



INVESTIGATE IMPORTANT FACTORS AND TRADE BARRIERS INFLUENCE  
PURCHASING DECISION OF IMPORTERS IN THAILAND ON BUYING  
STEEL INDUSTRIAL PRODUCTS FROM CHINA



By

Miss Noppawan Luangwilaiwan

An Independent Study Submitted in Partial Fulfillment of the Requirements for the Degree  
Master of Business Administration Program in International Business

International Program

Graduate School, Silpakorn University

Academic Year 2015

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MISS. NOPPAWAN LUANGWILAIWAN: INVESTIGATE IMPORTANT FACTORS AND TRADE BARRIERS INFLUENCE PURCHASING DECISION OF IMPORTERS IN THAILAND ON BUYING STEEL INDUSTRIAL PRODUCTS FROM CHINA. INDEPENDENT STUDY ADVISOR: ASST. PROF. CHAICHANA TEERASUKITTIMA, D.B.A., 54 pp.

The purposes of this research were investigate the important factors and trade barriers that influence the purchasing decisions of importers in Thailand when buying steel industrial products from China. The qualitative method was applied to gain in-depth information.

The results of this research found that there are five important factors which grouped into product-oriented variables (price and quality) and service-oriented variables (suppliers' relationships, delivery processes and shipping agents). From the finding, it showed that the main factor is the price while the quality is acceptable. Moreover, the result also showed that the importers are likely to deal with long term reliable suppliers who can help them resolve various complexities such as delivery process.

Moreover, there are three trade barriers which are grouped into laws/regulation variables (import tariffs, complexities of customs procedures and government policies). The interviewees accepted import tariffs as a part of importation but some importers are likely to avoid these barriers through governmental policies (FTAs, Form E and BOI). These policies help importers pay less tax and this creates positive impact on importers' purchasing intention.

Meanwhile, antidumping and safeguard laws impact negatively on importers due to the higher tariffs as well as the complexities of custom procedures also impact negatively to importers' purchasing decisions. Therefore, importers are likely to utilize services from third party such as shipping companies for their conveniences.

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## Acknowledgements

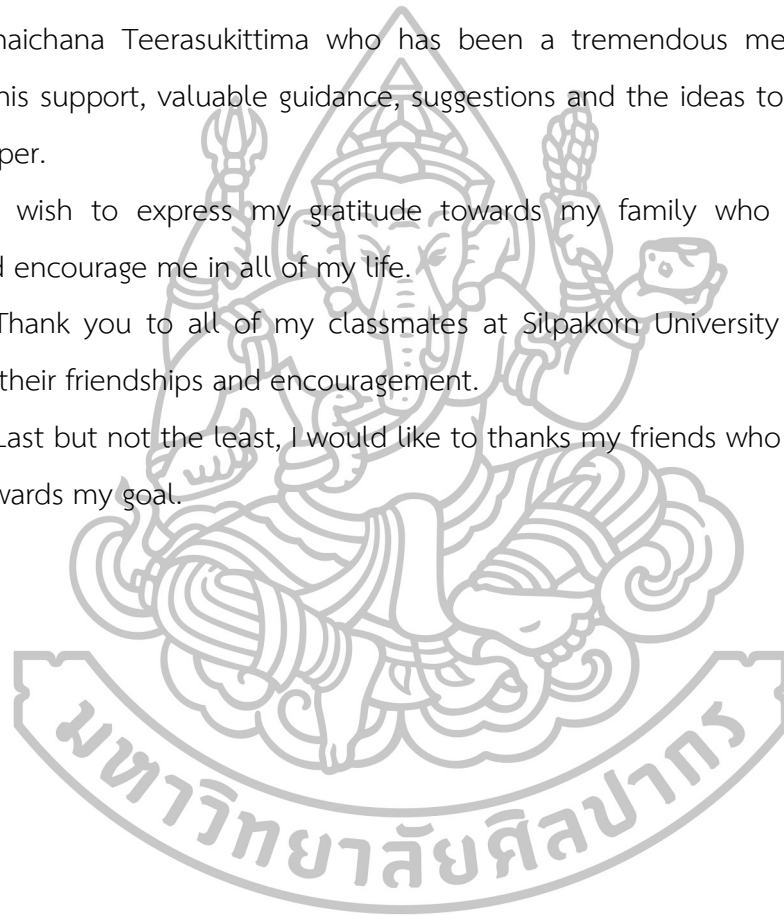
I am using this opportunity to express my gratitude to everyone who supported me for complete this study.

Firstly, I would like to express my sincere gratitude to my adviser Asst. Prof. Dr. Chaichana Teerasukittima who has been a tremendous mentor for me. Thanks for his support, valuable guidance, suggestions and the ideas to develop this research paper.

I wish to express my gratitude towards my family who always love, support and encourage me in all of my life.

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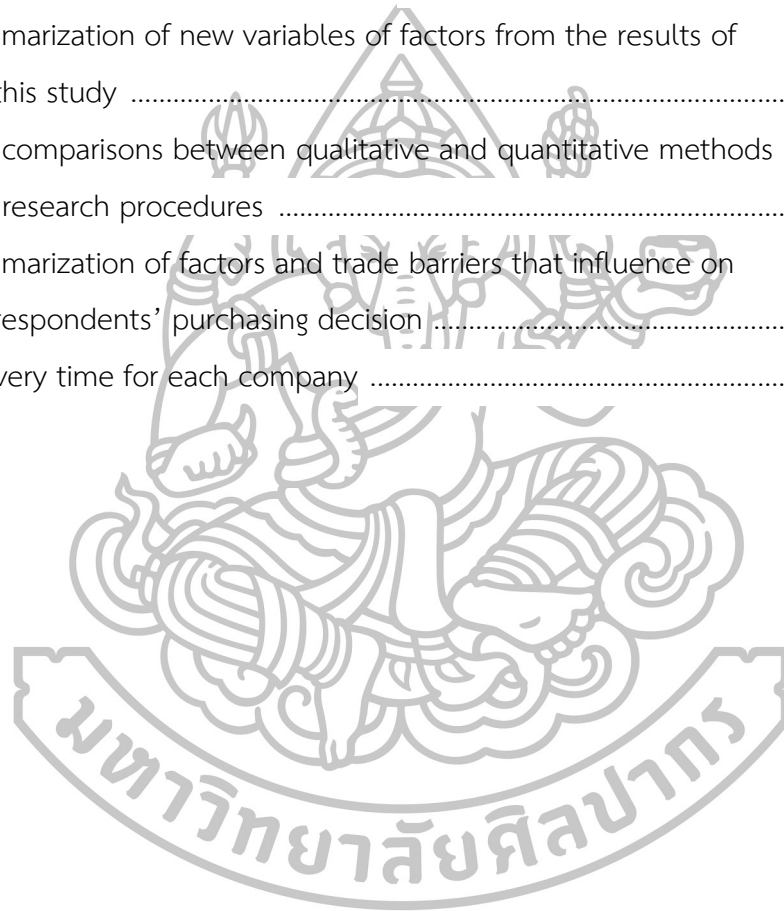
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## CHAPTER 1

### INTRODUCTION

International trade is a significant mechanism for every country which buys or sells goods through the global exchange of products, known as importation and exportation. An increase in international trade is due to “Globalization”. International trade affects positively on the economic growth of countries (Peng & Almas, 2010). Countries are concerned in their export volume in order to increase their competitiveness and effectiveness of trading in international markets. However importation is also an important factor which drives international economies but is seldom focused upon or discussed. Only a few studies can be found concerning importation in the international exchange process (Ghymn and Jacobs, 1993; Ghymn et al., 1999; Katsikeas, 1998; Leonidou and Kaleka, 1998; Liang and Parkhe, 1997; Novicevic and Harvey, 2004).

As seen from the following figure, China, Japan the United States and Malaysia have been the main trading partners. (Trading Economics, 2016). In 2015 total imports into Thailand comprises of 15.6 percent from China, 12.3 percent from Japan and 9.1 percent from the United States. This shows that China is the most attractive country for Thai importers. Thailand imports mainly raw materials (metal ores, chemicals, plastics etc.) and intermediate goods (electronic parts, automobile parts, etc.) from China.

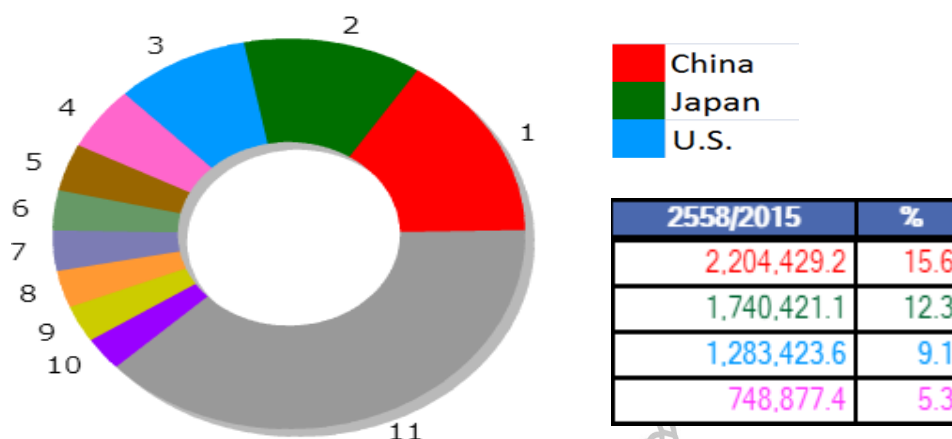


Figure 1: Rank of Thailand's trading partners in 2015, Value: Million Baht

Source: <http://www2.ops3.moc.go.th/>

Difficulties in international trade can arise as each country has their own laws and regulations governing importation and exportation. Due to this, various trading agreements, such as "Free Trade Agreements" (FTAs) were drawn up to contribute in reducing the trade barriers and investment such as tariff rates, which eliminate and reduce the encouragement of free flow of goods and services. The ASEAN-China free trade agreement (ACFTA) was officialised by then People's Republic of China and the Free Trade Agreement with Thailand commenced in October 2003 (BOI, 2016). After which both countries have maintained great relationships in international trade for both exports and imports which capitalizes on the FTA.

