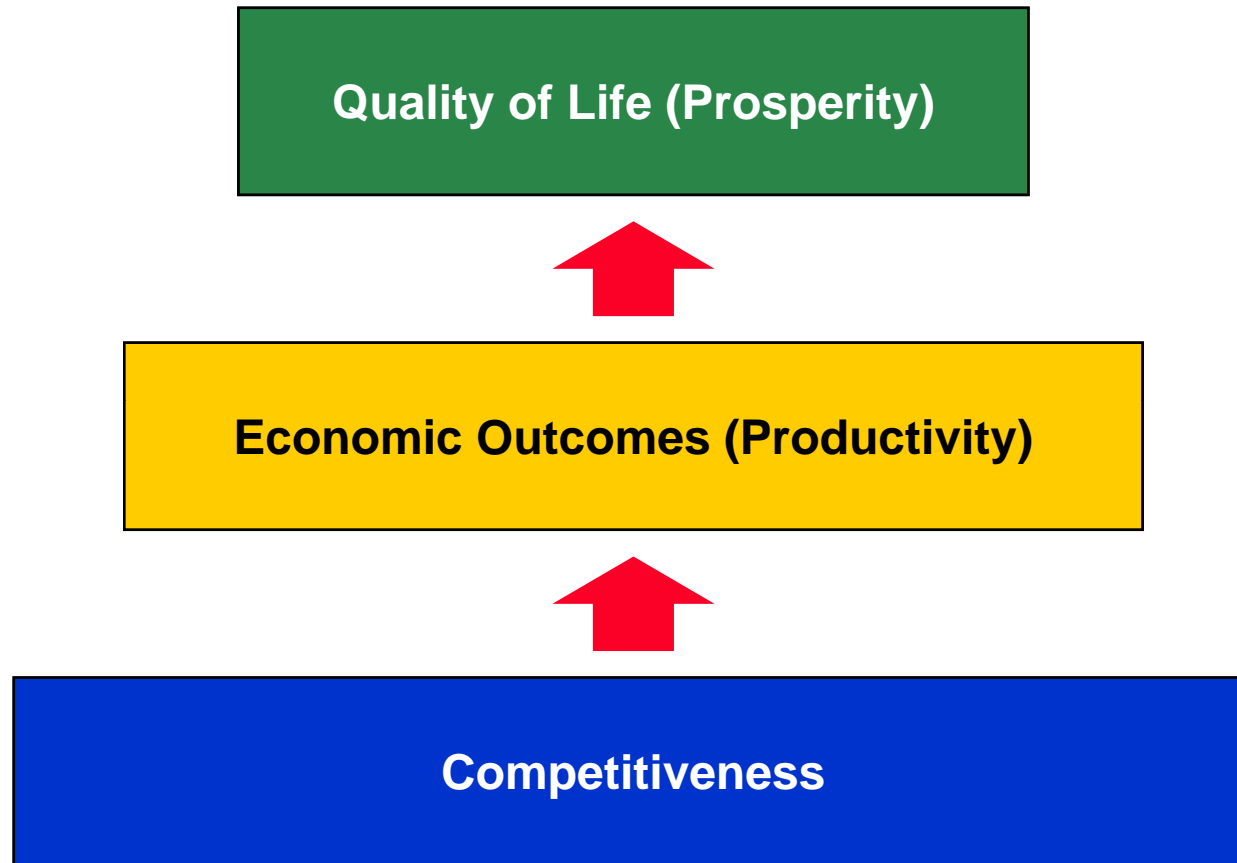


Thailand's competitiveness: Meeting the challenges of globalization and environmental sustainability

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Harvard Business School
Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy*

The Role of Competitiveness



***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**”

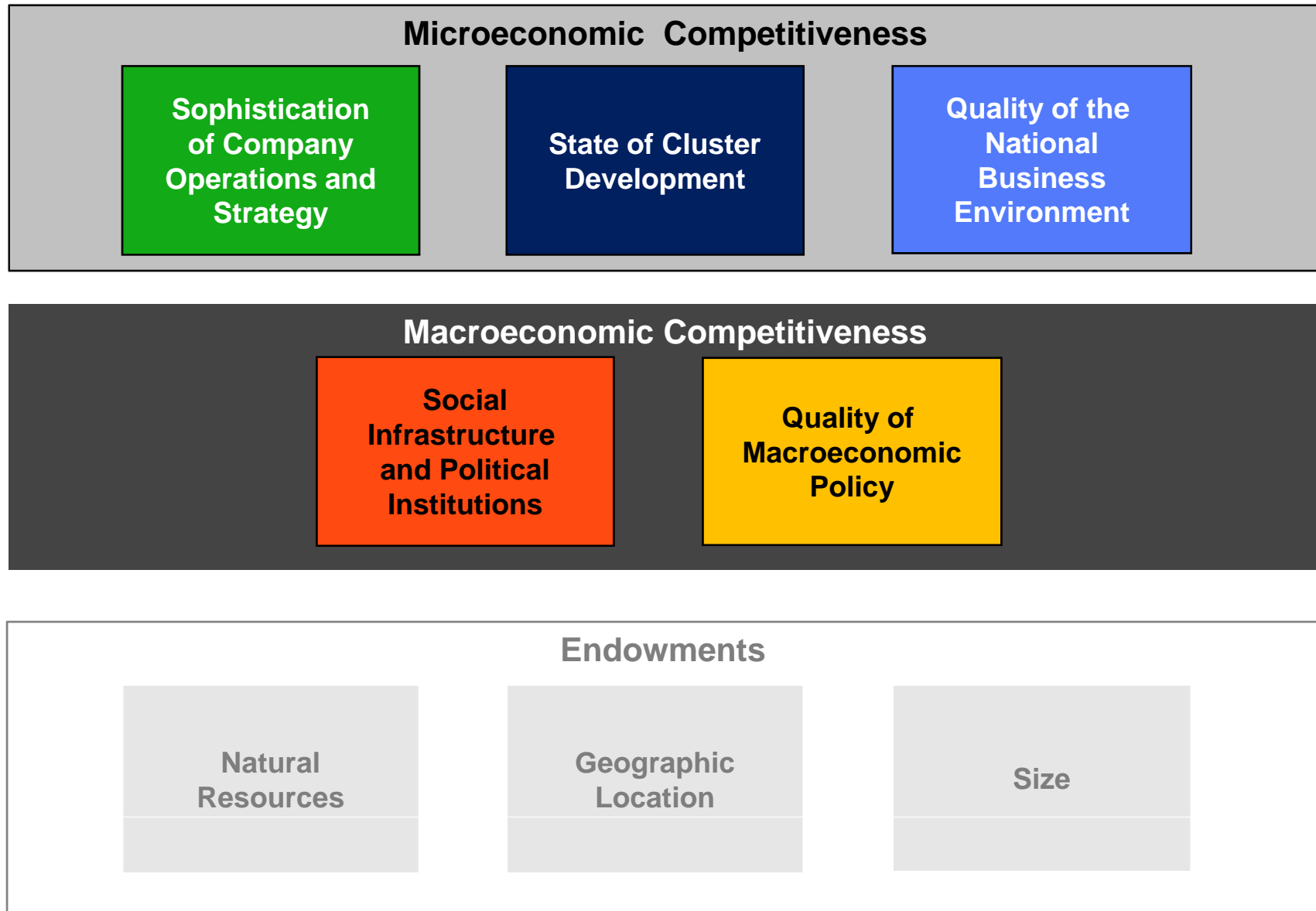


- The general principles (Washington consensus, etc.) derived from this work provide often **insufficient** guidance to policy makers



- 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

The Competitiveness Framework



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

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

Microeconomic Foundations of Development

Typical Company Weaknesses in Emerging Economies

Corporate Direction

- **Opportunistic** pursuit of new businesses, seizing profitable opportunities in whatever area they arise
- Strategy driven by **government and other relationships**
- **Conglomerate business groups** compete in highly disparate businesses

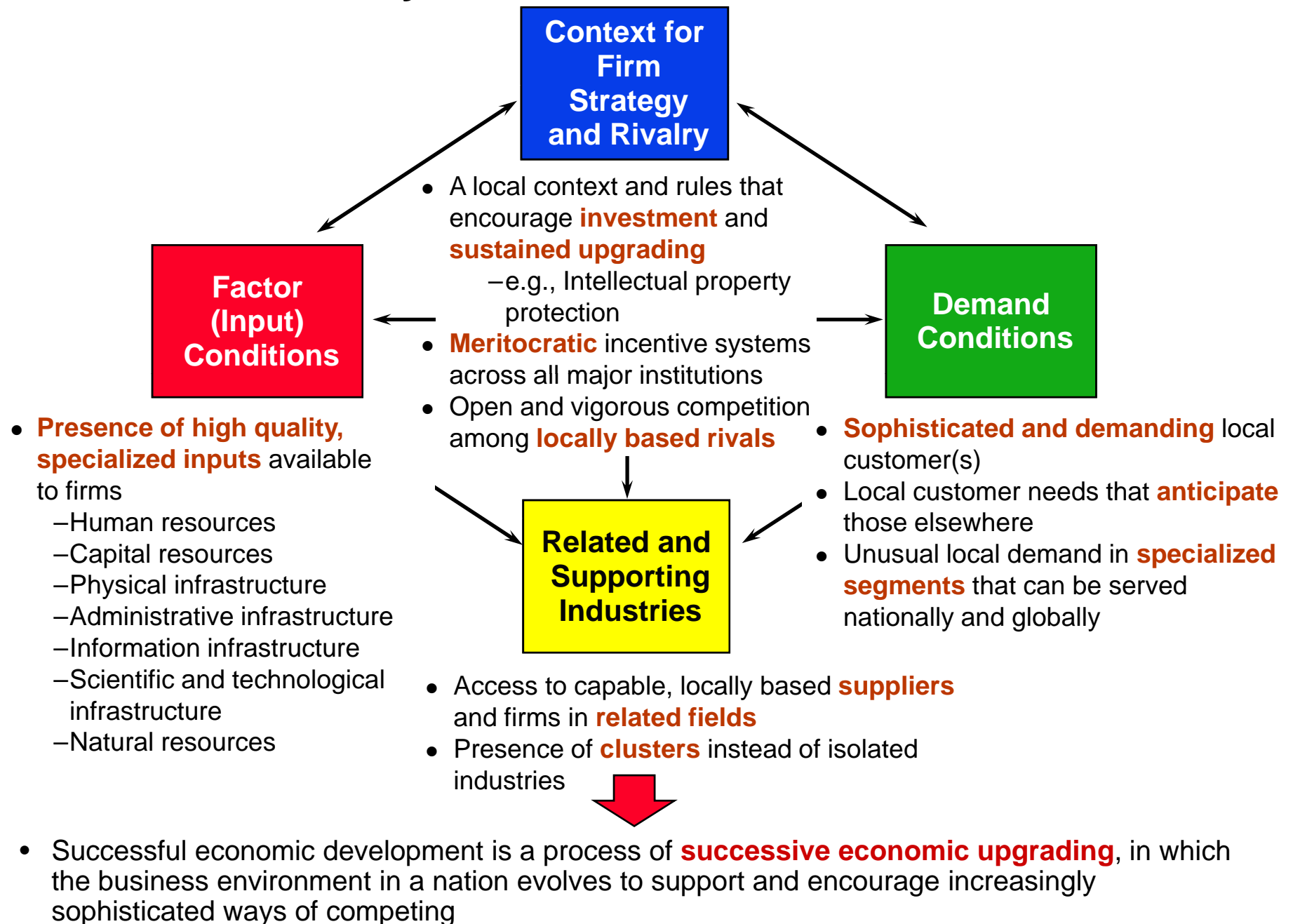
Strategic Positioning

- Focus on the **local** market
- **Wide product lines** serving all local industry segments
- **Price** is the primary basis of competition
- **Low input costs** are primary competitive advantage
- Emulate **foreign best practices**
- Imitate products and services of foreign and other domestic competitors

Activities

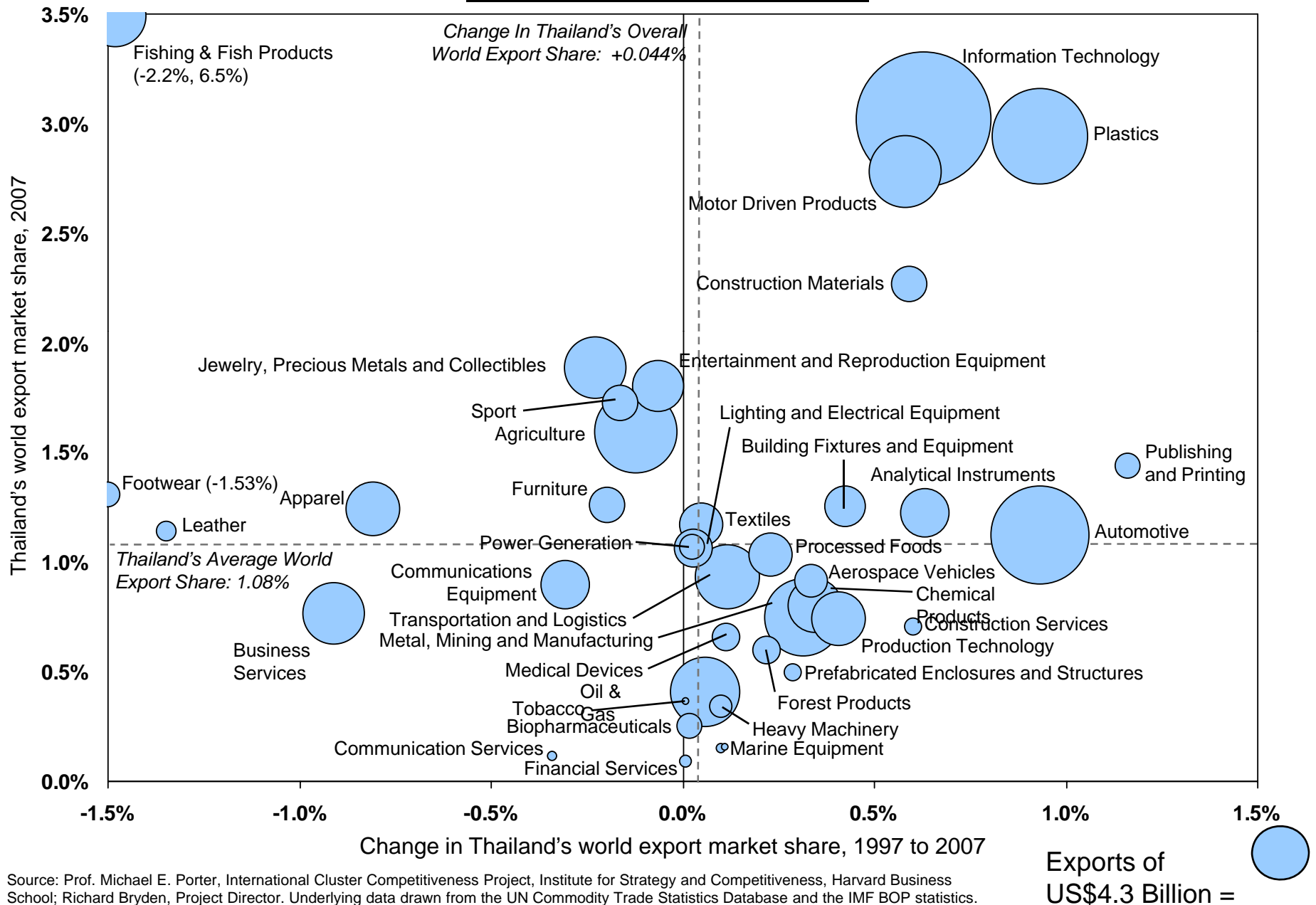
- **Labor intensive** parts of the value chain are emphasized
- **Low investment** in machinery, equipment, brands, R&D, and training
- **Foreign partners** provide many inputs, know how, and financing

