Thailand’s competitiveness:
Meeting the challenges of globalization and environmental sustainability

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Competitiveness is not everything that matters, but without competitiveness everything that matters is much harder to achieve.
Traditional Views on Achieving Competitiveness

- Conceptual research has increasingly focused on endogenous growth-models.
- Empirical literature has looked at “deep” drivers of prosperity differences; recent work at unsustainable “growth spurts.”
- The general principles (Washington consensus, etc.) derived from this work provide often insufficient guidance to policy makers.
- Emerging consensus for policy advice to become more context-, i.e. country-specific.
- But without a clear framework, the move from general recipes to country-specific approaches opens the door for old-style intervention.
- The competitiveness framework offers a systematic structure to make evidence-based policy choices in a concrete situation.
**Macroeconomic Competitiveness**

**Social Infrastructure and Political Institutions**
- *Political institutions*
  - Set the context for policy decisions on all dimensions of competitiveness

- *Rule of law*
  - Provide fundamental conditions for the functioning of markets

- *Basic human capacity*
  - Provide fundamental capacity for economic activities beyond the subsistence level

**Quality of Macroeconomic Policy**
- *Monetary policy*
  - Ensure the effectiveness of price signals for economic choices

- *Fiscal policy*
  - Keep spending within government’s intertemporal budget constraint
  - Reduce cyclical fluctuations of the economy

- *Financial system management*
  - Avoid the build-up of unsustainable internal and external imbalances

- Institutions critical in the **long-term** but hard to change in the short-term
- Macroeconomic policies more amendable to reform but often **unsustainable** if not matched by policy changes in other areas

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Microeconomic Competitiveness

- **Sophistication of Company Operations and Strategy**
  - Reach the highest level of productivity and innovation possible given the overall environment

- **State of Cluster Development**
  - Increase the level of productivity and innovation companies can reach for a given business environment

- **Quality of the National Business Environment**
  - Create the conditions that allow companies to reach a high level of productivity and innovation

Many individual factors and significant systemic interactions among them; **prioritizing** and **sequencing of actions** is a crucial task.

Many parts of the economy and society play an important role, including several parts of government, companies, universities, and platforms for collaboration; **coordination** and **allocation of responsibilities** is key.

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## Microeconomic Foundations of Development

### Typical Company Weaknesses in Emerging Economies

<table>
<thead>
<tr>
<th>Corporate Direction</th>
<th>Strategic Positioning</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Opportunistic</strong> pursuit of new businesses, seizing profitable opportunities in whatever area they arise</td>
<td>• <strong>Focus on the local</strong> market</td>
<td></td>
</tr>
<tr>
<td>• Strategy driven by government and other relationships</td>
<td>• <strong>Wide product lines</strong> serving all local industry segments</td>
<td></td>
</tr>
<tr>
<td>• Conglomerate business groups compete in highly disparate businesses</td>
<td>• <strong>Price</strong> is the primary basis of competition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>Low input costs</strong> are primary competitive advantage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• <strong>Emulate foreign best practices</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Imitate products and services of foreign and other domestic competitors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Labor intensive</strong> parts of the value chain are emphasized</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Low investment</strong> in machinery, equipment, brands, R&amp;D, and training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Foreign partners</strong> provide many inputs, know how, and financing</td>
</tr>
</tbody>
</table>
Productivity and the 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

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

- Access to capable, locally based suppliers and firms in related fields
- Presence of clusters instead of isolated 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

Source: Michael Porter
National Export Portfolio
Thailand, 1997 to 2007

Change in Thailand’s overall World Export Share: +0.044%

Exports of US$4.3 Billion =

The Thai Automotive Cluster: The Geographic Dimension

- **Ayudhaya**
  - Honda Automobile (Thailand)

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

- **Samutsakorn**
  - Thai Rung Union Car

- **Samutprakarn**
  - 158 suppliers

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

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

- **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

- **Chonburi**
  - 55 suppliers

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

The Thai Automotive Cluster: The Activity Dimension

Assemblers
- Motorcycles
- Passenger Cars
- Pickup Trucks

Components and Module Makers (1st tier)
- Engines, Drivetrains, Steering, Suspension, Brake, Wheel, Tire, Bodyworks, Interiors, Electronics and Electrical Systems

Parts (2nd & 3rd tiers)
- Stamping, Plastics, Rubber, Machining, Casting, Forging, Function, Electrical, Trimming

