

# Thailand's Competitiveness: Creating the Foundations for Higher Productivity

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This presentation draws on ideas from Professor Porter's articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in The Global Competitiveness Report 2002, (World Economic Forum, 2002), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (Harvard Business School Press, 1998), and joint work with Dr. Christian Ketels and the Sasin Graduate School of Business on Thai competitiveness financed by the NESDB. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter.

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# Thailand's Economy in 2003

- Thailand has registered **economic growth** through the 1990s, and attracted substantial foreign investment
- The economy has achieved **high employment** and **comparatively low poverty rates** despite the Asian Crisis

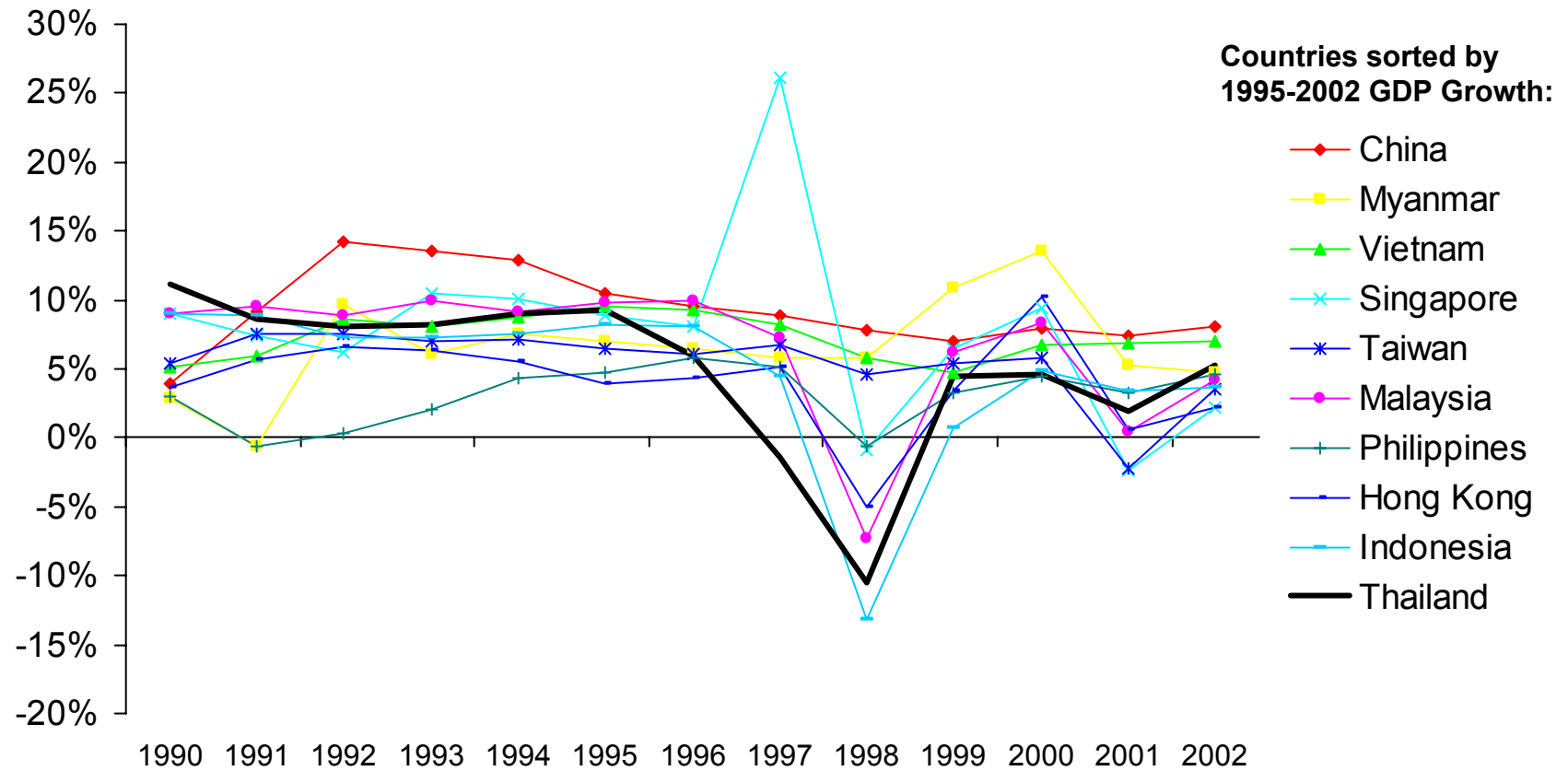
## BUT

- The Asian Crisis hit Thailand first and harder, indicating the **fundamental weaknesses** of the historical approach
- Growth after the Crisis was driven by **devaluation** and **domestic stimuli packages**
- Despite the recent growth, **GDP per capita remained flat** over the period since 1995

# Comparative Economic Performance

## Selected Asian Economies

Annual Growth  
Rate of Real GDP



# What is Competitiveness?

- Competitiveness is determined by the **productivity** with which a nation uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns to capital, returns to natural resource endowments)
  - Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced
  - It is not **what** industries a nation competes in that matters for prosperity, but **how** firms compete in those industries
  - Productivity in a nation is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity
  - The productivity of **“local”** industries is of fundamental importance to competitiveness, not just that of traded industries
  - Devaluation does **not** make a country more competitive



- Nations compete in offering the **most productive environment** for business
- The public and private sectors play **different but interrelated roles** in creating a productive economy

# Challenges to Thai Prosperity

- Prosperity has stagnated over the period 1995 – 2002. The harder impact of the Asian Crisis outweighed the relatively lower reliance on the sluggish world IT markets
- Productivity is comparatively low and growing only slowly
- While export market share has stabilized after falling between 1995 and 1998, devaluation has reduced the prosperity gain for Thailand
- Foreign Direct Investment (FDI) inflows are reverting back to low pre-Asian Crisis levels. FDI stock is still below regional averages
- Innovation and technology performance is weak, though showing some signs of improvement

- Thailand's fundamental challenge is **microeconomic**
- Without an improvement in microeconomic fundamentals, current growth will be **short-lived**

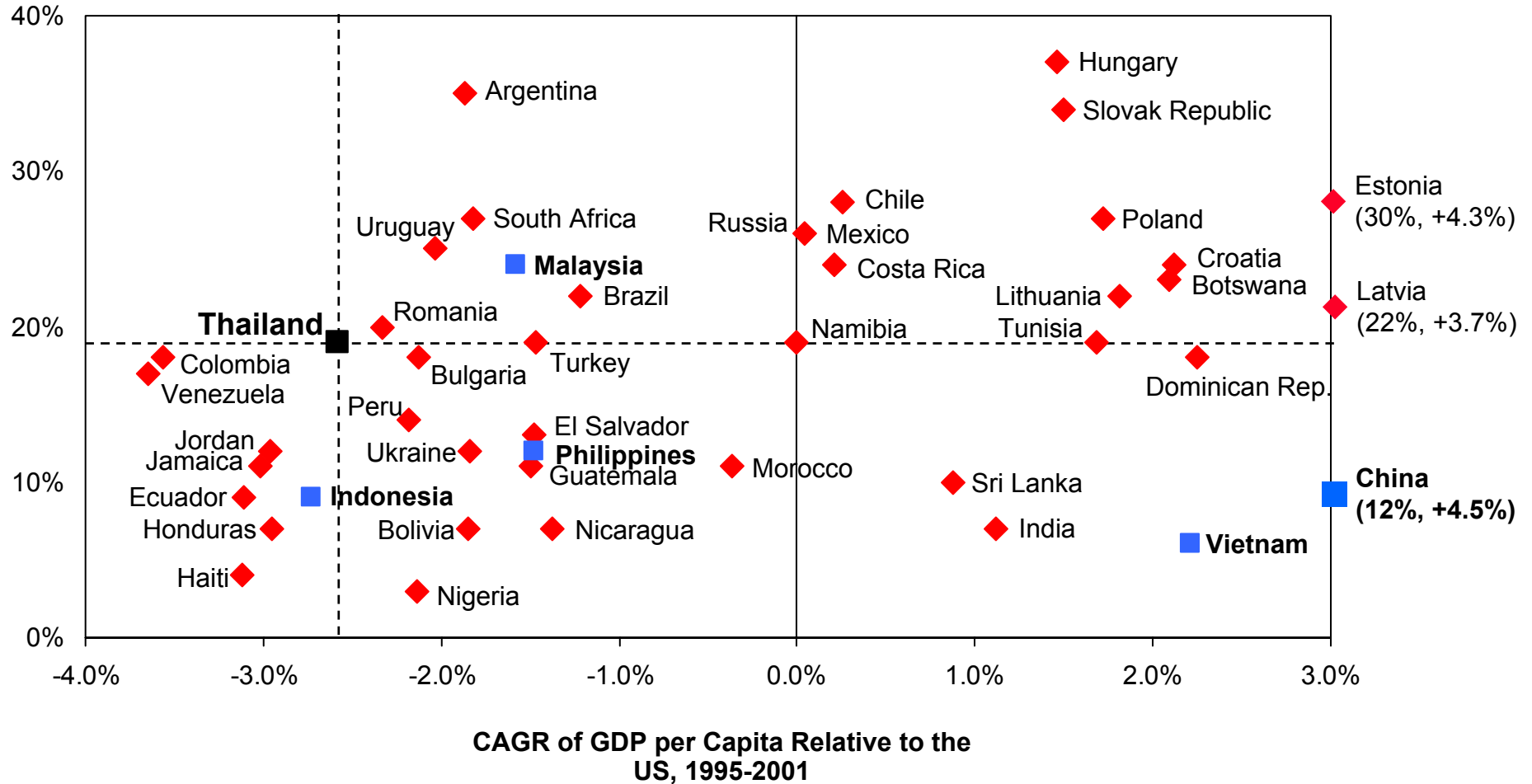


- Thailand must move to a **new model of competitiveness**

# Comparative Economic Performance

## Selected Middle- and Lower-Income Economies

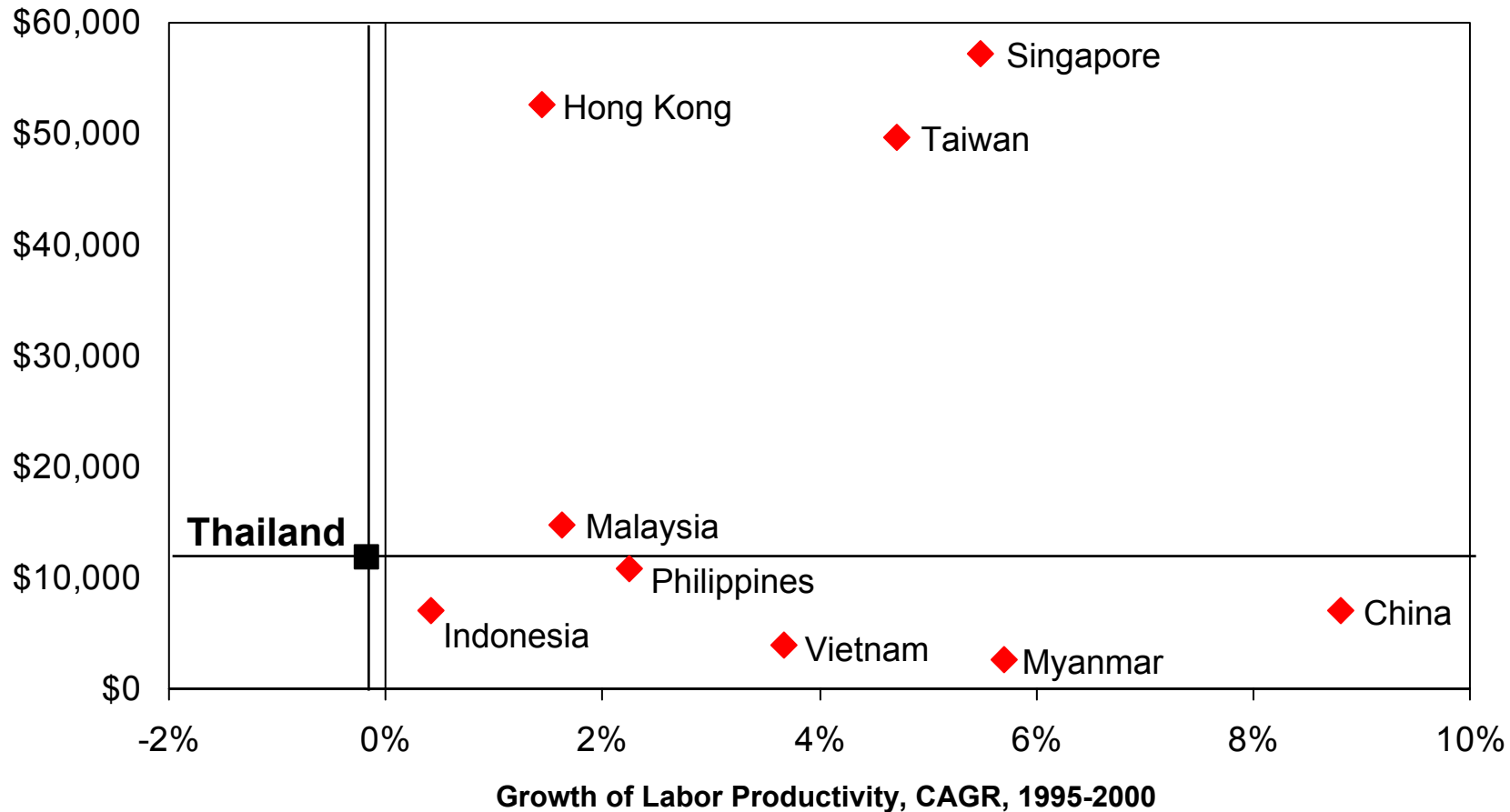
GDP per Capita,  
2001, US=100



# Comparative Labor Productivity Performance

## Selected Asian Economies

Labor Productivity  
(GDP per Employee), 2000



- Thailand's **labor productivity** is far behind leading Asian economies and **productivity growth** is lagging badly

# Thai Productivity

## Cluster Examples

- **Tourism**

- Thailand generates **less** revenue per tourist than leading competitors, for example Indonesia
- Thailand has not been able to increase the revenue per tourists over time. Even after the 1997 devaluation, revenues in terms of Thai Baht only remained stable, while tourists **reduced** their spending in terms of US-Dollar

- **Automotive**

- Assembly plants in Thailand produce **fewer** cars per employee than the international benchmark countries (11 versus 45 per year).
- Low labor cost allow Thai assembly plants to be cost competitive despite a **much lower level of automation**
- Thai-based producers have low incentives to adopt world-class technology to improve productivity, but this perpetuates low wages