Productivity and the Business Environment



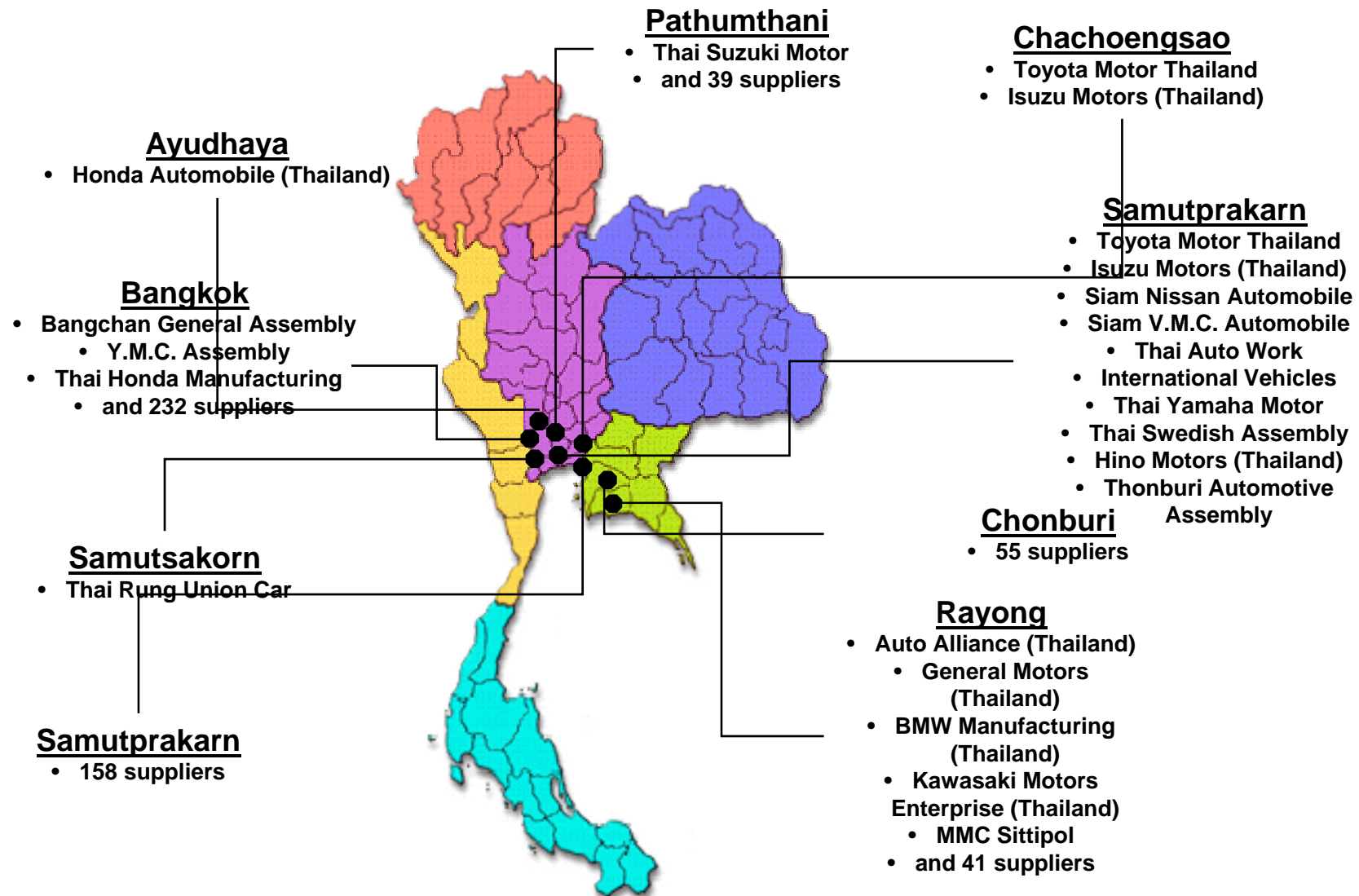
National Export Portfolio

Thailand, 1997 to 2007

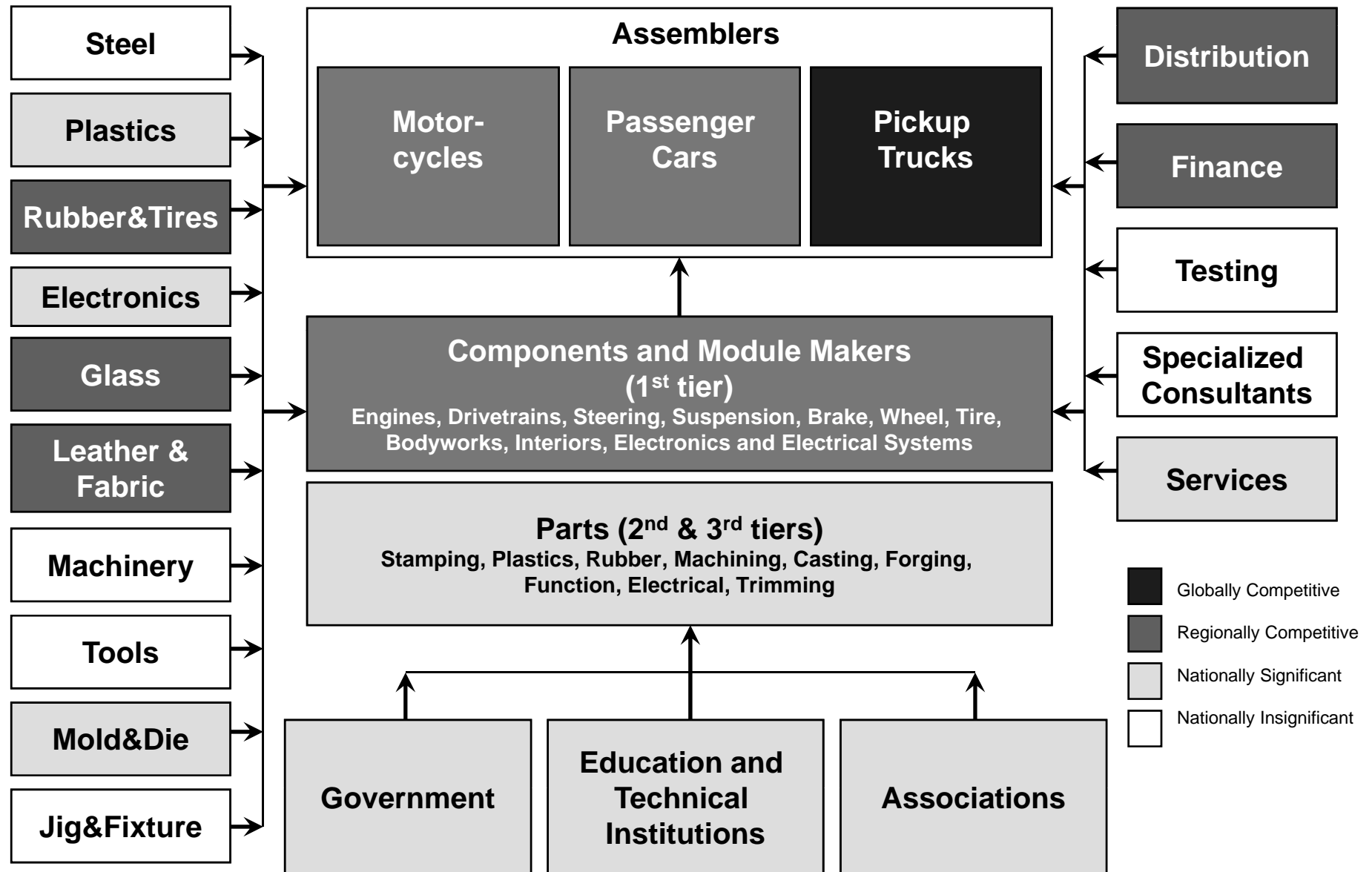


Source: Prof. Michael E. Porter, International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director. Underlying data drawn from the UN Commodity Trade Statistics Database and the IMF BOP statistics.

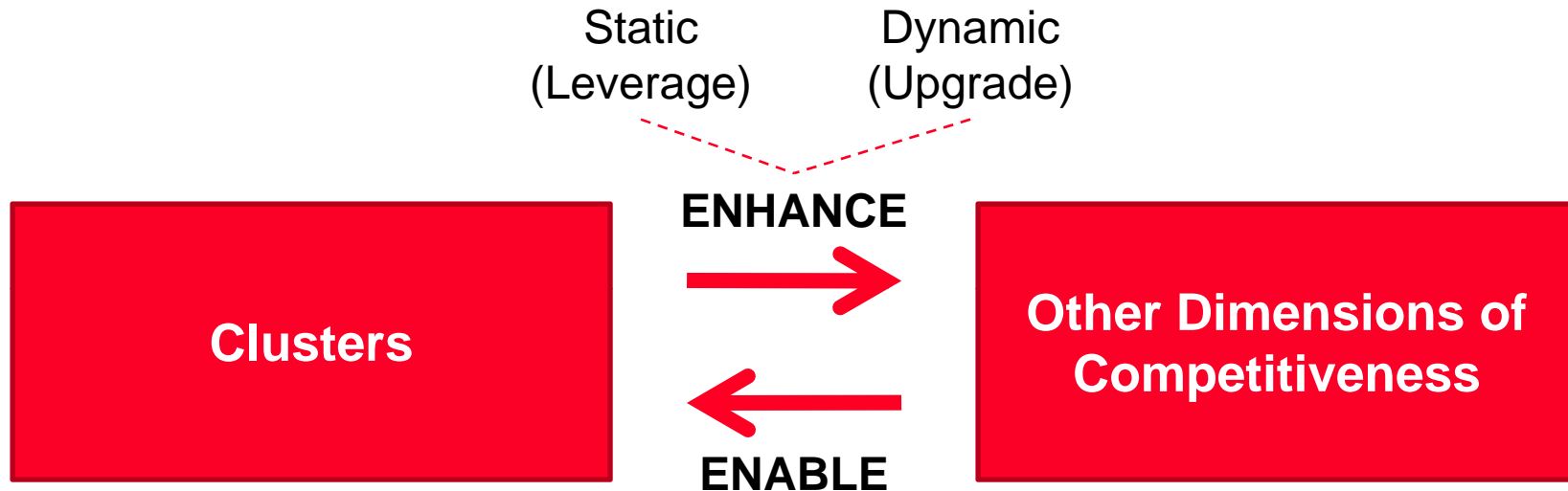
The Thai Automotive Cluster: The Geographic Dimension



The Thai Automotive Cluster: The Activity Dimension



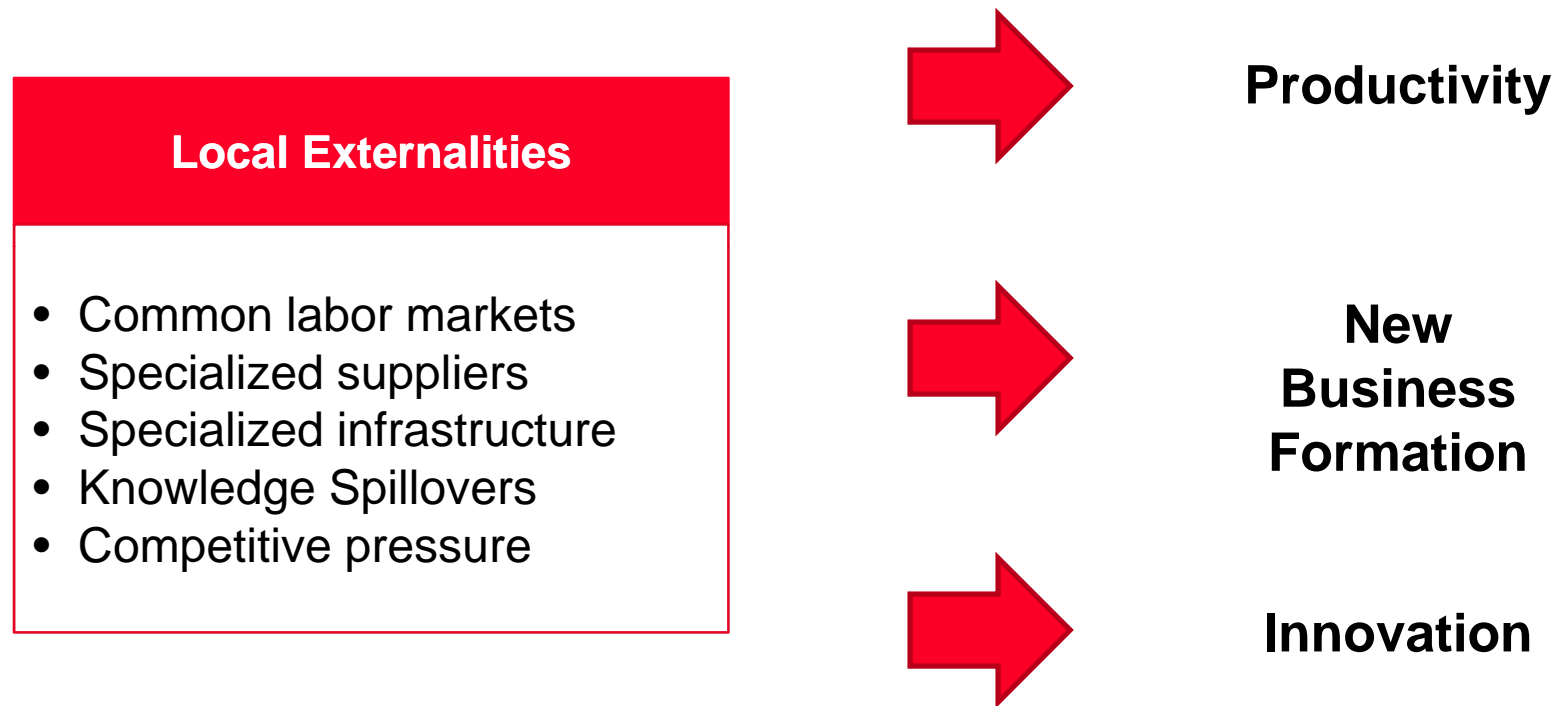
Clusters and Competitiveness



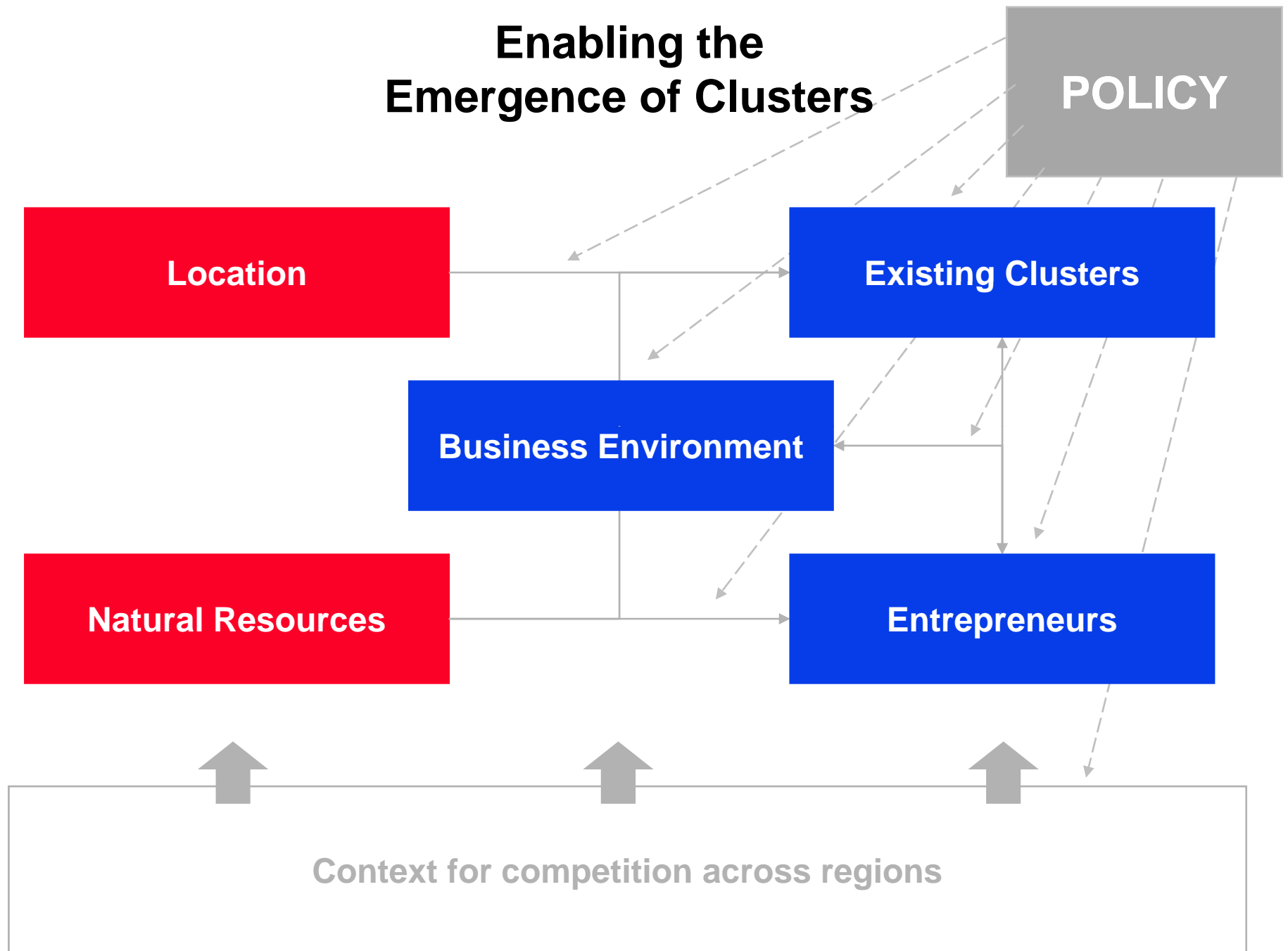
- Co-location of companies and other institutions affecting the potential for local value creation within a given economic field through spillovers and linkages

- Economic fundamentals that set the productivity level companies can reach within a given geographic location

Clusters Enhancing Competitiveness: Leveraging Existing Assets

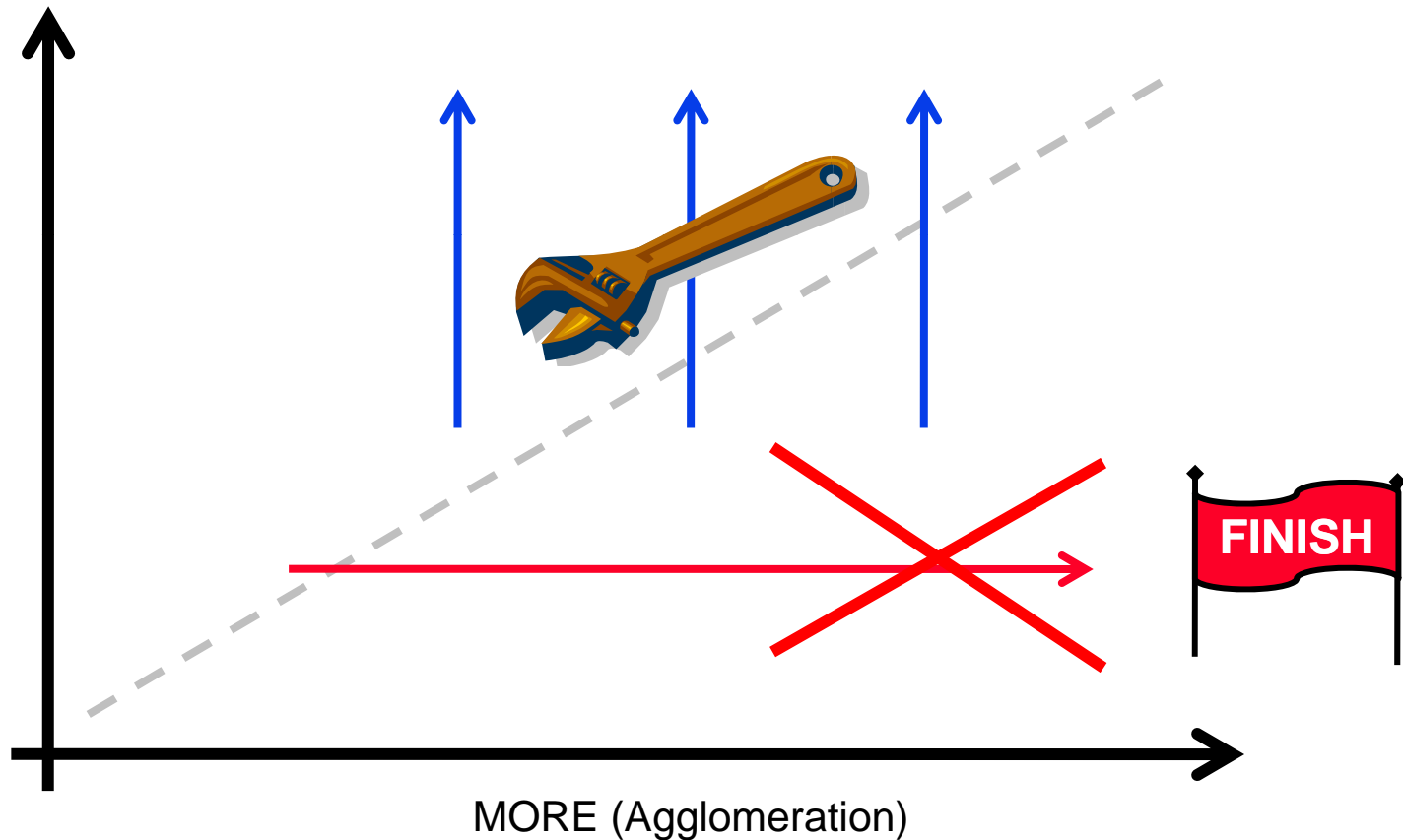


Enabling the Emergence of Clusters

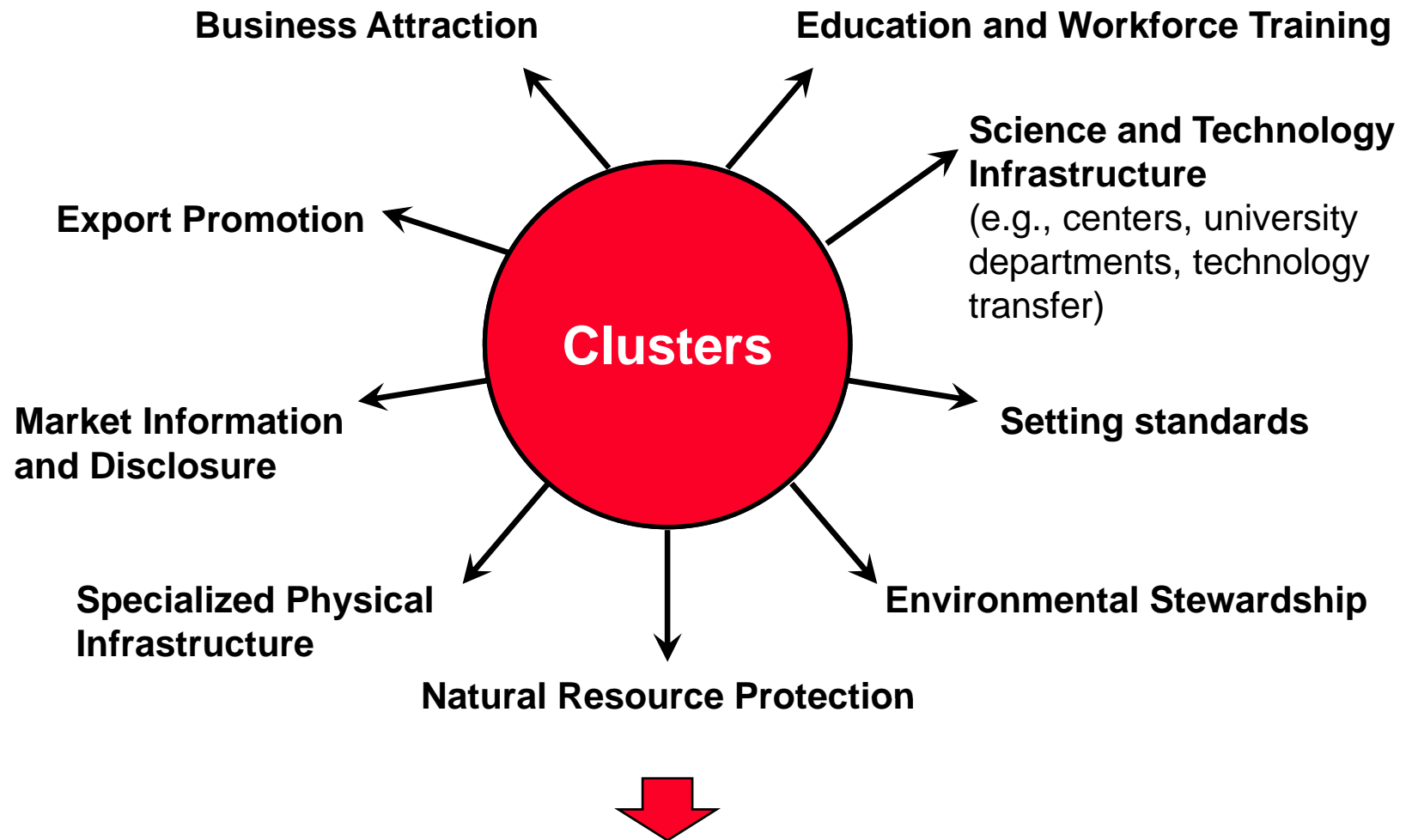


Clusters Enhancing Competitiveness: Upgrading Capabilities

BETTER (Competitiveness)