Steel
Plastics
Rubber&Tires
Electronics
Glass
Leather & Fabric
Machinery
Tools
Mold&Die
Jig&Fixture

Government
Education and Technical Institutions
Associations

Distribution
Finance
Testing
Specialized Consultants
Services

Globally Competitive
Regionally Competitive
Nationally Significant
Nationally Insignificant

Source: Sasin-team analysis, 2003 study
Clusters and Competitiveness

- Co-location of companies and other institutions affecting the potential for local value creation within a given economic field through spillovers and linkages

- Economic fundamentals that set the productivity level companies can reach within a given geographic location
Clustering Enhancing Competitiveness: Leveraging Existing Assets

Local Externalities

- Common labor markets
- Specialized suppliers
- Specialized infrastructure
- Knowledge Spillovers
- Competitive pressure

Productivity

New Business Formation

Innovation

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Enabling the Emergence of Clusters

- Location
- Business Environment
- Natural Resources
- Existing Clusters
- Entrepreneurs

Context for competition across regions

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Clusters Enhancing Competitiveness: Upgrading Capabilities

BETTER (Competitiveness)

MORE (Agglomeration)
Clusters provide a framework for organizing the implementation of public policy and public investments towards economic development.
What are Cluster Initiatives?

Cluster initiatives are **collaborative activities** by a **group** of companies, public sector entities, and other related institutions with the objective to improve the competitiveness of a group of **interlinked economic activities in a specific geographic region**

- **Upgrading of company operations and strategies across a group of companies**
- **Upgrading of cluster-specific business environment conditions**
- **Strengthening of networks to enhance spill-overs and other economic benefits of clusters**

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Clusters and Structural Change

• Cluster policy is most effective if it focuses on **existing clusters**

**BUT**

• For many economies the challenge is to **broaden** or **change** the portfolio of clusters they are in

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**Direction of structural change**

• **Natural structural change** occurs through growth in fields related to activities already present

• **Encourage diversification into related clusters**

**Management of structural change**

• Depending on their **maturity**, clusters differ in their likelihood of success and policy needs

• **Manage clusters as a portfolio**
  - Existing clusters
  - Emerging clusters
  - New clusters
What is Different about Cluster-Based Policy?

- Broader Set of Industries
- Public-Private Collaboration
- Regional Perspective
- Productivity Focus
- Enhancing Own Strength
- Demand-driven Approach

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Policy Levels Influencing Competitiveness

- The business environment at a given location is the cumulative outcome of policy at all levels of geography.
- Microeconomic competitiveness raises the importance of lower levels of geography.
- The allocation of responsibilities across levels of geography is a crucial policy challenge.

World Economy

Broad Economic Areas

Groups of Neighboring Nations

Nations

States, Provinces

Metropolitan and Rural Areas

WTO

South-East Asia

Greater Mekong Region

Thailand

Thai provinces

Bangkok

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The Process of Economic Development
Shifting Roles and Responsibilities

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 private sector organizations

- Competitiveness is the result of both top-down and bottom-up processes in which many individuals, companies, and institutions take relevant decisions
Observations so Far

• Many things matter for prosperity, but there are **systematic differences** between groups of factors
  – Macroeconomic strengths create opportunities
  – Microeconomic strengths translate opportunities into results

• The increasing importance of microeconomic factors requires a qualitatively **different policy approach**
  – From identifying right policy targets to sequencing the right policy areas
  – From narrow interventions to integrated policies
  – From “horizontal” policies to a mix of general and cluster-specific policies
  – From national policies to leveraging all geographic levels of government
  – From public-sector driven policy to public-private dialogue

• Economies need to make progress on **all dimensions**, but trying to move on all fronts simultaneously often leads to failure
  – Crucial role of country analysis to arrive at a context-specific action strategy without compromising on standard economic logic
From Analysis to Action

Analysis

Prioritization

Integration

Roll-Out

Integrated set of activities

Targeted Campaigns: e.g. Cluster, FDI, or SEZ

Institution with cross-cutting authority

23

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Defining a National Economic Strategy

National Economic Strategy

• What can be the unique competitive position of the country/region given its location, legacy, endowments, and potential strengths?
  – What is its unique value as a business location?
  – What role can it play with neighbors?
  – In what range of clusters does the nation excel?

Developing Unique Strengths

• What are the key potential strengths that the country/region must preserve or build?

