Foreign Direct Investment and Thailand's Color-coded Politics: The Thai Paradox - Will it Endure?

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Abstract

Considering first various categories of political risk in which to pigeonhole the recent political mayhem in Thailand, this article explores the impact of these political events on the flow of foreign direct investment into the country. It posits that, contrary to the commonly-held view, the main threat to transnational capital inflow is the Map Ta Phut legal entanglement over environmental issues, not the political standoff. The Supreme Administrative Court's controversial halt, while good news for the environment climate could be bad news for the investment climate; all the more as with the Association of Southeast Asian Nations' Economic Community looming on the horizon and a new regional architecture taking shape, Thailand also faces increasing competition for FDI within its own economic block.

Key words: *FDI, Political and legal risks, foreign investor confidence, AEC, ASEAN, Map Ta Phut industrial estate.*

Introduction

Take any textbook addressing the issue of foreign direct investment (FDI). [1] You will invariably be told that political risk is at the top of the investor agenda and political stability in the host country one of the key factors attracting foreign investors (Daniels *et al* 2007; Czinkota *et al* 2004).

Politics and laws play a critical role in international business. A country's political and legal systems define vital parts of its business environment. Failure to anticipate them could prove the undoing of otherwise successful business ventures (Hills 2007).

This comment is premised on these propositions. Considering first various categories of political risk in which to pigeonhole the recent political events in Thailand, it then looks at FDI in the Kingdom and posits that, contrary to the commonly-held view, the main threat to FDI inflow is the Map Ta Phut legal impasse, not the political standoff.

Indeed, even though the Map Ta Phut legal controversy over industrial pollution has received little media coverage compared to the rioting in downtown Bangkok, its negative impact on the flow of transnational capital is potentially far greater than the political upheavals; all the more as with the Association of Southeast Asian Nations' Economic Community (AEC) looming on the horizon and a new regional architecture taking shape, Thailand also faces increasing competition for FDI within its own economic block.

Political Risk

As defined in one textbook, generally, political risk *"is the chance that political decisions, events, or conditions in a country will affect the business environment in ways that lead investors to lose some or all of the value of their investment or be forced to accept a lower than projected rate of return"* (Daniels *et al* 2007).

There is political risk in virtually every nation. In general, risk is highest in host countries that do not have a history of stability and consistency. Still, even in countries that seem stable, civil unrest has been known to cause major setbacks in the operations of business *(Ibid)*. One such country that readily comes to mind is Greece, where recent violent protests against reduced public spending brought the nation to a standstill.

Political risk has been classified in various ways. In a nutshell, ranging from least to most disruptive, political risk can be: systematic

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