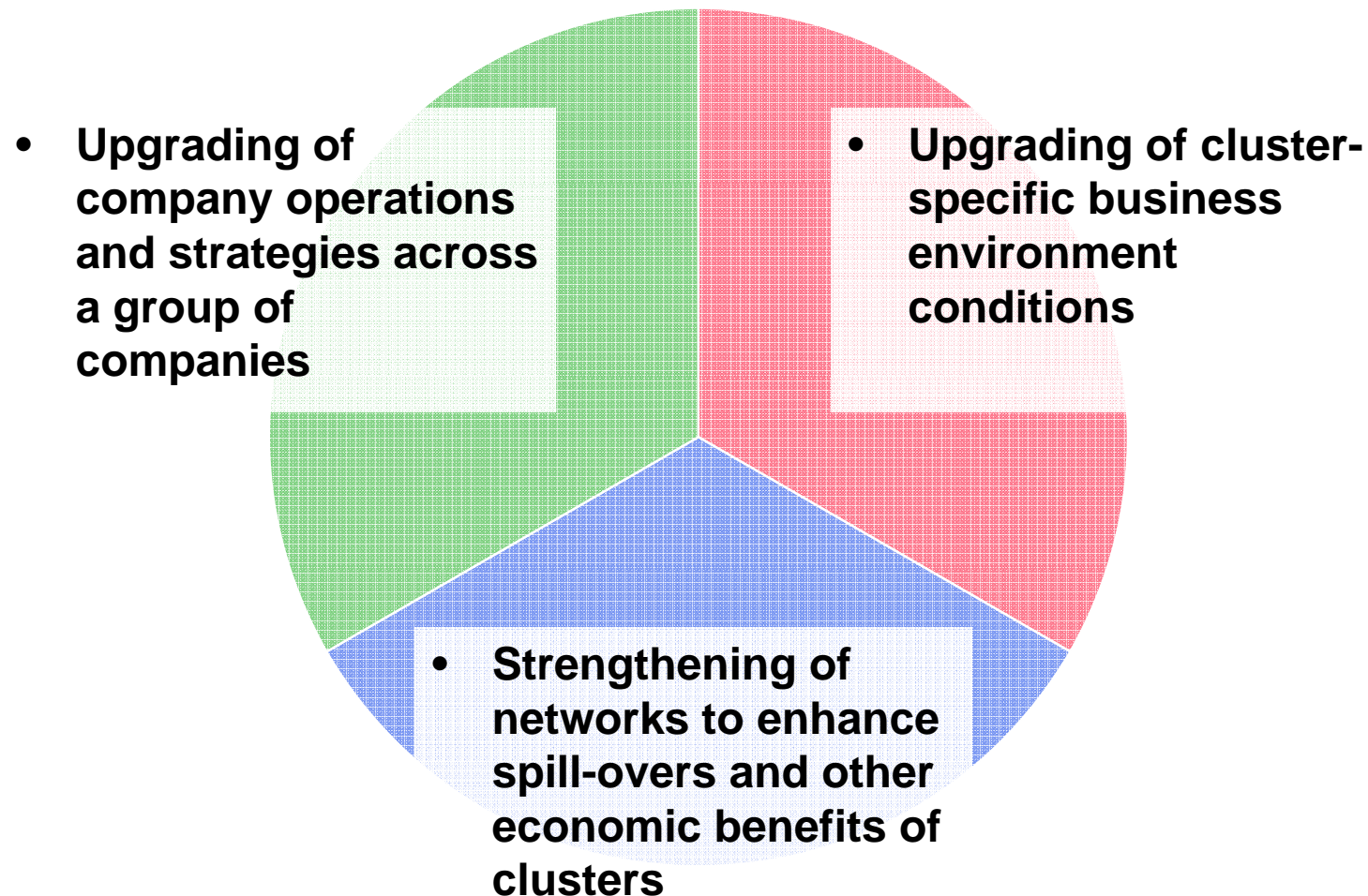
Target Public Policy at Clusters



- 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**

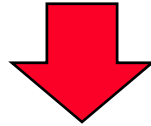


Clusters and Structural Change

- 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



Direction of structural change

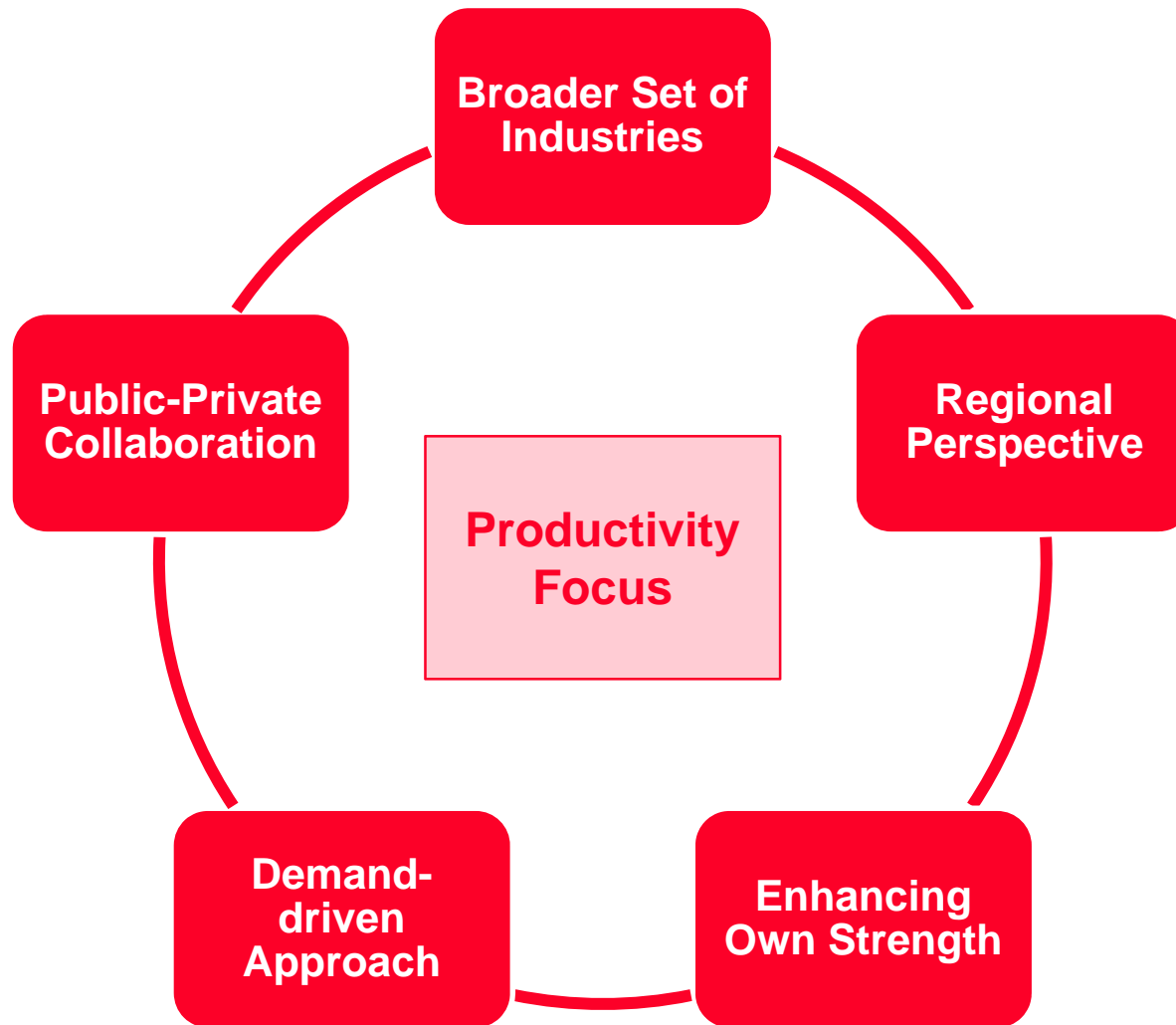
- Natural structural change** occurs through growth in fields related to activities already present
- Encourage diversification into **related** clusters*



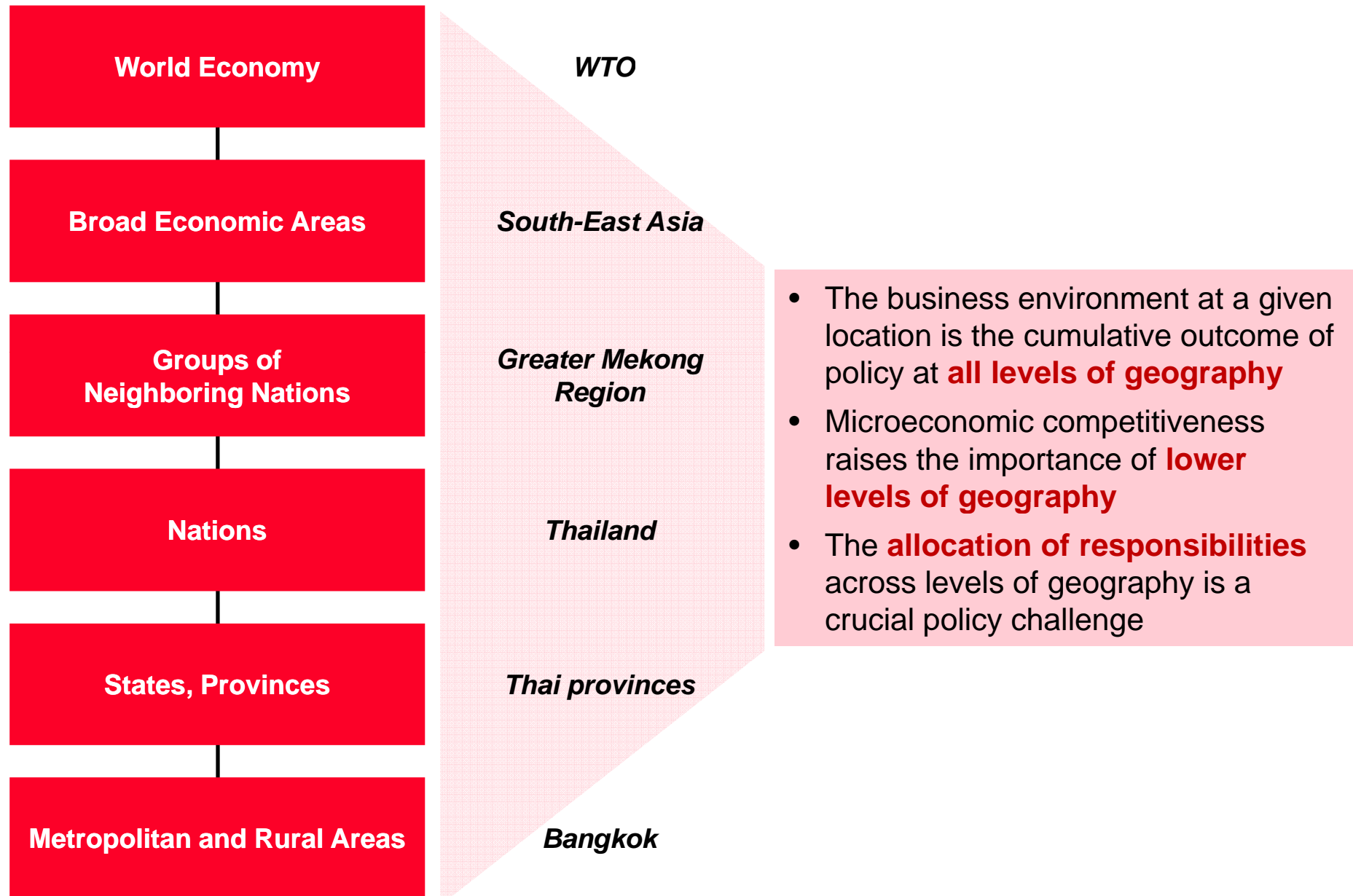
Management of structural change

- 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?

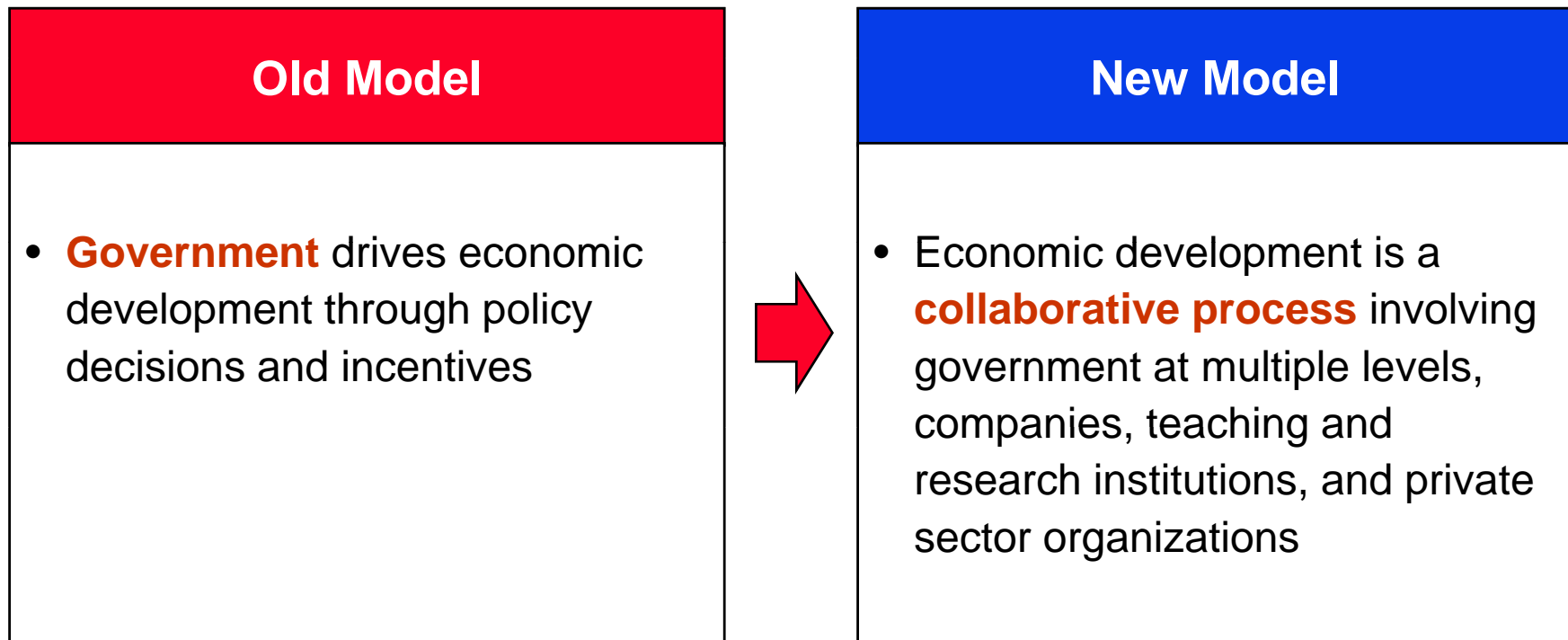


Policy Levels Influencing Competitiveness



The Process of Economic Development

Shifting Roles and Responsibilities

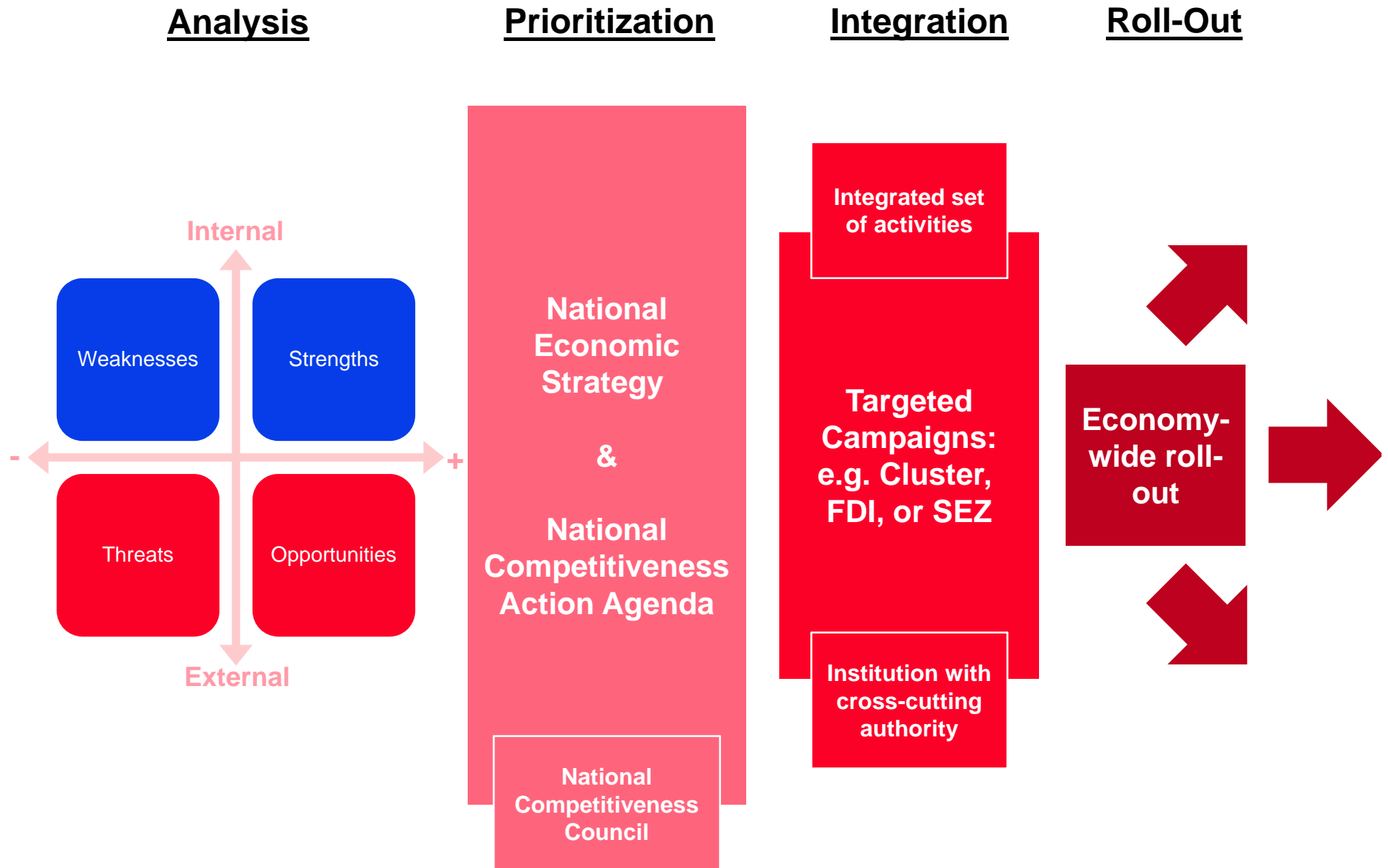


- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many individuals, companies, and institutions take relevant decisions