Trade between Thailand and China has increased after the FTA was signed. As China is the main supplier of raw materials to Thailand an import deficit has arisen, which is unbeneficial to Thai economy. Therefore a more equal and sustainable import/export balance must be found to resolve this problem and ensure smooth continuous trading between the two countries. To understand and balance imports and exports, the knowledge of factors and trade barriers that influence importers' purchase decisions is required.

Steel is a common raw material used in various consumer goods such as automobiles, electric appliances, cutlery, etc. The steel industry is a fundamental

industry in Thailand which expands to other manufacturing industries and services. In 2014, Thailand was ranked 6<sup>th</sup> as a major importer of steel (table 1), importing a total of 15.1 million tonnes. Meanwhile, China was ranked 1<sup>st</sup> as an exporter of steel, which shows that China was the main supplier of steel in global markets.

Table 1: Major importers and exporters of steel

Rank	Total Exports	Mt	Rank	Total Imports	Mt
1	China	92.9	1	United States	41.4
2	Japan	41.3	2	European Union (28) <sup>(1)</sup>	32.4
3	European Union (28) <sup>(1)</sup>	37.1	3	Germany <sup>(2)</sup>	24.3
4	South Korea	31.9	4	South Korea	22.4
5	Russia	27.0	5	Italy <sup>(2)</sup>	16.6
6	Germany <sup>(2)</sup>	24.8	6	Thailand	15.1
7	Ukraine	21.5	7	China	14.9
8	Italy <sup>(2)</sup>	17.3	8	France <sup>(2)</sup>	13.4
9	Turkey	16.2	9	Turkey	13.4
10	France <sup>(2)</sup>	14.9	10	Viet Nam	12.4

Source: World Steel Association, 2015

The researcher cannot find any studies relate to purchase decisions of Thai importers on the Chinese steel industry, even though steel is a commodity and always in the top ten of important imported products; with import volume has been increasing every year. (6<sup>th</sup> rank in 2010 – 2013 and the 5<sup>th</sup> rank in 2014 - 2015: Trading Economics, 2016). Therefore it is an area deemed valuable for study. This study explores the important factors and trade barriers that influence the purchasing decisions of importers in Thailand when the steel industrial products transactions from China are made.

### Problem Statement

Trade between Thailand and China was valued at 64,807.9 million US dollars in 2015. Thailand imports from China more than it exports. China is the world's largest producer of steel products. In 2014, China produced 822.7 million tonnes of crude steel, whilst Thailand's production was 3.5 million tonnes (World Steel Association, 2015). Thailand imports steel from foreign countries as there are no preliminary irons making facilities in the country that are able to even produce fungible products. However, Thailand imported a total of 76.527 million Baht worth of steel from China in 2015 (Ministry of Commerce, 2015) which a very high investment leading to a trade deficit.

Figure 2 and figure 3 show the comparison between exports and imports in 2014 and 2015. In 2015, the exportation was valued at 23,742.1 million US dollars, while importation was valued at 41,065.8 million US dollars, which means that Thailand had a trade deficit by China at a value of 17,323.7 million US dollars (FTA Department of Trade Negotiations, 2016). Figure 3 also shows that the value of imports to Thailand from China has increased between 2014 and 2015, but decreased for ASEAN and other countries. These confirm Thai importers' purchase decision that China is the most attractive trading partner.

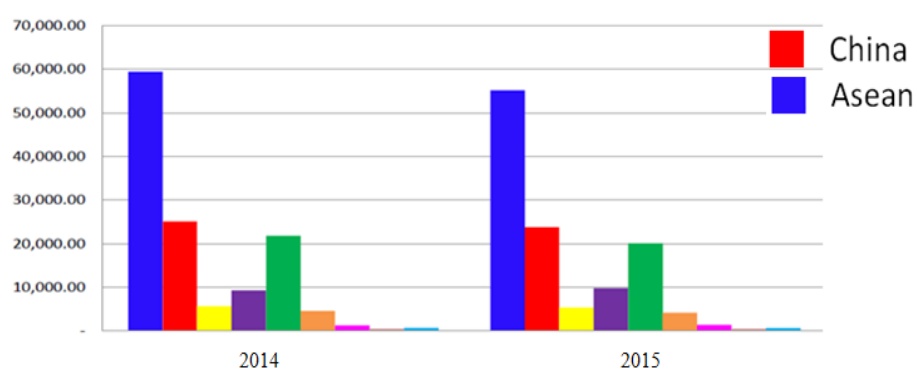


Figure 2: Comparison on exportation of Thailand in 2014 and 2015

Source: FTA Department of Trade Negotiations

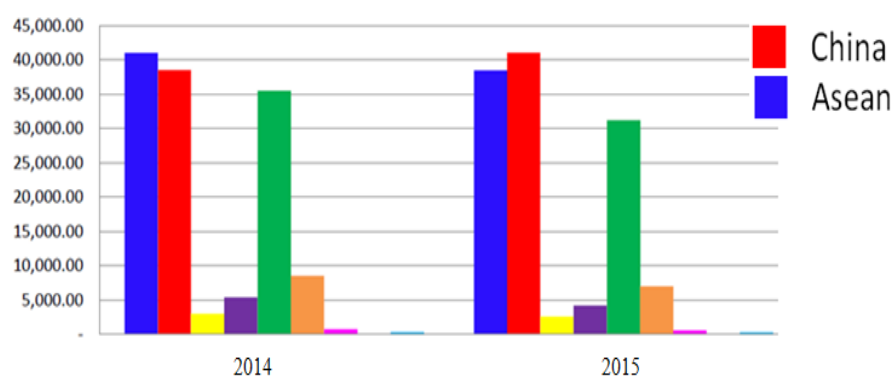


Figure 3: Comparison on importation of Thailand from in 2014 and 2015

Source: FTA Department of Trade Negotiations

However, such a large deficit negatively impacts Thai economic growth it seems to be some issues that need to be met by solutions and find a balance between imports and exports. Investigating the important factors and trade barriers

that influence the purchasing decisions of importers in Thailand can aid this issue, however the scope of study would be too broad for the researcher therefore this study will focus only on the importation of steel for industrial products from China.

### **Objectives of study**

1. To investigate the important factors that influence purchasing decision of importers in Thailand on buying steel industrial products from China.
2. To investigate the trade barriers that influence purchasing decision of importers in Thailand on buying steel industrial products from China.

### **Research Questions**

1. What are the important factors that influence purchasing decision of importers in Thailand on buying steel industrial products from China?
2. What are the trade barriers that influence purchasing decision of importers in Thailand on buying steel industrial products from China?

### **Significances of research**

Commercial relativity between countries is created by international trade through the exchange of products, cultures and knowledge. It comes with various challenges for which importers and exporters have to prepare and overcome to increase business efficiency. Importers and exporters, with abundant knowledge and comprehension will gain competitive advantages in the global markets.

This study focuses only on importation and explores trade barriers and important factors that influence purchasing decision of importers in Thailand on buying steel industrial products from China. Therefore, this study will show exactly what the important factors and trade barriers that influence on steel importers' purchasing decision.

The importers can prepare to confront and solve various problems of international trade, which both importation and exportation face. The knowledge of factors indicates why importers decide to purchase products from China and will also enable domestic producers to compete effectively with foreign suppliers by creating opportunities for self-improvement, which leads to increase in efficiency and productivity. This will then reduce Thailand's reliance on importing Chinese steel and creating more sustainable and mutually beneficial trade relations with China.

Additionally Thailand's steel producers will have more information and guidelines to evaluate steel production based on factors above. This study will show how to reduce the costs such as import tariffs, manufacturing costs, transportation periods whilst also improve quality, product range, knowledge and technical skills.



## CHAPTER 2

### LITERATURE REVIEW

#### Introduction

Importation is one of the most important factors of international trade (Kotabe, 1998; Murray, Kotabe, & Wildt, 1995). Leonidou (1998) found that company managers focused on imports as the most important business activity of their firm because it reduces costs, increases and improves the capabilities of input supply and also the quality of product. However, there are a few intentions in importation in the international exchange process (Ghymn and Jacobs, 1993; Ghymn et al., 1999; Katsikeas, 1998; Leonidou and Kaleka, 1998; Liang and Parkhe, 1997; Novicevic and Harvey, 2004).

There are two sides in international trade, first, buyers or importers on the one hand, and sellers or exporters on the other. The decision-making on buying process is important for every business to generate the benefits, especially for importer and exporter who trade internationally that need to be more careful in their purchasing decision.

In this research, the literatures were reviewed from the various journals in Marketing, Economics, Management, Social, Behavioral, Business and Industrial Marketing to observe the basic information to be the guideline of this study. The researcher used the keywords for searching the journals such as factors and purchasing decision, importer, steel industrial and trade barriers.

From the reviewed of many journals and the pilot-test outcomes, the researcher assume that there are three differences groups of factors that influence the buying decision processes which are Price and Quality, Suppliers and Law/regulations which cannot conclude these until completely on this study.

