. With that said, this does not entirely explain why women in Thailand held job positions that in other countries were usually dominated by men. Due to the chosen scope of the study this interesting finding was not further investigated.

The competence that was considered hard to recruit by both the cost-driven and the market-driven companies was good engineering skills. Several companies emphasised on the word *good* engineering skills. A possible explanation for this could be the uneven quality of education in Thailand combined with a potential graduate engineer shortage. Several companies mentioned that Thai universities have a tendency to be hierarchical and theoretical, which could affect the quality of engineering skills. From the interviews, it could be concluded that lack of engineering skills is a serious problem that needs to be tackled. This issue could become an obstacle to the country's ambition of becoming a knowledge-advanced economy. In order to move towards innovation and development of technology, as described in Thailand 4.0, companies must be able to find competence to complete more advanced tasks and eventually drive the technological advancements. A company that wants to implement high-technology and automate their production would require less manual labour but an increased need for advanced technological skills, specifically good engineering skills. One interviewed company discussed their planned transition to a more automated production and mentioned that they consider finding engineering skills a challenge in that transition. Today, Thailand's high-technology production is around 23% of their total export and very few of the interviewed companies had their research and development in Thailand. That engineering competence is already experienced as difficult to find might be an indicator of an upcoming problem in the country's ambition to transition into a knowledge-economy.

According to the questionnaire, both cost-driven and market-driven companies find it difficult to recruit for manager positions in Thailand. Cost-driven companies ranked this issue noticeably higher than the market-driven companies. The reason behind this might be that our population of cost-driven companies mainly consisted of larger organisations. This means that they require managers with skills to lead large groups of people. Meanwhile, many of the market-driven companies had a lower number of employees and therefore we believe that they did not require as advanced leadership skills as the cost-driven companies. During the interviews, lack of leadership skills in the workforce was frequently discussed. Many of the interviewees experienced that most of their employees never challenged authorities. One company suggested that the reason behind the lack of leadership skills is the hierarchical structure in the schools. They explained that teachers in Thailand have a very high level of authority and students are not allowed to question them. This could explain the difficulties companies experienced with finding good leaders.

The statements regarding lack of IT-skills, difficulties with finding needed competencies and candidates with secondary and higher education were all on average ranked negatively by both market- and cost-driven companies. During the interviews, we understood that companies still manage to find the talents they need even though they mention a lack of English and engineering

competencies, and that it takes longer than average to find these skills. Some companies said that in order to attract the sought-after talent, they needed to offer above market salaries or prestigious titles. Since most companies were still able to find the talent they needed, we conclude that international companies are currently able to offer premium salaries in Thailand. The negative ranking of secondary and higher education implies that most companies did not encounter any additional difficulties when recruiting for positions requiring higher educational background. There are plenty of people with higher education in the workforce according to the companies. However, it was specific skills such as good engineering and English that were difficult to find. This is an indicator of the education having an uneven quality level. A higher education in Thailand might not necessarily guarantee a specific set of skills.

Some of the companies wanted their employees to have prior experience from international companies, which is an indicator that there are differences between the workings of a local and an international company. International companies comply both to local law and their own internal policies. Some companies mentioned that they have to educate all their employees in Thailand regarding zero tolerance towards corruption. Thailand is a country ranked high in corruption indexes, and all interviewed companies had zero tolerance towards corruption. This is one potential reason why several companies valued international experience. If their internal policies and values deviate from the way a local company might operate, they need to educate their employees regarding the workings of an international company.

It was also mentioned by several companies that employees with sought-after competencies would often switch between international companies. According to several companies the main motivator for a job change was a better salary. This experience is in line with the average turnover rate in Thailand, which is considered high. Many mentioned an overall salary increase for their office workers. One company observed that their office salaries increased much more rapidly compared to the minimum salaries. This is worrying because it could indicate growing wealth inequalities in the society. Where the poorest who already earn low salaries, are not seeing the same increase of wealth as the richer are.

Our research has presented a complex and nuanced picture of this factor. Today most companies are struggling with finding certain skills, but the lack of these competencies is currently not vital. Most companies manage to recruit the competencies that they need, although accompanied by increasing salaries and high turnover rates. Nonetheless, this could be an increasing issue if Thailand aims to transition into a knowledge economy. There are several indicators that the education has an unequal quality level. Even though Thailand has significantly increased access to education, the companies still experience a lack of competencies which can be explained by the uneven quality of education. Overall the result was in accordance with the theoretical framework. The result showed how labour was considered an issue for Sweden-related companies in Thailand. At the same time, the enrolment in higher or secondary education is high. This would mean that despite high levels of higher education, which Eichengreen, Park and Shin (2013) found correlated negatively with growth slowdowns, the human capital factor still affects the companies.

6.3 Political Regime Changes

Political regime changes are described in the theory by changes in the political environment. A division is made between positive and negative changes; positive changes were related to a higher risk

of economic slowdowns. In general, there was no found correlation between political changes and economic slowdowns by Eichengreen, Park and Shin (2013). In this study, the impact by the political changes has been investigated but not evaluated as positive or negative. The quantitative result showed an overall low impact on companies by political regime changes which is aligned with the theory.

In general, companies do not agree on effects by this factor according to the result from the questionnaire. Most companies have not experienced any fallouts on the investments or growth due to political instability. They do not see any problems with opening a business in the country. Although, regarding corruption in the last statement, a majority of the companies did agree and consider it to be a serious concern. There is a contrast between the different drivers regarding effects by political instability on their investments and growth.