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



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

Singapore

- *Attract foreign investment to create jobs*
- EDB as statutory body with **wide-ranging mandate** (finance, skills, infrastructure, rules and regulations)

Ireland

- *Turn Ireland into the EU base for US companies*
- Combination of **specialized agencies**
 - IDA focused on attracting investors
 - Enterprise Ireland focused on upgrading domestic companies
 - Forfas providing policy support on enhancing the business environment

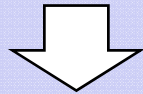
Finland

- *Turn Finland into a knowledge-driven economy*
- Science and Technology Policy Council **chaired by the Prime Minister** to coordinate activities across the government
 - Economy
 - Education
 - Science
 - Regions
 - Finance

Roll-Out of Competitiveness Upgrading Activities and Institutions

Costa Rica

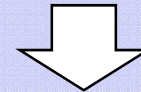
- Opportunity to attract investment from Intel
- Presidential working group with wide policy mandate



- **No special deals** for Intel; all improvements made available to other companies as well
- Improvement of electricity supply quality in the Central Valley
- Open Sky-policy to increase air transport connectivity
- Radically increased efficiency of customs procedures

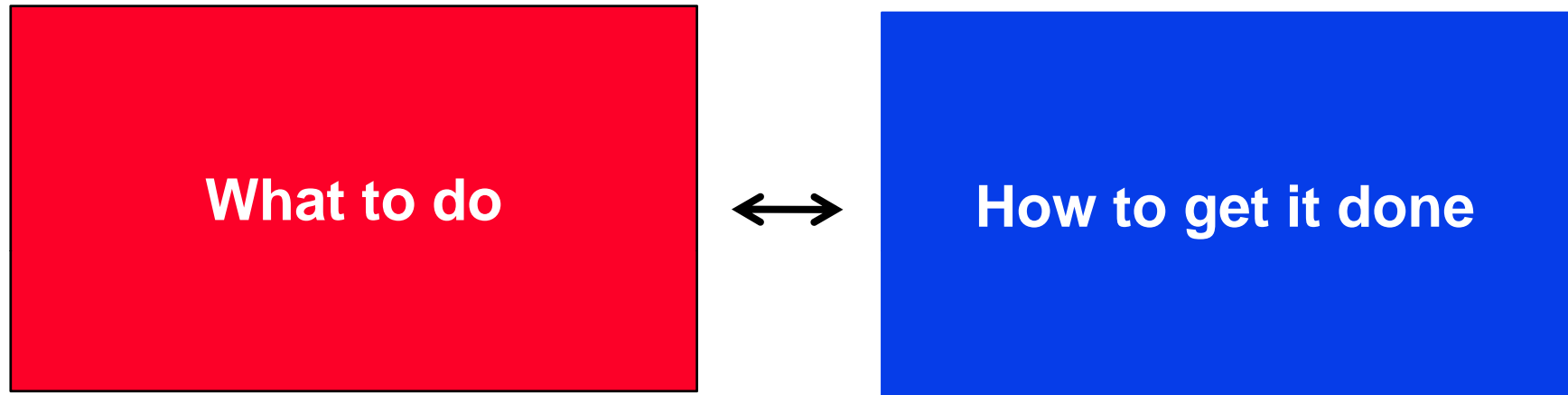
Latvia

- Significant foreign investment inflows after independence and EU accession
- Foreign investors concerned about weakness of local institutions driving competitiveness upgrading



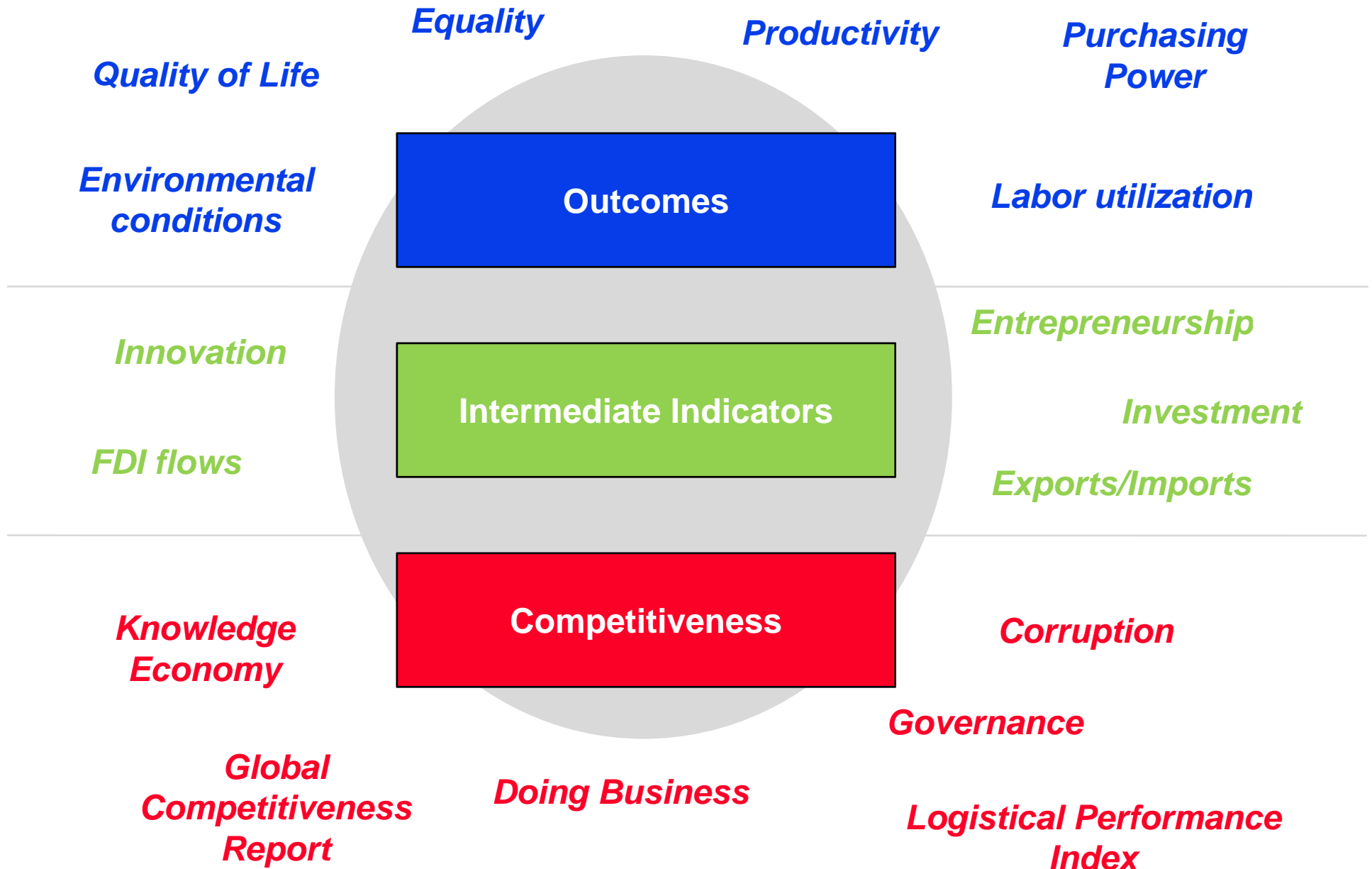
- Foreign Investors Council (FICIL) driving **general upgrading agenda**
- Annual High-Level meeting with the entire Latvian cabinet and one-on-one with key ministers
- Working groups on specific issues (taxes, workforce skills, customs)

From Insight to Action



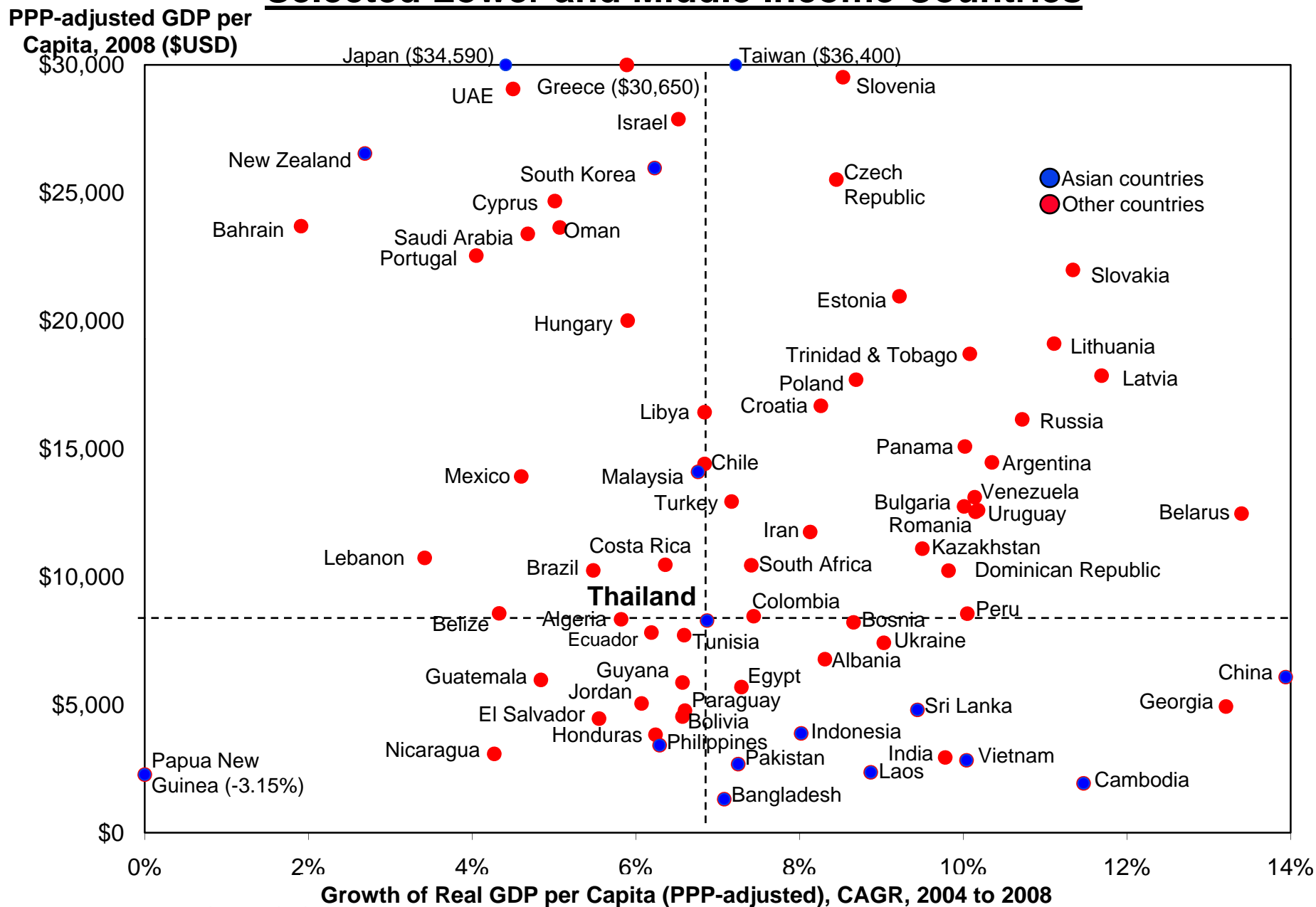
- Consensus
- Institutional structure
- Leadership
- External environment