Table 2: Summarization of important factors on purchasing decision from various literature reviews and pilot-test

Factors that influence on purchasing decision	Authors	Authors who disagreed
Low price	Adisak Chandpralarert (2002); Hutt & Speh (2010); Nurmi (2012); Pacheco-Lopez (2005); Håkansson & Wootz (1975); Ghymn & Jacobs (1993); Leavitt, (1954; Milgrom & Roberts, (1986); Olson, (1972, 1977); Rao & Monroe (1989); Wolinsky (1983); Kotler et al (1999)	Brassington & Pettitt (2006)
Quality	Adisak Chandpralarert (2002); Nurmi (2012); Overby & Servais (2005); White (1979); Ghymn et al (1998); Boulding et al., (1993); Dodds Monroe & Gerwal (1991); Zeithaml (1988)	
Suppliers' relationship and trustworthiness	Adisak Chandpralarert (2002); Piercy et al (1997); Gill & Ramaseshan (2007); Mummalaneni, Dubas, Chao & Chiang-nan (1996); Bubb & Rest (1973); Cunningham (1956); Cavusgil & Yavas (1987); Leonidou (1988); Ghymn et al (1993, 1999); Deng & Wortzel (1995); Katsikeas & Leonidas (1996)	

### Price, quality and purchasing decision

There are many studies on the subject of purchasing decision that indicates product characteristics in terms of price and quality. Producers would set the appropriate price of products to attract the buyers' purchasing decision because the Finance of surplus is the key factor to business operation.

Hutt & Speh (2010) explained that "Usually when products are commodity - like, price becomes the most important selection criteria in purchasing decision" as stated in their book "*Business marketing management*". Even though the low price is of interest to importers or buyers; the lower price does not assure that the quality is acceptable for them. Therefore, there are some correlations between price and quality when discussing about the reasons underlying the purchasing decision. The price and quality are the factors that most of the respondents mentioned when asked about the thought processes behind acquiring a product (Nurmi, 2012).

Nurmi (2012) stated that the quality of goods and the price are related. One study from Denmark found that importing companies are driven by price and quality (Overby & Servais, 2005). Gonçalves (2008) stated that the customer



increasingly demand for good quality, but higher quality equates to higher prices. Price and quality are usually linked to each other, the low price may result in the poor quality of products due to the use of cheaper or inferior materials. In contrast, to produce good quality products, companies need superior materials, which have higher prices. However, some studies argue that the low price of goods is not necessary, but the best price:quality ratio is needed (Brassington & Pettitt, 2006:175). Actually, it depends on the product characteristics and the usage of the buyers.

To influence the buyers' purchasing decision, the price and quality should be appropriate to the types of products and in the range of standardised market prices. To buy high quality products at lower prices is motivated by importation to enable the firms to gain the benefits (Pacheco-Lopez, 2005) as mentioned previously that surplus would help companies succeed.

Some studies found that both price and quality variables are significant in the purchasing decision of managers. One of the studies found that Swedish managers of the purchasing team indicated that price was more important than quality in their decision "*variables of industrial buyers*" (Håkansson and Wootz, 1975). On the other hand, another study of White (1979) focused on the purchasing managers in England, Italy, France and West Germany. The result of this study was that quality is more significant than price, which is also supported by the study of Australian import managers' purchasing decision that product quality is the most important factor to importers (Ghymn et al., 1998). Moreover, a study of a few Japanese purchasing managers of Ghymn and Jacobs (1993) found that both, quality and price, are the important factors in the import decision.

The buyers choose the products from the differences in quality and price among the rival suppliers; and there are many suppliers of steel in China. Refer to the quality related to the purchase intentions (e.g., Boulding et al., 1993 and Zeithaml, 1988), therefore, the consumers should consider with more care regarding the quality of product to reduce the risk of purchase, also the price and warranties or guarantees (Rao & Monroe, 1989).

The importer should not only focus on the price and quality in their trades, the suppliers for whom direct contact with customers is also the one of the

most important variables that influence purchasing decision. Suppliers set the price and control the quality of products to sell as much of said product as possible to generate benefits for their companies, while the buyers can choose their suppliers from many competitors to obtain what they need. In consequence, both buyer and supplier should have positive relationships to continue their dealings. Hutt & Speh (2010) stated that buyers assess the potential of suppliers based on quality, reliability, reputation and price. The next topic will discuss the supplier relationship.

### **Suppliers and purchasing decision**

The study of Piercy et al. (1997) shows that there is a positive relation between product, price, service and relationships and long-term purchasing. Another study supports this and found that product, quality, price, relationship, payment facilities and brand recognition are all related to buyers' intention to repurchase and designate the supplier to be the long-term supplier of the importers (Gill & Ramaseshan, 2007). These studies support the view that suppliers should provide better products and services to attract customers to re-purchase and encourage/promote long-term relationships. As Mummalaneni, Dubas, Chao, and Chiang-nan (1996) stated; the supplier's performance in terms of delivery, quality, price, professionalism, responsiveness and long-term relationships influenced the purchasing managers' decision.

Suppliers are the main providers of materials to buyers. Good suppliers provide quality products and services at appropriate prices, which create a sense of satisfaction for the consumers. Trust is also important in the international business and in creating long-term relationships between suppliers and customers. It has been discussed by Brassington & Pettitt (2006) that trust and respect create a value on a personal level of buyer and seller which is mutually beneficial for both parties. Both had the experience and become loyal, as Bubb & Rest (1973) states that loyalty is one of the major factors in industrial purchasing decisions.

There are many studies on importer behavior such as importer relationship performance and importer selection of foreign suppliers (Lye and Hamilton, 2001), which concluded that trust and commitment are important for the

positive relationship outcomes (Moore, 1998; Ruyter et al., 2001). The industrial buyers will repurchase when they receive satisfied products or services (Cunningham, 1956). Therefore, it is very important for both supplier and importer to continue a positive relationship and gain the benefits for their businesses. All of these studies concluded that trustworthiness is the key to success in positive outcomes.

In consequence, the buyers or importers have to focus on supplier-selection to seek out and trade with the most reliable supplier whom they trust, has confidence in and satisfied by. The importer should know about the supplier's products and markets to increase benefits and create a long-term relationship with foreign suppliers (Homburg et al., 2002). Hence, it is essential for the importer to seek good suppliers. The Selection-suppliers of importers have become one of the most important choice criteria in the purchasing decisions (Cavusgil and Yavas, 1987; Leonidou, 1988; Ghymn et al., 1993, 1999; Deng and Wortzel, 1995; Katsikeas and Leonidas, 1996). Supplier-selection is crucial for all buyers due to the quality, price, design, time, delivery process, reliability of long-term supply and service quality, which influences the importers' decision-making process (Ghymn and Jacobs, 1993; Katsikeas and Leonidas, 1996; Piercy et al., 1997; Ghymn et al., 1999; Nydick and Hill, 1992).

In summary; there are significant positive links between suppliers and customers' purchasing decision in terms of good products, good services and maintaining long-term relationships. Some studies discovered that the complexities of laws/regulations which are also the one of the factors that influences importers' purchasing decision.

#### **Laws/Regulations and purchasing decision**

Normally, trade barriers in international trade can be categorized into two types, tariffs and non-tariff barriers. The definition of trade barrier is "government laws, regulations, policies, or practices that either protects domestic goods and services from foreign competition." (Froman, 2015). Tariffs are a source of government revenues to develop countries through gaining benefits from import tariffs whilst granting protection to local producers at the same time. Each country

has their own regulations regarding tariffs and non-tariffs. This study only focuses on importation from China to Thailand.

Refer to Kotler et al. (1999), states that there are various factors such as buyers' characteristics, price and tariffs of products or services, which influence the buying decisions. High import tariffs may affect the buyer's decision because it increases costs even if they paid cheaper prices for products. Belch and Belch (2007) said that unexpected situational factors and risks can change their purchase intention. Therefore, non-tariff barriers such as quotas, additional trade documentations and customs procedures may also have some correlation to the purchase decision due to these complexities. This study separates this issue into two parts; first to be discussed are tariffs barriers and non-tariff barriers will be touched upon later.

Import and export tariffs are governed and outlined by The Customs Department of Thailand. There are many types of product lines, therefore the Harmonized Commodity Description and Coding System (HS) is the requirement that buyers or agent companies have to understand and confirm with the Customs Department. The Harmonized Commodity Description and Coding System (HS), developed by the World Customs Organization (WCO), classify international products into six digit codes (The Customs Department of Thailand, 2016). Thailand has implemented this HS code system but has also adopted the Protocol Governing the Implementation of the ASEAN Harmonized Tariff Nomenclature (the AHTN Protocol) to harmonize the tariff nomenclature at the eight-digit level by additional two digits or level codes that represent ASEAN subheadings (The Customs Department of Thailand, 2016). This system helps the Customs, importer and exporter to check the tariff rates of their products with greater accuracy, which reduces the time and miscalculations of tariff values.

This study focuses on steel and iron. HS codes for steel and iron starts with 72xx.xx.xx, for example, the code for waste and scrap of tinned iron or steel is 7204.30 and the *ad valorem* tariff rate is 1 percent (The Customs Department of Thailand, 2016). Even in same type of product line there can be many sub-categories

and descriptions which have different *ad valorem* rates. Thailand's *ad valorem* tariffs can be as high as 80 percent for import products that compete with local producers such as automobiles and automotive parts, pork, tea, tobacco, flowers, wine and textiles (Forman, 2015). It is a rather complicated process for buyers with little or no experience with importation processes. Belch and Belch (2007) notes that the amount of purchase uncertainty and the level of consumer's confidence influence buyers' decision to change their purchase decision.