The result from the cost-driven companies is a united disagreement; they did not consider their growth or investments to be affected by political instability. This result is supported by several arguments presented during the interviews. The cost-driven companies claim they are not connected to the politics, hence see no effect of it. Other explanations supporting the lack of effect on growth or investments among cost-driven companies, could be:

- The cost-driven companies have a main focus on export, which implies they are not dependent on the Thai market. Therefore, they are not exposed to any changes on the Thai market due to political instability.
- A majority of the cost-driven companies have been established in Thailand for many years. Some of them had activities in Thailand even before the official establishment date. They have by this time experienced plenty of similar political struggles in Thailand to know if their business can survive them or not. If political instability would have been seriously impacting them during all this time, they would have changed their setup by now or left the Thai market.
- The political landscape in Thailand has been eventful a long time. Therefore, cost-driven companies would have taken into consideration the political environment when choosing the location of establishment. These companies do not target the Thai market and therefore, the choice of location for establishment are not limited to Thailand. This proves that Thailand is considered suitable for certain activities despite political situation, activities that are presumably isolated of political influences.
- The Thai government, despite which regime, has throughout the history demonstrated how they prioritise and value international companies. Most recently by the initiative Thailand 4.0. The government wants to focus on attracting investments into the country; investments in industries similar to this study's cost-driven companies. These companies contribute to the country without competing with domestic companies. So, affecting these companies negatively would not be strategic for any political reasons in Thailand.

Market-driven companies agreed more often to all statements regarding effects from political regime changes. Although more affected than cost-driven companies, their answers to the first statement still implied that most companies did notice any effects on their investments by political instability. The second statement, regarding effects on growth by political instability, was ranked neutral. Supporting the questionnaire result, several market-driven companies claimed that business must continue regardless of political events. Meanwhile, some companies valued the recent stability very high and described the political regime changes as fatal for their business. These two opposite opinions explain the overall result; together they are summarised into a neutral ranking. A potential reason behind separated opinions among market-driven companies, could be their customer base:

- Some companies with the purpose of selling, could be targeting a segment consisting of international manufacturing companies, similar to the cost-driven companies in this study. So, if their market is dominated by companies not affected by political instability, they would probably not get as affected either.
- Among market-driven companies who highly valued political stability, the main customer were Thai consumers or Thai companies. Targeting these segments would imply more exposure to political instability in Thailand.

Also, worth mentioning is the variety of different industries among the market-driven companies present in the study. Some particular industries could have special conditions within the political context and not be representative for the majority. This would explain the broad mix of answers among the market-driven companies.

The result for the third statement, regarding how easy it is to start a company in Thailand today, did align with the comments in the interviews as well as the conducted desktop research. The political regime changes did not seem to have affected the possibility of establishing a business in Thailand. Although, some observations are implying that companies are painting a more positive picture of the process than the actual situation:

- Firstly, there is no noticeable difference between the drivers in their ranking. Although, when looking at establishment years, there is a difference between the early establishments and the later. Companies established earlier tend to believe the process of establishing is easier compared to companies established later. This pattern can indicate that the earlier establishments compare the current process to their own and consider it easier today.
- Three political improvement areas are often mentioned during the interviews; reducing bureaucracy, dropping TM30 and simplifying the legal system. All of them were considered problematic by several interviewees. Oddly, these issues were rarely mentioned in connection to opening a business. It seems hard to avoid bureaucracy, tracking of foreigners and legal systems when opening a business. Therefore, these areas could imply a more difficult process for establishing a business than the companies described. Why these areas have not affected companies' opinions about opening a company, is not obvious. One possible explanation to this could be that these issues were less problematic when the companies established and therefore not connected to the process of opening today or that this issue is not specific to Thailand, rather very common in the entire region.
- Companies that find the process too difficult, do not consider an establishment in Thailand and are therefore not present in the study. Some companies did mention that they have local employees working with issues in bureaucracy and legal systems, which indicate that the companies present in Thailand today manage the potential issues when opening a business.

The last statement illustrates whether companies consider corruption to be a concern. A majority agrees, they consider corruption in Thailand to be worrying. Corruption is a well-known problem in Thailand and is addressed by the government. As Swedish companies in general apply non-tolerance against corruption, it is reasonable that corruption in the society implies problems. Further, there is a significant difference between market- and cost-driven companies in matter of corruption. Some of the cost-driven companies did not recognise corruption as a concern. There could be two explanations to this: corruption is closer to market-driven companies, or the cost-driven companies find this topic too sensitive to share their honest opinions. If corruption is more present among market-driven companies, it could be related to the interference these companies have with the Thai society by selling on the Thai market. The cost-driven companies tend to see themselves as more isolated from

the Thai-market, for instance they have not experienced any influences from the politics. This alleged isolation could explain the different experiences of corruption. With that said, we cannot avoid taking into consideration that corruption could exist but be too sensitive to mention and therefore end up with this result.

As the research by Eichengreen, Park and Shin (2013) suggested, no major impact by the political regime changes have been noticed among the companies. Although, the empirical result differs among different industries and between the drivers. These differences are explained by different characteristics in the populations' industries and by how market-driven companies are targeting a customer which is influenced by political regime changes. The result from the questionnaire is almost aligned with the result from the interview questions, but one disparity is that the ranking in the questionnaire is a bit more cautious in terms of stronger disagreeing than agreeing compared to interview answers. There are several factors that could affect the validity of the result. Firstly, the nature of the questions. Politics as a subject can be sensitive, especially due to the lack of democracy in this country. Corruption exists and the freedom of press and speech is limited. To talk negatively about the government, military junta and the monarchy could be seen as a risk. Therefore, some opinions and responses may be more honest in oral communication compared to written. What could also jeopardise the validity of the responses is the fact that a lot of the companies have been established in Thailand a long time. They have experienced plenty of political turbulence and still operate there. As a natural consequence, they have learned to cope with the given conditions and therefore are no longer as affected.

6.4 External Factors

This factor measures how exposed a country's economy is toward global economic events. This factor was described by Eichengreen, Park and Shin (2013) as the correlation between trade openness, global economic events and the probability of a growth slowdown. In their study, they found a higher probability of an economic slowdowns caused by external factors, the more open the economy was. This study investigated this factor by measuring the exposure to two specific external events, terms-of-trade shock and trade wars, and how their growth corresponds to the world economy. Since this research considers international companies, it is intuitive that they were all exposed to external factors simply because of their international nature. Furthermore, Thailand is considered an open country within trade which implies the country itself is exposed to external influence. These assumptions were confirmed by the population in the study. Most companies did see themselves as vulnerable to global events and easily effected.

The results of the statements show a noticeable impact by this factor on companies. Considering the population is international companies, the result was expected. Most companies have global value chains and operate in a global context. Export and import are main activities within their establishment. Even though companies could both have sales offices and manufacturing in Thailand, export or import was still a part of their value chain. Accordingly, most interviewed companies could be considered as global players who are exposed to external factors. A few market-driven companies differ from this group; they are Sweden-related businesses providing services only to the local market and consider themselves not a part of a global value chain.