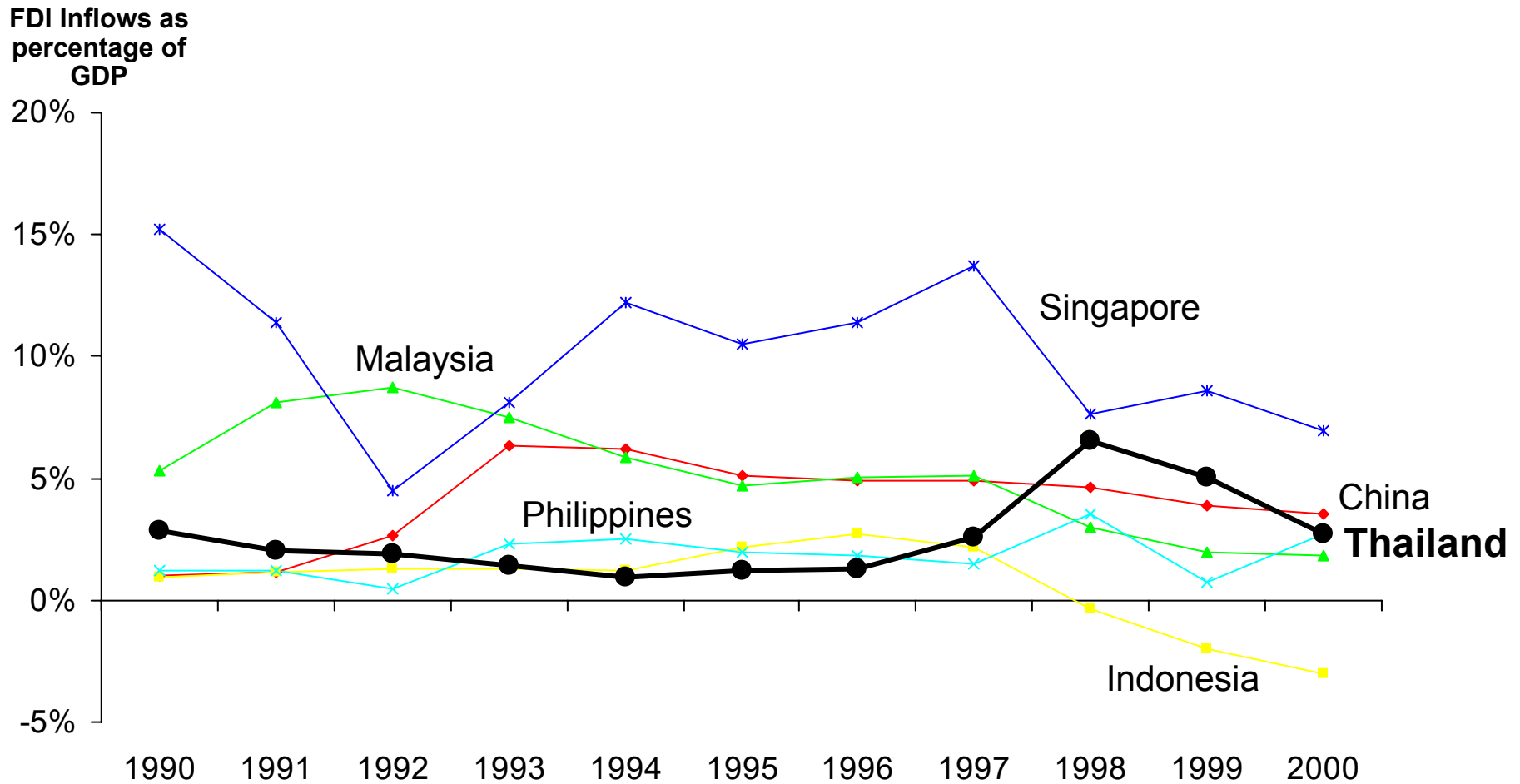
- **Food industry**

- Thai companies employ workers without specific training and pay close to the **minimum wage**, yet complain about **high turnover**
- Thai food processors are trapped in a **low-productivity, low-wage, low-skill system**. Employees leave for more productive, better paying industries



# Comparative Inward Foreign Investment Flows

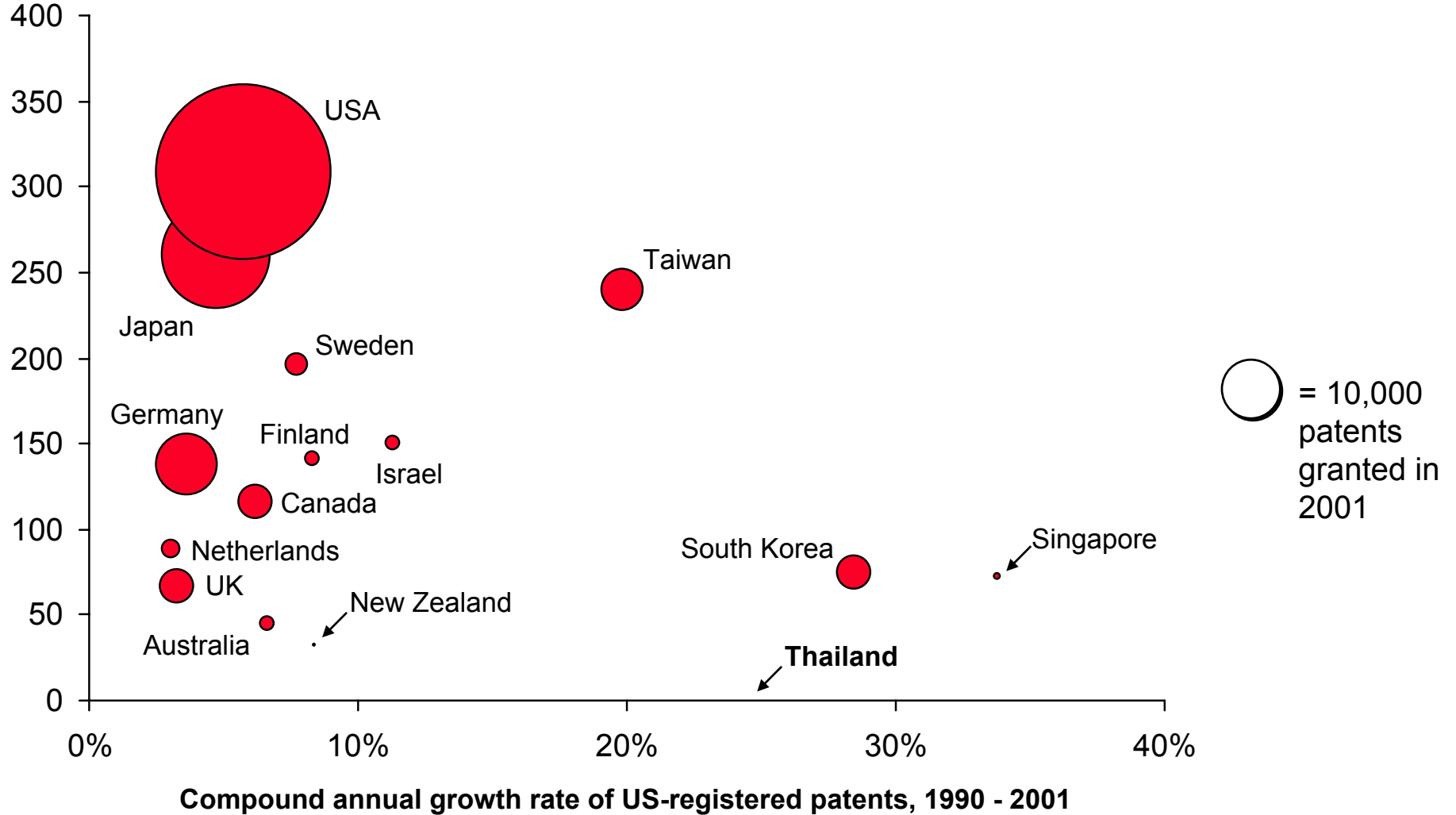
## Selected Asian Economies



- Thailand received strong FDI inflows in the years immediately after the devaluation in 1997 but is now **falling back** to the FDI inflow levels of its immediate neighbors

# International Patenting Output

Annual U.S. patents  
per 1 million  
population, 2001



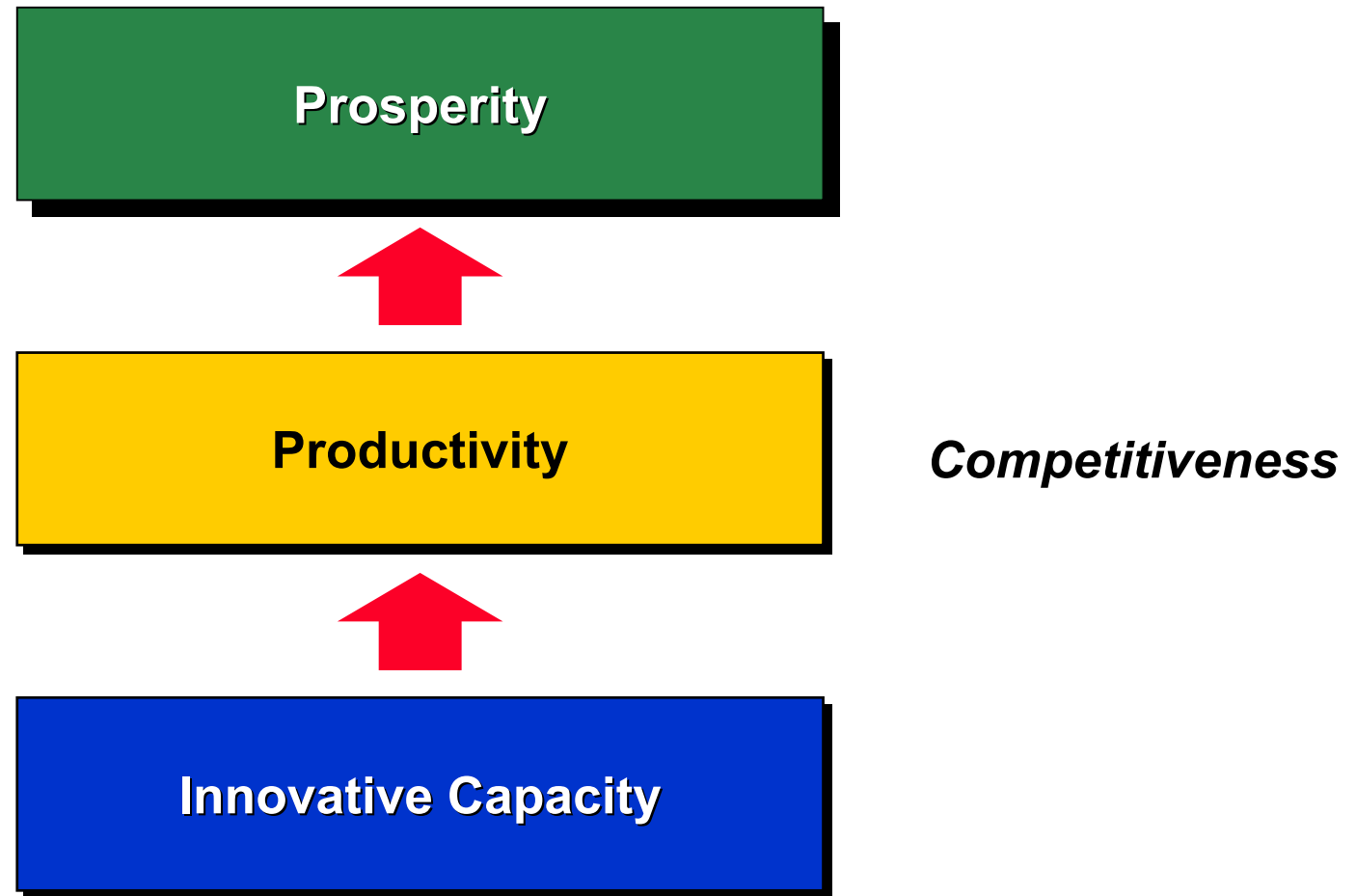
- Thailand's level of innovation as measured by U.S. patenting is **insignificant**

# Thailand's Competitiveness

- Assessing Thailand's Competitive Position

- **Thailand's Competitiveness Agenda in 2003**

# Innovation and Competitiveness



- Innovation is **more than just scientific discovery**
- There are **no low-tech industries**, only low-tech firms

# Determinants of Productivity and Productivity Growth

**Macroeconomic, Political, Legal, and Social  
Context for Development**

## **Microeconomic Foundations of Development**

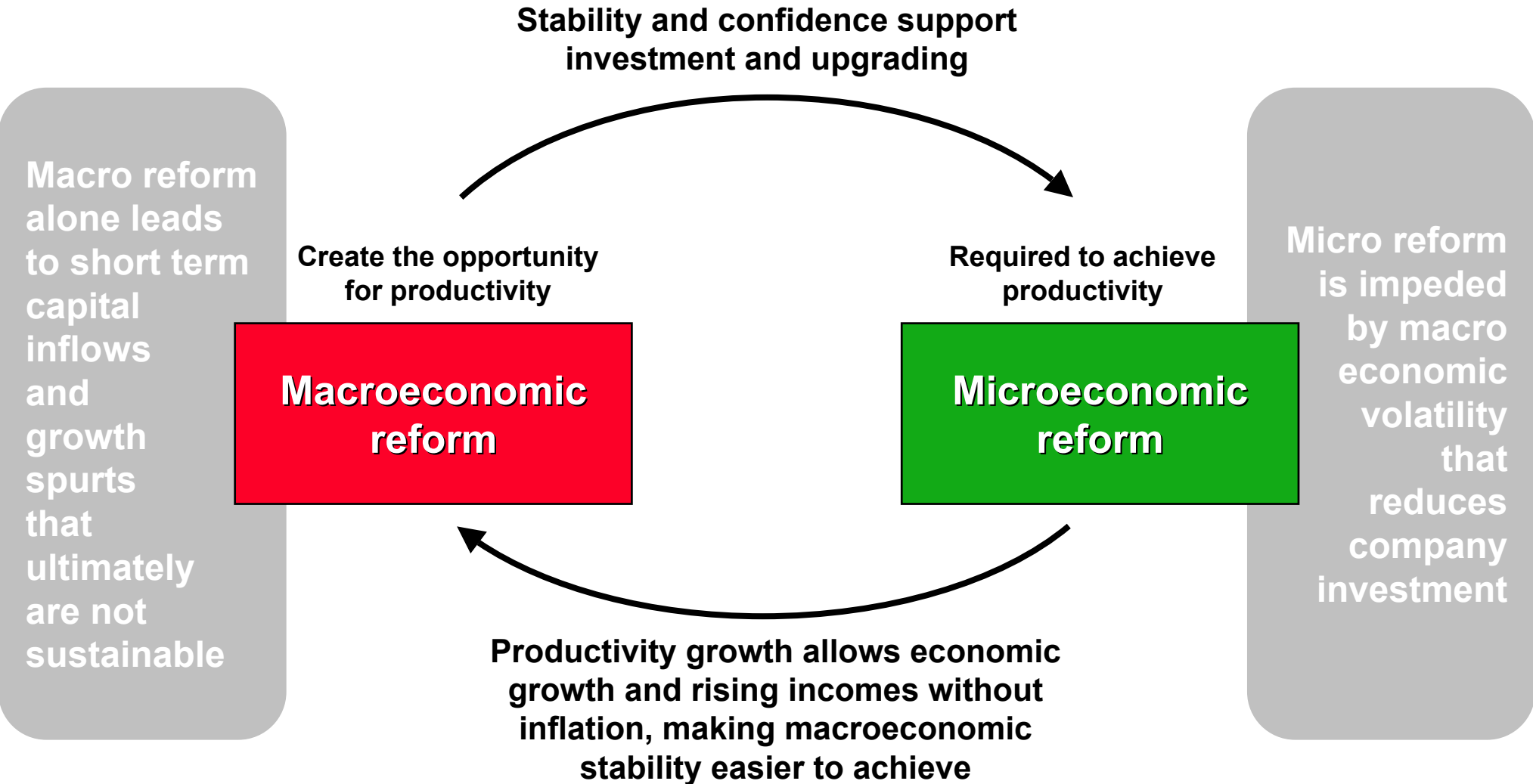
**Sophistication  
of Company  
Operations and  
Strategy**