The Free trade agreements (FTAs) are important for international trade. After FTAs were integrated in many countries, tariff rates were eliminated or reduced as per their agreements to create free flow of goods and services. On 29 November 2004, Thailand and China signed an ASEAN-China Free Trade Agreement, which reduces more than 90 percent of tariffs to Zero (FTA Department of Trade Negotiation, 2008).

The free flows of goods created by the FTA increase the chance for buyers to make purchase decisions on various products easier than previously. Chandler (2006) said that "...fair trade gives consumers an opportunity to exercise a moral choice in their own purchasing practices." He also noted that free trade increases product availability in the market which increases the awareness of buyers on the purchase decisions' ability. According to Plummer et al. (2010) noted that 'FTAs will affect both the price index of the commodity and the relative prices of the different national varieties.' For example, there are countries A, B and C. Countries A and B are FTA partners, reducing the import tariffs which in turn also decreases the costs and prices of import products. These attract the buyers' intention to buy and import more between these 2 countries due to the low prices. Therefore, there is a clear correlation between FTAs and purchase decisions.

FTAs create free flow of goods and services, therefore there are many supplier countries that buyers can select and make decisions for purchasing. Some buyers select the supplier from the price and quality, while some select from the country of origin. Ha-Brookshire (2012) states that country of origin (COO) concerns where the brand initiates or products are manufactured. The words "Made in" is

included in the evaluation criteria for the purchasing decision (Supanvanij and Amine, 2000; Abedniya and Zaeim, 2011). While, Grunert et al. (2004) noted that the certification of origin is important to warrant and guarantee that there are good manufacturing practices, which increase the trust of buyer's purchase decision. This is confirmed by Mohamed et al.; Zakaria (2008) that the producers have to show trust in order to increase customer confidence in their products.

Therefore buyers are influenced by country of origin when making purchasing decisions (Hermelo and Vassolo, 2012). It is necessary for buyers to know where the product originated from in order to estimate the product's prices and prepare importation documents for Customs.

Import regulations are one of the variables in decisions on importation as Ghymn et al. (1999) mentioned, while they were studying Australian import managers' thought processes on import decisions. Import declaration and clearance procedures are the one of most complicated processes for importers. There are many regulations and processes as follows;

Firstly, when products arrive in Thailand, importers have to file a Goods Declaration and provide supporting documents for the imports with a Customs officer and pay import taxes and duties accordingly by referring to the HS codes for each product. The required documents for declaration and clearance are e.g. Import Declarations, Bills of Lading, Invoices, Import licenses and Certificates of Origin. Then importers can transport said goods from the ports (The Customs Department of Thailand, 2016). Problems may occur during these processes such as documentation errors or wrongly paid taxes and duties. Some studies found that the complexities affect the purchase decision as Lilien and Wong (1984) studied in the metal industry and found that product complexity is the important purchase factor of buyers.

However, according to Keeney (1982) which states; "Complexity cannot be avoided in making decisions. It is part of the problem, not only part of the solution process." Hence, even if there is a complexity during import declaration and clearance processes, the importer should not be daunted by it and instead decide and solve these issues.

According to Adisak Chandpralart (2002); variables such as price, quality, delivery, service availability, suppliers' trustworthiness and co-operation are influencing buying behavior. There are six groups of factors which are individual factors, organizational factors, environmental factors, cultural factors, government roles and regulation, and uncertainty factors that influencing buying units functions of international industrial buyer behavior (Samli, Grewal & Mathur, 1988).

Therefore, there are not only three factors that influences on importers' buying decision as mentioned. The results of this study found that not only Price and quality, Suppliers and Law/regulations as the important factors but there are delivery process and shipping companies as the new variables of important factors that influences on steel importers' purchasing decision.

Table 3: Summarization of new variables of factors from the results of this study

Factors that influence on purchasing decision	Authors
Delivery delays	Adisak Chandpralart (2002); Drewry (2009); Min & Galle (1991); Frear et al. (1992); Notteboom (2006); Lucero (2008)
Shipping companies' services	Rafiq & Jaafar (2007); Ruth Banomyong & Nucharee Supatn (2011)

### Delivery process and purchasing decision

Delivery is the one process of international trading for the transfer of products from the suppliers to the customers by various modes of transportation such as road, rail, sea or air freight. In general, 90 percent of international trade is carried by sea (UNCTAD 2011; Vulovic, 2016). Each transportation method has different pros and cons, such a price and duration. Air freight provides fast delivery, but it is rather expensive. In contrast, sea freight is cheaper, but also take a longer time for delivery, which is certainly not appropriate for some products. The suppliers and importers have to make a decision which is the best transportation method for their products considering price, delivery time and foreseeable risks.

During the delivery process, there are many risks in transportation and logistics that can occur. For example, transport congestions, damage or loss product, customs documentation error (Drewry, 2009), which causes delivery delays and affects the purchasing decision of importers. Min and Galle (1991) and Frear et al. (1992) mentioned that transportation delays or delivery problems are the most important barrier in international purchasing. Notteboom (2006) found that on the East Asia-Europe route, there are several problems which create unreliability on service timelines, such as delays from port strikes, weather conditions and transport congestion which compound these problems by Vernimmen et al. (2007). Transportation delays from port capacity, congestion and port strikes are also mentioned in Tummala and Schoenherr (2011). Moreover, these transportation delays may increase the extra costs of delivery to the company (Notteboom, 2006), which increases financial loss/burden. Transportation costs can increase more than 7 to 20 percent of the product's price.

Therefore, many importers decide to use shipping companies in the transportation process. The shipping companies will support and design an adept professional to oversee the operation to manage the problems for the customers (Chang et al., 2015).

### **Shipping companies and purchasing decision**

According to Ruth Banomyong and Nucharee Supatn (2011) stated that third-party logistics service providers or 3PL will provide logistical services to the customers, which will increase their competitiveness, such as cost reduction and delivery time management. The agent companies, including shipping, forwarders, hauliers, terminal operators, have to know the risks that affect their operation and manage efficiently on solving them (Chang et al., 2015).

Delivery service processing is not the only service that shipping companies provide to support the importers. They also provide the documentations and perform the customs procedures which are quite complex and difficult for buyers. Hence, the importer should take care in selecting the logistics service provider with experience, good freight logistics service quality and reliable to become the long-



term service providers. The long-term relationship is positive to overall business operations. Moreover, it is shown that the logistics service quality has a positive correlation on customer satisfaction and loyalty (Rafiq and Jaafar, 2007) and the loyalty which is related to the purchase intention. (Bloemer et al., 1999).

Yang (2010) concluded that 'freight quantity, customer service standards, number of vessels, deadweight tonnage, number of crewmen, cargo loading ratio, accuracy of sailing schedule, ship nationality and cargo transport volume', are the important factors for shipping companies to have the competitive advantages. The quality, time, flexibility and costs are the key service quality (Neely et al., 1995) which is an important factor that influences the decision of a customer to choose their services (Ruth Banomyong and Nucharee Supatn, 2011).

Normally, the importers who do not understand these complex logistical processes use logistics service providers for convenience in the importation process including delivery, related documentations and customs procedures as customs is the common process for international trade that importers and exporters have to pay the tariffs to trading countries.

These studies show that price, quality, law/regulations, timeliness, reliability, experience, knowledge, and the professionalism of supplier and shipping companies affect the purchase intention of importers.



## CHAPTER 3

### RESEARCH METHODOLOGY

#### **Introduction**

The objective of this study is to investigate the important factors and trade barriers that influence purchasing decisions of importers in Thailand on buying steel industrial products from China. To explore the answers to these research questions, the qualitative method was applied as it provides deeper depth, broader range and insight into the study than methods using questionnaires, where questions and answers are, to a degree, predetermined. To understand and obtain all relevant in-depth information from each respondent, interviews are deemed the most appropriate method. Data was collected from owners and specialists from six companies in Thailand who import steel industrial products from China.

#### **Research design**

There are two methodologies generally used in educational research, quantitative and qualitative. These two methods have the different objectives and styles according to Creswell (2009): “Often the distinction between qualitative and quantitative research is framed in terms of using words (qualitative) rather than numbers (quantitative), or using closed-ended questions (quantitative hypotheses) rather than open-ended questions (qualitative interview questions).” Both methodologies will be adapted differently according to the research’s objectives, populations, data collection and analysis processes. The researcher needs to have explicit knowledge and understanding of their objectives in order to choose the method for their study.

The quantitative method is usually applied when existing theories or hypothesis need to be tested/examined (Gall, et al., 1996). This method searches for relationships between various specific variables by using questionnaires with large

and randomly selected sampling. The collected data is then analyzed and the existing theories verified. Results obtained via the quantitative method will be fixed. Statistical methods and Deductive reason will be used to analyze the data in structured, formal, specific forms (Bogdan & Biklen, 1998).

On the other hand, the qualitative method will focus on the exploration and discovery within the overall available information and not only specific variables; by observation or interviewing a smaller number of particular participants. The results will be flexible according to whatever is found and analyzed and can be in terms of words, images or objects.