Most of the companies in Thailand participating in this study can be seen as setups in a global setting rather than just national, according to Thailand's open economy in terms of trade as well their well-known focus on FDI and export. There are no signs of subsidiaries in Thailand that would be more isolated compared to setups in other countries. This assumption has been confirmed in the interviews and is explained further by each statement below.

There was an overall agreement in the statement regarding whether the company would get affected by a terms-of-trade shock. As mentioned above, the existence of global value chains explains the result. A national setup cannot be seen as limited within the national borders. No major differences between cost and market were observed. Market-driven companies gave slightly lower rankings, which can be explained by a few companies offering services only at the domestic market and consider their value chain less global.

In the second statement, regarding whether the company's growth follows the world economy, the ranking was in general neutral for all companies. According to the initial desktop study about Thailand, the expected result was that subsidiaries in Thailand would follow the world economy similar to any other subsidiary. It was motivated by the current conditions in the country and the Thai market, which do not stand out significant in any direction globally. There are no signs of any external factors that would not affect Thailand but the majority of other markets. What then caused a lower ranking? Observations in the interviews may explain the result; several industries are more prominent and positive than others nowadays. Some markets in Thailand are emerging, others are instead competitive or declining. Therefore, the growth in companies' other subsidiaries can differ or be more accurate to the world economy, due to domestic trends in Thailand rather than isolation from the global context.

One observation is that the second statement was hard to understand for many interviewees; further explanation was needed in many cases. It implies a risk of misinterpretations which can lead to incorrect answers. Furthermore, a lot of the interviewees did not have knowledge about the growth among the companies' other subsidiaries. The results should be interpreted with these observations in mind.

The concern about trade wars was in general not high among the companies. Cost-driven companies were more concerned about this issue, which corresponds with their focus on export. Although, higher results in general were expected because of the potential impact on the companies' international value chains. One reason behind the disparity in our expectations and the result, could be an uncertainty within the issue. One company thought the international companies in general were overestimating their chances of avoiding negative effects by trade wars.

The theory regarding this factor indicated that the Thai economy, which is an open economy, would be exposed to external influence. Companies acting in this economy would therefore be vulnerable to these events. Also, as the events in this factor are characterised by an international scope, the effects are not limited to the domestic economy. The international environment for companies is even more exposed to these events. It differs from some of the other factors in this study, since some of them only have influence in a local context. External factors are instead having more impact in the global context. The empirical results supported the theory; the companies considered themselves affected by the external factors. Since the companies are active in an open economy as well as being global organisations with mostly hierarchical modes, the result does align with the theory. The companies that considered themselves more affected, are those that had global characterised value chains, which

also correspond with the theory. In some areas within this factor, as for trade wars and company growth related to world economy, the companies did though underestimate the effect compared to the expected result. It has been explained mainly by minor shortages in validity, since some of the statements in the questionnaire were complicated, results completed each other as well general uncertainty within the issues.

6.5 High-technology

This factor was measured in the theory as the amount of high-technology export in comparison to the total export. Higher percentage of high-technology export correlated negatively to economic slowdowns according to the research by Eichengreen, Park and Shin (2013). In our study, the result showed similar patterns. High-technology was by most companies described as a crucial factor for Thailand's future development. The importance of high-technology represented the need of staying competitive, keeping their *factor conditions* and *related and supporting industries* according to the theory by Porter (1990), when the country is no longer as cost effective as before.

Almost all companies ranked the presence of high-technology to be important for their company in Thailand. The cost-driven companies ranked the importance of high-technology slightly lower compared to the market-driven companies. The reason behind the lower ranking among cost-driven companies could be that they opened their subsidiary in Thailand with the main driver to reduce costs. In several cases they opened a factory due to access to cheap labour, considered a factor condition in Porter's Diamond (Porter 1990). Since their production would then require mainly cheap labour, this would explain why they are less dependent on the presence of high-technology. However, during the interview some of the cost-driven companies mentioned that are looking into transitioning to an automated production process. This might imply that the presence of high-technology will become a more important factor for them; the factor condition could therefore be changing. One company mentioned that they consider lack of competence to be a challenge in their transition towards a more automated production. Meanwhile, others said that with the labour costs still being so low, they currently do not see any need for a more automated production.

Most of the market-driven companies ranked the presence of high-technology production as important for their company. Even though most of the market-driven companies did not have their production in Thailand, they still considered this factor to be of high importance for them. It could be explained by the amount of interviewed companies operating in technological fields, providing solutions and having their customers in these areas. For some of them, increased presence of high-technology would mean more competence in the area. Meanwhile for others it could imply a bigger customer base for their technologically advanced products.

During the interviews, both cost-driven and market-driven companies tended to discuss the aspect of high-technology in rather general terms. After conducting the interviews, we were under the impression that many companies ranked this factor as important even if they were not directly dependent on the presence of high-technology. Most interviewees seemed to agree on that Thailand as a country would benefit from transitioning into a more technology advanced production. The reasoning behind this conclusion deviated between companies. One argument was that the minimum wages in Thailand are increasing, currently higher compared to other countries in the region. Therefore, the company argued that Thailand needed to transition into more advanced production that

required less manual labour in order to stay competitive and keep the factor condition. This argument is in accordance with the literature supporting the existence of the MIT: the idea that MICs are unable to compete with the low-cost countries, due to higher salaries. Another argument was that Thailand needed to increase the presence of high-technology to ensure a steady level of quality. This company argued that salaries should not be the main reason for automation rather the quality improvement. We believe that both these arguments are making a similar point. The first argument is very clear, the rising salaries require changes in the country as they need to be accompanied with a continued growth of GDP. The second argument shows a different way of thinking; however, we believe that the reasoning behind the argument might essentially be the same. The increasing wages might result in more expensive production and therefore an increasing need for higher quality to motivate the prices.