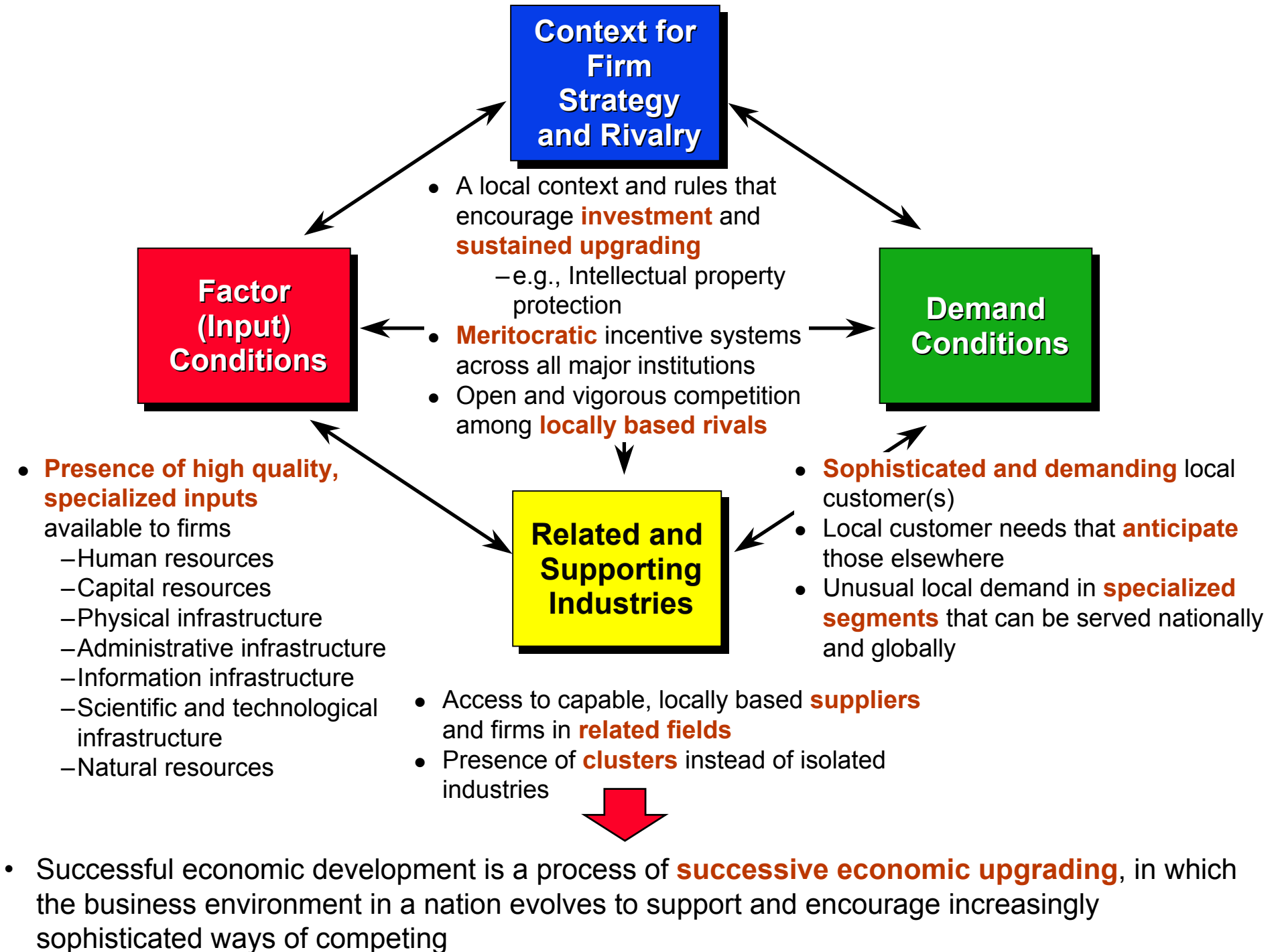
**Quality of the  
Microeconomic  
Business  
Environment**

- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local companies and local competition**

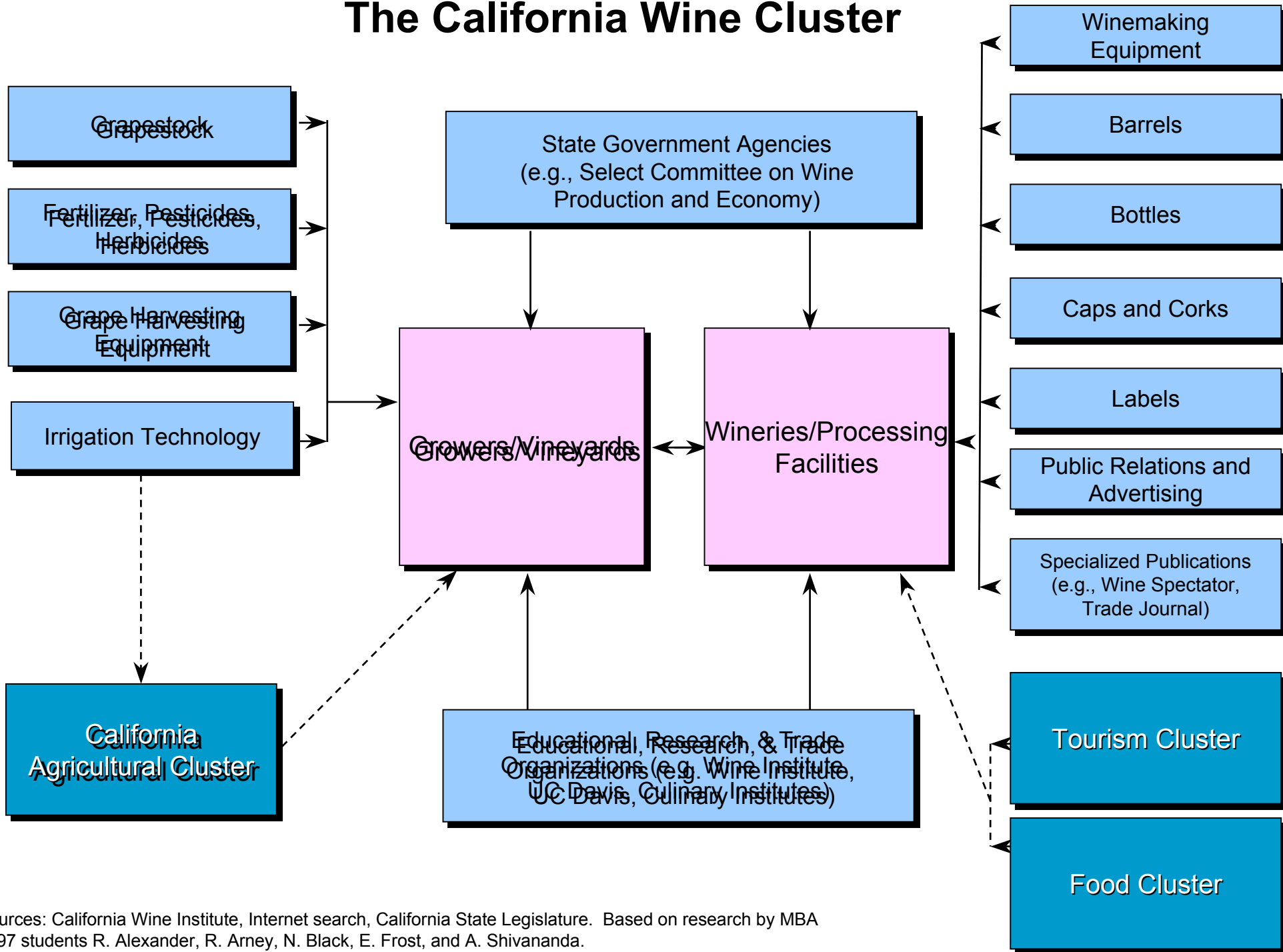
# Integration of Macro- and Microeconomic Reforms



# Productivity and the Microeconomic Business Environment



# The California Wine Cluster



Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.



# Levels of Clusters

- There is often an **array of clusters** in a given field in different locations, each with different levels of specialization and sophistication
- Global **innovation centers**, such as Silicon Valley in semiconductors, are few in number. If there are multiple innovation centers, they normally **specialize** in different market segments
- Other clusters focus on **manufacturing**, outsourced **service functions**, or play the role of **regional** assembly or service centers
- Firms based in the most advanced clusters often **seed or enhance clusters** in other locations in order to reduce the risk of a single site, access lower cost inputs, or better serve particular regional markets



- The challenge for an economy is to move from **isolated firms** to an array of **clusters**, and then to **upgrade the breadth and sophistication** of clusters to more advanced activities

# Levels of Clusters

## Leading Footwear Clusters

### Portugal

- Production
- Focus on short-production runs in the medium price range

### Romania

- Production subsidiaries of Italian companies
- Focus on lower to medium price range

### Italy

- Design, marketing, and production of premium shoes
- Export widely to the world market

### United States

- Design and marketing
- Focus on specific market segments like sport and recreational shoes and boots
- Manufacturing only in selected lines such as hand-sewn casual shoes and boots

### China

- OEM Production
- Focus on low cost segment mainly for the US market

### Vietnam/Indonesia

- OEM Production
- Focus on the low cost segment mainly for the European market

# Institutions for Collaboration

## *General*

- Chambers of Commerce
- Professional associations
- School networks
- University partner groups
- Religious networks
- Joint private/public advisory councils
- Competitiveness councils

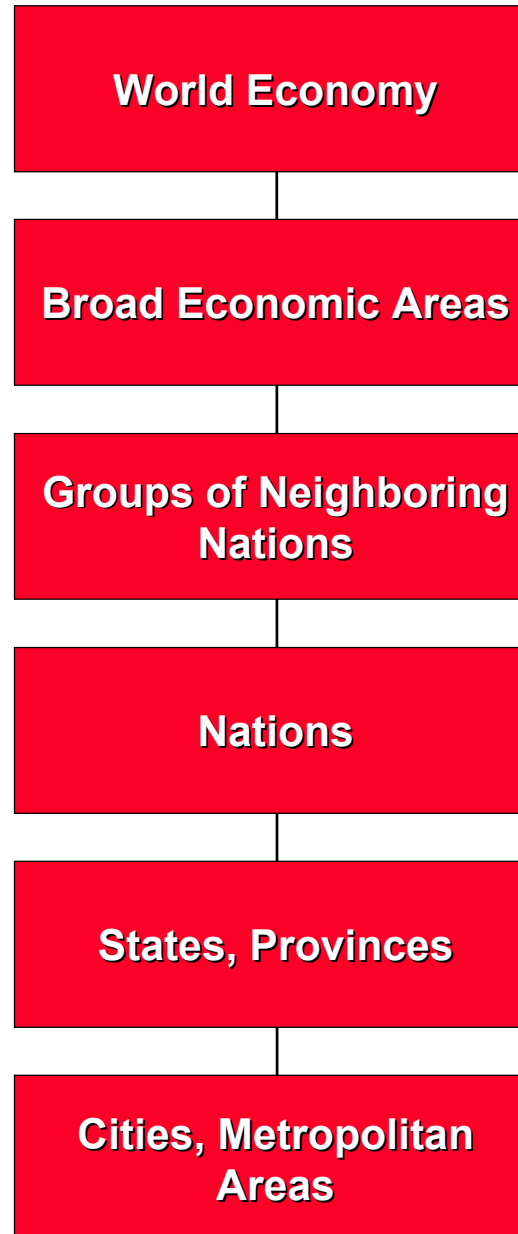
## *Cluster-specific*

- Industry associations
- Specialized professional associations and societies
- Alumni groups of core cluster companies
- Incubators

- Institutions for collaboration (IFC) are **formal and informal organizations** that
  - facilitate the exchange of information and technology
  - conduct joint activities
  - foster coordination among firms
- IFCs can improve the business environment by
  - creating **relationships** and level of trust that make them more effective
  - defining of **common standards**
  - conducting or facilitating the organization of **collective action** in areas such as procurement, information gathering, or international marketing
  - defining and communicating common **beliefs and attitudes**
  - providing mechanisms to develop a common economic or **cluster agenda**