Achieving and Maintaining Parity with Peers

• What weaknesses must be neutralized to achieve parity with peer countries?

• A national economic strategy provides strategic orientation on the type of business environment that the country/region aims to provide; it is not a plan that sets production or investment targets

• A national economic strategy is only effective, if it reflects a consensus view; it fails, if its implementation is based on government action and incentives/sanctions alone
### Launching a Targeted Campaign
**Objectives, Institutions, and Mandates**

<table>
<thead>
<tr>
<th>Singapore</th>
<th>Ireland</th>
<th>Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Attract foreign investment to create jobs</td>
<td>• Turn Ireland into the EU base for US companies</td>
<td>• Turn Finland into a knowledge-driven economy</td>
</tr>
<tr>
<td>• EDB as statutory body with <strong>wide-ranging mandate</strong> (finance, skills, infrastructure, rules and regulations)</td>
<td>• Combination of <strong>specialized agencies</strong></td>
<td>• Science and Technology Policy Council <strong>chaired by the Prime Minister</strong> to coordinate activities across the government</td>
</tr>
<tr>
<td></td>
<td>• IDA focused on attracting investors</td>
<td>• Economy</td>
</tr>
<tr>
<td></td>
<td>• Enterprise Ireland focused on upgrading domestic companies</td>
<td>• Education</td>
</tr>
<tr>
<td></td>
<td>• Forfas providing policy support on enhancing the business environment</td>
<td>• Science</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Regions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Finance</td>
</tr>
</tbody>
</table>

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## Roll-Out of Competitiveness Upgrading

### Activities and Institutions

<table>
<thead>
<tr>
<th>Costa Rica</th>
<th>Latvia</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Opportunity to attract investment from Intel</td>
<td>• Significant foreign investment inflows after independence and EU accession</td>
</tr>
<tr>
<td>• Presidential working group with wide policy mandate</td>
<td>• Foreign investors concerned about weakness of local institutions driving competitiveness upgrading</td>
</tr>
<tr>
<td>• <strong>No special deals</strong> for Intel; all improvements made available to other companies as well</td>
<td>• Foreign Investors Council (FICIL) driving <strong>general upgrading agenda</strong></td>
</tr>
<tr>
<td>• Improvement of electricity supply quality in the Central Valley</td>
<td>• Annual High-Level meeting with the entire Latvian cabinet and one-on-one with key ministers</td>
</tr>
<tr>
<td>• Open Sky-policy to increase air transport connectivity</td>
<td>• Working groups on specific issues (taxes, workforce skills, customs)</td>
</tr>
<tr>
<td>• Radically increased efficiency of customs procedures</td>
<td></td>
</tr>
</tbody>
</table>
From Insight to Action

What to do

- Consensus
- Institutional structure
- Leadership
- External environment

How to get it done

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Prosperity Performance
Selected Lower and Middle Income Countries

PPP-adjusted GDP per Capita, 2008 ($USD)

Prosperity Performance
Selected Lower and Middle Income Countries

Source: EIU (2009), authors calculations
Note: Most recent Gini index data available for each country (1997 – 2007)
Source: World Bank, World Development Indicators, 2009
Decomposing Prosperity

Prosperity

Per Capita Income

Domestic Purchasing Power

- Consumption taxes
- Efficiency of local industries
- Level of local market competition

Labor Productivity

- Skills
- Capital stock
- Total factor productivity
  - Efficiency
  - Technology

Labor Utilization

- Working hours
- Unemployment
- Participation rate
  - Population age profile

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Comparative Labor Productivity

Selected Countries

Real GDP per employee (PPP adjusted US$), 2008

Growth of real GDP per employee (PPP-adjusted), 2004 to 2008

Source: authors calculation Groningen Growth and Development Centre (2009), EIU (2009)
Understanding Productivity Growth