Some of the interviewed companies had their production in other countries in the region. A few companies mentioned that Thailand was a potential candidate as a location for their production but that it was later decided in favour of another country. However, in those cases high salaries in Thailand were not mentioned among the reasons for opening the production elsewhere. We consider that the high ranking of high-technology is in an indicator that even though salaries are currently not at such a high level that it affects current production, several companies notice a growing competition from neighbouring countries and therefore see a rising need for automation and high-technology.

The high-technology aspect is more complex than it initially might seem, and we would argue that the high ranking could be correlated with the lack of competencies in workforce. Several companies mentioned during the interview that there was plenty of knowledge in the fields that they operate in, due to the prevalence of other companies in that field. Since many of the Sweden-related companies in Thailand operate in industrial or technological fields, we believe that the high ranking of the presence of technology could be related to a lack of competencies in this field. As previously mentioned in the Human capital segment, many companies struggled with finding good engineering skills. Therefore, increased presence of high-technology would benefit their company even if they are not directly dependent on this factor.

According to MIT literature, there is a link between the percentage of high-technology exports and the probability of an economic slowdown. Higher percentage implies a lower probability of an economic slowdown. This finding was in line with the companies' observations, since a great majority mentioned the rising need to increase the high-technology production and automating. From the interviews, we learned that Thailand needs more high-technological production, since it was ranked unanimously high by most companies. One aspect of the companies high ranking could be intertwined with the lack of competencies in these fields. From this perspective, a higher prevalence of high-technological production would increase the competence in these fields which would benefit the companies. The second aspect is the companies experience of an increasing demand for higher salaries and the increased production in the neighbouring countries. Using Porter's diamond, we identified that the factor condition cheap labour was the main reason of entry for the cost-driven companies. As salaries in Thailand are rapidly growing the main factor condition in Thailand is becoming less obvious. Therefore, the companies believe there is an increased need for a transition to keep the competitive edge for their subsidiary in Thailand. Even if the market-driven did not enter the Thai market primarily due to the cheap labour they still were able to take advantage of this factor. Since there have been many different opinions expressed on this matter, it is hard to draw a simple conclusion. From our research, we can state that the presence of high-technology is important to Sweden-related companies in Thailand and would suggest that this factor is intertwined with other factors such as the supply of competencies and rising salaries.

6.6 Financial Instability

The factor financial instability regards the effects on growth by any local/regional financial events. According to the theory, a correlation between financial crisis and a growth slowdown was found. This was suggested to be due to the drop of investments during the time of crisis, which would be noticeable for companies during the crisis. Despite that, our study did not come to that conclusion. Financial instability, in this research exemplified by the Asian financial crisis, did not result in any noticeable effects on the companies in general. The result from the questionnaire is accordance with the observations during the interviews. Some companies established before the financial crisis did experience negative effects by it, but a majority of the companies were indifferent about it. There were even a couple of companies that saw opportunities during the financial crisis.

A significant difference between cost- and market-driven companies could be observed in the result regarding effects by the financial crisis and drop of FDI. One potential reason behind the difference could be how the cost-driven companies focus more on export. They are not exposed to any effects by declining demand on the Thai market. And as long as they were not selling anything in Thai currency, the main effects of the crisis could be avoided. Instead, they could probably take advantage of cheaper conditions and released competence and facilities in Thailand.

According to the result, market-driven companies seem to have managed financial instability far better than imagined. According to our expectations, these companies should have seen bigger effects explained by the dependence of the Thai and Asian market as well the major drop in the currency. The desktop study about the financial crisis in Asia in the late 90's, described the situation as devastating. And not just in Thailand; the whole region was down during this event. So, despite slight deviations in the results between cost and market, it was surprising how little effects were noticed by the companies during the crisis.

Observations during the interviews could explain the unexpected result and indicate a lower value of validity. Several corporate interviewees did not remember the time of the crisis or did not work in the company during that event. They could also have been underestimating or forgetting the seriousness of the consequences afterwards. Their judgement in this matter could therefore be questioned. Further, as the crisis led to bankruptcy among some companies, the ones who were most affected are maybe not present in Thailand today and were not able share their opinions in this study.

Among the market-driven companies established after 1997, they strongly disagree that the Asian financial crisis would have affected their establishment strategy. The result is reasonable due to the fact that some of them established several years after the crisis when the country had started to recover. The companies established closer to the crisis are instead likely to have taken advantage of the situation and would probably consider the crisis as a possibility rather than a negative influence.

To conclude this factor, the impact by financial instability on international companies in this study was marginal. The result among cost-driven companies is expected due to the characteristics of their customers; they are less dependent of the Thai market. Therefore, they are less affected by drop in investments and decreasing demand. In other words, the cost driver is not that exposed to this kind of instability. Furthermore, looking at the theory of Porter's diamond and the locational advantages in

Thailand, it is considered reasonable that Thailand's *factor conditions* and *related and supporting industries* do not face major changes due to financial instability.

The market-driven companies did show similar patterns; no noticeable effects by financial instability, which is considered unexpected. Eichengreen, Park and Shin (2013) showed in their research how economic slowdowns were correlated with financial crisis. Companies engaged in the Thai market, as market-driven companies in this study, would see more effects due to a declining demand and investments. Regardless this assumption, the result shows how companies stay isolated from financial instability despite being market-driven. This surprising result could be explained by shortages in reliability and representativity; confusion in the questionnaire and the time span since the exemplified financial event could have jeopardised the reliability. Only including companies present today that obviously survived the financial crisis, could also influence the result and lead to uncertainty about the representativity.

6.7 Closing analysis

Throughout the analysis, we have been evaluating the empirics according to the theory regarding MIT and internationalisation. The results have been analysed for each of the five factors, identified by Eichengreen, Park and Shin (2013). Further analysis has been done on the division of the companies into drivers within Yip's globalization framework.

The exposure to the MIT was measured using five factors. Eichengreen, Park and Shin (2013) measured wide and complicated areas, which were clearly distinguished and based on different data input. In our research, we found that these factors were in reality very broad, interfered with each other and affected the companies in many different ways. The analysis has therefore presented a complex picture of how these factors affect the companies. All factors have affected the population to some extent, but there have been major differences between one company's experience from another. This is expected when analysing broad and complicated issues. Furthermore, when looking at each driver, the experiences of MIT differ between the two groups of companies. This is aligned with the theory of how the drivers have different characteristics, according to Yip's globalization framework, and therefore would be impacted in different ways. Most of the findings were explained in the analysis, using the theoretical framework and country specific research about Thailand.