Where to Start: The Crucial Role of Analysis



Prosperity Performance

Selected Lower and Middle Income Countries

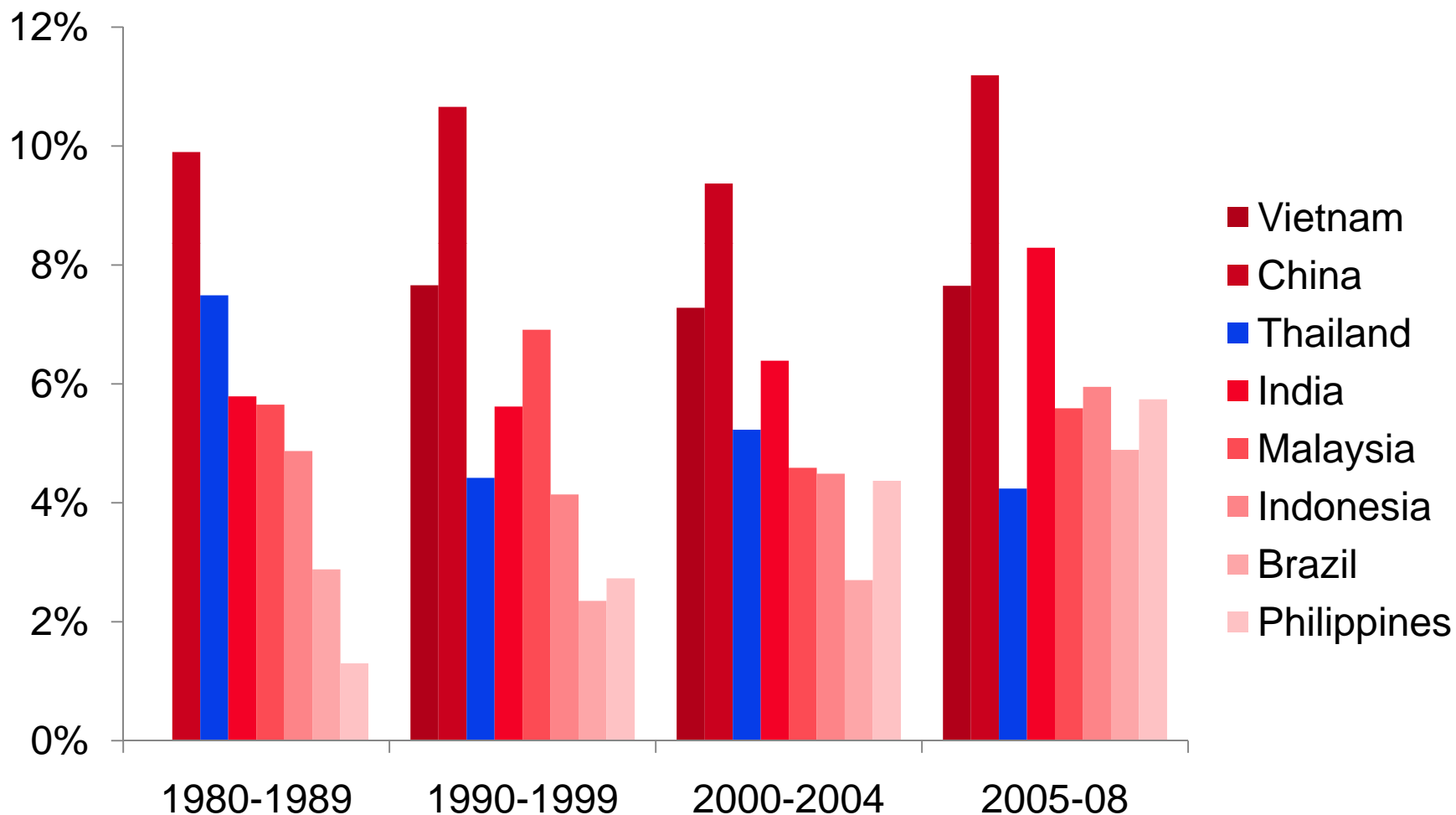


Source: EIU (2009), authors calculations

Comparative Economic Performance

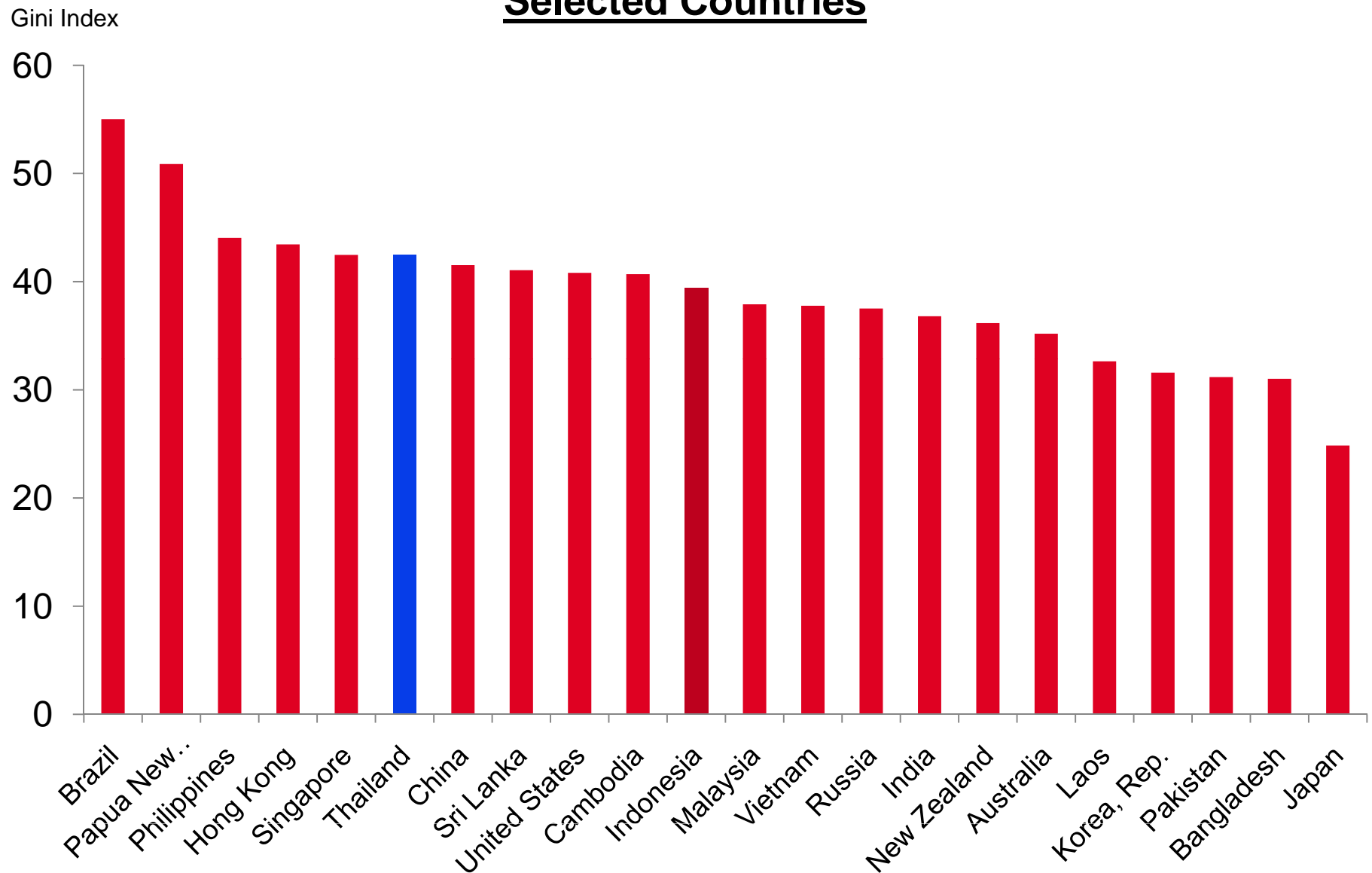
Real GDP Growth Rates Over Time

Compounded annual
growth rate
(CAGR) of real GDP



Income Inequality

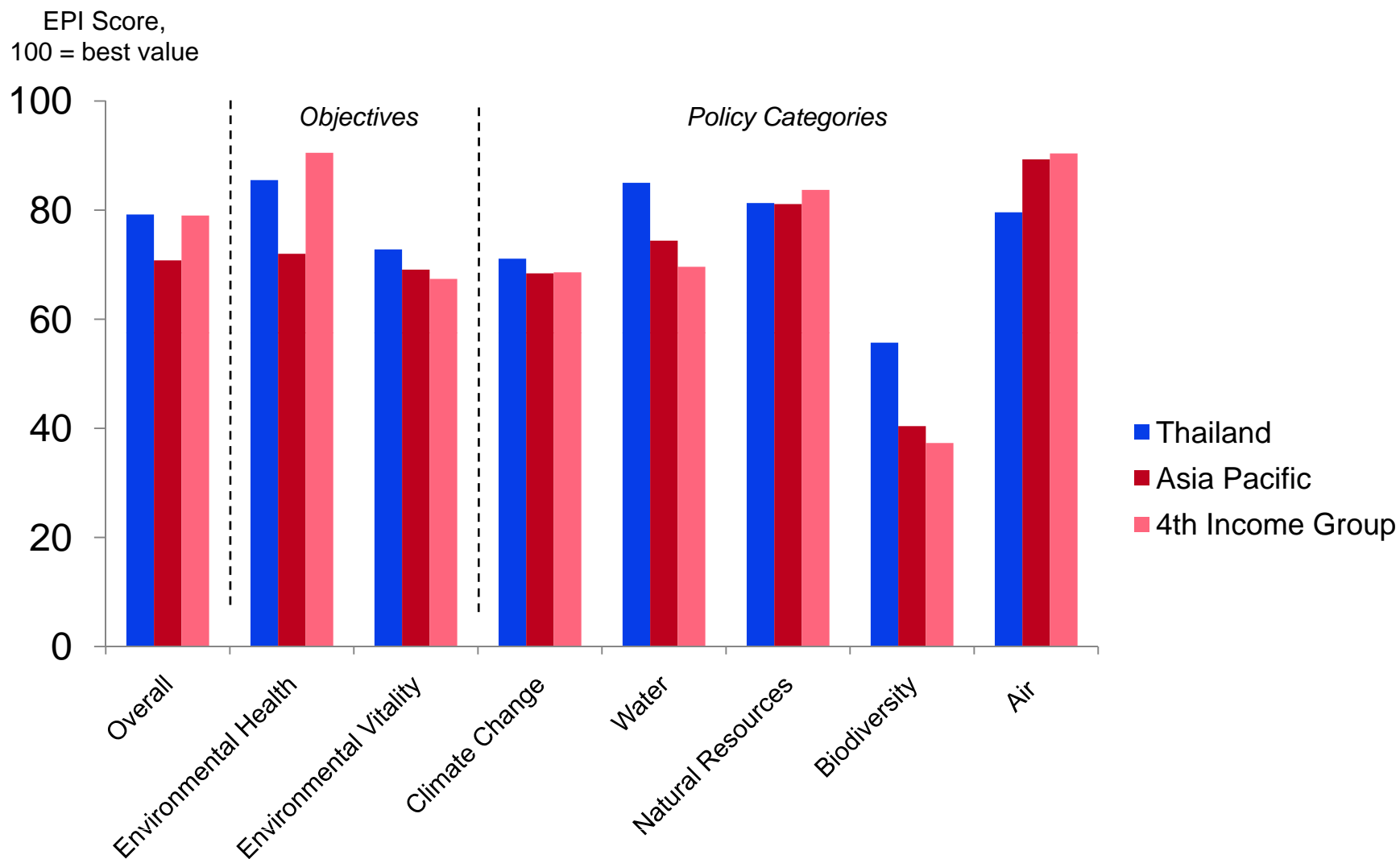
Selected Countries



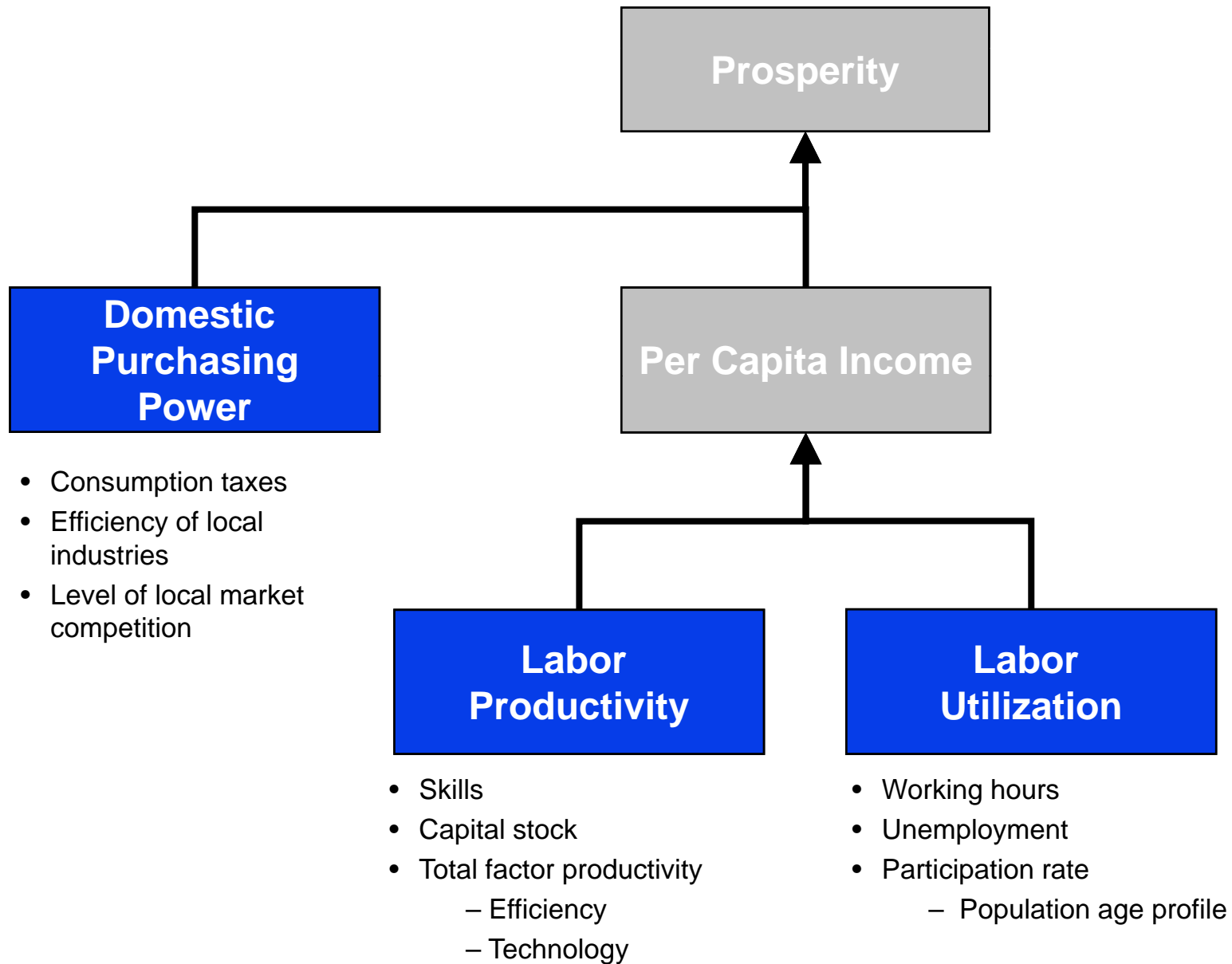
Note: Most recent Gini index data available for each country (1997 – 2007)

