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.

Further information on Professor Porter’s work and the Institute for Strategy and Competitiveness is available at [www.isc.hbs.edu](http://www.isc.hbs.edu)
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


Source: EIU (2002)
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

CAGR of GDP per Capita Relative to the US, 1995-2001

Source: World Development Indicators 2002
Comparative Labor Productivity Performance
Selected Asian Economies

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

Source: EIU (2002)
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

Source: Sasin Study (2003)
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.

Source: World Development Indicators, World Bank, SMC Analysis
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

- 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

Stability and confidence support investment and upgrading

Macro reform alone leads to short term capital inflows and growth spurts that ultimately are not sustainable

Micro reform is impeded by macroeconomic volatility that reduces company investment

Macroeconomic reform

Create the opportunity for productivity

Microeconomic reform

Required to achieve productivity

Productivity growth allows economic growth and rising incomes without inflation, making macroeconomic stability easier to achieve
Productivity and the Microeconomic Business Environment

Context for Firm Strategy and Rivalry

- A local context and rules that encourage investment and sustained upgrading
  - e.g., Intellectual property protection
- Meritocratic incentive systems across all major institutions
- Open and vigorous competition among locally based rivals

Factor (Input) Conditions

- Presence of high quality, specialized inputs available to firms
  - Human resources
  - Capital resources
  - Physical infrastructure
  - Administrative infrastructure
  - Information infrastructure
  - Scientific and technological infrastructure
  - Natural resources
- Access to capable, locally based suppliers and firms in related fields
- Presence of clusters instead of isolated industries

Demand Conditions

- Sophisticated and demanding local customer(s)
- Local customer needs that anticipate those elsewhere
- Unusual local demand in specialized segments that can be served nationally and globally

Related and Supporting Industries

• Successful economic development is a process of successive economic upgrading, in which the business environment in a nation evolves to support and encourage increasingly sophisticated ways of competing
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

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

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

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

Source: Research by HBS student teams in 2002
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

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
- Nations
- States, Provinces
- Cities, Metropolitan Areas
Specialization of Regional Economies
Select U.S. Geographic Areas

- **Denver, CO**
  - Leather and Sporting Goods
  - Oil and Gas
  - Aerospace Vehicles and Defense

- **San Francisco-Oakland-San Jose Bay Area**
  - Communications Equipment
  - Agricultural Products
  - Information Technology

- **Boston**
  - Analytical Instruments
  - Education and Knowledge Creation
  - Communications Equipment

- **Seattle-Bellevue-Everett, WA**
  - Aerospace Vehicles and Defense
  - Fishing and Fishing Products
  - Analytical Instruments

- **Chicago**
  - Communications Equipment
  - Processed Food
  - Heavy Machinery

- **Los Angeles Area**
  - Apparel
  - Building Fixtures, Equipment and Services
  - Entertainment

- **San Diego**
  - Leather and Sporting Goods
  - Power Generation
  - Education and Knowledge Creation

- **Raleigh-Durham, NC**
  - Communications Equipment
  - Information Technology
  - Education and Knowledge Creation

- **Wichita, KS**
  - Aerospace Vehicles and Defense
  - Heavy Machinery
  - Oil and Gas

- **Pittsburgh, PA**
  - Construction Materials
  - Metal Manufacturing
  - Education and Knowledge Creation

- **Pittsburgh, PA**
  - Construction Materials
  - Metal Manufacturing
  - Education and Knowledge Creation

- **Atlanta, GA**
  - Construction Materials
  - Transportation and Logistics
  - Business Services

- **San Diego**
  - Leather and Sporting Goods
  - Power Generation
  - Education and Knowledge Creation

- **Houston**
  - Heavy Construction Services
  - Oil and Gas
  - Aerospace Vehicles and Defense

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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

Factor-Driven Economy → Investment-Driven Economy → Innovation-Driven Economy

Input Cost → Efficiency Through Heavy Investment → Unique Value

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

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

+ Thailand has a rich wildlife, beautiful locations, and some natural resources
+ Physical infrastructure, especially roads, is good
  – Infrastructure in Bangkok is overtaxed
  – The general skill level of the Thai labor force is low, and educational programs do not match company needs
+ Communication networks are expensive and weak outside of Bangkok
  – Inadequate development of financial markets
+ Low level of domestic technological capacity