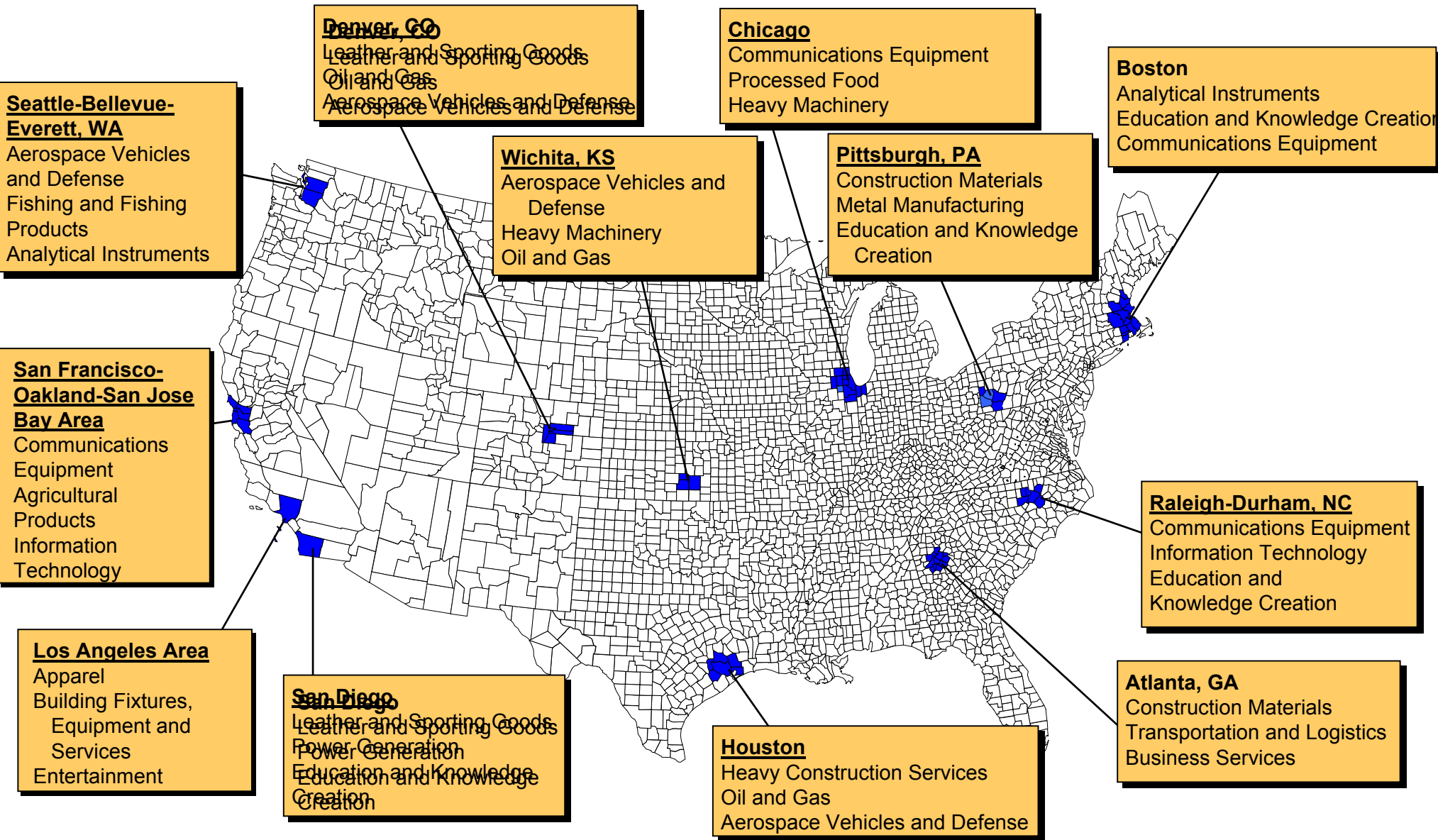
# Influences on Competitiveness

## Multiple Geographic Levels



# Specialization of Regional Economies

## Select U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

# Stages of Competitive Development



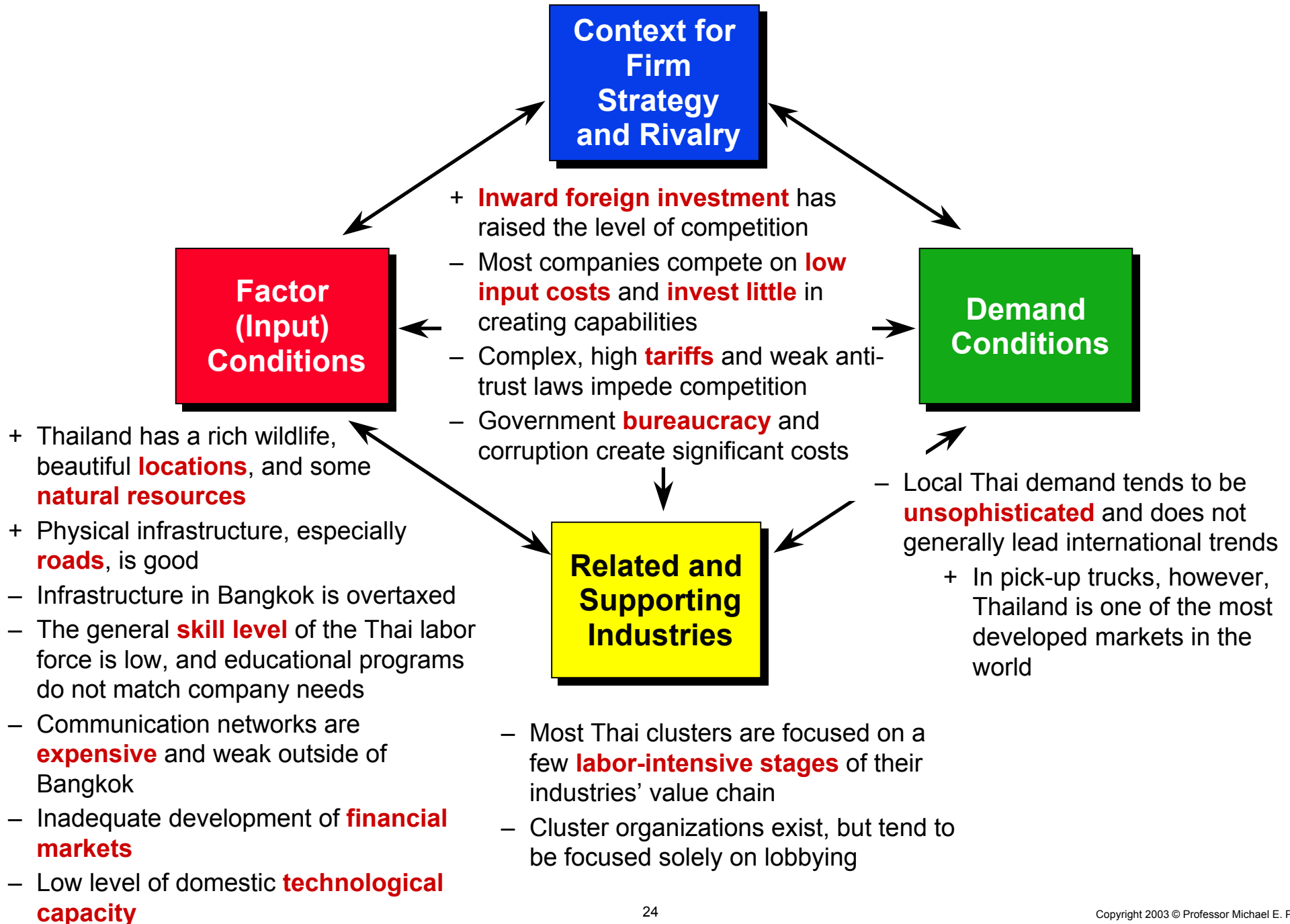
# Thailand's Competitiveness Agenda

- **Upgrade the Business Environment**

- Activate Cluster Development
- Transform Company Strategies
- Redefine the Roles of Business and Government
- Decentralize More of Economic Policy to the Regional Level
- Lead a Cross-National Strategy

# National Business Environment Overview

## Thailand's Relative Strengths and Weaknesses

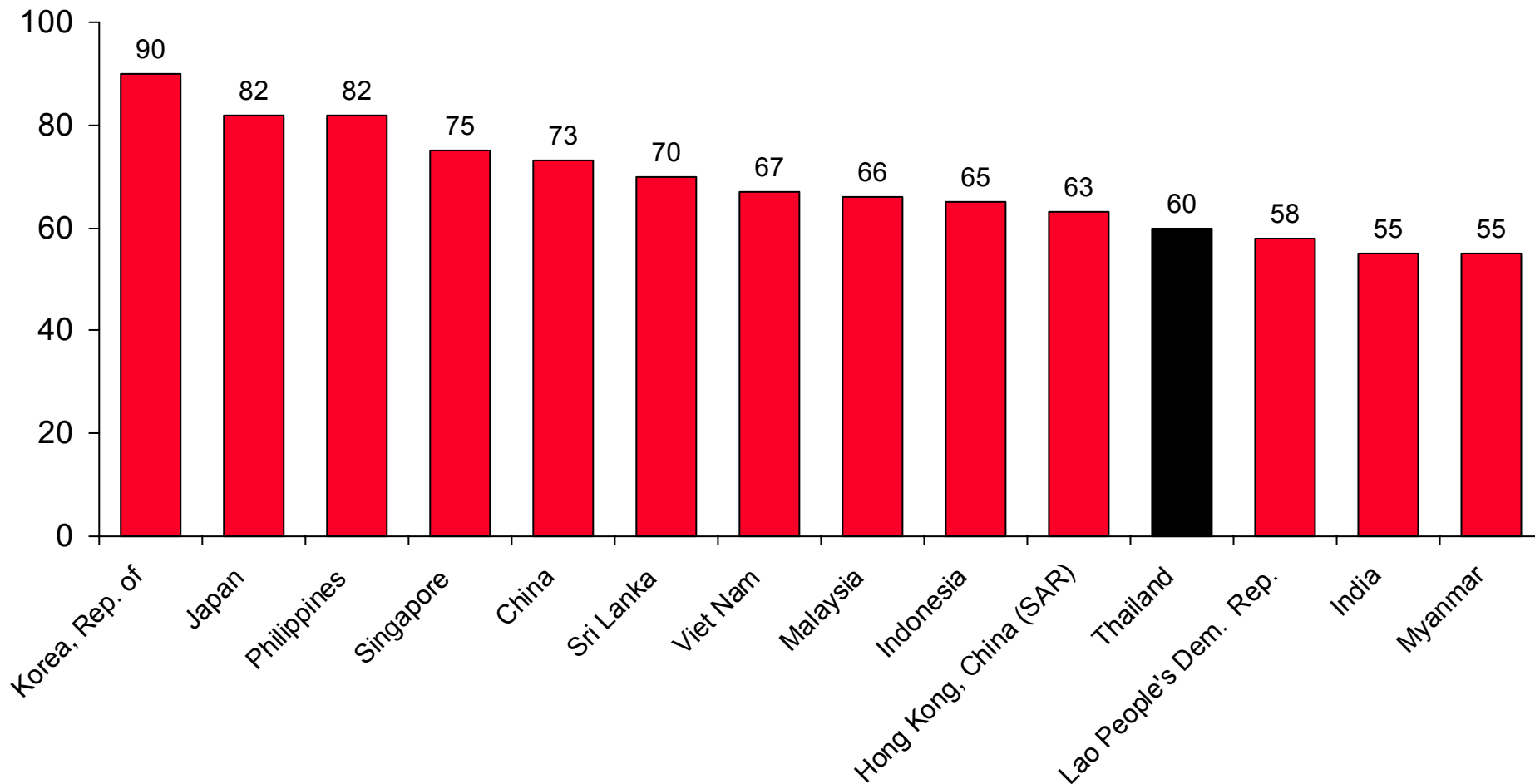




# Educational Performance

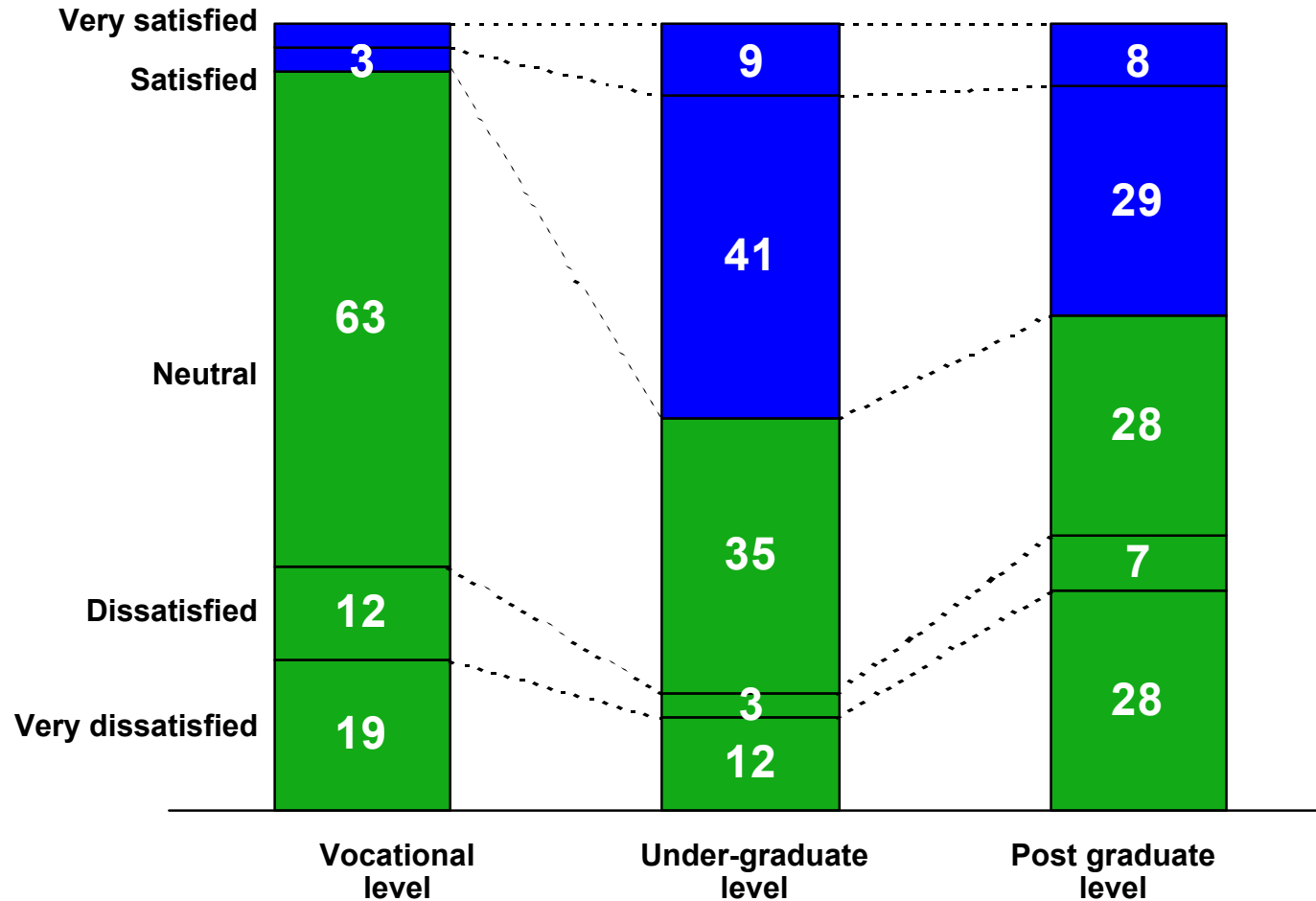
## Selected Asian Countries

Gross Enrolment in Primary,  
Secondary, and Tertiary  
Education, 1999



# Educational System Quality

## Employer Satisfaction



- Many Thai employers are **unsatisfied** with the quality of the education system at the more advanced levels, especially at the vocational level