Source: World Bank, World Development Indicators, 2009

Environmental Quality



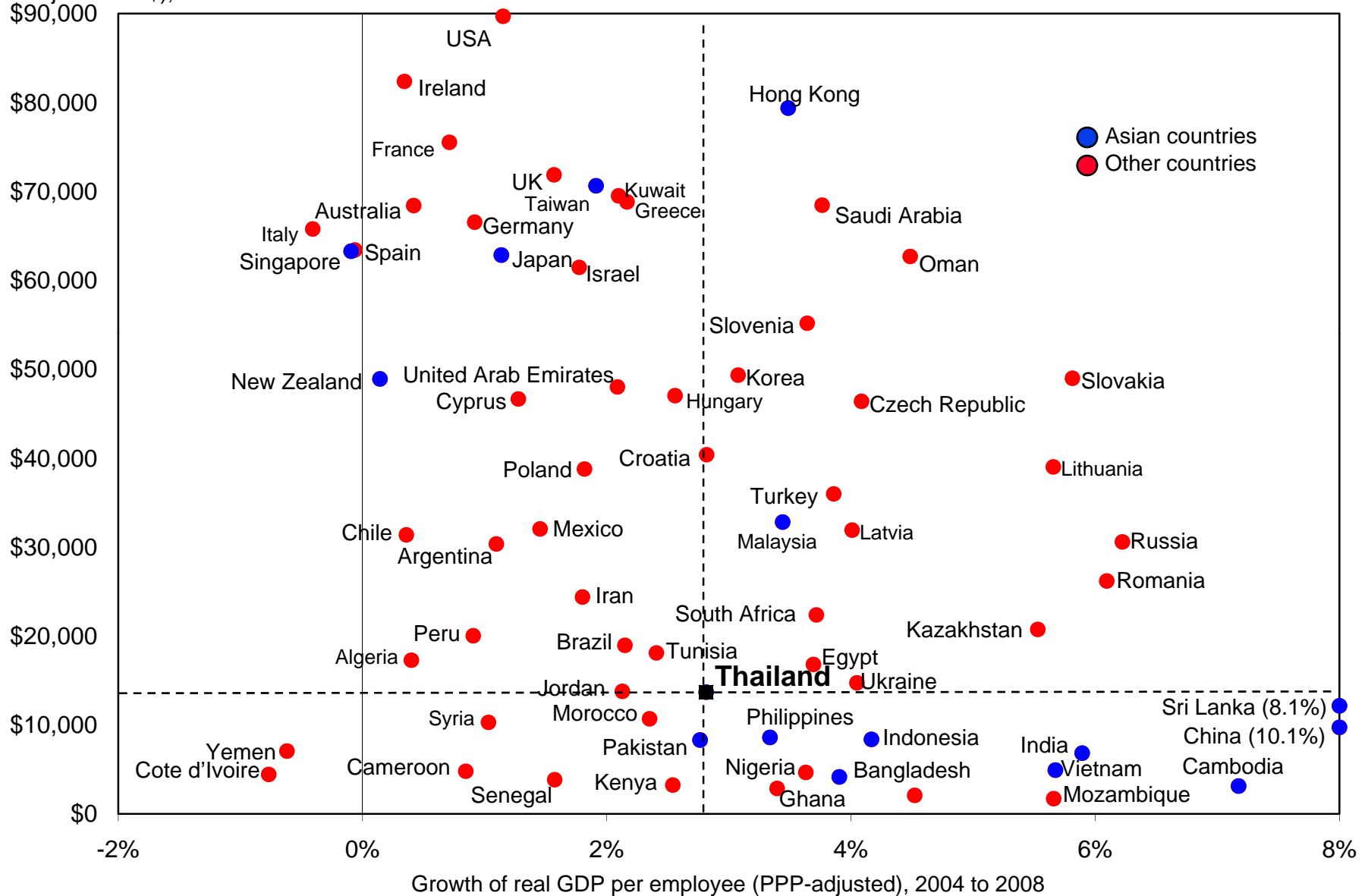
Decomposing Prosperity



Comparative Labor Productivity

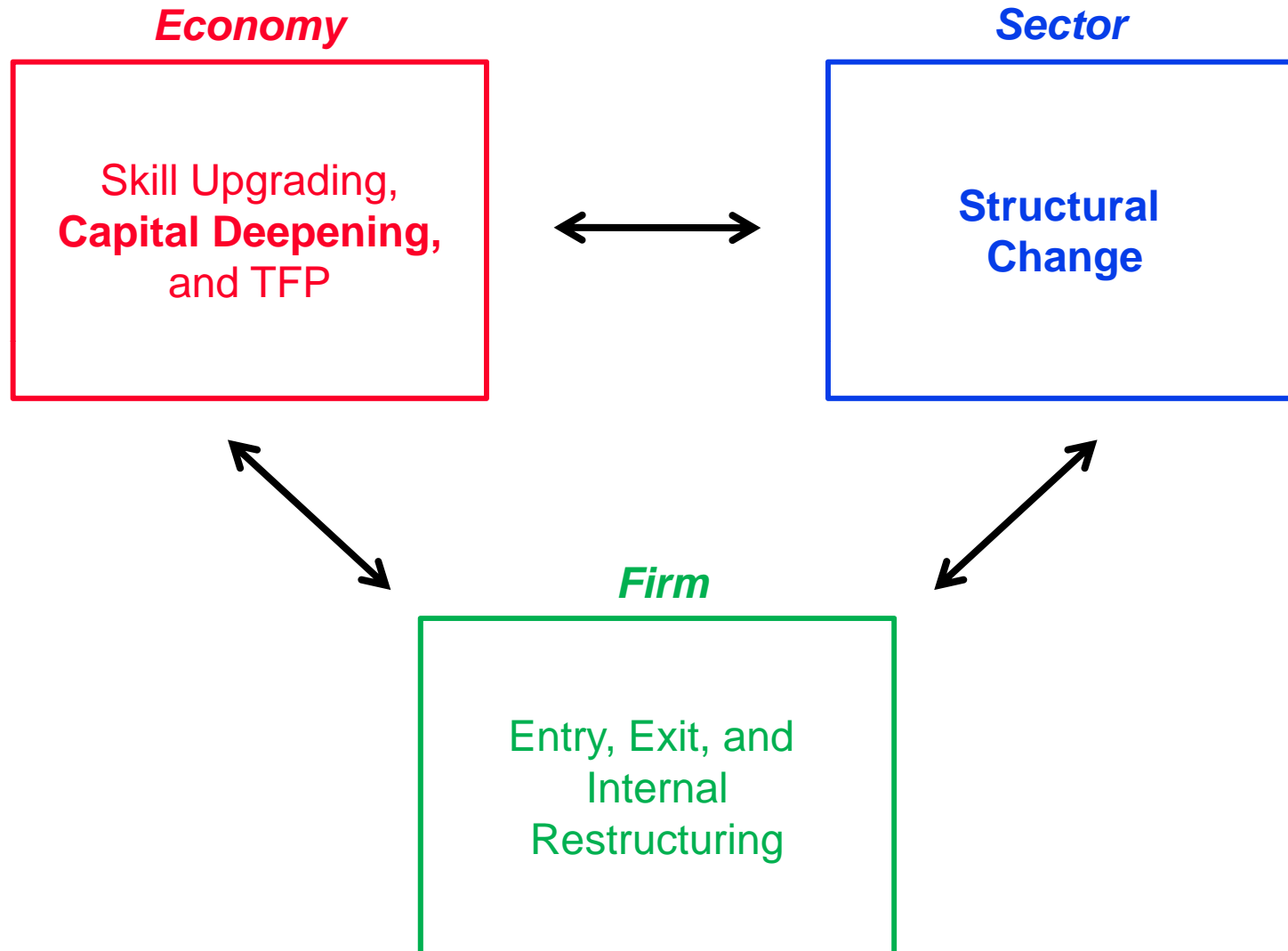
Selected Countries

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



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

Understanding Productivity Growth



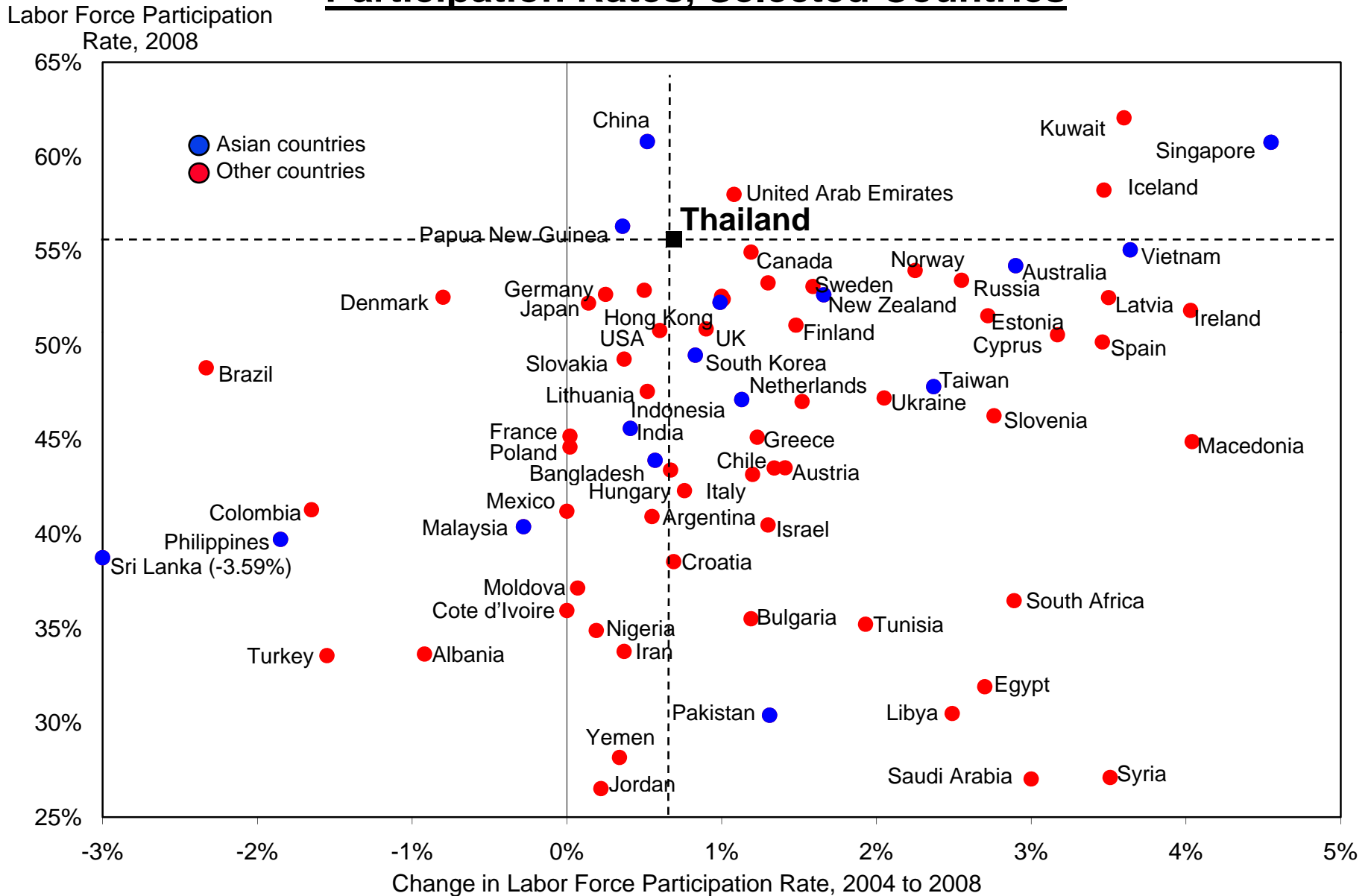
Total Factor Productivity Growth

Selected Countries

↑
High
|
Low
↓

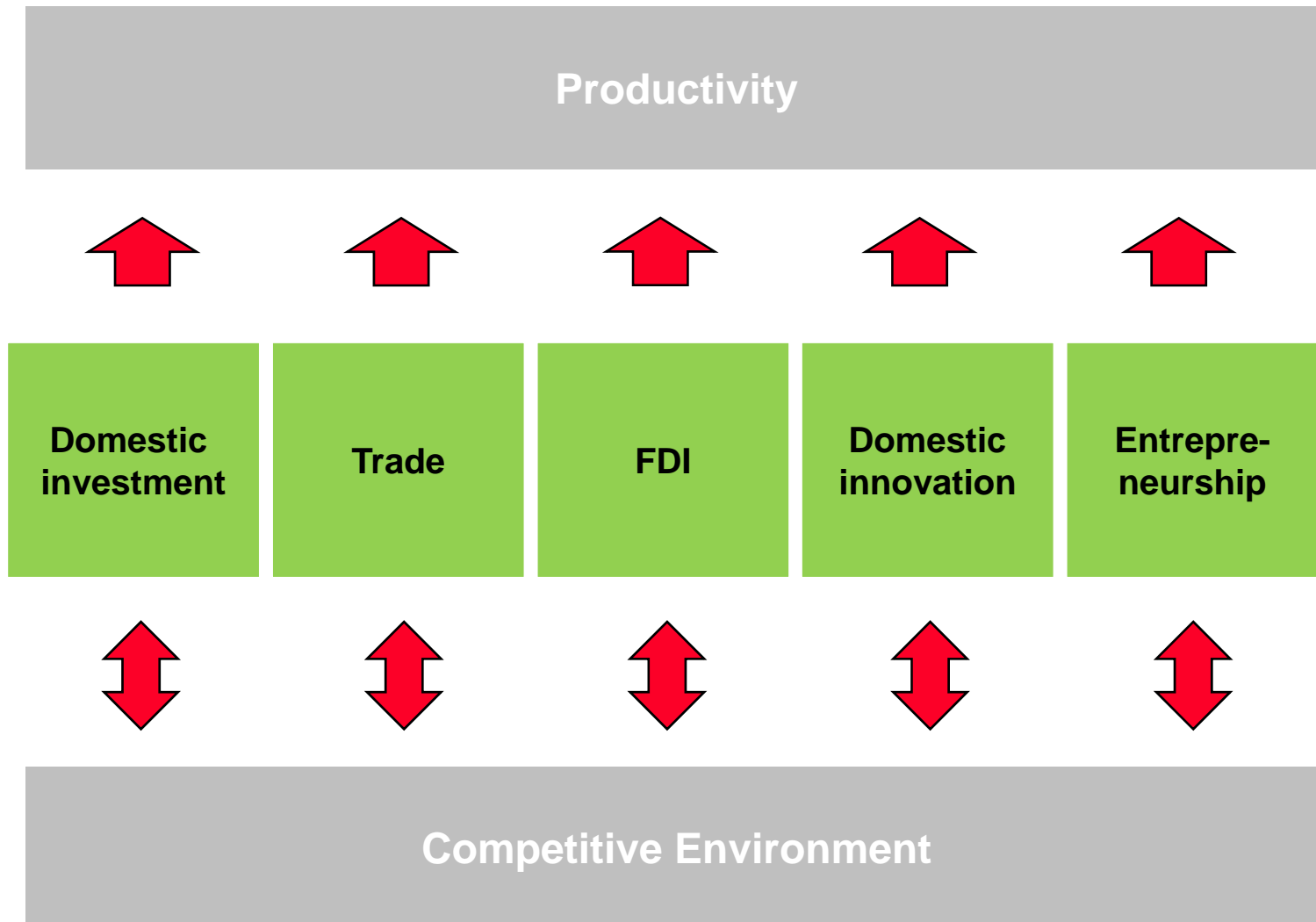
Last 15 years	Last 6 years	Last 3 years
China	China	China
India	Hong Kong	Hong Kong
Singapore	Turkey	India
Thailand	India	Philippines
Vietnam	Philippines	Turkey
South Korea	Thailand	Malaysia
Malaysia	Malaysia	Indonesia
Turkey	Indonesia	Vietnam
Philippines	Singapore	Thailand
Hong Kong	Vietnam	South Korea
Indonesia	South Korea	Brazil
Brazil	South Africa	Singapore
Mexico	Brazil	Mexico

Participation Rates, Selected Countries



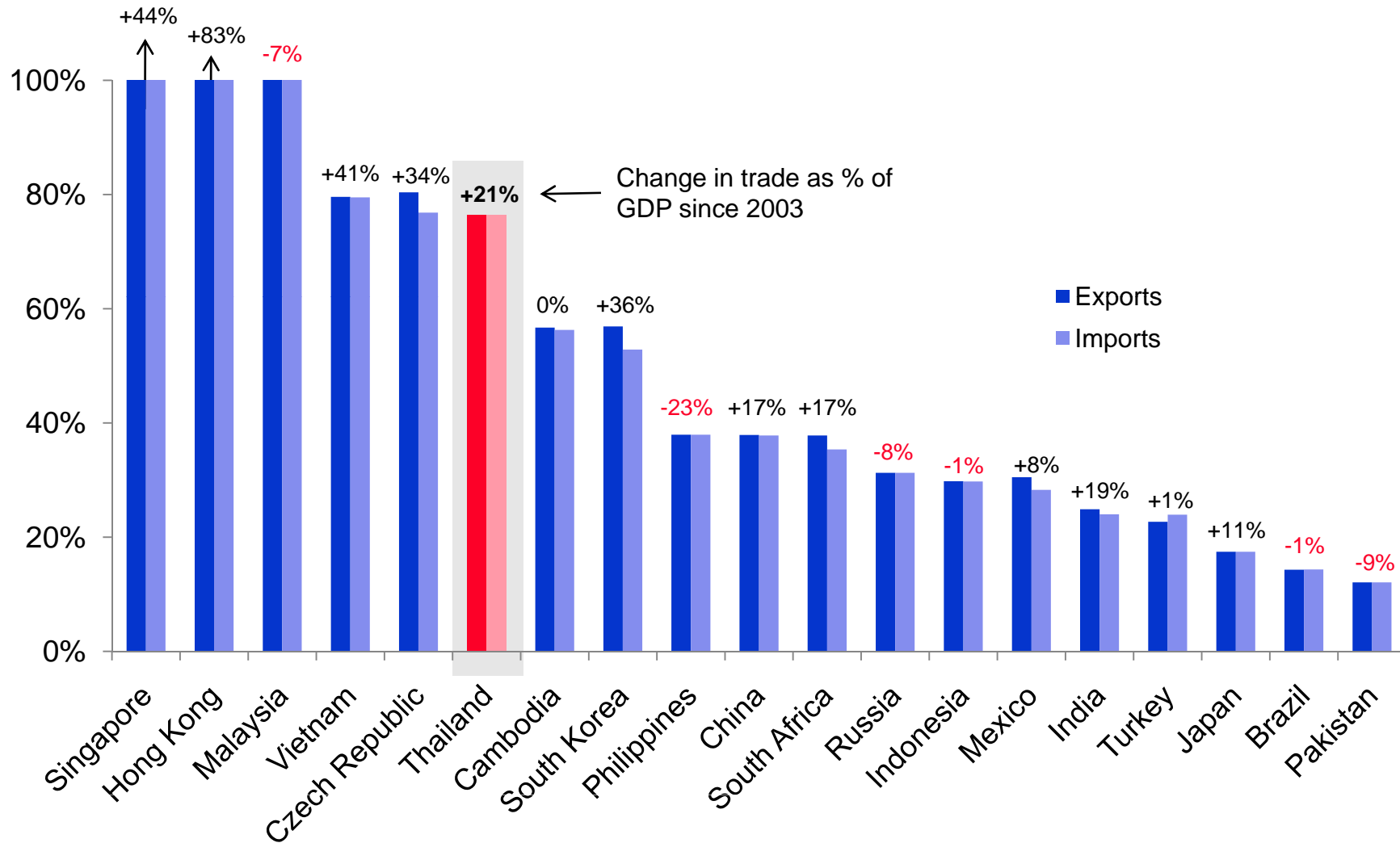
Source: Economist Intelligence Unit (2009)

Indicators and Enablers of Competitiveness



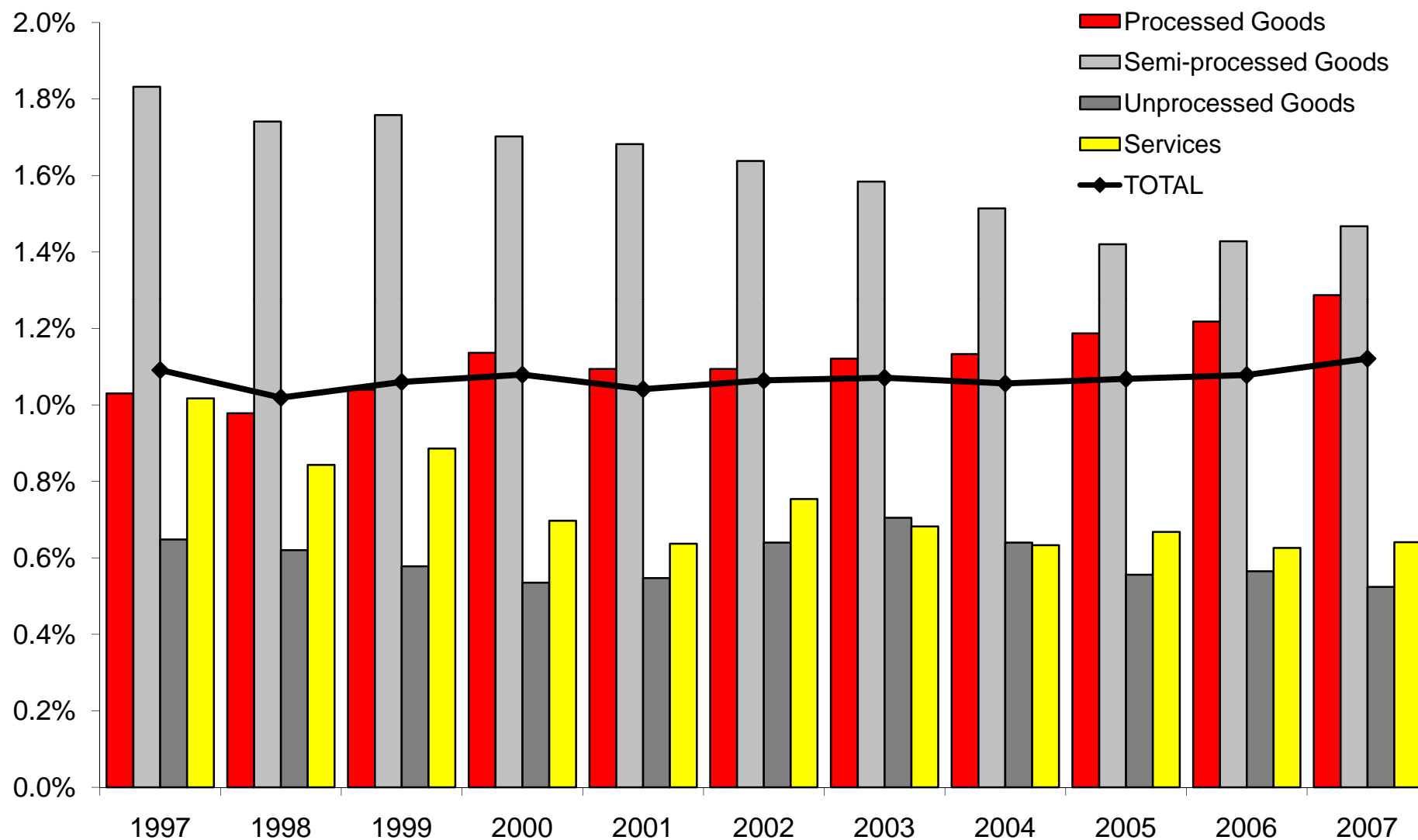
Trade Openness Selected Countries

Exports/Imports
(% of GDP), 2008



Thailand's Export Share Trends

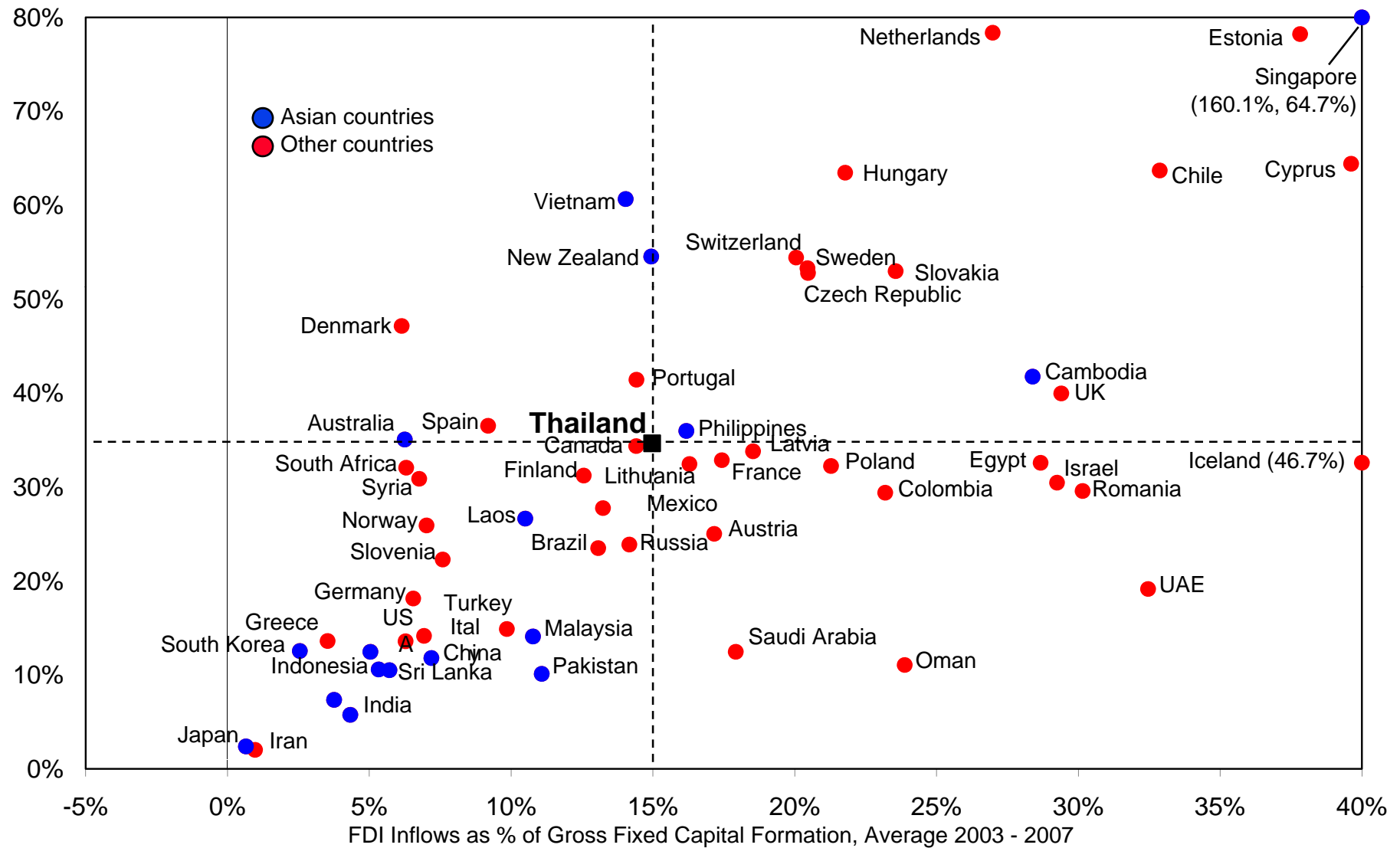
World Export Market
Share (current USD)



Inbound Foreign Investment Performance

Stocks and Flows, Selected Countries

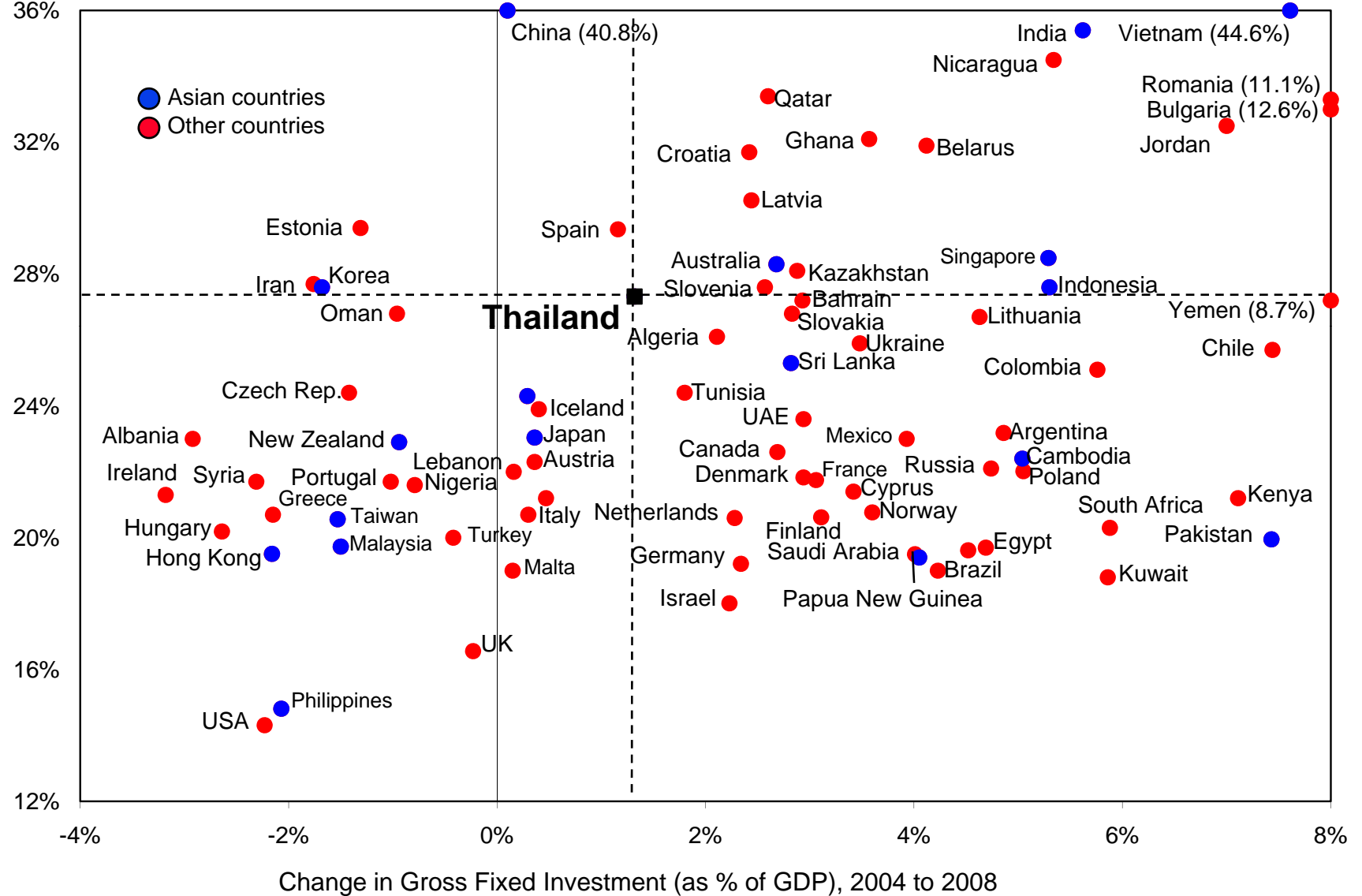
Inward FDI Stocks as % of GDP, Average 2003 - 2007