Economy

Skill Upgrading, Capital Deepening, and TFP

Sector

Structural Change

Firm

Entry, Exit, and Internal Restructuring
# Total Factor Productivity Growth

**Selected Countries**

<table>
<thead>
<tr>
<th>Last 15 years</th>
<th>Last 6 years</th>
<th>Last 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>China</td>
<td>China</td>
</tr>
<tr>
<td>India</td>
<td>Hong Kong</td>
<td>Hong Kong</td>
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<tr>
<td>Singapore</td>
<td>Turkey</td>
<td>India</td>
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<tr>
<td><strong>Thailand</strong></td>
<td>India</td>
<td>Philippines</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Philippines</td>
<td>Turkey</td>
</tr>
<tr>
<td>South Korea</td>
<td><strong>Thailand</strong></td>
<td>Malaysia</td>
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<tr>
<td>Malaysia</td>
<td>Malaysia</td>
<td>Indonesia</td>
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<tr>
<td>Turkey</td>
<td>Indonesia</td>
<td>Vietnam</td>
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<tr>
<td>Philippines</td>
<td>Singapore</td>
<td><strong>Thailand</strong></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Vietnam</td>
<td>South Korea</td>
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<tr>
<td>Indonesia</td>
<td>South Korea</td>
<td>Brazil</td>
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<tr>
<td>Brazil</td>
<td>South Africa</td>
<td>Singapore</td>
</tr>
<tr>
<td>Mexico</td>
<td>Brazil</td>
<td>Mexico</td>
</tr>
</tbody>
</table>

Source: EIU (2009)
Labor Force Utilization
Participation Rates, Selected Countries

Change in Labor Force Participation Rate, 2004 to 2008

Source: Economist Intelligence Unit (2009)
Indicators and Enablers of Competitiveness

Productivity

- Domestic investment
- Trade
- FDI
- Domestic innovation
- Entrepreneurship

Competitive Environment

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Trade Openness
Selected Countries

Change in trade as % of GDP since 2003

Exports/Imports (% of GDP), 2008

Exports
Imports

Source: EIU (2008), authors’ analysis
Thailand’s Export Share Trends

Source: UNComTrade, WTO (2009)
Inbound Foreign Investment Performance
Stocks and Flows, Selected Countries

Inward FDI Stocks as % of GDP, Average 2003 - 2007

<table>
<thead>
<tr>
<th>Country</th>
<th>70%</th>
<th>80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asian countries</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Other countries</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>-5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Domestic Fixed Investment Rates
Selected Countries

Gross Fixed Investment as % of GDP, 2008

China (40.8%)
Vietnam (44.6%)
India
Qatar
Croatia
Belarus
Romania (11.1%)
Bulgaria (12.6%)
Jordan

Change in Gross Fixed Investment (as % of GDP), 2004 to 2008

Note: Includes inbound FDI
Source: EIU, 2009
Innovative Capacity
Innovation Output of Selected Countries

Average U.S. patents per 1 million population, 2003-2007

Governance Indicators
Selected Countries

Best country in the world

Index of Governance Quality, 2008

Worst country in the world

Note: Sorted left to right by decreasing average value across all indicators. The horizontal line corresponds to the median country’s average value across all indicators.
# Factor (Input) Conditions

## Thailand’s Relative Position 2009

### Competitive Advantages Relative to GDP per Capita

**Financial Market Infrastructure**
- Soundness of banks: 18
- Financing through local equity market: 19
- Ease of access to loans: 22
- Regulation of securities exchanges: 27
- Financial market sophistication: 28
- Domestic credit to private sector: 29
- Venture capital availability: 32

**Physical Infrastructure**
- Quality of air transport infrastructure: 20
- Quality of roads: 24
- Quality of port infrastructure: 29
- Quality of electricity supply: 30

### Competitive Disadvantages Relative to GDP per Capita

**Advanced Communications Infrastructure**
- Personal computers per 100 population: 56
- Internet users per 100 population: 52

**Innovation and Skills**
- Utility patents per million population: 55
- Quality of scientific research institutions: 50
- Quality of math and science education: 45

**Administrative Infrastructure**
- Reliability of the Police: 56
- Decentralization of economic policymaking: 52
- (Low) Time required to start a business: 52
- (Low) Burden of customs procedures: 45

---

**Note:** Rank versus 74 countries; overall, Thailand ranks 54\textsuperscript{th} in 2008 PPP adjusted GDP per capita and 40\textsuperscript{th} in Global Competitiveness.