# Quality of the Educational System

## Cluster Examples

- **Tourism**

- Graduates from many educational institutions are **not trained for tasks** that are essential in tourism-related businesses
- More than 40% of tourism-related courses prepare graduates for management positions. However, management positions account for only 3% of the workforce needs in the Thai tourism cluster

- **Automotive**

- The capabilities of production engineers and technicians graduating from local educational institutions are often insufficient
- Companies are forced to **provide extensive in-house training** to integrate new hires

- **Information Technology**


- IT executives report that nearly 50% of all graduates need to be significantly retrained before being useful

# Science and Technology

## Thailand's Relative Position



### Competitive Advantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

University/Industry Research Collaboration 29 

### Competitive Disadvantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Availability of Scientists and Engineers	55
Quality of Scientific Research Institutions	45 
Quality of Math and Science Education	41
Intellectual Property Protection	38 



- Thailand is only **slowly moving** towards a system with high-quality research institutions and the appropriate incentives for R&D and commercialization

Note: Rank by countries; overall Thailand ranks 35 out of 80 countries (35 on National Business Environment, 53 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Context for Firm Strategy and Rivalry

## Thailand's Relative Position

### Competitive Advantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Cooperation in Labor-Employer Relations	9	
Extent of Locally Based Competitors	14	↓
Extent of Distortive Government Subsidies	17	↑
Decentralization of Corporate Activity	28	
Intensity of Local Competition	29	
Tariff Liberalization	31	↑

### Competitive Disadvantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Costs of Other Firms' Illegal/ Unfair Activities	46	
Favoritism in Decisions of Government Officials	46	
Hidden Trade Barrier Liberalization	45	↑
Efficacy of Corporate Boards	37	↑
Effectiveness of Anti-Trust Policy	35	↑

Note: Rank by countries; overall Thailand ranks 35 out of 80 countries (35 on National Business Environment, 53 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Bureaucracy in Thailand

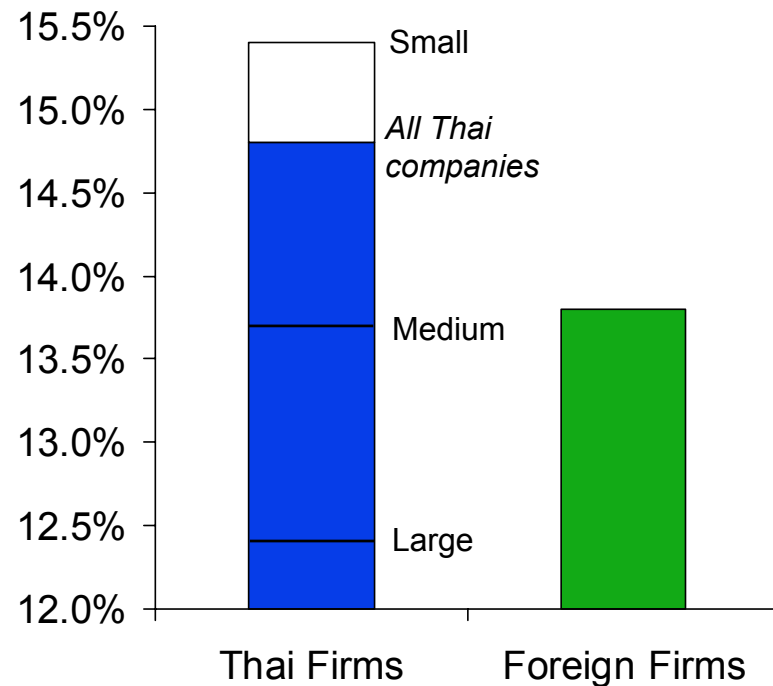
## Evidence

- Thailand ranks **79 out of 80** countries on the extent of bureaucratic red tap in the 2002 Global Competitiveness Report
- Bureaucracy inflicts the largest burden on **smaller domestic companies**



- Many examples show that corruption and bureaucracy thrive in an environment with elaborate, complex regulations and administrative procedures

**% of executives' time spent with government official**



# Tariff Barriers

Sectors	Tariff Rates (March, 2003)		
	General	WTO	AFTA
Food products	60 %	30 – 40 %	5 %
Textile and Apparel	100 %	30 – 44 %	5 %
Foot ware	100 %	30 %	5 %
Diamonds	0 – 20 %	1 – 10 %	0 %
Automotive	100 -200%	80 %	5 %

- Historically, Thailand followed an **import-substitution strategy** based on high tariffs and domestic content requirements
- In the 1990s, the policy changed to support the creation of **manufacturing** export industries. Export industries could import machinery and inputs tariff-free
- Currently, Thailand is in the process of reducing regional tariff rates in accordance with the ASEAN free trade agreement. However, tariff protection **remains significant** in many industries and is blunting competition

# Barriers to International Trade

## Automotive Industry

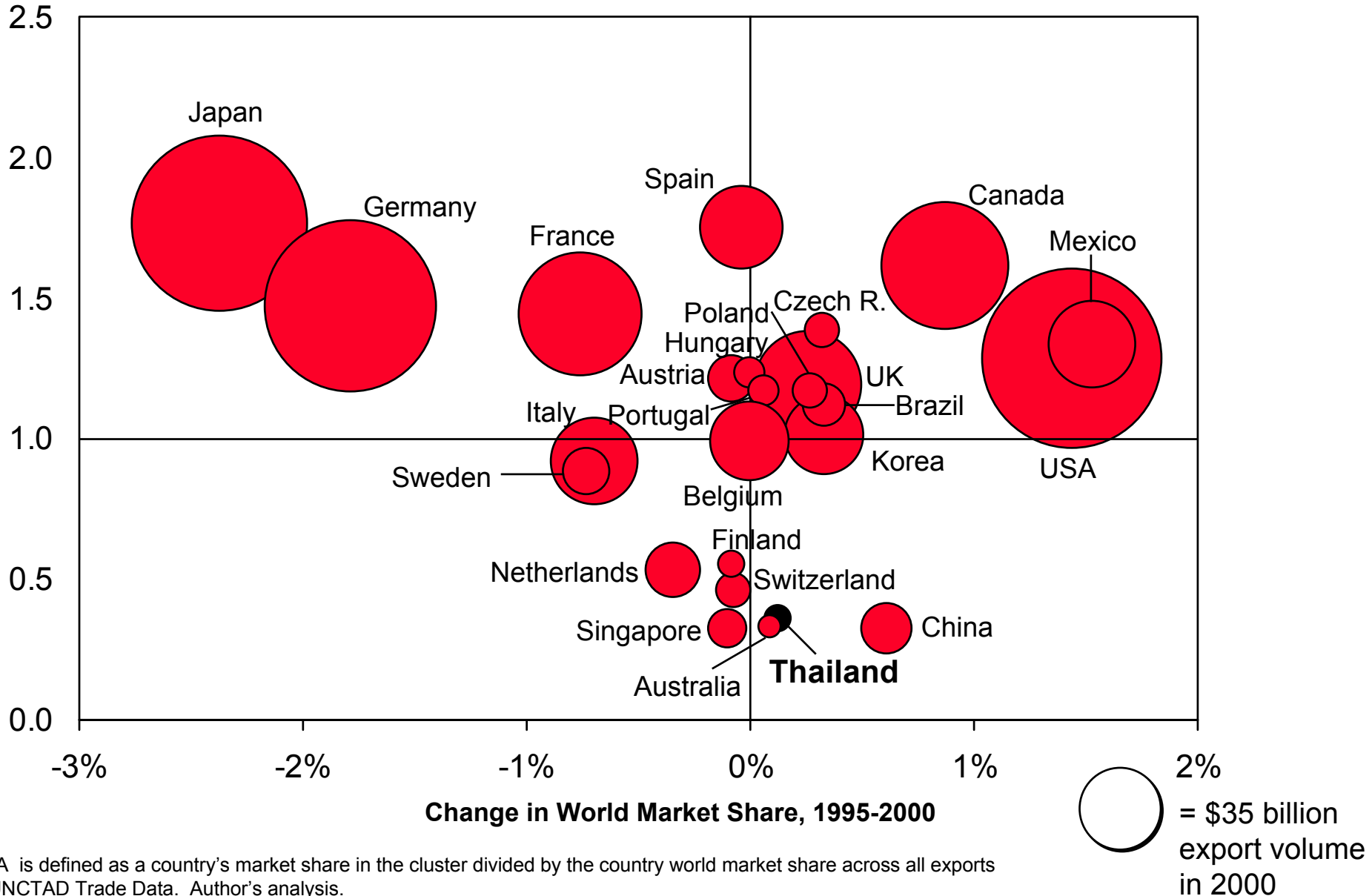
- The Thai automotive industry was born as a result of trade protection
- While the industry consists of a large number of assembly plants and suppliers, its ability to compete internationally rests almost entirely on **low labor costs that compensate for low levels of productivity**
- The industry began to export only after the **devaluation** of the Thai Baht in 1997. Thai-based operations have relatively weak positions in international markets
- Thailand's progress in becoming the ASEAN automotive production hub is still fragile
- The potential for growth will be limited until Thailand **significantly improves its sophistication and technology**



# Automotive Clusters in the World Economy

## Top 25 Exporting Countries by Export Value, 2000

Revealed Comparative Advantage (RCA), 2000



Note: RCA is defined as a country's market share in the cluster divided by the country world market share across all exports

Source: UNCTAD Trade Data. Author's analysis.

# Domestic Competition in Thailand

- Foreign investors have significantly improved the level of competition in a number of sectors such as retail
- The increased focus of Thai business groups on markets where they have dominating positions has reduced competitive intensity in some industries
- The Competition Committee has few effective instruments to act against companies with market power
  - The Competition Act does not, for example, apply to state owned companies

# Thai Policy Toward FDI


- Some foreign investors have been encouraged to use older technology to create more (lower paying) jobs
- Historically, the government tried to channel FDI to **different parts of the country**
  - Recently the preferences for investing outside Bangkok have been removed
- Investment incentives are **less attractive** than, for example, Malaysia and Singapore
- The new strategy seeks to attract regional headquarters **without offering any compelling advantages** versus other locations.
- Government is searching to promote technology transfer in, for example, electronics but success so far is limited
- No convincing **cluster-based approach to FDI attraction** is in place
  - Special incentives exist in textiles, footwear, and food products

# **Demand Conditions**

## **Thailand's Relative Position**

### **Competitive Advantages Relative to GDP per Capita**

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Consumer Adoption of Latest Products      21 

### **Competitive Disadvantages Relative to GDP per Capita**

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Laws Relating to Information Technology      48  
Stringency of Environmental Regulations      39  
Presence of Demanding Regulatory  
Standards      36

Note: Rank by countries; overall Thailand ranks 35 out of 80 countries (35 on National Business Environment, 53 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# Thai Demand Conditions

## Pick-up Trucks

- Thailand has heavy demand for pick-up trucks that are used for multiple commercial and private uses
- Manufacturers react to the demand by offering **more varieties of pick-up truck models in Thailand** than in any other national market
- Thailand has a **strong and growing position for pick-up trucks in the world market**
  - This is the **only** segment (apart from tires and rubber-related products) in the automotive industry in which Thailand has a revealed comparative advantage
  - Thailand is the second largest producer of pick-up trucks worldwide behind the United States



- Seek such **opportunities** in other parts of Thai industry

# Related and Supporting Industries

## Thailand's Relative Position

### Competitive Advantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Extent of Product and Process Collaboration	17
Local Availability of Components and Parts	18
State of Cluster Development	23
Local Supplier Quantity	29

### Competitive Disadvantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Local Availability of Specialized Research and Training Services	40
Local Availability of Process Machinery	37



- Thailand is home to an array of clusters, but clusters are **shallow** and are characterized by **weak linkages** among cluster participants

Note: Rank by countries; overall Thailand ranks 35 out of 80 countries (35 on National Business Environment, 53 on GDP pc 2001)

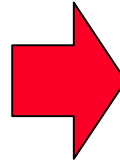
Source: Global Competitiveness Report 2002

# Moving Beyond Factor Competition

## Policy Imperatives

### Factor-Driven Economy

- Openness to trade and FDI
- Competition policy
- Protection of physical and intellectual property
- Communications and transportation infrastructure
- Streamline government regulation
- Regional trade



### Investment-Driven Economy

- Increased local rivalry
- Improving factor quality, education
- Advanced financial infrastructure
- Specialization of human capital
- Cluster development (buyers, suppliers)
- Establish infrastructure for innovation