Domestic Fixed Investment Rates

Selected Countries

Gross Fixed Investment
as % of GDP, 2008

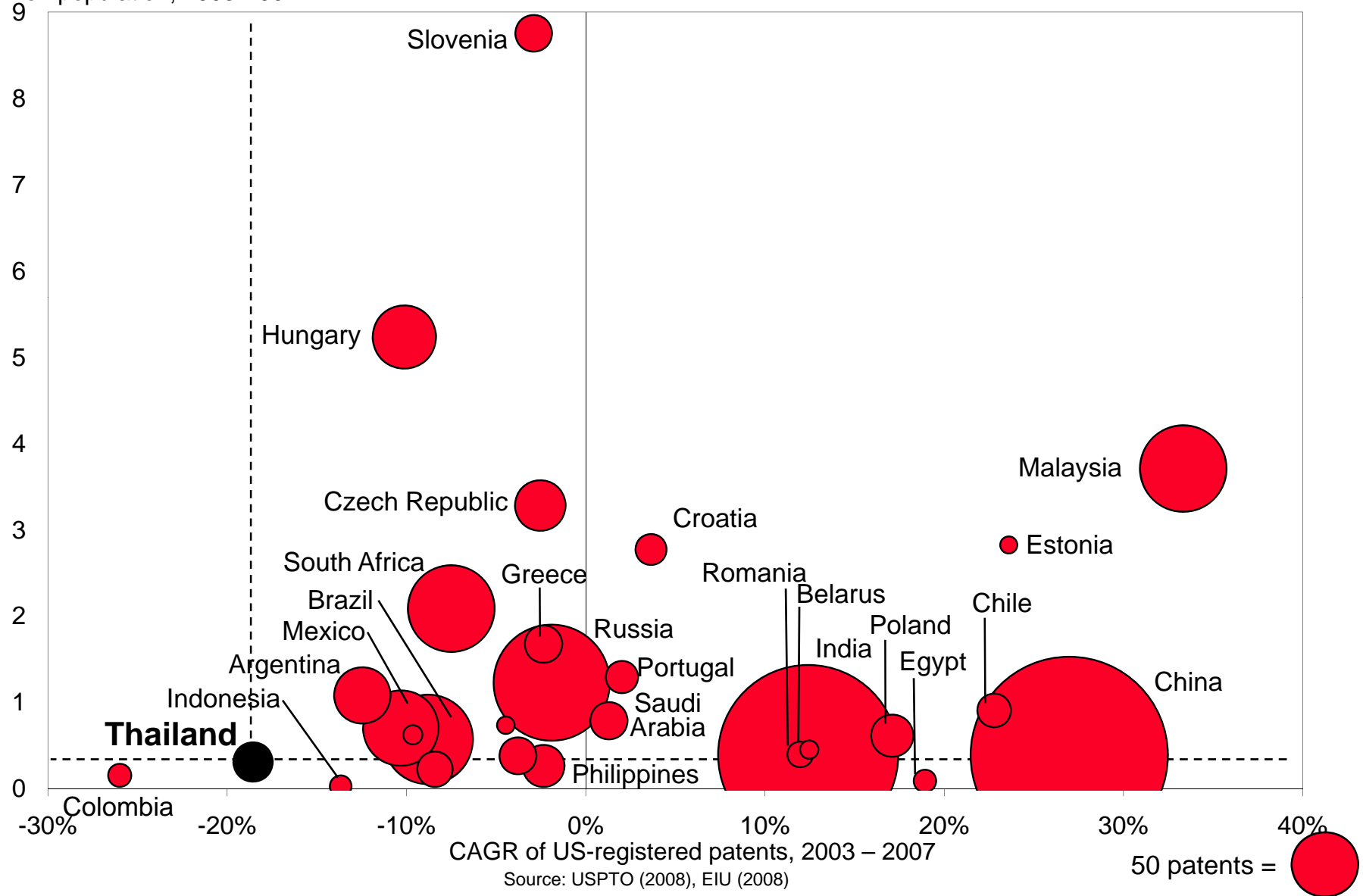


Note: Includes inbound FDI
Source: EIU, 2009

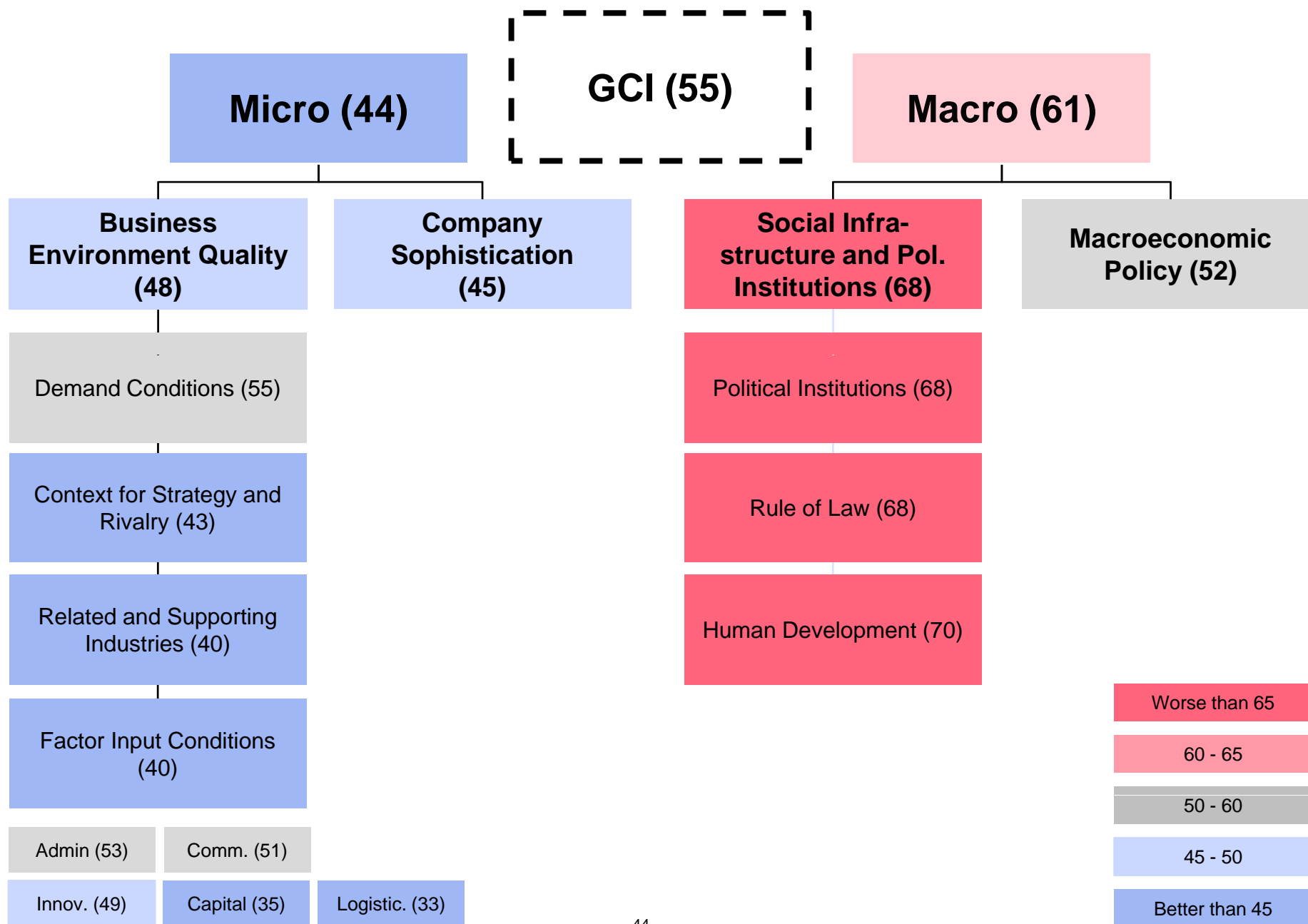
Innovative Capacity

Innovation Output of Selected Countries

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



Thailand's Competitiveness Profile 2009



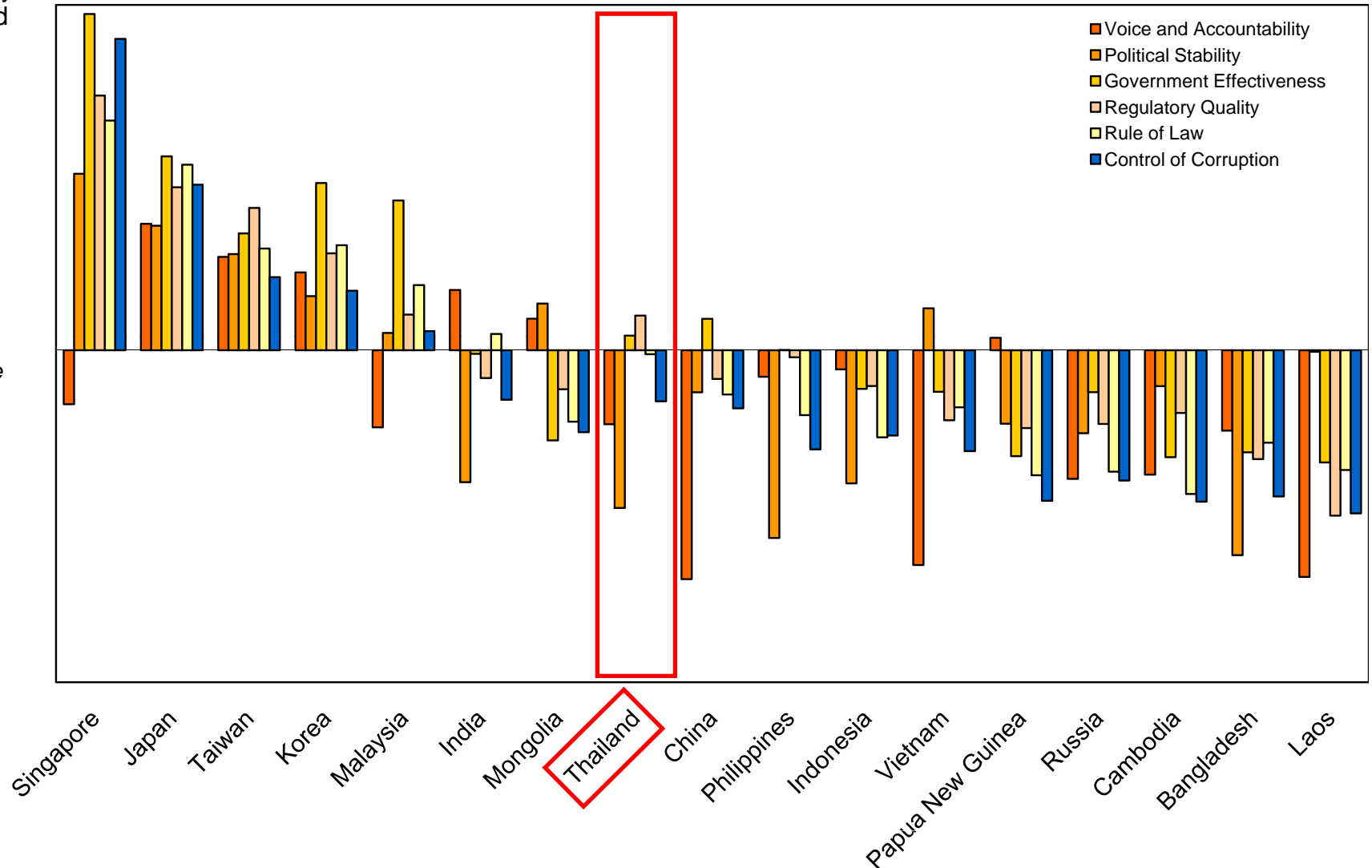
Governance Indicators

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.

Source: World Bank (2009)

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

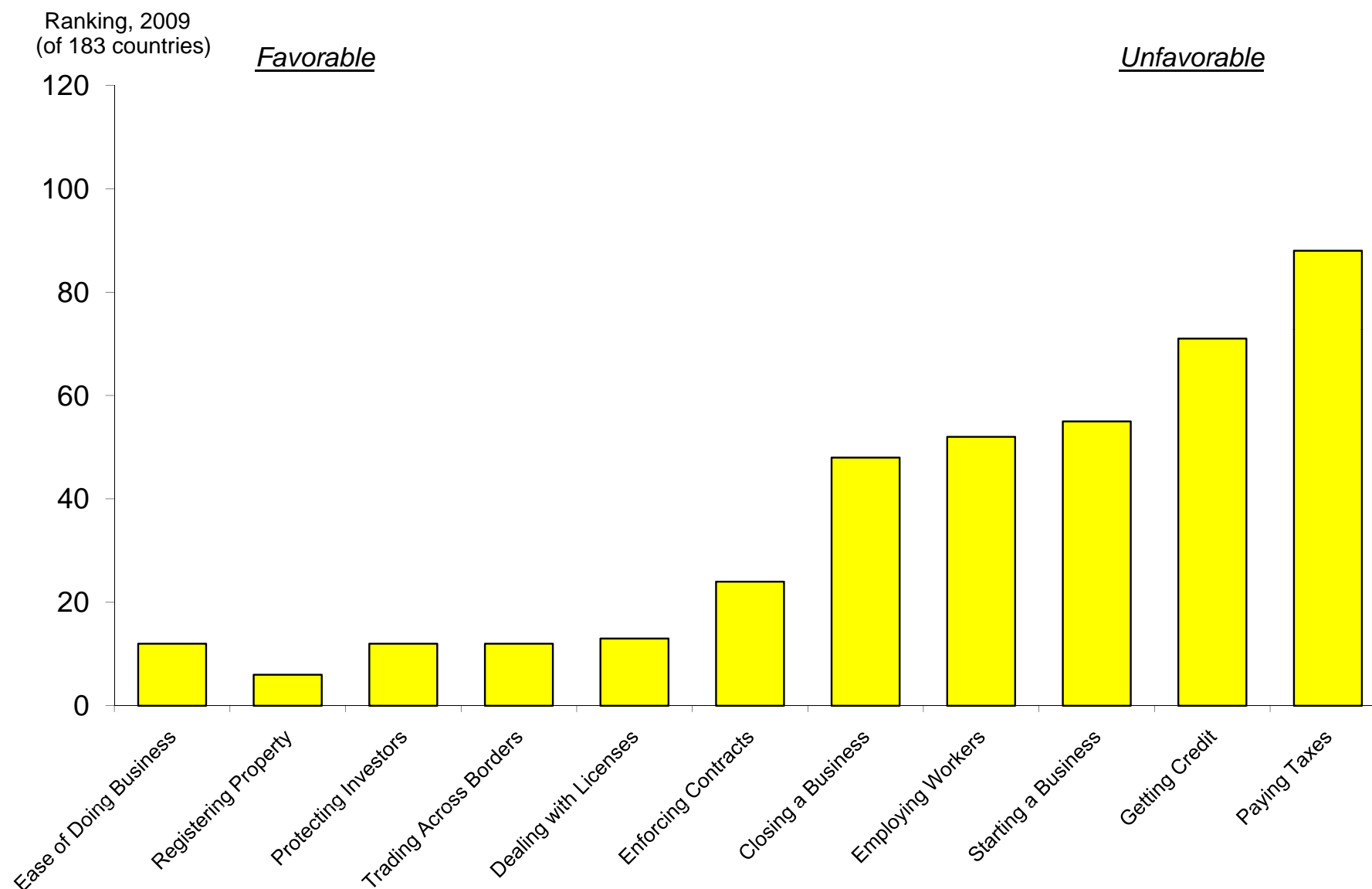
Reliability of the Police	56	↓
Decentralization of economic policymaking	52	
(Low) Time required to start a business	52	↓
(Low) Burden of customs procedures	45	↓