Demand Conditions

– Local Thai demand tends to be unsophisticated and does not generally lead international trends
  + In pick-up trucks, however, Thailand is one of the most developed markets in the world

Related and Supporting Industries

– Most Thai clusters are focused on a few labor-intensive stages of their industries’ value chain
– Cluster organizations exist, but tend to be focused solely on lobbying

– Inward foreign investment has raised the level of competition
  – Most companies compete on low input costs and invest little in creating capabilities
  – Complex, high tariffs and weak anti-trust laws impede competition
  – Government bureaucracy and corruption create significant costs

– Infrastructure in Bangkok is overtaxed
– The general skill level of the Thai labor force is low, and educational programs do not match company needs
– Communication networks are expensive and weak outside of Bangkok
– Inadequate development of financial markets
– Low level of domestic technological capacity
Educational Performance
Selected Asian Countries

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

Korea, Rep. of 90
Japan 82
Philippines 82
Singapore 75
China 73
Sri Lanka 70
Viet Nam 67
Malaysia 66
Indonesia 65
Hong Kong China (SAR) 63
Thailand 60
Lao People's Dem. Rep. 58
India 55
Myanmar 55

Source: UN – Human Development Indicators
Many Thai employers are unsatisfied with the quality of the education system at the more advanced levels, especially at the vocational level.

Source: TDRI Survey 2001
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

Source: Sasin Study (2003)
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

- 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

- 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

- 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

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Tariff Rates (March, 2003)</th>
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<tbody>
<tr>
<td></td>
<td>General</td>
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<tr>
<td>Food products</td>
<td>60 %</td>
</tr>
<tr>
<td>Textile and Apparel</td>
<td>100 %</td>
</tr>
<tr>
<td>Foot ware</td>
<td>100 %</td>
</tr>
<tr>
<td>Diamonds</td>
<td>0 – 20 %</td>
</tr>
<tr>
<td>Automotive</td>
<td>100 -200%</td>
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</tbody>
</table>

- 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.

Source: Sasin Study (2003)
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

Source: Sasin Study (2003)
Automotive Clusters in the World Economy
Top 25 Exporting Countries by Export Value, 2000

Revealed Comparative Advantage (RCA), 2000

Change in World Market Share, 1995-2000

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.

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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

Source: Sasin Study (2003)
### Demand Conditions

#### Thailand’s Relative Position

<table>
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<th>Competitive Advantages Relative to GDP per Capita</th>
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<tr>
<td>Consumer Adoption of Latest Products 21↑</td>
<td>Laws Relating to Information Technology 48</td>
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<tr>
<td>Stringency of Environmental Regulations 39</td>
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<tr>
<td>Presence of Demanding Regulatory Standards 36</td>
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**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

Source: Sasin Study (2003)
• 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

Thailand’s average change in world goods export share:
-0.069%

Office (3.7%, +1.3%)

Thailand’s average goods export share: 1.24%

= $1.5 billion export volume in 2000

Source: UNCTAD Trade Data. Author’s analysis.
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).

Source: Sasin Study, UNCTAD Trade Data. Author’s analysis.
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

Source: Sasin Study, Author’s analysis.
Economic Performance of the Thai Tourism Cluster
Revenue per Tourist over Time

Receipts per Tourist in Thailand

$1,201.12
In Thai Baht

$749
In US-Dollar

Source: TAT, World Tourism Organization
Agricultural Productivity
Selected Countries

Agricultural Productivity, 1999

Change in Agricultural Productivity, CAGR, 1995-1999

Source: World Development Indicators, World Bank
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 there activities are controlled centrally and are not well coordinated with local needs
Thailand’s Cluster Vision: World Leader in Niche Markets

Selected Niches

| Food: Kitchen of the World | • Important sector with declining world market position  
• Insufficient value chain presences and lack of brands key issues |
|---------------------------|---------------------------------------------------------------|
| Fashion: Asia Tropical Fashion | • Three (Textiles/Apparel, Jewelry, Leather) important sectors with declining world market share and few linkages  
• Insufficient value chain presence and inconsistent policy key issues |
| Tourism: Tourism Capital Asia | • Important sector with potential for significantly higher value creation  
• Lack of shared vision is critical constraint |
| Automotive: Detroit of Asia | • Growing sector with small world market share moving gradually out of protection  
• Low level of productivity and innovation key issues |
| Software: World Graphic Design Center | • Very small sector of few companies  
• Uncompetitive business environment and lack of linkage to existing IT activities are critical issues |