**Source:** Institute for Strategy and Competitiveness, Harvard University (2009)
Ease of Doing Business
Thailand, 2009

Favorable

Unfavorable

Workforce Skills and Labor Market Needs

Educational Attainment, Math, 8th Grade

- Taiwan
- Korea
- Singapore
- Hong Kong
- Japan
- Hungary
- Russia
- US
- Slovenia
- Australia
- Sweden
- Malaysia
- Israel
- Thailand
- Turkey
- Indonesia
- Egypt
- Colombia

Average Score

250 350 450 550 650

Time Required to Fill Job Vacancy in Production

- Brazil
- Thailand
- Korea
- India
- Russia
- Turkey
- Indonesia

Number of Weeks

0 2 4 6 8 10

Context for Strategy and Rivalry
Thailand's Relative Position 2009

<table>
<thead>
<tr>
<th>Competitive Advantages Relative to GDP per Capita</th>
<th>Competitive Disadvantages Relative to GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Openness</strong></td>
<td><strong>Openness</strong></td>
</tr>
<tr>
<td>Strength of investor protection</td>
<td>(Low) Tariff rate</td>
</tr>
<tr>
<td>Business impact of rules on FDI</td>
<td>Restrictions on capital flows</td>
</tr>
<tr>
<td><strong>Incentives and flexibility</strong></td>
<td>Prevalence of foreign ownership</td>
</tr>
<tr>
<td>(Low) Rigidity of employment</td>
<td></td>
</tr>
<tr>
<td>Cooperation in labor-employer relations</td>
<td></td>
</tr>
<tr>
<td>(Low) Impact of taxation on incentives to work and invest</td>
<td></td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td><strong>Competition</strong></td>
</tr>
<tr>
<td>Intensity of local competition</td>
<td>Efficacy of corporate boards</td>
</tr>
<tr>
<td>Quality of competition in the ISP sector</td>
<td>Intellectual property protection</td>
</tr>
<tr>
<td>Effectiveness of antitrust policy</td>
<td>Regulatory quality</td>
</tr>
<tr>
<td>Prevalence of trade barriers</td>
<td>Extent of market dominance by business groups</td>
</tr>
<tr>
<td>Low market disruption from state-owned enterprises</td>
<td>Distortive effect of taxes and subsidies on competition</td>
</tr>
</tbody>
</table>

Note: Rank versus 74 countries; overall, Thailand ranks 54th in 2008 PPP adjusted GDP per capita and 40th in Global Competitiveness
Source: Institute for Strategy and Competitiveness, Harvard University (2009)
Openness to Trade
Selected Countries, 2008

Source: Index of Economic Freedom (2008), Heritage Foundation
## Related and Supporting Industries

### Thailand’s Relative Position 2009

<table>
<thead>
<tr>
<th>Competitive Advantages</th>
<th>Competitive Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relative to GDP per Capita</strong></td>
<td><strong>Relative to GDP per Capita</strong></td>
</tr>
<tr>
<td>Extent of cluster policy</td>
<td>Local availability of specialized research</td>
</tr>
<tr>
<td>Local supplier quantity</td>
<td>and training services</td>
</tr>
<tr>
<td>Extent of collaboration in clusters</td>
<td>Availability of latest technologies</td>
</tr>
<tr>
<td>State of cluster development</td>
<td></td>
</tr>
<tr>
<td>Local availability of process machinery</td>
<td></td>
</tr>
<tr>
<td>Local supplier quality</td>
<td></td>
</tr>
</tbody>
</table>

Note: Rank versus 74 countries; overall, Thailand ranks 54th in 2008 PPP adjusted GDP per capita and 40th in Global Competitiveness. Source: Institute for Strategy and Competitiveness, Harvard University (2009)

Change up/down of more than 5/10 ranks since 2008
Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
Clusters and Cluster Efforts in Thailand

• Clear evidence of significant cluster presence in the Thai economy
• Areas of strengths are largely in unrelated areas
• Focus on five clusters based on 2003 government decision
  – Analysis at the time focused on situation in these clusters, not on the selection
• Limited progress on mobilizing an effective institutional architecture to move from diagnosis to action
  – Creation of structures like the Thailand Automotive Institute positive steps, but limited to selected clusters
  – Organization of government policies around clusters very limited
• Limited if any progress of creating mechanisms for translating cluster-specific competitiveness upgrading into economy-wide benefits
• Cluster efforts remain a significant opportunity for Thailand, but a step-change in the policy approach is needed to achieve real impact
# Company Sophistication