This broad and complicated result has led to difficulties to summarise and get an overall picture of the effects of MIT. The result for each factor has been analysed separately, not compared to each other. Certain patterns were discovered during the analysis and some of them could overlap between the factors. The result suggested that these overlapping patterns occur because multiple factors are dependent on the same underlying cause. Financial instability and political regime changes tend to result in influence on the domestic economy, affecting mainly the domestic market and companies engaged in it. The results from the factors human capital and high-technology suggest that they might be intertwined due to the lack of competence in the labour. These underlying causes could therefore result in similar explanations to the result.

7. Discussion

In the discussion, the findings from the analysis are discussed according to the initial research questions and purpose. Identified patterns and dependencies from the analysis are developed further in this section.

The aim of our research was to explore the economic phenomenon MIT from the perspective of international companies established in a MIT country. We have studied five factors that according to theory are linked to occurrences of growth slowdowns. Throughout our study we have been able to gain understanding about how each of these factors affect the companies. We have observed that the effects of these five factors were more intertwined and complex than what was anticipated from the theoretical framework. Certain aspects of the five factors were noticed unanimously by all the companies. Despite this, the answers differed for most factors, depending on the specific attributes of each company such as driver, year of establishment and field of work. We learned that there is no unanimous answer to how a company experiences the effects of the MIT. However, we can confirm that all of the five studied factors exerted a level of influence on the companies. It was unexpected how varyingly the same factor could be experienced by different companies. One company perceived a particular aspect as an opportunity while another company as a serious threat.

The analysis allowed us to concretise how the five factors affected Sweden-related companies. We were able to provide an explanation for the majority of the results. All of the factors had an effect on the companies as expected, however the extent to which the factors affected the companies did not consistently correspond to our expectations based on the desktop study. In general, the results are in line with the theoretical framework. We did not find answers that directly contradicted it, but rather saw broader effects of each factor. How each factor was experienced (on an individual company level) was more nuanced and complex than initially assumed. That all the factors exerted some influence on most companies is in part predictable due to the broadness of the definition of each factor.

According to the theory, the five factors were clearly distinguished between each other, as they all had different data as input. Our analysis concluded that all the factors were more intertwined from the companies' perspective. Using our findings, we propose that the identified patterns are not specific to a unique factor. Instead, they depend on varying underlying causes, which occasionally overlap with multiple factors. We claim that the underlying causes are more accurately illustrated through the interplay of certain factors. Therefore, the discussion will not focus on discussing each factor individually, but instead focus on their interplay and underlying causes.

7.1 Political Regime Changes & Financial Instability

Two factors that ended up being more intertwined than anticipated are financial instability and political regime changes. We are aware that these factors describe different aspects of the MIT and that in the research conducted by Eichengreen, Park and Shin (2013) each factor had different quantitative data as input. Political regime changes is a factor that takes into consideration how

changes in political regime affect companies within a country. However, this factor was most often experienced by companies through the market fluctuations that political events gave rise to it. Financial instability is a factor that takes into consideration the effects of local or regional financial events such as the Asian financial crisis. This factor was also mainly experienced by the companies through the effects it had on the Thai market. Both of these factors affected the companies to a lesser extent than what was anticipated. We were able to find patterns showing a connection between effects from the factors and company strategies. Thus, identifying the structures of companies that tended to be more immune to the consequences of these factors. Therefore, our conclusion is that the effects of these two factors were similar from the perception of the studied companies.

The pattern we observed among the companies depended on which customers the company targeted. We observed differences between the rankings of cost-driven and market-driven companies and concluded that it is mainly a result of a division in customer base. Many of the cost-driven companies' customers are based abroad, which is not surprising as their main reason for entering Thailand were low-cost advantages rather than access to the domestic market. On the other hand, market-driven companies mostly rely on domestic customers, which is the reason why they established in Thailand. By identifying the main driver for the company's establishment in Thailand, one is able to more accurately perceive the level of their dependence on the Thai market. We observed that the cost-driven companies were less affected by both these factors compared to the market-driven ones. However, overall both these factors affected the companies to a lesser extent than what was initially anticipated. We did not expect that the political situation in Thailand mainly influenced the companies through its impact on the Thai market.

To fully understand the result of financial instability and political regime changes, we propose to divide the companies into three groups. We decided to look more deeply into the companies' structures because we wanted to discuss the underlying mechanics behind these factors. We suggest the following division: companies which only export from Thailand without selling domestically, companies which both export and sell domestically, and companies which import and sell domestically. The first group consisted only of cost-driven companies, the second group consisted of both cost-driven and market-driven companies, and the third group consisted only of market-driven companies. The companies which only exported were not affected by either financial instability or political regime changes. One of the companies even described the Asian financial crisis as a business opportunity. Companies that both exported and sold to the local market tended to be more immune to the effects of the two factors. Companies which imported and sold to the local market were most affected. The result mirrors the level of company dependence on the Thai market. The interviews enabled us to conclude that both political regime changes and financial instability resulted in the same main consequence for companies: a drop in purchasing power within the Thai market.

7.2 Human Capital & High-technology

Human capital and high-technology are two factors capturing different aspects of the MIT. The quantitative data used by Eichengreen, Park and Shin (2013) for these two factors seemed entirely independent in-between. To measure the correlation between human capital and growth slowdowns the researchers used the total amount of high-school years and the total amount of secondary and higher education. To measure the effects of high-technology the researchers used the percentage high-

technology made up of the total export. After conducting our study, we claim that these factors, even if measuring different aspects of the MIT, are actually more intertwined than might initially seem.