# Some Immediate Steps

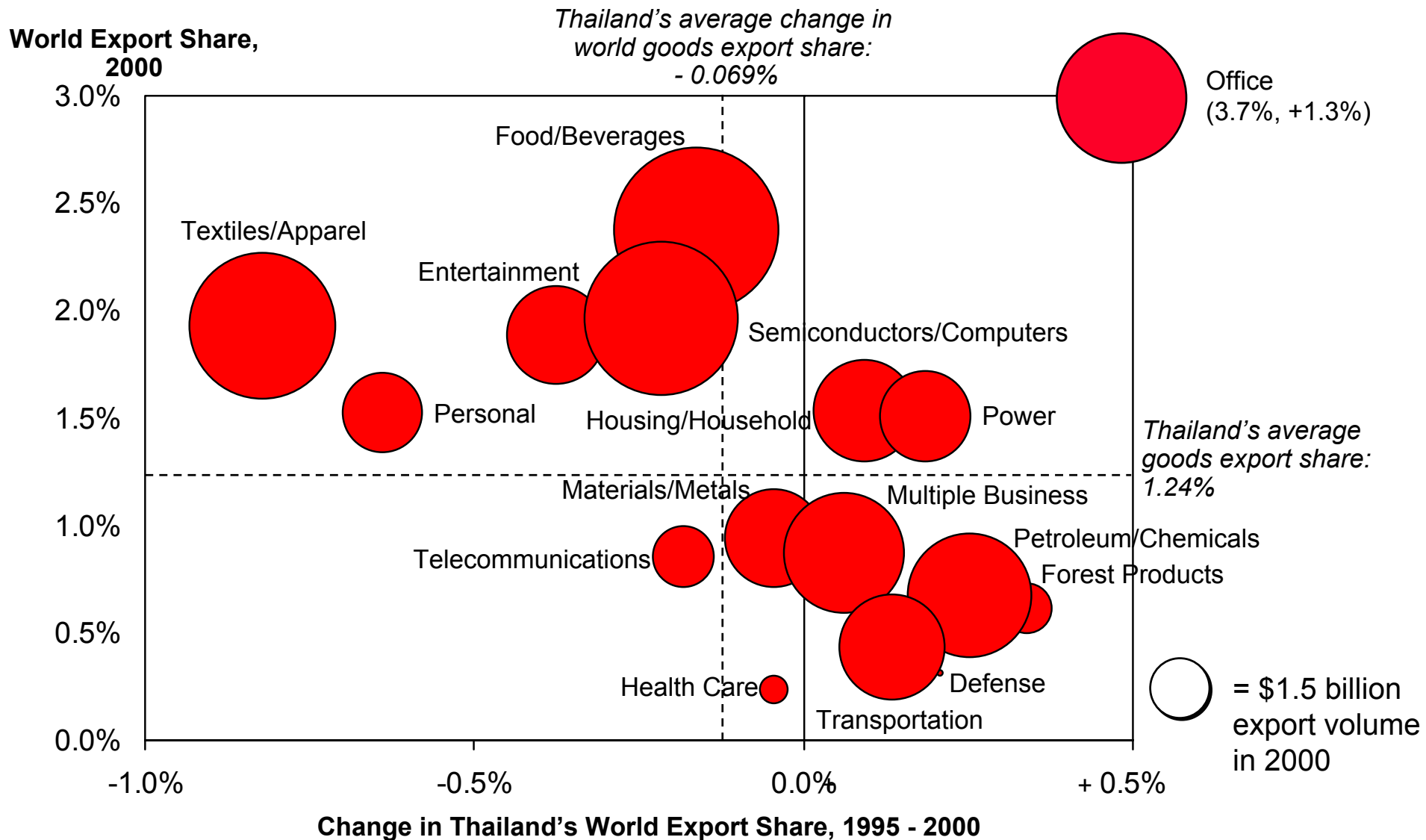
- Negotiate ASEAN Open Skies agreement
- Reduce distortive taxes for particular product groups
- Reduce capital gains tax for venture investments in smaller companies
- Open the telecommunication market
- Negotiate FTA agreement with the United States



# Thailand's Competitiveness Agenda

- Upgrade the Business Environment
- **Activate Cluster Development**
- Transform Company Strategies
- Redefine the Roles of Business and Government
- Decentralize More of Economic Policy to the Regional Level
- Lead a Cross-National Strategy

# Thailand's Export Performance By Broad Sector 1995-2000



# Threats to Traditional Clusters

- Thailand is **losing world market position** in some of its traditional areas of strength, such as textiles/apparel and food products
- In these clusters, Thailand firms focus on a few, **labor-intensive** steps in the value chain. They use either imported (e.g., gold, tuna) or locally-produced **raw materials**, and sell **undifferentiated products** on anonymous world markets
- Technology is **low** and not being upgraded
- While these clusters provide many jobs, wages are close to the Thai **minimum wage**
- Thailand is losing market share both to lower cost locations such as China and to more focused, higher cost locations such as Austria (Leather) or Australia (Food/Beverages)

# Cluster Development Efforts in Thailand

- **Tourism**

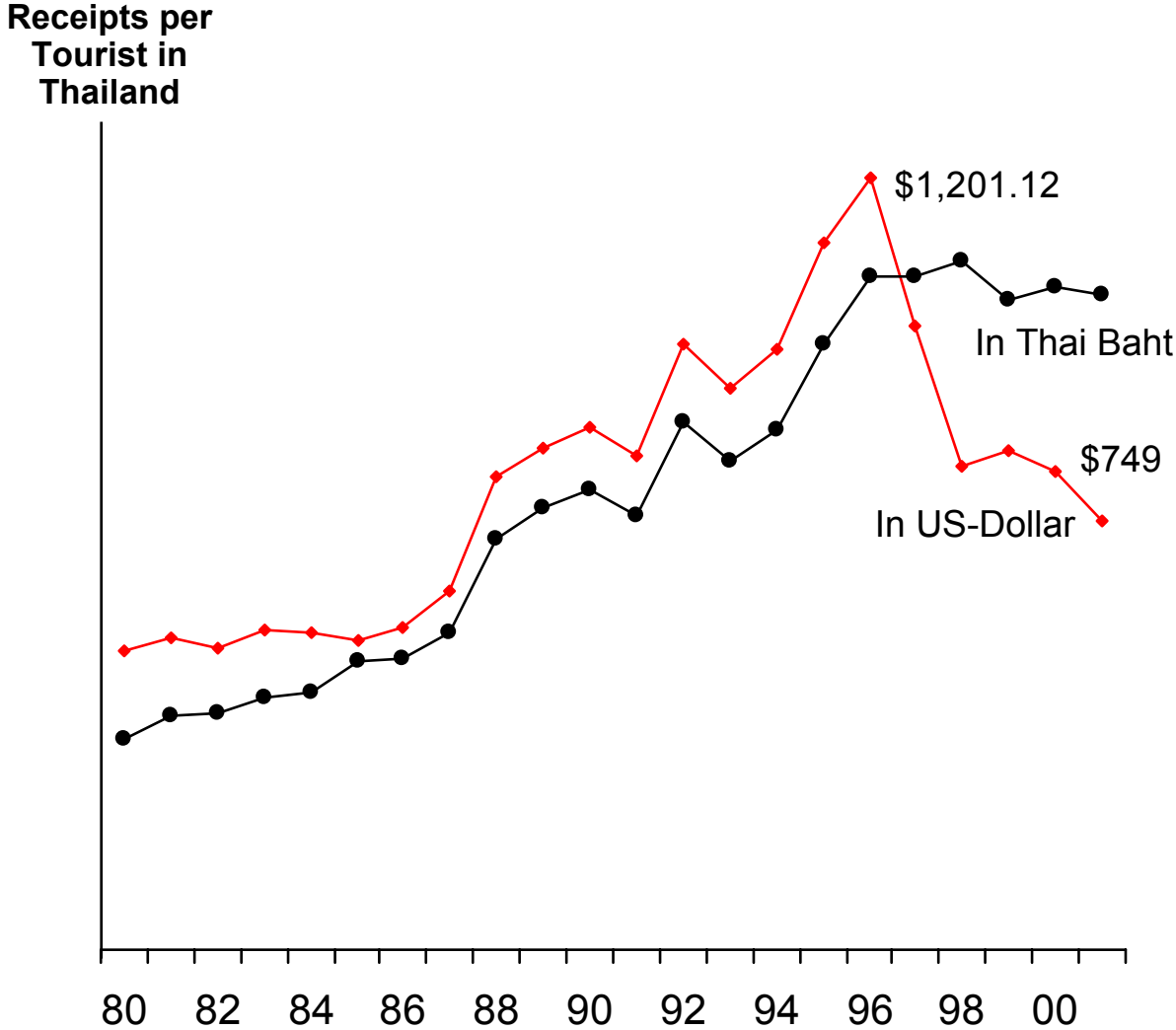
- Thailand is home to **many of the components** of a well-functioning tourism cluster
- There is **no overarching strategy** for the cluster, despite the existence of many industry associations for different parts of the cluster, and of many different strategic plans
- The absence of a clear strategy is a key factor in the inability of the cluster to **capture more value** from tourists

- **Food**

- Government policy and private sector efforts are **poorly coordinated** in many segments of the cluster
  - Import tariffs for inputs and uncoordinated government positions in international trade negotiations hurt food industries
  - Lack of coordination between government institutions and industry associations create ineffective cluster strategies

# Economic Performance of the Thai Tourism Cluster

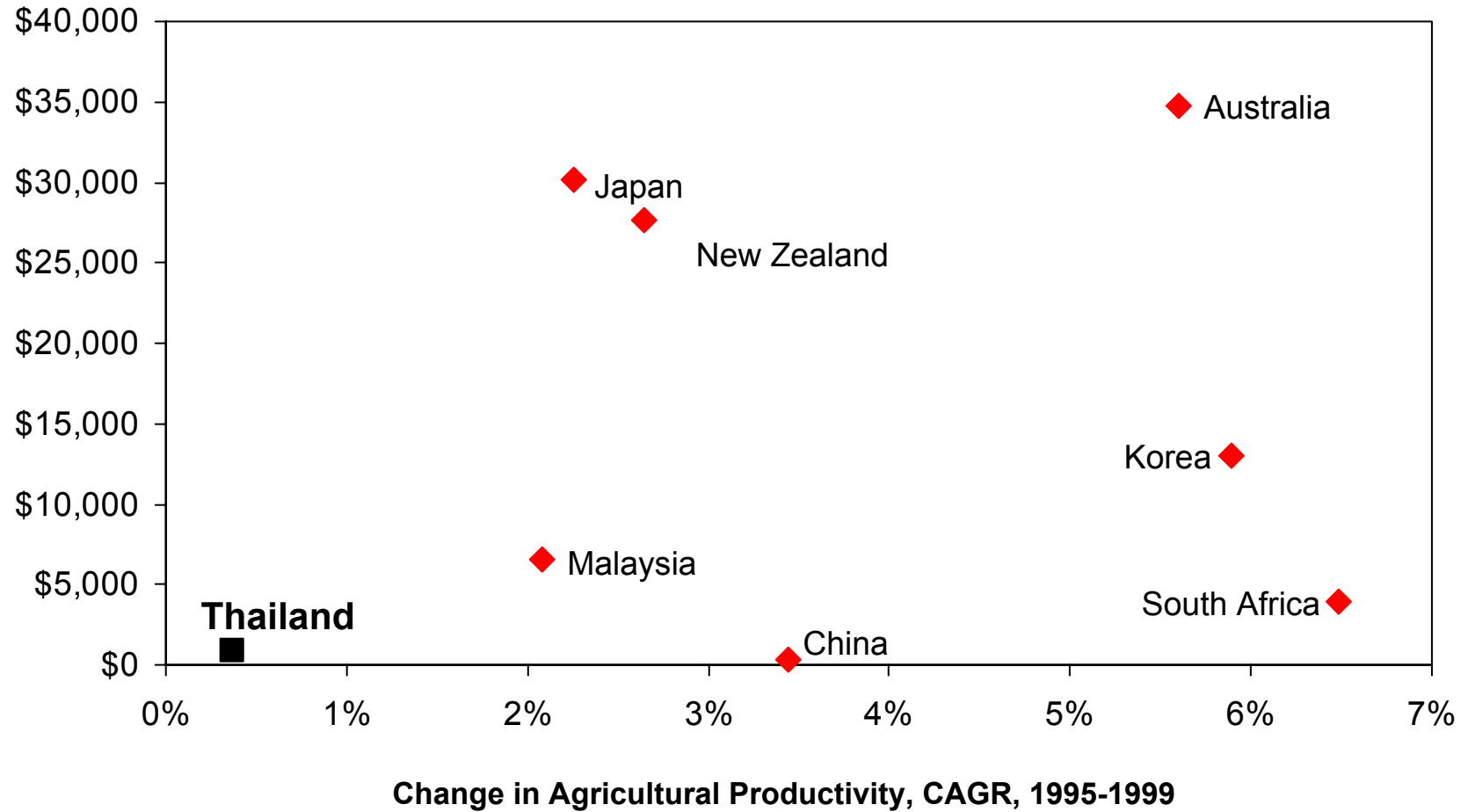
## Revenue per Tourist over Time



# Agricultural Productivity

## Selected Countries

Agricultural Productivity,  
1999



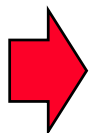
# Thai Agriculture

- Thai agricultural production is low and stagnant
- Thai agriculture acts as an overflow valve for the industrial labor market
  - Agricultural productivity increased somewhat in the 1990s when subsistence farmers left agriculture to work in manufacturing
  - In the downturn after the Asian crisis, the outflow from agriculture slowed and productivity growth fell back
- Thai agriculture is divided in two groups: a few large food companies serving foreign markets, and many small farmers serving domestic markets
- The Thai Ministry for Agriculture has a history of corruption and inefficiency. It is currently being restructured
- There are local colleges that provide training for agriculture, but these activities are controlled centrally and are **not well coordinated with local needs**

# Thailand's Cluster Vision: World Leader in Niche Markets

## Selected Niches

<b>Food:</b> <i>Kitchen of the World</i>	<ul style="list-style-type: none"><li>• Important sector with declining world market position</li><li>• Insufficient value chain presences and lack of brands key issues</li></ul>
<b>Fashion:</b> <i>Asia Tropical Fashion</i>	<ul style="list-style-type: none"><li>• Three (Textiles/Apparel, Jewelry, Leather) important sectors with declining world market share and few linkages</li><li>• Insufficient value chain presence and inconsistent policy key issues</li></ul>
<b>Tourism:</b> <i>Tourism Capital Asia</i>	<ul style="list-style-type: none"><li>• Important sector with potential for significantly higher value creation</li><li>• Lack of shared vision is critical constraint</li></ul>
<b>Automotive:</b> <i>Detroit of Asia</i>	<ul style="list-style-type: none"><li>• Growing sector with small world market share moving gradually out of protection</li><li>• Low level of productivity and innovation key issues</li></ul>
<b>Software:</b> <i>World Graphic Design Center</i>	<ul style="list-style-type: none"><li>• Very small sector of few companies</li><li>• Uncompetitive business environment and lack of linkage to existing IT activities are critical issues</li></ul>



- Concentrating on **areas of existing strengths** provides the right basis for success
- Focus of government policy should be on **increasing Thailand's attractiveness** for the cluster, not on the strategic choices of companies in the cluster



# Cluster Development in Emerging Economies

## Some Principles

- Improving the general business environment is essential, but **cluster development** is needed to attain middle-income levels
- Developing economies should **upgrade traditional clusters** including agriculture, never abandon them
- Recruitment of **foreign direct investment** should focus on existing and emerging clusters, not generalized appeals
  - Incentives should be weighted toward training, infrastructure, and other areas that upgrade the cluster versus general subsidies and tax holidays
- **Existing MNCs** can become nodes for cluster development
  - The best way to retain companies is to make them part of a cluster to support higher local productivity
- **Free trade zones** should be organized around clusters, and regulations designed to encourage **linkages** with the local economy
- A formal **structure for cluster development** is an important component of economic development
  - Private sector led
  - Government convening and participation
  - Seed funding for cluster assessment and the formation of cluster-based industry groups