Table 4: The comparisons between qualitative and quantitative methods;

#### QUALITATIVE VERSUS QUANTITATIVE RESEARCH

Criteria	Qualitative Research	Quantitative Research
<b>Purpose</b>	To understand & interpret social interactions.	To test hypotheses, look at cause & effect, & make predictions.
<b>Group Studied</b>	Smaller & not randomly selected.	Larger & randomly selected.
<b>Variables</b>	Study of the whole, not variables.	Specific variables studied
<b>Type of Data Collected</b>	Words, images, or objects.	Numbers and statistics.
<b>Form of Data Collected</b>	Qualitative data such as open- ended responses, interviews, participant observations, field notes, & reflections.	Quantitative data based on precise measurements using structured & validated data-collection instruments.
<b>Type of Data Analysis</b>	Identify patterns, features, themes.	Identify statistical relationships.
<b>Objectivity and Subjectivity</b>	Subjectivity is expected.	Objectivity is critical.
<b>Role of Researcher</b>	Researcher & their biases may be known to participants in the study, & participant characteristics may be known to the researcher.	Researcher & their biases are not known to participants in the study, & participant characteristics are deliberately hidden from the researcher (double blind studies).
<b>Results</b>	Particular or specialized findings that is less generalizable.	Generalizable findings that can be applied to other populations.
<b>Scientific Method</b>	Exploratory or bottom-up: the researcher generates a new hypothesis and theory from the data collected.	Confirmatory or top-down: the researcher tests the hypothesis and theory with the data.
<b>View of Human Behavior</b>	Dynamic, situational, social, & personal.	Regular & predictable.
<b>Most Common Research Objectives</b>	Explore, discover, & construct.	Describe, explain, & predict.
<b>Focus</b>	Wide-angle lens; examines the breadth & depth of phenomena.	Narrow-angle lens; tests a specific hypotheses.
<b>Nature of Observation</b>	Study behavior in a natural environment.	Study behavior under controlled conditions; isolate causal effects.
<b>Nature of Reality</b>	Multiple realities; subjective.	Single reality; objective.
<b>Final Report</b>	Narrative report with contextual description & direct quotations from research participants.	Statistical report with correlations, comparisons of means, & statistical significance of findings.

Source: [http://www.xavier.edu/library/students/documents/qualitative\\_quantitative.pdf](http://www.xavier.edu/library/students/documents/qualitative_quantitative.pdf)

According to various literature reviews, it can be concluded that the quantitative method is applied when a need to find the correlation between various variables arises. However after some investigation, the researcher found that this

study may possibly be the first observation on steel importers' purchase decision in Thailand and factors and trade barriers affect these decisions. Due to the time limitations and small number of willing participants; in order to discover and examine the wide breadth and depth of all available information, the qualitative method was applied. This is so to understand the social interactions, situations, personals' perspectives and experiences by of interviewees, who were presented with open questions.

The researcher posed open-questions (who, what, when, why and how) to all interviewees; to which the researcher would receive answers containing different opinions, knowledge, experiences and perspectives from each respondent. These open questions would naturally lead to free answers and unrestricted responses, which are useful for obtaining various ideas, views or awareness in the topic at hand.

The interview was separated into two sections. First, the pilot-test examination, used for result-anticipation and can be further adapted into guidelines for proceeding semi-structured questions. Second, the in-depth interviews, using semi-structured questions, were held for all interviewees to obtain valuable in-depth information. As the researcher need to draw out all conceptual ideas which will cover the boundaries of this research, adapted semi-structured questions were used. However, it should be noted that the sample size is small, as few respondents were willing participate in this research.

### **Selection of interviewees**

There are many steel importers in Thailand, which can be seen from the high statistics of steel imports. The interviewees for this research were selected from importers who purchased steel industrial products from China. The sample companies are located in Bangkok, Nakhon Pathom, Pathum Thani and Chon Buri. Small to large steel factories and companies were established in these provinces due to the ease of product distribution, as their customers are also located close by. The sample companies were chosen at random from a list of steel importers. The researcher then called these companies one by one to obtain permission to interview. Finally a total of six companies granted their permission and allowed the interviews to proceed.

### Data collection

Due to the time and budget limitations, data was collected via in-depth interviews of two business owners and four specialists from six companies in Thailand that import steel industrial products from China (one respondent from each company). The interviews were held in February and March 2016. As table 5 shows the research's procedures. The names of the sample companies and respondents in this study are kept secret to ensure their privacy and confidentiality.

Table 5: The research procedures

Month	Research procedures
January	Plan, search and study information → set the objectives
February	Study & review the literatures → search & ask permission for the interviews → interview process
March	Collect data → analyze all information
April	Prepare & conclude in the paper form

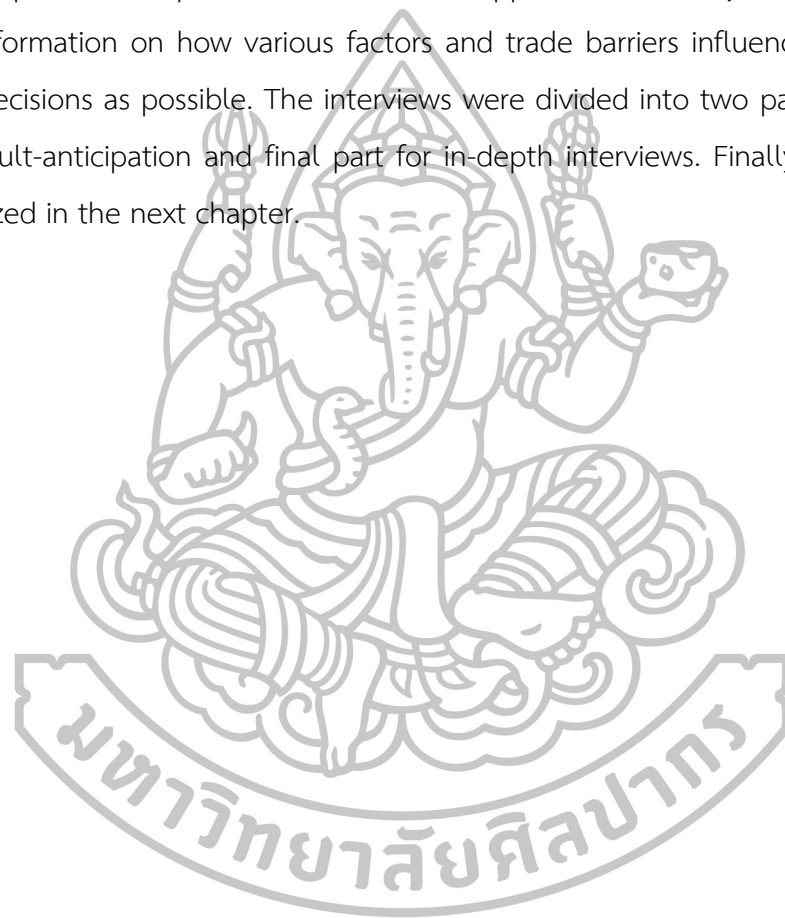
The participants were informed of the topic and objectives of this research by E-mail and phone in advanced. Then an interview appointment was made. These were conducted face-to-face or via telephone calls. The interviews were divided into two parts, pilot-test and final. The first part, which interviewed only two participants for result-anticipation as the pilot-test to gain general information, took around 5-10 minutes. Then all six respondents were asked questions concerning the important factors and trade barriers that influence on their purchase decisions during the semi-structured interviews, which took approximately 30-45 minutes. The semi-structured interviews have 13 main questions, outlined in the appendix. Notes were in hand-writing on paper as the respondents disapproved the use of any recording device.

In addition, as all participants were Thai, the interviews were conducted in Thai to ensure and/or reduce misunderstandings from both parties. The researcher

then analyzed and summarized these interviews into English, which can be referenced to in the results section of this study. The analysis is based on buyer responses, knowledge and experiences from the respondents' individual answers.

### **Conclusion**

Due to limitations in time, budget and number of willing respondents as only six companies, the qualitative method was applied in this study to gain as much in-depth information on how various factors and trade barriers influence importers' purchase decisions as possible. The interviews were divided into two parts, pilot-test part for result-anticipation and final part for in-depth interviews. Finally, the results were analyzed in the next chapter.



## CHAPTER 4

### RESEARCH FINDINGS AND DISCUSSION

#### **Introduction**

Buyers, sellers, importers and exporters are integral to international trade. This study focuses on the role importers play in this area. Price, quality, delivery, service availability, suppliers' trustworthiness and co-operation are all variables which influence buyer behaviors (Adisak Chandpraralert, 2002). Individual factors, organizational factors, environmental factors, cultural factors, governmental rules, regulation, and uncertainty factors also influence industrial importers' purchase decision (Samli, Grewal & Mathur, 1988).

Trade barriers are defined as "government laws, regulations, policies, or practices that either protects domestic goods and services from foreign competition." (Froman, 2015) Knowledge of trade barriers helps importers reduce costs and time used for business operations.

This study explores the trade barriers and important factors influencing the purchasing decisions of importers in Thailand when buying steel industrial products from China. The researcher interviewed one representative each from six companies. In this study the alphabetical letters A, B, C, D, E, and F will be used to represent each respondent.

Table 6: Summarization of factors and trade barriers that influence on respondents' purchasing decision

FACTORS AND TRADE BARRIERS	
1.Price	7.Import tariffs as common barriers
2.Quality	8.Government policies
3.Reliable suppliers	- Special FTA import preferential tariffs
4.Delivery process	- Certificate of Origin
5.Shipping companies	- Board of Investment
6.Complexity of customs procedures	- Anti-dumping and Safeguard

From the table 6, the results of this study found the price, quality, suppliers, delay delivery, shipping companies and laws/regulation are variables that influence the steel importers' purchase decision. The discussion is separated into two parts; the first part is a discussion about important factors and the second part expands on trade barriers that influence the purchase decision of importers. The following section (Part one) will cover the important factors by price, quality, supplier relationship, delivery and shipping companies which will be grouped as product-oriented variables and service-oriented variables. Part two will cover trade barriers, both tariffs and non-tariffs, which will be grouped as laws/regulation variables.