• 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

<table>
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<tr>
<th>Aspect</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Prevalence of Foreign Technology Licensing</td>
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<tr>
<td>Extent of Regional Sales</td>
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<td>Breadth of International Markets</td>
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<td>Degree of Customer Orientation</td>
<td>24</td>
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<td>Willingness to Delegate Authority</td>
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<td>Capacity for Innovation</td>
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<td>Control of International Distribution</td>
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<tr>
<td>Extent of Branding</td>
<td>41</td>
</tr>
<tr>
<td>Extent of Incentive Compensation</td>
<td>39</td>
</tr>
<tr>
<td>Extent of Staff Training</td>
<td>36</td>
</tr>
</tbody>
</table>

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

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*

Source: Sasin Study (2003)
Comparative Outward Foreign Investment
Selected Asian Economies

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


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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

Government

Factor (Input) Conditions

Context for Firm Strategy and Rivalry

Demand Conditions

Related and Supporting Industries

Context for Firm Strategy and Rivalry
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

Source: Sasin Study, Author’s analysis.
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
Thailand’s Competitiveness Agenda

- Upgrade the Business Environment
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- Lead a Cross-National Strategy
Influences on Competitiveness

Multiple Geographic Levels

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
- Nations
- States, Provinces
- Cities, Metropolitan Areas
Concentration of Economic Activity in Thailand
Automotive Cluster

**Pathumthani**
- Thai Suzuki Motor
- and 39 suppliers

**Chachoengsao**
- Toyota Motor Thailand
- Isuzu Motors (Thailand)

**Ayudhaya**
- Honda Automobile (Thailand)

**Bangkok**
- Bangchan General Assembly
- Y.M.C. Assembly
- Thai Honda Manufacturing
- and 232 suppliers

**Samutprakarn**
- Toyota Motor Thailand
- Isuzu Motors (Thailand)
- Siam Nissan Automobile
- Siam V.M.C. Automobile
- Thai Auto Work
- International Vehicles
- Thai Yamaha Motor
- Thai Swedish Assembly
- Hino Motors (Thailand)
- Thonburi Automotive Assembly

**Samutsakorn**
- Thai Rung Union Car

**Chonburi**
- 55 suppliers

**Rayong**
- Auto Alliance (Thailand)
- General Motors (Thailand)
- BMW Manufacturing (Thailand)
- Kawasaki Motors Enterprise (Thailand)
- MMC Sittipol
- and 41 suppliers

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

• Thailand’s decision to nation-wide assign “CEO governors” as tested in Phuket and elsewhere 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
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

<table>
<thead>
<tr>
<th>Factor (Input) Conditions</th>
<th>Context for Strategy and Rivalry</th>
<th>Demand Conditions</th>
<th>Related and Supporting Industries</th>
<th>Regional Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improve regional transportation infrastructure</td>
<td>• Coordinate macroeconomic policies</td>
<td>• Agree on foreign investment promotion guidelines to limit forms of investment promotion that do not enhance productivity</td>
<td>• Establish ongoing upgrading process in clusters that cross national borders, e.g.</td>
<td>• Share best practices in government operations</td>
</tr>
<tr>
<td>• Create an efficient energy network</td>
<td>• Eliminate trade and investment barriers within the region</td>
<td>• Set minimum safety standards</td>
<td>– Tourism</td>
<td></td>
</tr>
<tr>
<td>• Upgrade/link regional communications</td>
<td>• Simplify cross-border regulations and paperwork</td>
<td>• Establish reciprocal consumer protection laws</td>
<td>– Agribusiness</td>
<td></td>
</tr>
<tr>
<td>• Upgrade/link financial markets</td>
<td>• Guarantee minimum basic investor protections</td>
<td></td>
<td>– Textiles and Apparel</td>
<td></td>
</tr>
<tr>
<td>• Upgrade higher education through facilitating specialization and student exchanges</td>
<td></td>
<td></td>
<td>– Information Technology</td>
<td></td>
</tr>
<tr>
<td>• Expand cross-border business and financial information access and sharing</td>
<td></td>
<td></td>
<td></td>
<td>• Develop a regional marketing strategy</td>
</tr>
<tr>
<td>• Coordinate activities to ensure personal safety</td>
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</tr>
</tbody>
</table>
Thailand’s Competitiveness Agenda

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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?