# Some Immediate Steps

- Create private sector-led cluster competitiveness councils for clusters throughout the economy
  - Clusters willing to take responsibility for cluster development qualify for matching funds
  - Potential new cluster groups include furniture and health services
- Launch cluster-based efforts to improve secondary and vocational education programs
- Develop and publicize productivity metrics for a wide array of Thai clusters

# Thailand's Competitiveness Agenda

- Upgrade the Business Environment
- Activate Cluster Development
- **Transform Company Strategies**
- Redefine the Roles of Business and Government
- Decentralize More of Economic Policy to the Regional Level
- Lead a Cross-National Strategy

# Typical Strategic Errors in Emerging Economies

## Corporate Direction

- **Opportunistic** pursuit of new businesses, seizing profitable opportunities in whatever area they arise
- Strategy driven by **government relationships** and **concessions**
- Business groups become **conglomerates** with operations in highly disparate areas

## Strategic Positioning

- **Wide product lines** serving all local industry segments
- **Price** is the primary basis of competition
- **Low input costs** are primary competitive advantage
- Offerings of foreign and other domestic competitors are **imitated**

## Activities

- **Labor intensive** parts of the value chain are emphasized
- **Low investment** in machinery, equipment, brands, R&D, and training
- **Foreign partners** provide many inputs, know how, and financing

# Company Operations and Strategy

## Thailand's Relative Position 2002

### Competitive Advantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Prevalence of Foreign Technology Licensing	3	
Extent of Regional Sales	21	↑
Breadth of International Markets	22	↑
Degree of Customer Orientation	24	↑
Willingness to Delegate Authority	29	

### Competitive Disadvantages Relative to GDP per Capita

Country Ranking,  
Arrows indicate a  
change of 5 or more  
ranks since 1998

Reliance on Professional Management	53	
Capacity for Innovation	49	
Control of International Distribution	46	↓
Production Process Sophistication	45	
Company Spending on R&D	45	
Nature of Competitive Advantage	45	
Extent of Branding	41	↑
Extent of Incentive Compensation	39	
Extent of Staff Training	36	

Note: Rank by countries; overall Thailand ranks 35 out of 80 countries (33 on Company Operations and Strategy, 53 on GDP pc 2001)

Source: Global Competitiveness Report 2002

# **Company Operations and Strategy Overview**

## **Thailand's Relative Strengths and Weaknesses**

### **Strengths**

- Increasing level of customer orientation
- Increasing focus on regional versus advanced distant foreign markets
- Signs of improving management quality

### **Weaknesses**

- Competing on global commodity markets based on low costs of factor inputs
- Narrow presence in the value chain with weaknesses in marketing, brand development, and the control of international distribution channels
- Low investment in human resources and innovation

# The Role of Business Groups

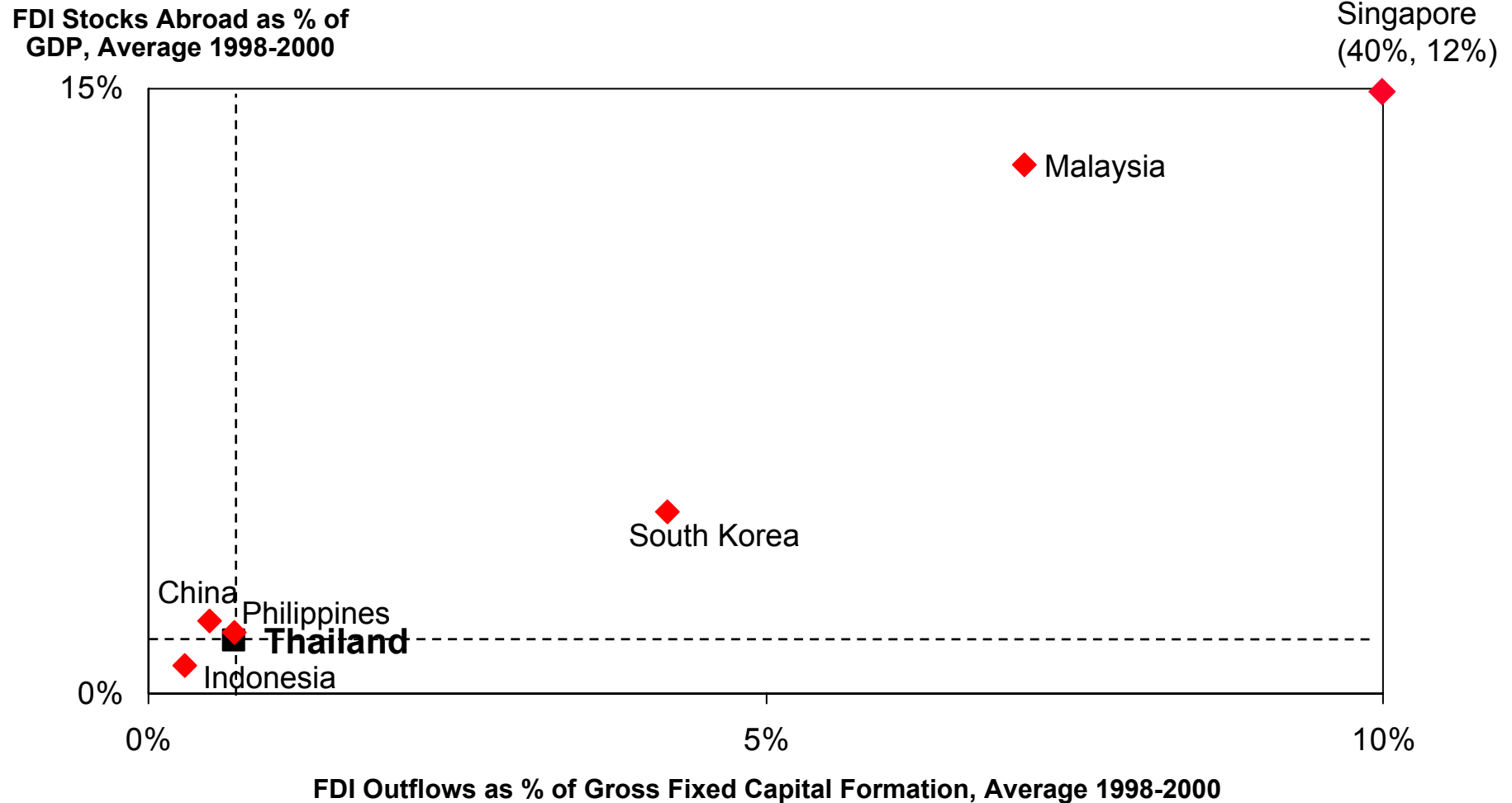
- Leading Thai business groups are Charoen Pokphand (CP) Group and Siam Cement
  - These groups are **professionally managed** and have significant foreign sales
- Before the Asian Crisis, Thai business groups diversified into an increasing number of industries, often driven by **joint ventures** with foreign investors
  - With many growth opportunities domestically, Thai companies did not increase their understanding of foreign export markets
- After the Asian Crisis, Thai business groups have been faced with excessive debt and have **reduced the number of businesses** significantly
  - In a given industry, they tend to still focus on the labor-intensive processing and production parts of the value chain



- Many of the large groups have strong **connections with government** and have enjoyed **protected market positions** in Thailand for periods of time
- The development of SMEs has been **stunted**

# Comparative Outward Foreign Investment

## Selected Asian Economies



- Thai companies do **not** make significant outward foreign direct investment



# Internationalization Strategy of Thai Companies

- Thai companies export predominantly to **advanced markets** in the United States, Europe, and Japan
  - Growing markets are **China** and the **ASEAN countries**, which have now again reached their 1995 pre-Asian Crisis share of Thai exports
- Thai companies have very **low foreign investments**



- Thai companies can use an internationalization strategy focused on neighboring countries as an important step to improve their **value chain presence**
- Thai companies can profit from serving markets in the region, and they can profit from accessing low cost factor inputs in less developed countries

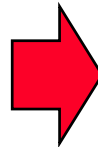
# Thailand's Competitiveness Agenda

- Upgrade the Business Environment
- Activate Cluster Development
- Transform Company Strategies
- **Redefine the Roles of Business and Government**
- Decentralize More of Economic Policy to the Regional Level
- Lead a Cross-National Strategy

# Shifting Responsibilities for Economic Development

## Old Model

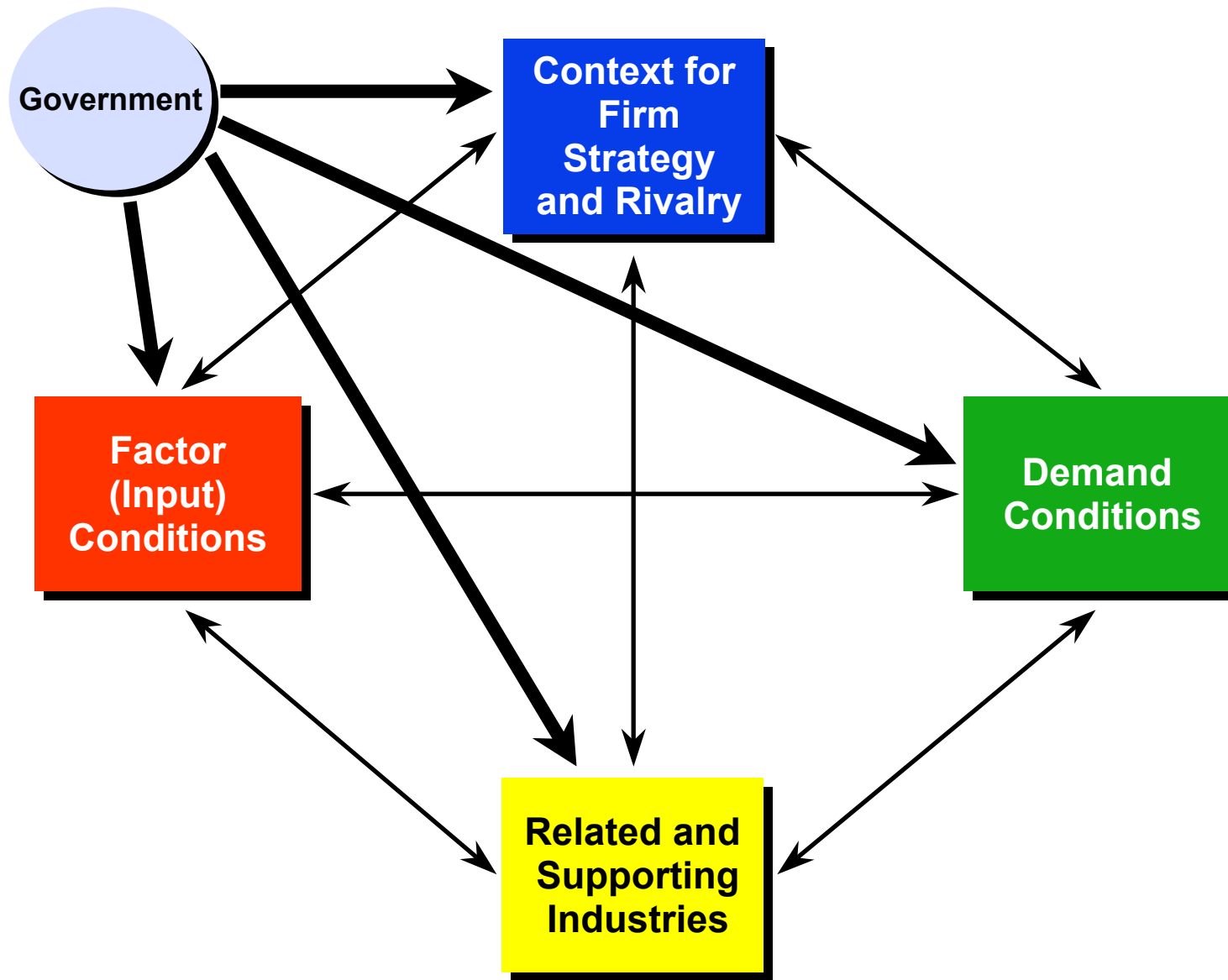
- **Government** drives economic development through policy decisions and incentives



## New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration

# Government Policies and the Business Environment



# Roles of Government in Economic Development

- **Macroeconomic, political, legal, and social context**
  - Establish a **stable and predictable** macroeconomic, legal, and political environment
  - Improve the **social conditions** of citizens
- **General microeconomic business environment**
  - Improve the availability, quality, and efficiency of **cross-cutting or general purpose inputs, infrastructure, and institutions**
  - Set **overall rules and incentives** governing competition that encourage productivity growth
- **Clusters**
  - Facilitate **cluster development and upgrading**
- **Process of Economic Change**
  - Create institutions and **processes for upgrading competitiveness** that inform citizens and mobilize the private sector, government at all levels, educational and other institutions, and civil society to take action

# Role of the Private Sector in Economic Development

- A company's competitive advantage is partly the result of the **local environment**
- Company membership in a cluster offers **collective benefits**
- Private investment in **“public goods”** is justified



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract new supplier investments
- Work closely with local **educational and research institutions** to upgrade **quality and create specialized programs addressing cluster needs**
- Provide government with **information** and **substantive input** on regulatory issues and constraints bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
  - Greater influence
  - Cost sharing

# Institutions for Collaboration in Thailand

- Thailand has a significant number of institutions for collaboration on the general and on the cluster level
- The effectiveness of many of these institutions for competitiveness upgrading is limited
  - Institutions with an economy-wide mandate tend to follow traditional models concentrating on lobbying the government
  - Institutions in clusters tend to represent only a small share of the overall cluster
    - In the tourism cluster, many private sector associations exist for the different industries in the cluster, but none that stretches across
    - In the textiles cluster, trade associations are organized by stage of the production process and represent often contrary interests
  - The coordination among institutions within a cluster, and with the relevant government agencies, is limited
    - In the Fashion cluster, three separate versions of the Fashion City master plan exist, all written by different combinations of government and private sector institutions

# New Roles of Industry Associations

## Traditional Roles

- Lobby government
  - Trade and regulations
- Convene meetings for networking

## New Roles

- Negotiate with government
  - Trade and regulations
- Information collection and dissemination
  - E.g. regular benchmarking
- Joint marketing
  - E.g. trade fairs, missions
- Training
  - E.g. curriculum for managers
  - Close collaboration with outside educational institutions
  - Sponsoring of targeted scholarships
- Research
  - E.g. university partnerships
  - Standard setting and testing
  - Specialized research institutes
- Procurement
  - E.g. joint purchasing programs
- Environmental
  - E.g. demonstration projects
  - Research sponsorship