#### **Part one: Important factors**

##### **Price**

“Usually when products are a commodity, price becomes the most important selection criteria in the purchasing decision” (Hutt & Speh, 2010, *Business marketing management*). Low prices attract buyers to make purchases, as price is important in the decision-making process of industrial buyers (Håkansson and Wootz, 1975).

Factors/Respondents	A	B	C	D	E	F
1.Cheap Price	✓	✓	✓	✓	✓	✓



When asked about the important factors that influence purchasing decision of importers in Thailand on buying steel industrial products from China; the first factor that all respondents mentioned is “Price”. The various replies from interviewees are as follows:

*Respondent A said “China is a center for raw materials. They have everything, even those unavailable in Thailand at cheap prices.”*

*Respondent B expressed “The main reason why we import from China is because it is cheaper than those available in Thailand.”*

*Respondent C also mentioned “The main factor is price. China offers cheaper prices than other countries. China is a large and central market, most of the raw materials are produced there and many suppliers are available for customers to choose from. Therefore we can seek out those who offer the lowest prices. Raw materials are of lower grade than those in Thailand as Thailand uses hi-technology such as “Auto machine” which increases production costs. China instead uses a “manual system”, workers with machine tools for production which keep costs low.”*

*Respondent D said “The price is considered together with the intended usage. The price of Chinese products are cheaper than Korean. If the raw material available from both countries is up to the required specification, our customers mainly choose to buy from China because of the lower prices.”*

*Respondent E expressed “The main reason why we import products from China is the cheap prices. We used to rely domestically on raw material sources, but after the Chinese products flooded the market, we adapted and started importing products from China instead.”*

*Respondent F also mentioned “The main reason is the cheap price. Domestic prices are higher because we have neither the raw materials nor iron-making facilities in Thailand. Suppliers in Thailand also import, which drives costs upwards.”*

One of the respondents mentioned that prices can change during transportation, but this is acceptable for every importer and it is not only steel products which are faced with this exchange rate issue. From the interviews, this

study found that as China is the center of raw materials, produces a wide range of products, prices are low to attract international importers.

Reducing costs to increase profits is the basic concept of business operation. To buy high quality products at lower prices is the motivation for importation (Pacheco-Lopez, 2005). Therefore, the price is the main important factors that influence on steel importers to buy products from China, however other than price, respondents also mentioned product quality as the important factor as well. Price and quality are related and are factors to be considered before purchases are made (Nurmi, 2012).

### Quality

Quality is also the main factor in the purchase decision. Most respondents remarked on the quality of imported products from China. According to White (1979) and Ghymn et al. (1998), quality is the most important factor to import managers' purchase decision.

Factors/Respondents	A	B	C	D	E	F
2. Quality not good but can accepted	✓	✓	✓	✓	✓	✓
- Alternative choices	Japan / Europe	Thailand	-	Korea	Vietnam / Korea	-

All respondents have accepted that the quality of Chinese products are not the premium and cannot compete with other countries, but is acceptable in terms of productivity and cost reduction. However, the Companies should buy at low prices but high quality to reap the benefits as (Pacheco-Lopez, 2005) mentioned. Some studies also state that quality is related to purchase intentions (Boulding et al., 1993 and Zeithaml, 1988). The studies show that quality is one of the important factors influencing purchase decisions. Moreover, some of respondents mentioned that if they require the premium quality of products, they have the alternative choices to buy from the other countries, even there are higher prices.

*Respondent A said “Unlike EU or Japan, when we order products from China, we have to send someone to perform quality checks beforehand. Sometimes the quality is so poor it is unacceptable.”*

*Respondent B expressed “Some materials we buy from domestic suppliers because they are of better quality than Chinese products. We import the products when we find their quality is acceptable.”*

*Respondent C also mentioned “They have many grades and types of steel products from which we can choose depend on our requirements. Manpower has been used in Chinese manufacturer process which means that the quality is not standardized.”*

*Respondent D said “Normally the difference in quality is minimal, but if we need better quality steel for another product line, we may consider importing from Korea instead of China.”*

*Respondent E expressed “The quality of raw materials cannot compete with those from Vietnam or Korea but it is cheaper at acceptable quality.”*

*Respondent F also mentioned “China has a wide range of products. There are many grades and types we can choose from. The quality is acceptable as normally we deal with Japanese companies established in China which uses manpower and raw materials in China but Japanese technology. However we always perform QC before placing an order.”*

The results confirm the correlation between the price and quality. Ghymn and Jacobs (1993) found that both, quality and price; are important factors in the import decision. Even if the quality of steel products is poor compared with those from other countries, the quality may still be acceptable. When products of specifications are required, customers will import from elsewhere even if the price is higher. Customers increasingly demand good quality, but the higher the quality, the higher the price. Moreover, the best price-quality ratio is needed according to Brassington & Pettitt (2006).

According to one respondent “We have the demand but no sufficient production. It is the fact that various countries have different competitive advantages i.e. the competitive advantage of Korea is their shipyard and for Malaysia, rubber. Thailand has no competitive advantage in the steel industry so we need to import.”

The result shows a relation between competitive advantage and the buyer's purchasing decision as Thailand has to import steel due to the lack of necessary raw materials within the country.

Trading has two sides, the supplier and the customer. Both have to create positive relationships for continuous trade. Product, quality, price, relationship, payment facilities and brand recognition relate to buyers' intention to repurchase and designate long-term suppliers (Gill & Ramaseshan, 2007). Therefore, the next factor to be discussed is the relationship between buyers and suppliers.

### Supplier Relationship

Supplier-customer relationship is important in international trade. Suppliers present the best products and services to all customers, including after-sales services of approving warranty-claims and solving product-related problems. The study of Piercy et al. (1997) shows that there is a positively correlation between product, price, service and relationships to long-term purchasing. Mummalaneni, Dubas, Chao, and Chiang-nan (1996) adds that the supplier's performance, professionalism, and responsiveness also influence purchasing managers' decisions.

Factors/Respondents	A	B	C	D	E	F
3.Reliable suppliers	✓	✓	-	✓	✓	-
- Problems from difference languages	-	✗	-	✗	-	✓

Some respondents in this study discussed on their relationship with suppliers. Most of them purchased with trustworthy long-term suppliers. Trust and respect create value on a personal level of the buyer and seller which benefits both parties (Brassington & Pettitt, 2006). Bubb & Rest (1973) also states that loyalty is one of the major factors in industrial purchasing decisions. Therefore supplier relationship is also one of the important factors that influence importers to purchase the steel products from China.

*Respondent A said “We need to find reliable agents and suppliers to deal with in order to obtain the products we need.”*

*Respondent B expressed, “Chinese partners who are the factory owner and we can directly deal with. We also have employees based in China to coordinate trading activities.”*

*Respondent D said “The suppliers that we rely upon are the strongest brands in the Chinese steel industry. They continuously strive to improve their product quality, manufacturing processes and delivery services to increase their trustworthiness in the market. Their marketing activities are not as active as e.g. consumer electronics sector, as they only deal on a business to business basis. This means that outsiders will be unable to tell good suppliers and bad suppliers apart. Supplier relationship needs to be cultivated over extended periods of time and suppliers need to show their problem-solving skills and degree of responsibility in order to gain trust and loyalty from customers.”*

*Respondent E expressed “Normally we compare prices and quality with at least three long-term suppliers for one production line. We have had previous experience with bad suppliers and took some time to finally find those we trust. Our current suppliers offer after-sales services including consultation in problematic cases and refunds of price differences in cases of defective products etc.”*

*Respondent F also mentioned “We deal with Japanese companies located in China. We use English to communicate but in urgent cases misunderstandings may arise as they are not fluent in English. We have an interpreter that can offer support but if she is not available at that time, it is hard to communicate.”*

From the interviews, whilst respondents B and D talked about the different languages used for communication, they have found no problems during trading. *“We have had no obstacles in this process because the boss can speak Mandarin.”* and *“We have no problems with communication. They want to sell the products to us, so they need to understand the customers and avoid misunderstandings during communication.”*

Lane and Beamish (1990) stated that cultural similarities, including language, help to maintain relationships between international partners. On the other hand, respondent F argued that they have some communication difficulties due to language differences. However the results show that language differences relate to purchasing decision to a certain degree but this issue can be managed and minimized.

Respondent F also mentioned another problem concerning the transfer of money and delayed payments. Sometimes it is important to receive negative feedback from suppliers in order to improve the overall operation. Another problem is the issuance of necessary paperwork. Suppliers do not exhaustively issue invoices or purchase orders on unimportant matters, which can affect customs clearances. As the relationship is cultivated through time, the supplier will learn from customers' requirements, and the number of problematic situations with paperwork will hereby be decreased. This leads to the designation of suppliers as long-term trading partners, which is important as industrial buyers will be more likely to repurchase when they receive good products or services (Cunningham, 1956). It can be concluded that supplier relationship is one of the important factors which influences on the purchasing decision of importers.

### **Delivery**

Cargo ships are the main transportation method used in the delivery of steel products. Generally 90 percent of international trade is carried by sea (UNCTAD, 2011; Vulovic, 2016). Min and Galle (1991) and Frear et al. (1992) mentioned that transportation delay or delivery problems are major issues in international purchasing. The duration and delivery method have some influences in the purchasing decision of importers when buying steel products from China. Transportation delay increases costs (Notteboom, 2006) which is detrimental to company finances. Transportation costs can increase more than 7 to 20 percent of the product's price.