The perception that Thailand needs to increase the presence of high-technology is potentially a result from effects within the human capital factor. It was mentioned several times by companies that increasing salaries are making Thailand less competitive in production compared to other countries in the region. This was often suggested by companies who themselves did not have production in Thailand. None of the companies that had their production in Thailand said this. On the contrary, one company pointed out that the minimum salaries for industry workers are still very low and that it is only the office workers salaries that are increasing very fast. Therefore, we suggest that this belief originates from companies' observations of rapidly increasing salaries among their office workers. To motivate and explain the rapid salary increases, companies are looking for a change and find a need to transform into a more knowledge-advanced economy. In Thailand, the GDP is not increasing as rapidly as the salaries, which might create uncertainty and fear that the current salary growth is unsustainable. According to the findings of Eichengreen, Park and Shin (2013), many companies' beliefs about high-technology are correct; increased amount of high-technology export is linked to a lower probability of growth slowdowns.

Another aspect of the interplay between human capital and presence of high-technology comes through lack of competencies. Since most of the companies educate their employees, areas with many established international companies tend to have more skills available. This happens due to accumulation of these skills in the country. Many of the companies were active in a technological field and one of the main skills that many companies struggled to find was good engineering skills. Therefore, this could also explain the increased need for high-technology presence perceived by the companies. Increased presence could generate more knowledge in the area, enabling their own transition. The connection between the factors can also be viewed the other way around: to take the next step towards a technologically advanced production, the company requires more high-skilled labour which was considered to be a challenge. Therefore, the lack of competence in the area could be affecting the presence of high-technology as a result.

The main underlying cause explaining the companies answers and connecting these two factors is lack of competencies. Lack of competencies enhances increase in salaries, which are currently not accompanied by the same level of increase in productivity. This worries many companies and heightens their belief of the need of transformation. Lack of competencies is a potential constraint to pursue this transformation and increase the presence of high-technology, because skills such as good engineering are already considered hard to recruit. This affects both the cost-driven and the market-driven companies.

7.3 External Factors

The impact by external factors experienced by the population was aligned with our expectations. A reason for internationalisation, according to Yip's globalization framework (Johnson et al. 2017), is spreading risks on different markets. This lowers the exposure to fluctuations on one market. The consequence though, is increased risk of impact by external factors. We would argue from this standpoint, that external factors is not for the chosen population characteristic to a MIT country. Instead, it is a result of the international structure of the companies. The exposure to global events was

not specific for the subsidiaries in Thailand, rather a result of being a global company active in many markets.

7.4 General Discussion

Our research population consisted of Sweden-related companies established in Thailand, thus all being international organisations. Most of the companies had a global value chain, making them vulnerable to global events not only in their subsidiary in Thailand but in all their subsidiaries. Additionally, the Thai market is considered to be an open market, therefore itself sensitive to global events. Our research confirms the international companies' high dependence on global trends. As an international company, regardless of internalisation driver, it is very hard to avoid exposure towards global events.

We found that financial instability and political instability mainly affected the companies through their impact on the Thai market. Companies that exported were less dependent on the Thai market, thus less affected by the two factors. Therefore, it could be considered risk minimising to both sell domestically and export, as it reduces the dependence on the Thai market. This could be argued to be a good strategy when entering a middle-income market, which according to MIT literature tend to have more growth slowdowns compared to other markets. This results in less dependence on one market and therefore less exposure to local political and financial events. Companies selling domestically were the most exposed to political and financial instability as they were highly dependent on the Thai market. Therefore, for companies entering Thailand with this purpose, it is important to consider the effects of these two factors.

Both financial instability and political regime changes were rated below our expectations for both cost-driven and market-driven companies. The reason behind the low ratings by the cost-driven companies is explained through their independence from the Thai market. However, even though market-driven companies rated these factors higher, they were still below the expectations based on the desktop study. This cannot be explained through lack of dependence on the domestic market, as access to the Thai market is the main reason these companies entered the country. This is partly explained by having customers that are companies' immune to the market fluctuations (similar to the ones in the cost-driven segment). A potential reason for the low ratings of political regime changes could be the sensitivity of this topic. An explanation to the low ratings of the financial instability is that two decades has passed since the Asian financial crisis, its consequences becoming less significant as time passes.

Both cost-driven and market-driven companies were affected by lack of competencies. Most companies were affected regardless of chosen internalisation strategy. Almost all interviewed companies struggled with finding good English knowledge and good leaders. This was experienced unanimously regardless of field of work. Companies active in technological fields struggled with finding good engineering skills. In general finding employees with secondary or higher education was not considered to be a problem. However, lack of competencies still existed due to potentially an uneven quality of education and a possible lack of engineering graduates. Eichengreen, Park and Shin (2013) found correlation between lack of secondary or higher education and growth slowdowns. For the companies, this aspect can be perceived through lack of competencies in the workforce caused by lack education. We found that even if access to higher education was not an issue, lack of

competencies still was. Therefore, we conclude that additionally to access to education it is as important to consider the quality of education provided in country, as it leads to the same consequences.

There are indications that lack of competencies affect the result in the answers to the question about presence of high-technology. Rapidly increasing salaries worry some companies, which consider increased presence of high-technology as a way to boost productivity. Lack of competencies is simultaneously a potential constraint for companies wanting to automate their production. High-technology was ranked high by most companies, which is partly explained by the rapidly increasing salaries. However, for some companies an increased presence of high-technology could also implicate an increase of customers. Since several interviewed companies were providing technological solutions, it is possible that they would directly benefit from increased high-technological presence, as it could increase the demand for their products.

When considering all five factors, we concluded that the factor that exerted the most influence on the companies is human capital. More specifically, the lack of competencies experienced by the companies. This aspect affects most companies and challenges the transformation towards a knowledge-economy. Fluctuations in the Thai market was another aspect that had noticeable effect but mainly on the market-driven companies.

8. Conclusion

This chapter presents the conclusion of the master thesis. It consists of an explanation of the main findings of this research, presents the answers to the research questions and is followed by a motivation of the fulfilment of purpose. A reflection on the choice of methodological framework is discussed and evaluated. The chapter ends with recommendations for future research.