**Cluster activation and enabling**



# Some Immediate Steps

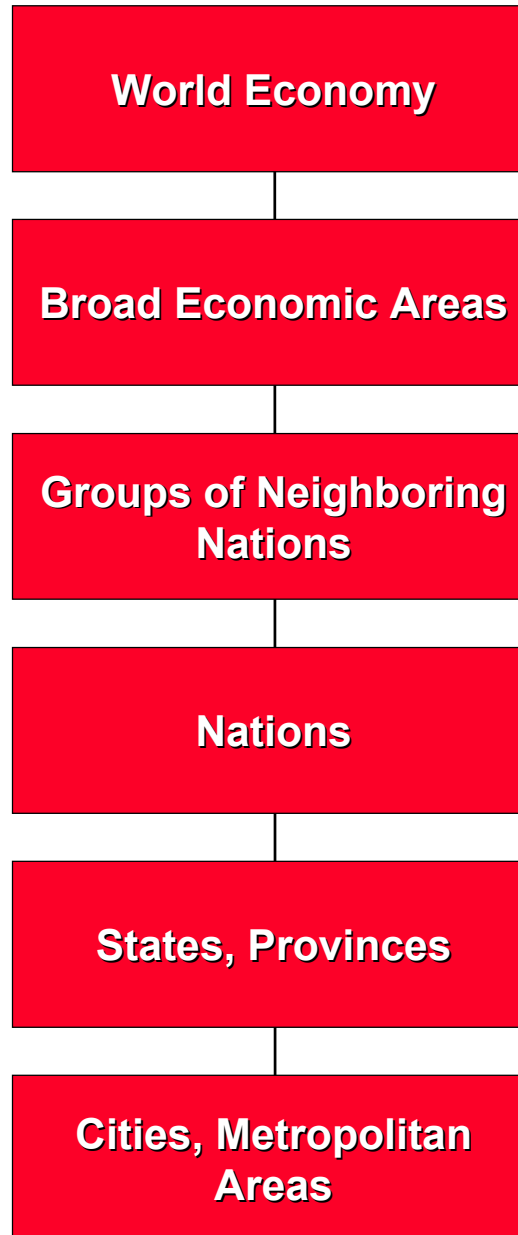
- Professionalize public service through setting specific objectives, raising pay levels, and tying advancement and pay to performance
- Combine top-down and bottom-up initiatives to reduce corruption
- Make all economic transactions with government transparent via the Internet
- Create clear, measurable objectives for each government agency
- Relaunch efforts to publicize data on government agencies' performance
- Assign cluster responsibilities to one agency or official with broad powers to align activities across government agencies

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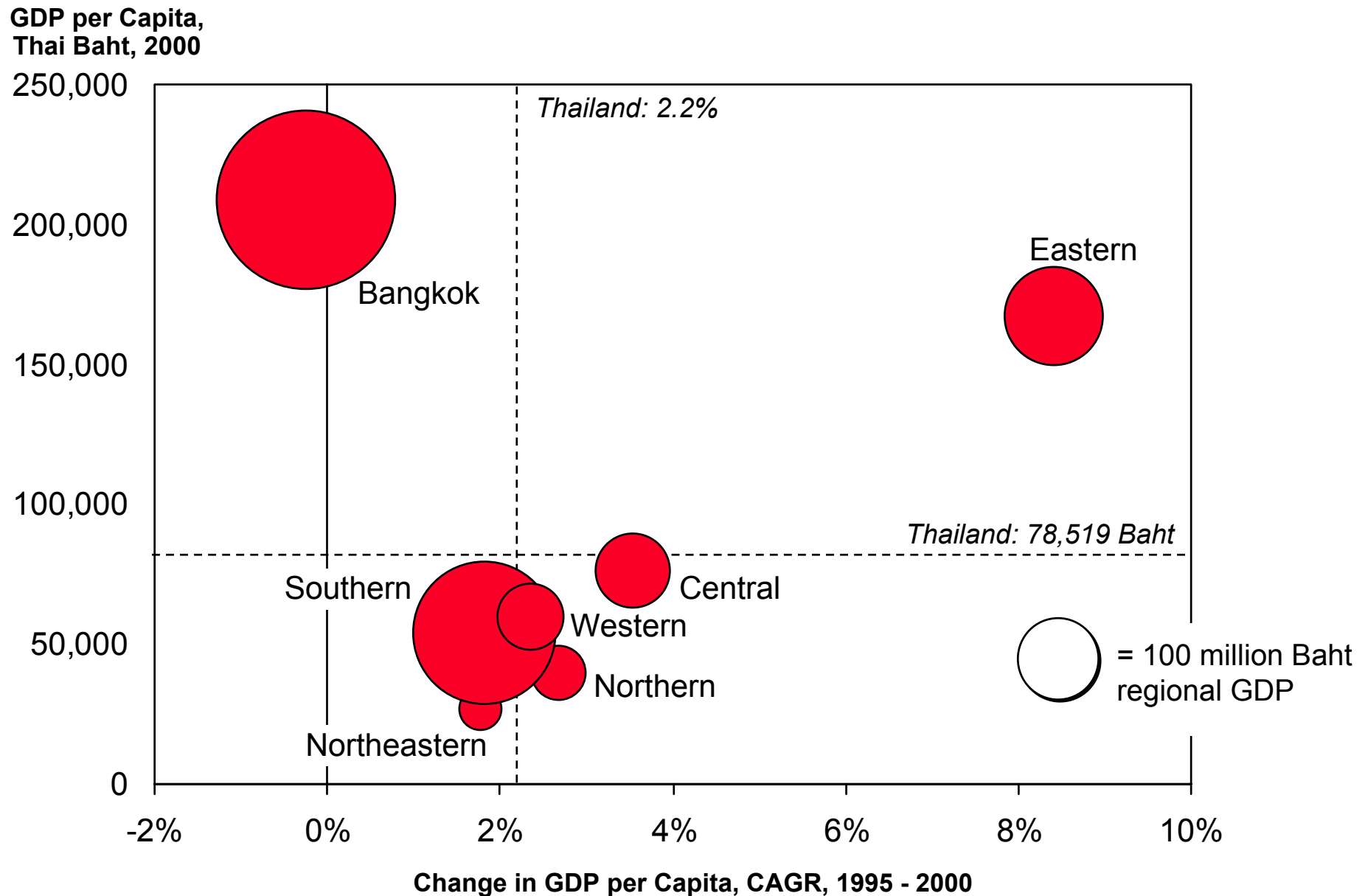
# **Influences on Competitiveness**

## **Multiple Geographic Levels**



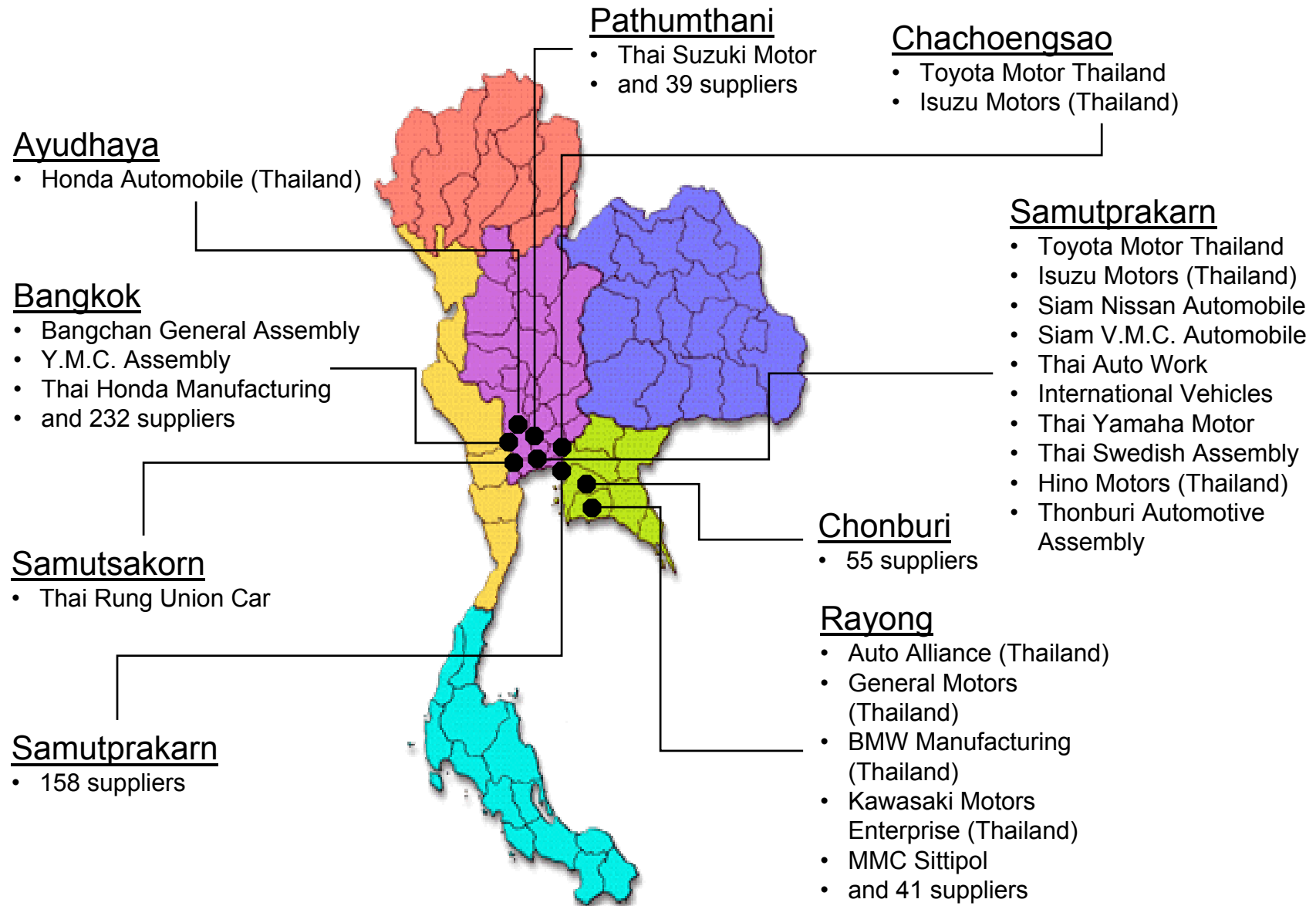
# Economic Performance Across Thai Regions

## GDP per Capita Growth Rate, 1995 - 2000



# Concentration of Economic Activity in Thailand

## Automotive Cluster



# Past Efforts at Regional Policy

- The geographic concentration of political power in the national capital has far reaching implications for the location of economic activity
  - Companies locate their headquarters in the capital because chief executives spend considerable time dealing with **government officials**
    - This effect is much stronger in countries with high levels of government regulations, and with high levels of bureaucracy and corruption
  - Companies locate their operations in or close to the capital because **infrastructure** investments tend to favor this region where the relevant decisions are being made
  - Assigned **regional officials** often have neither the power, the incentive, nor the knowledge – because of short assignments – to make effective decisions about regional infrastructure needs



- Thailand's decision to nation-wide assign "**CEO governors**" as tested in Phuket and other regions is a step in the right direction
- **Bolder steps are necessary** to make progress towards a regional pattern of growth that mobilizes the full economic potential of the entire country

# Developing Thailand's Provinces

- Develop other cities as secondary centers outside Bangkok
  - Infrastructure development
  - Investment in educational facilities tied to region's clusters
  - Relocate government administration
- Create institutional capacity for business environment upgrading
  - Provincial public-private Competitiveness Councils
  - Provincial cluster initiatives
- Provide provincial institutions with authority
  - Block grants instead of tied grants for regions



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- **Bolder steps are necessary** to make progress towards a regional pattern of growth that mobilizes the full economic potential of the entire country

# Some Immediate Steps

- Have regional CEO governors report directly to the Prime Minister
- Create private sector-led regional competitiveness boards with a mandate to develop a regional economic plan
- Collect and publicize comparative competitiveness indicators for each region



# Thailand's Competitiveness Agenda

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# Cross-National Strategy and Competitiveness

## Traditional Views

- Regions as **free trade zones**; regions as **economic unions** (e.g. European Union)



## New View

- A regional strategy as a powerful tool to enhance **competitiveness** in autonomous countries:
  - Company Operations and Strategy
    - Increasing **internal** trade and investment
    - Enhancing the **competitive capability** of firms
    - Expanding trade in **non-traditional** export industries
  - Business Environment
    - Policy coordination **enhance the quality of the business environment**
  - Cluster Development
    - **Cross-border cluster** specialization and integration
  - Economic Policy Process
    - Stimulating faster progress in economic policy **at the national level**
  - Attracting Foreign Investment
    - Enhancing interest and investment in the region by the **international community**



- Competitiveness is often more readily achieved and sustained in **moderately sized, competing** economic units

# Cross-National Economic Coordination

## Illustrative Policy Areas

### Factor (Input) Conditions

- Improve regional **transportation infrastructure**
- Create an efficient **energy** network
- Upgrade/link regional **communications**
- Upgrade/link **financial markets**
- Upgrade **higher education** through facilitating specialization and student exchanges
- Expand cross-border business and financial **information access and sharing**
- Coordinate activities to ensure **personal safety**

### Context for Strategy and Rivalry

- Coordinate **macroeconomic** policies
- Eliminate **trade and investment barriers** within the region
- Simplify **cross-border** regulations and paperwork
- Guarantee minimum basic **investor protections**
- Agree on foreign **investment promotion guidelines** to limit forms of investment promotion that do not enhance productivity
- Coordinated **competition policy**

### Demand Conditions

- Set minimum **environmental standards**
- Set minimum **safety standards**
- Establish reciprocal **consumer protection laws**

### Related and Supporting Industries

- Establish ongoing upgrading process in **clusters that cross national borders**, e.g.
  - Tourism
  - Agribusiness
  - Textiles and Apparel
  - Information Technology

### Regional Governance

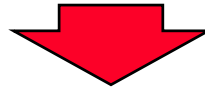
- Share **best practices** in government operations
- Improve regional **institutions**
  - Regional development bank
  - Dispute resolution mechanisms
  - Policy coordination body
- Develop a regional **marketing strategy**

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# Defining Thailand's Role in the World Economy

- Thailand has a vision for **niche industries**, but no vision for the **country** as a whole



- What will in 5-10 years be **unique** about Thailand as a location to do business relative to other countries in the region / the world?
  - What **advantages** does Thailand's location, history, and current business environment provide?
  - How can Thailand move to the **next stage** of economic development?