The results indicate that the average delivery period is one month when shipping steel products from China to Thailand. All of importers mentioned the steel products shipped by sea from China. Each respondent mentioned roughly the same approximate delivery time as shown in table 7.

Table 7: Delivery time for each company

Company	Shipping Period
A	Two months
B	Two months
C	One – Two months
D	One – Two months
E	One – Two weeks
F	One – Two weeks

Respondent D mentioned that *“We faced a shipment delay, but other importers are also faced with this problem.”* Respondent B expressed that if the period of shipping is too long it can affect their operation. Respondent B also said that *“We have to pre-order more as stock.”* to minimize the consequences due to delayed shipment.

Factors/Respondents	A	B	C	D	E	F
4.Long period of delivery	-	✓	-	✓	-	-

The findings from the interviews found some relevance between delivery processes and purchasing decision of importers. However some imports request the use of shipping companies to carry out import processes in their stead. These agents take care of the problems of delivery, prepare the import documents, deal with customs and help with product clearance. Shipping companies will support and assign a professional to manage problems for the customers (Chang et al., 2015).

### Shipping companies

Agencies including shipping, forwarders, haulers, terminal operators, etc. have to know the risks that can affect their operation and manage efficiently on solving problems that arise (Chang et al., 2015). Ruth Banomyong and Nucharee Supatn (2011) stated that a third-party logistics service provider or 3PL will provide

logistical services to customers, and will increase their competitiveness by e.g. reduction in delivery costs and management of delivery time. Additionally the quality of logistical services has a positive correlation on customer satisfaction and loyalty (Rafiq and Jaafar, 2007) and this loyalty is related to their purchase intention. (Bloemer et al., 1999).

Transport congestions, damage or loss of products, customs documentation errors etc. (Drewry, 2009) are obstacles in transportation and logistics. Due to some respondents hired shipping companies to responsible for delivery and perform import declaration processes instead. The reason is convenience. Shipping companies have more skills, experience and knowledge in the freight and import declaration processes so they can manage and deal with problems on behalf of the importers (Chang et al., 2015). Most respondents use large, well-known and creditable shipping companies for their import activities.

Factors/Respondents	A	B	C	D	E	F
5.Hire shipping companies for convenience	✓	-	-	-	✓	✓

*Respondent A said “Normally shipping companies are more knowledgeable about the import processes as they have a shipping company license. Some shipping companies also refuse to handle small quantities as it is not worthwhile in terms of costs and time-management.”*

*Respondent E expressed “Shipping companies send reports in cases of delivery delay and will also solve various problems that arise. Normally, we use credible shipping companies because they are highly experienced in what they do”.*

*Respondent F also mentioned “We also deal with large shipping companies who process necessary skills to ensure a smooth operation.”*

As per the results above, importers rely on shipping companies to carry out the delivery processes because it is easier and more convenient. This shows that shipping companies have some influence on the purchasing decision of importers.



Importers are not only confronted with these problems. Trade barriers also influence purchasing decisions when importing steel products. This study also found that shipping companies are used to handle and resolve problems related to trade barriers such as import declarations and clearance processes so the following section of this study will discuss trade barriers and their various characteristics.

### **Part two: Trade barriers**

International trade is wrought with various trade barriers. This study focuses only on those relevant to importation processes. Trader who buy and import products from foreign countries ought to pay import taxes, import duties and declare said imports to the Customs Department. Import and trade regulations are one of the important decision variables as mentioned in Ghymn et al. (1999).

This study shows that some respondents found that import declarations and clearance processes may be too complex for importers. Hence, some respondents use shipping companies to perform this process instead.

Factors/Respondents	A	B	C	D	E	F
6.Complexity of customs procedures	✓	-	-	-	✓	✓

*“There are many procedures and regulations for tariffs and goods clearance. For clearance processes, we need forms from the Chinese suppliers in order to apply for tariff discounts. We use shipping companies to manage and communicate with the customs department to clear and confirm the tariff rate. The shipping companies manage the declaration by contacting the Customs Department on behalf of our company.”* (Respondent F)

*Respondent E expressed that “It is easier for shipping companies to directly communicate with the Customs Department. We use the shipping companies to clear products from the ports.”*

*Respondent A confirmed that “We need someone who can quickly manage and clear the imported products from the ports for us.”*

The complexity of import declarations and clearance processes have some influence on the purchasing decision of importers. Belch and Belch (2007) said that unexpected situational factors and risks can change purchase intentions. Nevertheless, shipping companies can help companies to solve these problems with the experience and skills they possess. Import declarations and clearance processes are related to import tariffs, which will be discussed in due course.

After Free Trade Agreement (FTAs) were integrated, trade between each country became easier for both importers and exporters. Chandler (2006) noted that free trade increases product availability in the market which adds to buyer awareness. Trade barriers relate on this study can be categorized into trade restrictions such as Import tariffs, Anti-dumping regulations, Safeguards, or measures to facilitate trade e.g. Free Trade Agreements (FTA), Certificates of Origin (Form E) and the Board of Investment (BOI).

### Import Tariffs

The objectives of import tariffs are government earnings, protection and development of domestic industries and limitation on the consumption of imported goods. The interviews found that most of importers are faced with this trade barrier. The respondents agree that import tariffs are one of the most common barriers in international trade.

Factors/Respondents	A	B	C	D	E	F
7.Import tariffs as common barriers	✓	✓	✓	-	✓	✓

*Respondent A said “We need to pay for the products including import tariffs and VAT to agents.”*

*Respondent B expressed “It is common to pay import tariffs.”*

*Respondent C mentioned “We have to pay import tariffs for some products.”*

Respondent E said “Import tariffs are normal expenses that we need to pay. All importers are same, not only for steel products.”

Respondent F also mentioned “Import tariffs are different for each product.”

Each product has different import tariffs, sorted into many commodity groups of products. A system was devised that categorizes products into manageable codes called the “Harmonized system”. With HS codes, all product categories are set out in 21 sections and 96 chapters (Thailand Customs, 2015). This system is mentioned by the respondents below.

Respondent C mentioned that “Import tariffs depend on the products’ HS codes. Import codes are also different between the origin and destination so sometimes errors in import tariff payments may arise. Generally, we confirm the HS-code with the Customs Department before importing the products to Thailand to avoid complications and fines which may occur.”

Respondent F expressed that “There are many HS-codes which has different tariff percentages, some are at 20 percent and some are at 30 percent.”

All importers generally agree to pay import tariffs. However, some importers avoid this by finding a method to reduce import tariffs. Some importers receive the import preferences that support them in reducing import tariffs such as Free Trade Agreements (FTA), the Certificates of Origin (Form E) and the Board of Investment (BOI).

These import preferences save and reduce costs which influence the purchasing decision of importers for buying steel products from China.

Factors/Respondents	A	B	C	D	E	F
8.Government policies						
- Special FTA import preferential tariffs	-	-	✓	-	-	✓
- Certificate of Origin	-	-	✓	-	✓	✓
- Board of Investment	-	-	✓	-	-	✓
- Anti-dumping and Safeguard	-	-	-	✓	✓	-

### Free Trade Agreements (FTA) and Certificates of Origin (Form E)

Free trade agreements encourage international trade by providing support and reducing taxes for importers. “Fair trade gives consumers an opportunity to exercise a moral choice in their own purchasing practices.” (Chandler, 2006). Plummer et al. (2010) also notes that ‘FTAs will affect both the price index of the commodity and the relative prices of different national varieties.’

Grunert et al. (2004); Mohamed et al. and Zakaria (2008) notes that the certification of origin is important to warrant and guarantee good manufacturing practices, which in turn increases trustworthiness and influences buyer’s purchase decision. The Certificate of Origin (Form E) is issued for goods suitable for import under preferential tariffs due to the ASEAN-China FTA, which some interviewees also mentioned during their interviews.

*Respondent C mentioned “The raw materials that we buy from China have special FTA tariffs. Some products are tax-exempt and some are dutiable. There are many types of FTA tariff preferences that help us reduce costs. We need to get the Certificate of Origin document “Form E” from the supplier as proof and submit it to the Customs Department.”*

*Respondent E also said “We need to use Form E to get discounts on import tariffs.”*

Including respondent F who expressed that “Form E supports us in reducing the import tariffs to zero percent in some products. Chinese suppliers have to deal with their state sector for the issuance of the form to reduce import tariffs to zero. The government promotes the FTAs and supports the steel industry because we have no iron-making facilities and that is why we need to import steel. Thus, the import tariffs will be low.”

These answers show that Free trade agreements and Form E have some effect on the purchasing decision of steel importers as it helps reducing their expenses. Apart from FTAs and Form E, there is another option that assists with import tariff reduction, which is the “Board of Investment (BOI)”.

### Board of Investment (BOI)

As import tariffs are one of the trade barriers that every importer faces, some have explored alternative routes to reduce these expenses. The Board of Investment is a governmental organization that encourages investors to Thailand who produces and exports products which are beneficial to the country.

*Respondent C said “We have no problems with importing steel. The company does not have to pay import tariffs for various products because we are promoted by the Board of Investment (BOI). We are a manufacturer for export and BOI supports us in this regard. For example, if we produce 10 kg of product and separate 5 kg for sale in the domestic market and 5 kg for international markets; import tariffs will need to be paid for the first 5 kg but the remaining 5 kg are exempted.”*

*Respondent F also expressed that “We are on the Board of Investment (BOI) which helps us reduce costs.”*

The results of this study shows that steel importers prefer to get the reduction on import tariffs such by utilizing FTA import preferential tariffs, Certificate of Origin Form E and the Board of Investment. These contribute to an overall beneficial effect to the purchase decision of steel importers to buy steel products from China.