8.1 Findings

The aim of our master thesis was to explore the economic phenomenon *Middle-Income Trap* (MIT) from the perspective of international companies. We studied the phenomenon by decomposing it into five different factors that according to Eichengreen, Park and Shin (2013) have a correlation to growth slowdowns. Overall, we found that all the five factors exerted an influence on the companies and could conclude that the factors were much more complex and often intertwined among each other. The main effects each factor exhibited on companies were the following:

- Most companies did not consider there to be a lack of secondary or higher education in the workforce. However, due to uneven quality of education and a potential engineer graduate shortage they experienced a lack of English knowledge, engineering skills and leadership skills. Most companies were still able to recruit the talent that they needed, even though it on average took longer time and could require premium salaries.
- The effects of political regime changes were not as significant as we initially thought them to be. We observed a clear deviation between the ratings and answers of the market-driven and cost-driven companies. The cost-driven companies being significantly less affected due to less dependence on the Thai market. The market-driven were more affected by these factors, as most of their customers were in Thailand.
- External factors were concluded to have a noticeable effect on both the market-driven and cost-driven companies. This result was aligned with our expectations because all the companies in the study were international and are all to some extent part of a global value chain.
- The presence of high-technology was considered important by a majority of companies, even by companies that did not have their production in Thailand. This is partly driven by an uncertainty that the rapidly growing salaries give rise to and therefore an increasing need to boost productivity. Several interviewed companies were providing technological solutions, therefore it is possible they could directly benefit from more technological presence, as it could increase the demand for their products.
- Financial instability did not unanimously affect all the companies, even though this was our anticipation from the desktop study. Similar to political instability it mainly affected the market-driven companies due to their higher dependence on Thai-market.

Even though all the five factors had an effect on companies, there was one aspect specific to a MIT country that affected companies regardless of their internalisation strategy. This aspect is lack of certain competencies. Today this problem is solvable through higher salaries and educations for employees. However, it could lead to more serious consequences as it could impede the transition towards a more technologically advanced economy. Lack of certain competencies is also enhancing the increase of salaries, which are already growing faster than the productivity. Additionally, it is suggested to be the underlying reason behind the high ranking of the high-technology factor. External factors also affected most of the interviewed companies but was not considered in this study to be specific for the subsidiaries in MICs, rather a factor affecting all the companies due to their international structure. Financial and political instability had a significant effect on some companies and almost none effect on others. This result mirrored the companies' dependence on the domestic market. These two factors, even if still important, did not exert as a unanimous influence on the companies as lack of certain competencies did.

We did not in our research observe any strategies that were immune to the lack of competencies. All companies seemed to be affected by this issue to some degree. The same applies to external factors. Since most companies were international players, they all were affected by this factor regardless of their field of work. Result from financial and political instability differed the most between different internalisation strategies. Cost-driven companies were significantly less affected by these issues as they were less dependent on the Thai market, while market-driven tended to be more affected by these factors, as these companies were more sensitive to the fluctuations on the Thai market.

We conclude that MIT does affect the international companies in Thailand. There are direct consequences affecting all companies. Financial instability and political regime changes did not unanimously affect the companies, companies independent of the Thai market were more isolated from these factors. Human capital was concluded to affect most companies, more specifically through lack of competencies. Lack of competencies also gave rise to other problems, potentially slowing down the transition towards a knowledge-economy. There are rapid increases in salaries, however these are not accompanied with equally high productivity growth. Thus, increasing the need of high-technology, which is considered as a way to boost to productivity. We conclude that MIT creates a peculiar labour market with effects reaching most companies, regardless of their field of work or internalisation strategy.

8.2 Fulfilment of Purpose

The aim with this study was to explore the economic phenomenon MIT from the perspective of international companies established in a MIT country. It was done through an explorative study with an abductive approach, limited to Sweden-related companies established in Thailand.

Our research was built on literature of MIT as well internationalisation strategy in companies. Based on research done by Eichengreen, Park and Shin (2013), five factors were chosen to illustrate the different areas of impact by the MIT. The factors were applied in a corporate environment in the context of Thailand. Further, the factors were tested by both qualitative and quantitative research in order to measure potential impact as well investigate the cause and effect. To evaluate any varieties in

effects on different corporate strategies, the population was divided upon their main purpose of the establishment.

This process made the purpose of the master thesis possible to fulfil.

8.3 Reflections on Methodology

The initial plan of methodology was to conduct an explorative study with an abductive approach. Methodological choice was appointed both quantitative and qualitative research. The research strategy was decided to be a survey with some elements of a case study. Overall, this methodology for the research ended up successful and suitable for this study. We were allowed to explore and understand the area deeply by using already known theory, as well as discovering new. The combination of quantitative and qualitative data gave us a possibility to capture wider perspectives of the issue. The qualitative result provided explanations to the quantitative result and deeper understanding about each factor.

What could be evaluated as shortages within the methodology are minor components within the different choices. Firstly, the research area was very wide. The choice of theory and delimitations narrowed down the study, but the area still remained large. This led to difficulties with clarifying the concept and preparing the data gathering. By extension, it has implied risks of less validity and reliability. This could be avoided in future research by narrowing down the study object even more.

Secondly, the selection of the sample in this study was made in an ad hoc manner. Doing a more proper selection from the population was in our case not manageable, due to the difficulties of finding participants to the study. In order to find interviewees, we did collaborate with the Thai-Swedish Chamber of Commerce and received contacts to companies through them. The number of companies was limited, and we contacted everyone represented in the population. A natural consequence of this selection is therefore to question the representativity. In order to improve the representativity in a similar study, alternative methods of selecting the sample should be investigated.

8.4 Future Research

This study is done with an explorative approach, in which the possibilities of future research are numerous. Similar methodology and purpose can be used with new research objects or other populations. As the result showed many specific characteristics not generally applicable for all MICs, more studies on other objects would also gain this research area and extend the validity.

MIT is nowadays a topical area of research and political reforms. Although, the issue tends to get caught in a discussion of its existence. What should not be forgotten, regardless if the phenomenon exists or not, is the importance of investigating challenges characterised by MIT. The term was quite recently defined and it concerns a majority of the world's population. There are many perspectives that are still not studied. The possibilities of future research in this area is therefore extensive, and well-needed.

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Appendix

AI. Interview guide

Interview guide

Introduction [2 minutes]

1. Introduce us
2. Short description about the master thesis.
3. There is no need of previous knowledge about Middle-Income Trap to participate in this session.
4. Explain the interview. Please keep the answers short.
 - a. Part 1: Background
 - b. Part 2: Multiple choice statements. Answer intuitive.
 - c. Part 3: Open questions

Part I [6 minutes]

General information about the company, establishment and drive/purpose.

