

Dynamic Changes in Location Choice and Fragmented Flying-Geese Theory: An Empirical Analysis Using Microdata from Japan and Thailand

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Abstract

In this paper, we undertake both a static and dynamic analysis of the Thai economy and Japanese firms, drawing upon new economic geography and the flying geese theory. Specifically, utilizing micro-level data from both the host and investor countries, we aim to theoretically and econometrically elucidate the relative roles of local, foreign, and Japanese firms, along with their dynamic transformations at both the industry and provincial levels, with a focus on Thailand. As Thai manufacturing and trade structures evolve towards greater sophistication, agglomerations and regional value chains (RVCs), encompassing forward-backward linkage effects such as supplier and market access, have emerged as pivotal factors influencing the entry of Japanese firms into Thailand or the attraction of such firms to the region. Despite the phenomenon of foreign direct investment (FDI) relocating to less developed countries in pursuit of low-wage labor, as posited by the flying geese theory, the case of Thailand reveals a contrary trend: foreign investment, particularly from Japan, continues to rise despite increasing wage levels. This divergence can be attributed to the paramount importance of local supply and sales networks over wage considerations. Furthermore, the significance of these local networks is progressively magnifying over time.

Keywords: Dynamic shifts, New economic geography, Location choice, Flying geese, Thai manufacturing industry, Japanese foreign direct investment