The free trade agreement is there to create positive outcomes in international trade. However, there are some regulations that negatively impact importers. In this study the respondents only mentioned anti-dumping and safeguard laws.

#### **Anti-dumping and Safeguard laws**

Hartigan (2011) stated that safeguard laws are necessary to restrict imports in order to protect domestic producers. Sykes (2006) explained that safeguard laws is a responsibility of the government to dissipate political pressures from declining industries which need protection. An anti-dumping duty law aims to protect domestic industries from imported products that are priced below their fair value (Liu, 2005). Both Anti-dumping and Safeguard laws are there to protect domestic

producers from competing import products which have some impact on importers' purchase decision.

*“Anti-dumping and safeguard laws lead to high import tariffs, which protect the country's various industries. While other countries have no tariff wall, we cannot compete with them.”* one of the respondents said.

If cheap imported products are allowed to flood the market, domestic producers will not be able to compete so they request the government's help to reduce the volume of imported goods.

Another respondent mentioned that *“Currently there is an ongoing inquiry into the dumping of some products such as Aluminum Coated Steel from China, Korea and Vietnam, which has driven prices downwards. Anti-dumping laws are useful for domestic producers but it should not be used to trickle the international trade. This leads to higher costs and higher prices, which ultimately negatively impact end-users.”*

The results show that respondents disagree with anti-dumping and safeguard laws but they made the decision to purchase steel products even with the negative impact from these trade barriers. Even though the anti-dumping and safeguard laws protect domestic producers there are so few steel manufactures here. “Steel” is used everywhere, in roads, electrical appliances and motor vehicles to name a few. This means that every customer is subsidizing the producers in Thailand in exchange for their survival.

#### **Other factors**

This study not only found reasons above but also found other factors that influence purchase decisions. Firstly, one interviewee mentioned about the decreasing demand for steel and the reduction in purchasing power which negatively impacts his business. Some products can be replaced with substitutes, which further decrease the sale of steel. *“We faced competition from substitute products, which led to a reduction or stability of net sales.”*

Meanwhile, one respondent mentioned that the customer's demand is the most important in business operation. *“We import products according to what*

*customers need, importing whatever, wherever they want. We serve the market and serve directly to the customers' demands."*

As per the findings of this research, it can be concluded that there are several factors and trade barriers which influence on steel importers' buying decision.



## CHAPTER 5

### CONCLUSION AND RECOMMENDATIONS

#### **Introduction**

This chapter is composed of three sections; conclusion, limitations and recommendations for future study. The purpose of this study aims to explore the important factors and trade barriers that influence the purchasing decisions of steel importers in Thailand. This research will be beneficial to exporters and importers in Thailand alike in increasing their operation efficiency. It will also benefit Thai producers by granting them more information and guidelines for production evaluation based on factors which protect domestic competitive advantages and decrease deficits by reducing/balancing importation between Thailand and China.

The use of the qualitative method is most appropriate to gain valuable in-depth information as only six companies granted their permission for interviews. The researcher requested at least 30 minutes from each interviewee and interviews were held via telephone calls or face-to-face, using semi-structured questions to gain plenty of in-depth information about how various factors and trade barriers influence importers' purchase decisions. The interviews were divided into two parts, pilot-test part for result-anticipation from two respondents and final part for in-depth interviews from every respondent.

#### **Conclusion**

From the literature reviews and the pilot-test, the researcher assumes that there are three groups of important factors that influence on purchasing decision which are price and quality, suppliers and laws/regulations. Nevertheless, from the results of this study there are five important factors and three trade barriers that influenced steel importers to purchased products from China.



The new variables that found this study are the delay of delivery and the shipping companies. The factors are grouped into product-oriented variables (price and quality), service-oriented variables (suppliers' relationships, delivery processes and shipping companies) and laws/regulation variables (import tariffs, complexity of customs procedures and government policies such as Free Trade Agreements (FTA), Certificates of Origin (Form E), Board of Investment (BOI), Anti-dumping and Safeguard laws).

#### **Product-oriented variables and purchase decision**

'Price' is the main factor that influenced steel importers to purchase products from China low prices and competitive advantages on raw materials. The quality of products is often mentioned together with price. To reduce manufacturing costs, the buyers prefer to select the low price even if the quality is poor. If they require high quality products, they will purchase from elsewhere even if the price is higher. This shows that price and quality of products are significant variables that influence importers' purchase intention to select the China as their main trading partner.

#### **Service-oriented variables and purchase decision**

The price and quality are determined by the suppliers. Trust-worthy and reliable suppliers lead to loyal customers, therefore cultivating positive relationships with suppliers is crucial. Suppliers solve problems, provide services and support the customer, such as problems during the delivery processes etc. Therefore good supplier relationship has a positive influence on importers' purchase decision.

The average period of delivery is one month, as the main transportation method for importing steel products is via "Cargo Ships". Delays can increase the extra costs of delivery to the company (Notteboom, 2006) which is detrimental for company finances. The findings also found some correlation between delivery processes and shipping companies who co-operate during the import processes. As shipping companies have more skills, experience and specializations in the field, they will manage all complex import processes for importers. Therefore, the complexity of import processes has some effect on the purchasing decision of importers, as shipping companies can be utilized with an acceptable increase in costs.

### **Laws/regulation variables and purchase decision**

Import and trade regulations are trade barriers that affect purchase decisions of steel importers. This study found that trade barriers can be divided into two types; tariffs (import tariffs) and non-tariffs (complexity of customs procedures and government policies etc.)

The complexity of customs procedures in terms of the import declarations and clearance processes negatively impact to importers' purchase decisions. To solve and manage this issue, importers utilize services from shipping companies because they are more experienced in the import processes.

Import tariffs are the common expense for all traders. The interviewees accepted trade barriers as a part of importation. As there are various commodity groups of products, there are varying tariff rates for each HS code so the importers have to know their products' HS codes to prevent taxation errors. Some interviewees mentioned that this issue affects their decisions as they need exercise caution and reconfirm HS codes with Customs beforehand.

Additionally some importers reduce import tariffs through governmental policies. These government policies (FTAs, Form E and BOI) help and support importers/producers by granting tax breaks or reductions, therefore they positively impact importers' purchase intentions.

Meanwhile some regulations negatively impact importers. In this study respondents only mentioned anti-dumping and safeguard laws. Even if anti-dumping and safeguard laws protect domestic producers from competing import products, importers have to face high import tariffs which increases their manufacturing expenses.

### **Research Limitations**

The main limitation in this study is the limit of times; therefore the study was not able to cover all Thai steel importers. It is of note that the sample size of this research is small. Only six participants from six sample companies located in Bangkok, Nakhon Pathom, Pathum Thani and Chon Buri, were willing to participate therefore the qualitative method was applied in this research. As the sample of this

research was small, further research should survey more respondents of varying sizes from small, medium to large companies to discern any differences.

The researcher used semi-structured interviews to investigate both broad and in-depth information via face-to-face or telephone interviews. Notes were taken by hand as respondents disapproved the use of any recording devices. This meant that some additional time was required to check and reconfirm the information given in the interviews.

### **Recommendations**

#### For Thai's producers

As price and quality are the important factors that attract buyers to purchase products, Thai' producers should pay attention and always improve product quality to remain their international trade potential in the global market. It is difficult to set low prices for high quality products as Thailand has no competitive advantages in raw materials but using the substitute raw materials from other countries may be better choice to reduce their manufacturing costs.

#### For Importers

Importers should ensure smooth business flow by selecting reliable suppliers and study various barriers which may affect the intention of importing products. Experiences and knowledge of buyer are needed in the supplier selection process. The suppliers should have the knowledge and experiences for helping and suggesting when customers face the problems.

As delivery processes average around one month and may face the delays due to external factors; importers should predict problems they may face, study and prepare solutions to these problems beforehand, which may help to decrease transportation time. For example, before shipments are sent off weather forecasts should be checked and a decision made with the supplier if required. Importers may also select capable shipping companies to carry out delivery processes in their stead. These will increase competitiveness and ensure smooth business flow.

However importers should realize that trade between Thailand and China is in continual deficit so they also should limit and decrease reliance on imported products from China to balance trade between two countries, such as choosing to utilize domestically produced products or import from other countries instead.

The outcomes of this study might help for the further researchers who would like to do the research in the other industries by using the same variables. In future the researcher should also explore both importer and exporter sides for a wider range of products and target countries to obtain more valuable information and better understand the overall situation.



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## Appendix

### Interview Questions

1. What are the important factors that influence purchasing decision for buying steel industrial products from China?
2. What are the differences between buying from Thailand's suppliers and buying from foreign suppliers?
3. Why you choose to import steel product from China, not buy from other countries?
4. What countries that you imported products to Thailand?
5. What are the main problems when you imported? How do you solve these problems?
6. How many steel products that you import from China as per month and how much?
7. How do you choose the steel suppliers? Are they long-term suppliers?
8. Do you have the good relation with suppliers? Do you trust the suppliers? Have any problems when you contact with foreign suppliers?
9. Have any risks when you import?
10. How your company delivers the product to Thailand? Have any problems on transportation process?
11. Does your company export to other countries?
12. What are the trade barriers that influence purchasing decision for buying steel industrial products from China?
13. What are the laws or regulations that you found about importation?
14. Does the complex of trade barriers impact your purchase decision?
15. Do the tariff, non-tariff, law and regulation of importation impact to your purchase decision? What are the tariff, non-tariff, law and regulation that you faced?

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