## Relative Position of Thai Companies, 2009

<table>
<thead>
<tr>
<th>Competitive Advantages Relative to GDP per Capita</th>
<th>Competitive Disadvantages Relative to GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy and operations</strong></td>
<td><strong>Organizational Practices</strong></td>
</tr>
<tr>
<td>Degree of customer orientation 18</td>
<td>Willingness to delegate authority 56</td>
</tr>
<tr>
<td>Value chain breadth 35</td>
<td>Reliance on professional management 46</td>
</tr>
<tr>
<td>Company spending on R&amp;D 37</td>
<td>Extent of staff training 42</td>
</tr>
<tr>
<td>Extent of marketing 38</td>
<td>Extent of incentive compensation 41</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internationalization</th>
<th><strong>Strategy and operations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Breadth of international markets 23</td>
<td>Production process sophistication 51</td>
</tr>
<tr>
<td>Prevalence of foreign technology licensing 35</td>
<td>Nature of competitive advantage 46</td>
</tr>
<tr>
<td>Control of international distribution 37</td>
<td>Capacity for innovation 46</td>
</tr>
<tr>
<td>Extent of regional sales 37</td>
<td>Firm-level technology absorption 41</td>
</tr>
</tbody>
</table>

- Extent of incentive compensation 41

Change up/down of more than 5/10 ranks since 2008

Note: Rank versus 74 countries; overall, Thailand ranks 54th in 2008 PPP adjusted GDP per capita and 40th in Global Competitiveness Source: Institute for Strategy and Competitiveness, Harvard University (2009)
Subnational Regions in Thailand

- Significant **differences** in prosperity, structure, and competitiveness

- **Duality** of locally elected and centrally appointed officials at the local and regional level

- Does the current structure provide for an **efficient interplay** across the different levels of government?
  - Allocation of responsibilities
  - Allocation of capabilities

Thailand’s National Economic and Social Development Plan

- Sets out **objectives** and **principles**
- Provides the foundation for **government** investments and legislative action
- Does the Plan define **competitive strengths** to be achieved?
- Is the **private sector** sufficiently involved in the design and execution?

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Competitiveness Rankings Over Time

New GCI Methodology

Rank (Stable sample of countries)

- Malaysia
- China
- Thailand
- Indonesia
- India
- Vietnam

Thailand’s Competitiveness Agenda 
Priority Action Areas

• Strengthen the robustness and efficiency of public institutions
• Address the mismatch between existing and required workforce skills
• Tackle remaining weaknesses in business rules and regulations
• Remove remaining barriers to foreign competition and strengthen the legal framework to enable more effective domestic rivalry
• Activate clusters as an effective mechanism to deliver government policies
• Clarify the roles and responsibilities across different levels of government
• Mobilize public-private collaboration at the level of clusters, regions, and the national economy
• Launch a discussion on the dimensions of national value proposition for Thailand
Thailand Approaching a Critical Junction

Creating competitive advantages

Exploiting comparative advantages

Prosperity

Time

Thailand
Argentina
S Korea

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Themes

• The concept of competitiveness

• Thailand’s Competitiveness: From Assessment to Action

  • Competitiveness and the New Global Economy

• Competitiveness and Environmental Sustainability
Competitiveness and the Crisis

Economic Sustainability of Current Prosperity

**High**
- High short term impact given high openness
- Quick recovery possible
- Remain on course

**Moderate**
- Short term impact depends on openness
- Recovery likely to be prolonged
- Balance crisis management with upgrading

**Low**
- Short term impact depends on openness
- Recovery only with reforms
- Use the crisis as a promoter of change

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Thailand and the Global Economic Crisis

• When the global financial crisis translated into a dramatic slowdown of global trade, Thailand was hard hit due to its export-orientation
  – Thailand’s financial system was relatively resilient after the fundamental changes in the wake of the Asian Financial crisis

• Recovery is now relatively swift because of the balance between Thailand’s competitiveness and prosperity

• The challenge is to remain focused on upgrading Thailand’s competitiveness while the improving economic situation reduces the pressure to act
A Changing Economic Environment After the Crisis

• Unsustainable trade imbalances in the global economy will adjust over time
  – There is some risk of increasing protectionism in key export markets
  – Adjustment in response to changes in exchange rates and capital flows seems more likely

• While Thailand’s trade has become more ASEAN/Asia-focused over time, the ultimate market for many exports so far remains in the US or Western Europe

• The relative share of Asia in the global economy is growing, a process that has been accelerated by the global economic crisis
The New Global Economy
Implications for Thailand