1. Please tell us about your position at the company.
 - a. How many years have you been working at this position in Thailand?
2. Which year was the company established in Thailand?
 - a. How did the establishment process look like at your company in Thailand?
3. What was your company's main drive [purpose] with the establishment in Thailand?
4. Has the main drive [purpose] of the establishment changed?
 - a. If yes, what is the main drive [purpose] today?
5. What kind of activities do your company have *today* in Thailand?
 - a. How many employees do you have in Thailand?
 - a. Has the number of employees changed during the years since the establishment?
6. Which parts of the value chain* are located in Thailand and/or the region?
 - a. Is the placement of these parts in Thailand and/or the region of high importance to your company in Thailand?
7. Are there any other factors of high importance for your company in Thailand? E.g experience of doing business in Thailand, competitive advantages, established networks, cluster.

**A value chain is a set of activities that a firm operating in a specific industry performs in order to deliver a valuable product (i.e., good and/or service) for the market.*

Part 2 [10 minutes]

Multiple choices questions/statements, given to the interviewee on paper. The questions cover the different aspects of Middle Income Trap: Finding the right competence, National situation, External global events, The importance of high-technology production, Financial situation.

Finding the right competence

1. It is easy to find the right competencies for your job positions in Thailand.

Agree 1 2 3 4 5 Disagree

N/A

2. It is harder to fill the positions that require secondary or higher education.

Agree 1 2 3 4 5 Disagree

N/A

3. There is a lack of English-knowledge in the workforce.

Agree 1 2 3 4 5 Disagree

N/A

4. There is a lack of IT-skills in the workforce.

Agree 1 2 3 4 5 Disagree

N/A

5. In general, it takes longer time than average to fill a manager position in Thailand.

Agree 1 2 3 4 5 Disagree

N/A

National situation

1. Your company's investments in Thailand have been affected by political instability during the last two decades.

Agree 1 2 3 4 5 Disagree

N/A

2. Your company's growth in Thailand has been affected by political instability during the last two decades.

Agree 1 2 3 4 5 Disagree

N/A

3. It is easy to establish an international company in Thailand today.

Agree 1 2 3 4 5 Disagree

N/A

4. Corruption is a concern for international companies in Thailand.

Agree 1 2 3 4 5 Disagree

N/A

External global events

1. In case of an external terms-of-trade shock*, your company in Thailand would easily get affected.

**Terms-of-trade shocks describes a sudden, large, and enduring change either in import or export prices (IMF, 2008).*

Agree 1 2 3 4 5 Disagree

N/A

2. The growth in your company in Thailand, differs from the average growth of all the subsidiaries.

Agree 1 2 3 4 5 Disagree

N/A

3. The growth in the company in Thailand, follows the world economy less accurate than the average growth of all the subsidiaries.

Agree 1 2 3 4 5 Disagree

N/A

4. The ongoing global trade wars are a serious concern for your company in Thailand.

Agree 1 2 3 4 5 Disagree

N/A

The importance of high-technology

1. The presence of high-technology [high-tech] production in Thailand is important to your company in Thailand.

Agree 1 2 3 4 5 Disagree

N/A

2. The high-technology [high-tech] production in Thailand is a part of your company's value chain.

Agree 1 2 3 4 5 Disagree

N/A

Financial situation

Companies established before 1997:

1. Your company in Thailand was noticeably affected by the **Asian financial crisis** 1997-1999.

Agree 1 2 3 4 5 Disagree

N/A

2. Your company in Thailand was affected by the overall drop of foreign investment in the country.

Agree 1 2 3 4 5 Disagree

N/A

Companies established after 1997:

1. The **Asian financial crisis** led to a change in your company's establishment strategy in Thailand.

Agree 1 2 3 4 5 Disagree

N/A

Part 3 [10 minutes]

Open questions, interview format. To get additional information to the analysis.

Finding the right competence

1. What competencies do you need in Thailand at your company?
2. What is your perception of the scope of the labour force with the right competence in Thailand?
 - a. What specific competence do you find there is an abundance of?

- b. What competence is there a lack of?
- c. Are there any difficulties with finding the right people for the right position?
- d. Are there any specific social groups that are more prevalent to have the competence you are seeking? Gender, age, graduates, mid-senior, foreigners?
- 3. How many of your employees are local and how many are Swedish or other foreigners?
 - a. How many managers are local and how many are foreigners?
- 4. (Are you a part of growing talent in Thailand? -Educating your employees, internships, graduate programs, collaborations with universities, etc.)

National situation

- 1. What in Thailand's political situation is considered a concern by international companies?
 - a. Only within specific industries?
 - b. Within specific political areas?
- 2. Are there any political changes you could think of
 - a. that would improve the conditions for your company?
 - b. that would aggravate the conditions for your company?

External global events

- 1. If you have differences between your company's growth in Thailand and the overall growth in the company, how would you explain it?

The importance of high-technology

- 1. How do you experience the presence of high-technology [high-tech] production in Thailand?
 - a. Do you see any competitive advantages with the current situation?
 - b. Would it be an advantage for your company in Thailand with an increased presence of high-technology [high-tech] production in Thailand?

Financial Instability

Companies established before 1997

- 1. In what ways were you affected by the Asian financial crisis 1997-1999?
- 2. How did the crisis affect your investment strategy in Thailand?
- 3. (Did the crisis lead to new governmental laws that affected you?)

If you sell in Thailand:

- 1. What customer segment is your target?
 - a. How did the crisis affect your sales in Thailand and neighbouring countries?
 - b. Did you have the same target customer during and after the crisis?

If you manufacture in Thailand:

- 1. How did this affect your production?

If you export from Thailand:

- 1. How did this affect your sales abroad?

Companies established after 1997

- 1. How did the Asian financial crisis affect your establishment?

2. Where there any specific difficulties that you had to deal with that you believe the crisis had given rise to? For instance, harder to get bank loans, more bureaucracy etc.

Finishing the interview [2 minutes]

1. Thank you!
2. Explain what follows now
3. If we have more questions - can contact them?
4. We send the published version