• **Competitiveness** will only increase in importance

• A robust economic strategy needs to take a **balanced view** of different segments of the economy
  – Export-oriented activities will remain important: support the market-driven reorientation towards Asian markets
  – Domestic consumption will gradually gain in importance, especially for jobs: ensure the upgrading of activities serving the domestic market

• **Regional collaboration** will gain in importance
  – Strengthening the potential of markets in neighboring countries
  – Leverage the potential for cluster collaboration in regional cluster networks

• The ability to deal with **external shocks** is becoming more crucial; avoiding shocks through less openness and specialization is not viable
  – Skill level of the workforce
  – Flexibility of the economy
  – Social security mechanisms
Themes

• The concept of competitiveness

• Thailand’s Competitiveness: From Assessment to Action

• Competitiveness and the New Global Economy

• Competitiveness and Environmental Sustainability
Competitiveness and Ecological Sustainability

• Ecological sustainability is conceptually **fully consistent** with the overall objective of competitiveness, i.e. creating an environment where productivity supports a high standard of living

• The Porter hypothesis identified the synergistic relationship of the two
  – Tough environmental regulations can lead companies to become more productive
  – Tough environmental regulations can trigger **innovations** that provide companies with competitive advantages

**BUT**

• Short-term trade-offs can exist through the **costs** of ecological activities, especially for activities exposed to global competition

• Competitiveness and ecological sustainability have many overlaps but are two **separate objectives**
Economic Policy towards Environmental Sustainability

- Achieving higher levels of environmental sustainability requires innovation.
- Innovation will only occur, if complementary changes are made across different dimensions the business environment.
- The policy challenge is to set the pace and mix of these policies in ways that balances environmental and economic goals in the short-term.

**Context for Firm Strategy and Rivalry**
- Upgrading programs for companies, especially SMEs
- Environmental taxes, subsidies, and process standards

**Factor (Input) Conditions**
- Research grants with an environmental focus
- Targeted workforce skill upgrading
- Financing facilities for relevant public and private investments

**Demand Conditions**
- Demanding domestic product standards, including early adoption of demanding international standards
- Environmental taxes or subsidies

**Related and Supporting Industries**
- Creation of specialized research institutions
- Cluster working groups on environmental sustainability
Ecological Sustainability of Clusters

• The market environment will create increasing opportunities for environmental products and services
  o Relative prices for energy, natural resources, and pollution
  o Government policies (taxes, subsidies, regulations)
  o Consumer preferences

• The market for the products of specific clusters is likely to grow significantly, e.g. renewable energy technologies

• Competition in these markets is going to be intense; only the most productive clusters will succeed

• The demand for products, services, and processes that are environmentally sound is going to increase across all clusters

• Environmental issues will affect competition on all markets; no cluster will be successful unless it actively addresses them
The New Sustainable Economy
Implications for Thailand

• **Competitiveness** and sustainability have to be pursued in tandem

• Thailand’s *environmental track-record* is relatively solid, but more a reflection of its overall profile than of explicit policies in the past
  – Issues in areas like air quality and the pollution in industrialized zones have been growing over time

• The national strategy for environmental sustainability needs to **integrate policies** across different business environment dimensions
  – A narrow focus on branding Thailand will not be sufficient; the global competition in this space is becoming *relentless*

• **Cluster policy** needs to be an important tool for achieving environmental sustainability
  – Pursue environmental issues within *existing clusters*
  – Encourage the development of *new clusters* that target emerging environmental markets *and* relate to areas of current Thai strengths
Why Should Business Leaders Worry About Clusters and National Competitiveness?

- Competitive advantage resides solely **inside** a company or in its industry
- Competitive success depends primarily on **company choices**
- Competitive advantage (or disadvantage) resides partly in the **locations** at which a company’s business units are based
- **Cluster participation** is an important contributor to competitiveness

Source: Michael Porter
Thailand: Looking Ahead

<table>
<thead>
<tr>
<th>ISSUES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
</tr>
<tr>
<td>• The Middle Income Trap</td>
</tr>
<tr>
<td>• Policy Implementation</td>
</tr>
<tr>
<td>• Political Volatility</td>
</tr>
<tr>
<td><strong>Global</strong></td>
</tr>
<tr>
<td>• New global economy</td>
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<td>• Climate Change</td>
</tr>
</tbody>
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Thailand has all opportunities to meet the challenges of the future…

… if Thais across all segments of society and economy collaborate.

Competitiveness has to be a national goal, not a political one.