Change up/down of more
than 5/10 ranks since 2002

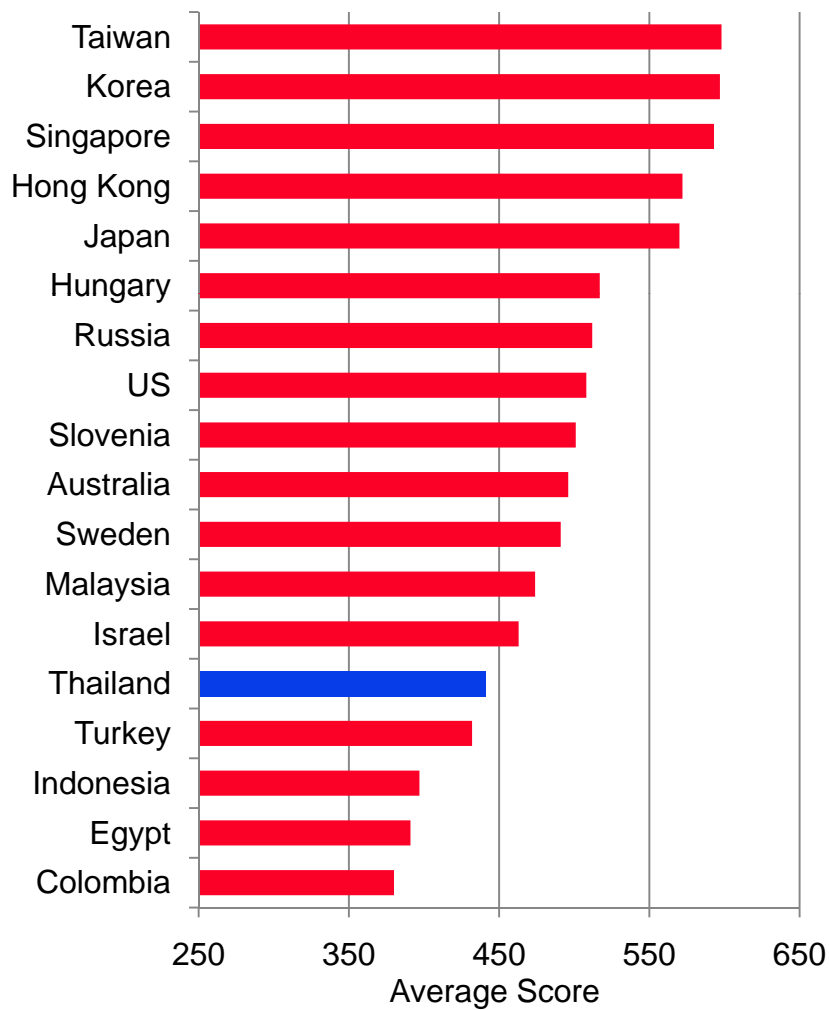
Ease of Doing Business

Thailand, 2009

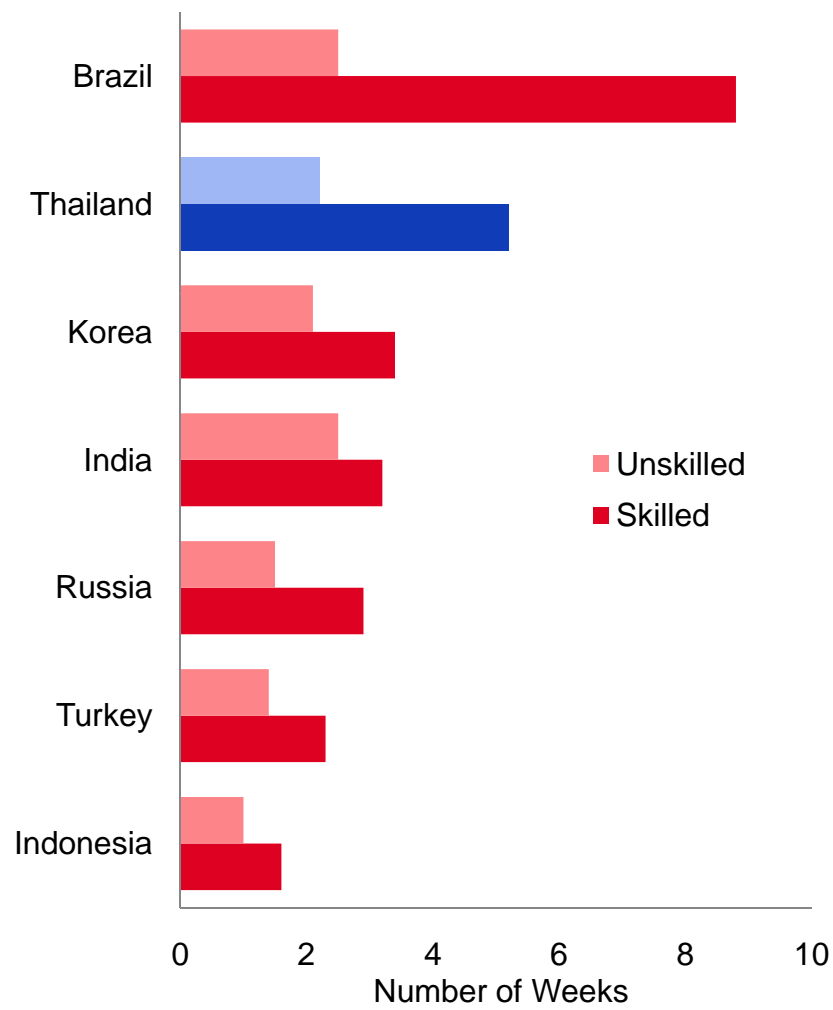


Workforce Skills and Labor Market Needs

Educational Attainment, Math, 8th Grade
















Time Required to Fill Job Vacancy in Production



Context for Strategy and Rivalry

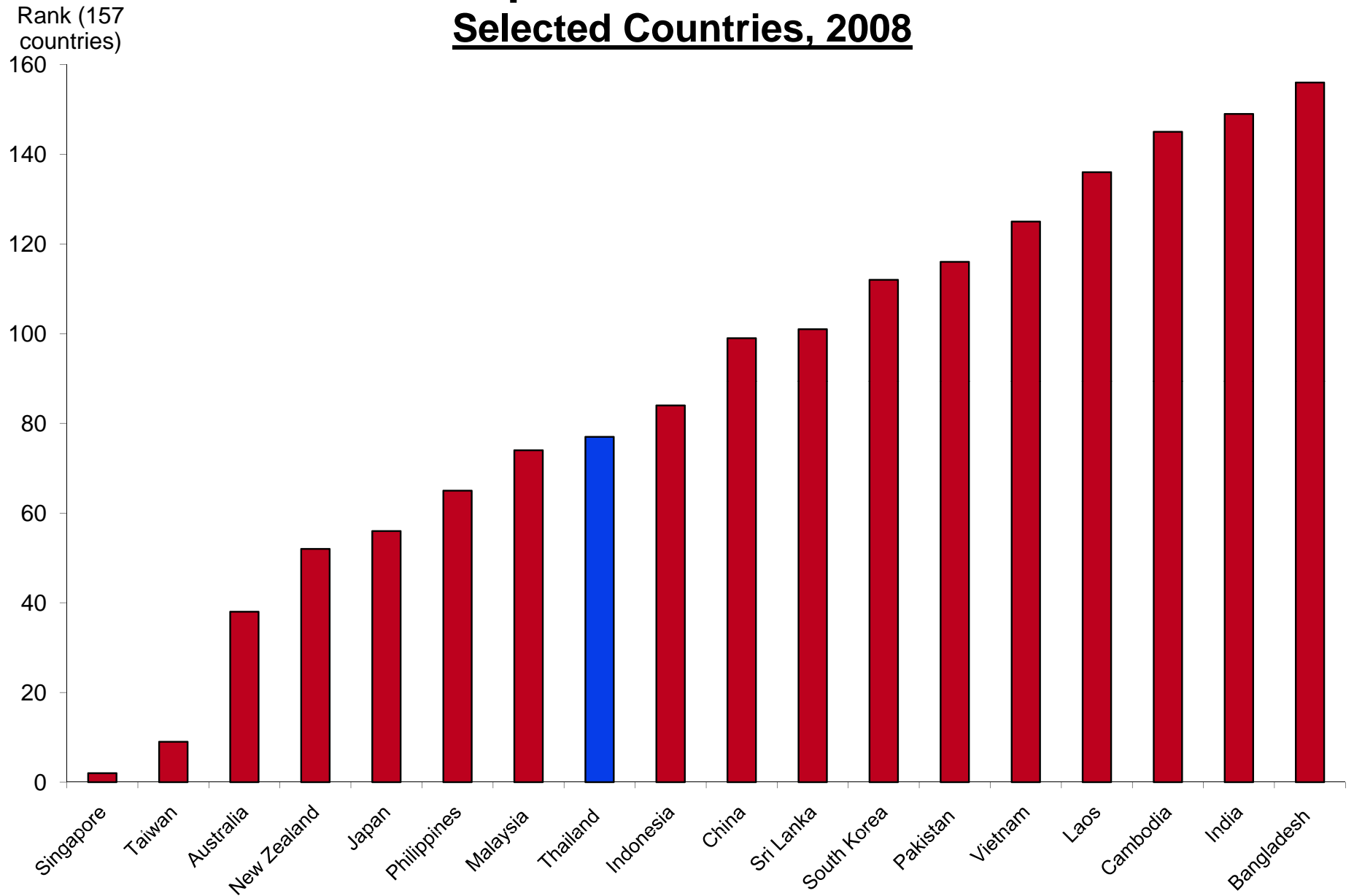
Thailand's Relative Position 2009

Competitive Advantages Relative to GDP per Capita		Competitive Disadvantages Relative to GDP per Capita	
Openness		Openness	
Strength of investor protection	11 	(Low) Tariff rate	63
Business impact of rules on FDI	23 	Restrictions on capital flows	56 
Incentives and flexibility		Prevalence of foreign ownership	43 
(Low) Rigidity of employment	16	Competition	
Cooperation in labor-employer relations	21 	Efficacy of corporate boards	56 
(Low) Impact of taxation on incentives to work and invest	24	Intellectual property protection	53 
Competition		Regulatory quality	50 
Intensity of local competition	27 	Extent of market dominance by business groups	42
Quality of competition in the ISP sector	32	Distortive effect of taxes and subsidies on competition	40
Effectiveness of antitrust policy	36 	 Change up/down of more than 5/10 ranks since 2002	
Prevalence of trade barriers	38 		
Low market disruption from state-owned enterprises	39 		

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



Related and Supporting Industries

Thailand's Relative Position 2009

Competitive Advantages Relative to GDP per Capita

Extent of cluster policy	21	
Local supplier quantity	22	↑
Extent of collaboration in clusters	27	↑
State of cluster development	30	
Local availability of process machinery	36	↑
Local supplier quality	37	



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

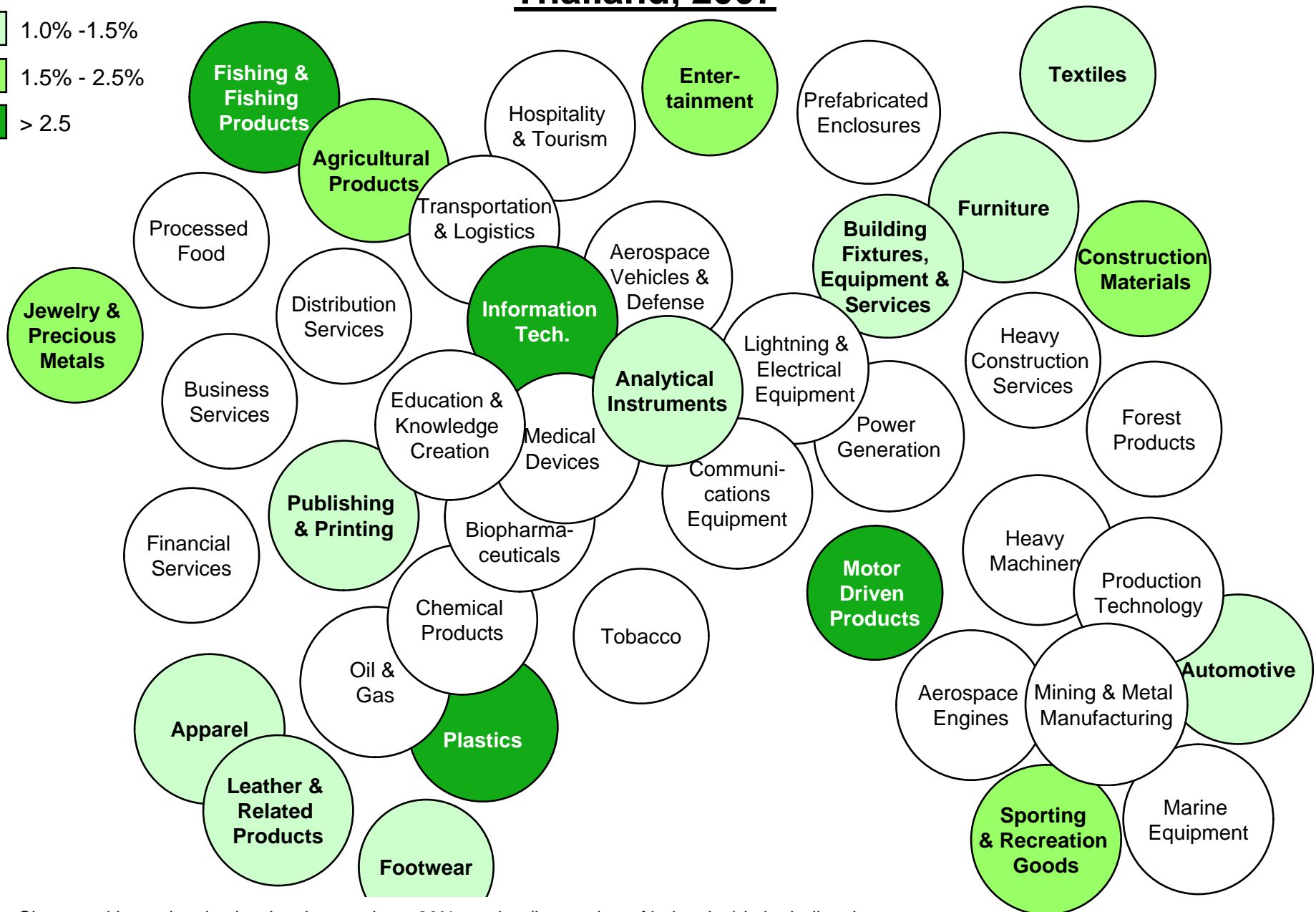
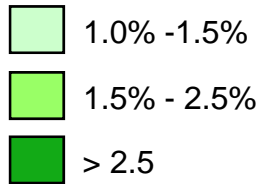
Competitive Disadvantages Relative to GDP per Capita

Local availability of specialized research and training services	52
Availability of latest technologies	43

Share of World Exports by Cluster

Thailand, 2007

World Market Share















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

Competitive Advantages Relative to GDP per Capita		Competitive Disadvantages Relative to GDP per Capita	
Strategy and operations		Organizational Practices	
Degree of customer orientation	18 	Willingness to delegate authority	56 
Value chain breadth	35 	Reliance on professional management	46 
Company spending on R&D	37 	Extent of staff training	42
Extent of marketing	38	Extent of incentive compensation	41 
Internationalization		Strategy and operations	
Breadth of international markets	23	Production process sophistication	51 
Prevalence of foreign technology licensing	35 	Nature of competitive advantage	46 
Control of international distribution	37 	Capacity for innovation	46 
Extent of regional sales	37	Firm-level technology absorption	41
		Extent of incentive compensation	41
		 Change up/down of more than 5/10 ranks since 2008	

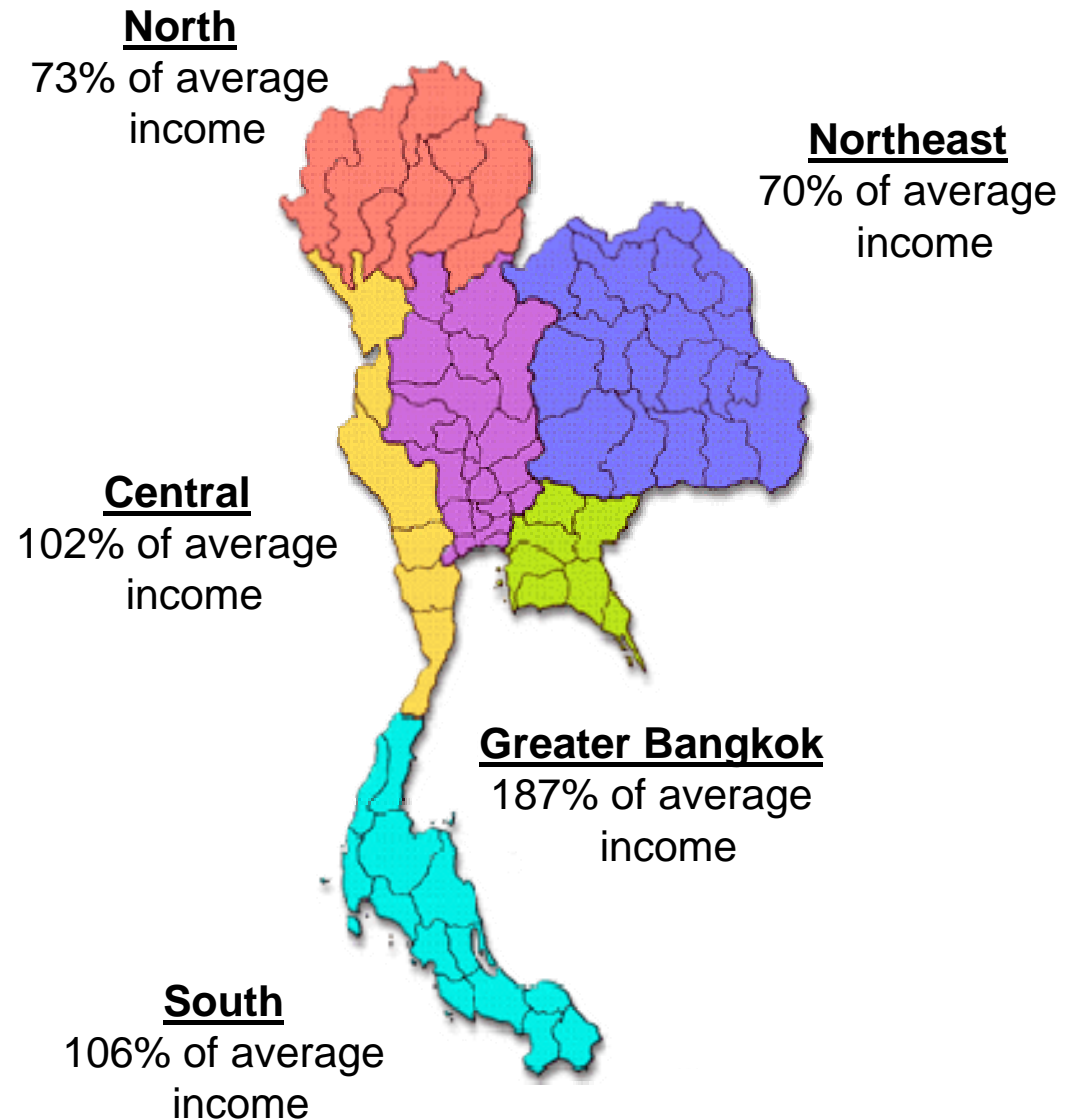
Note: Rank versus 74 countries; overall, Thailand ranks 54th in 2008 PPP adjusted GDP per capita and 40th in Global Competitiveness
 Source: Institute for Strategy and Competitiveness, Harvard University (2009)

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



Source: 2007 Household Socio-economic Survey, National Statistical Office of Thailand (accessed Nov. 2009)

Thailand's National Economic and Social Development Plan

- Sets out **objectives** and **principles**
- Provides the foundation for **government** investments and legislative action

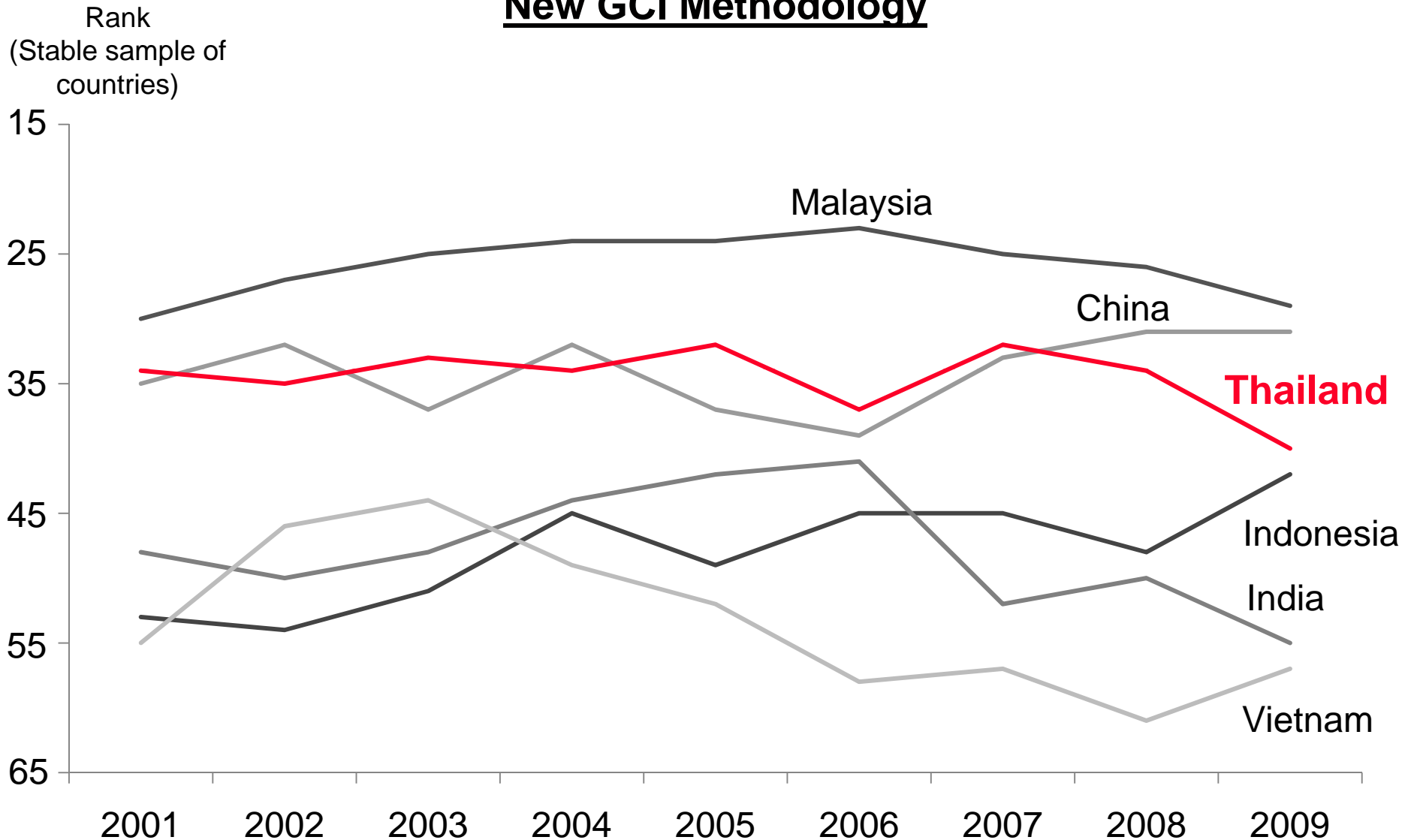


- Does the Plan define **competitive strengths** to be achieved?
- Is the **private sector** sufficiently involved in the design and execution?



Competitiveness Rankings Over Time

New GCI Methodology



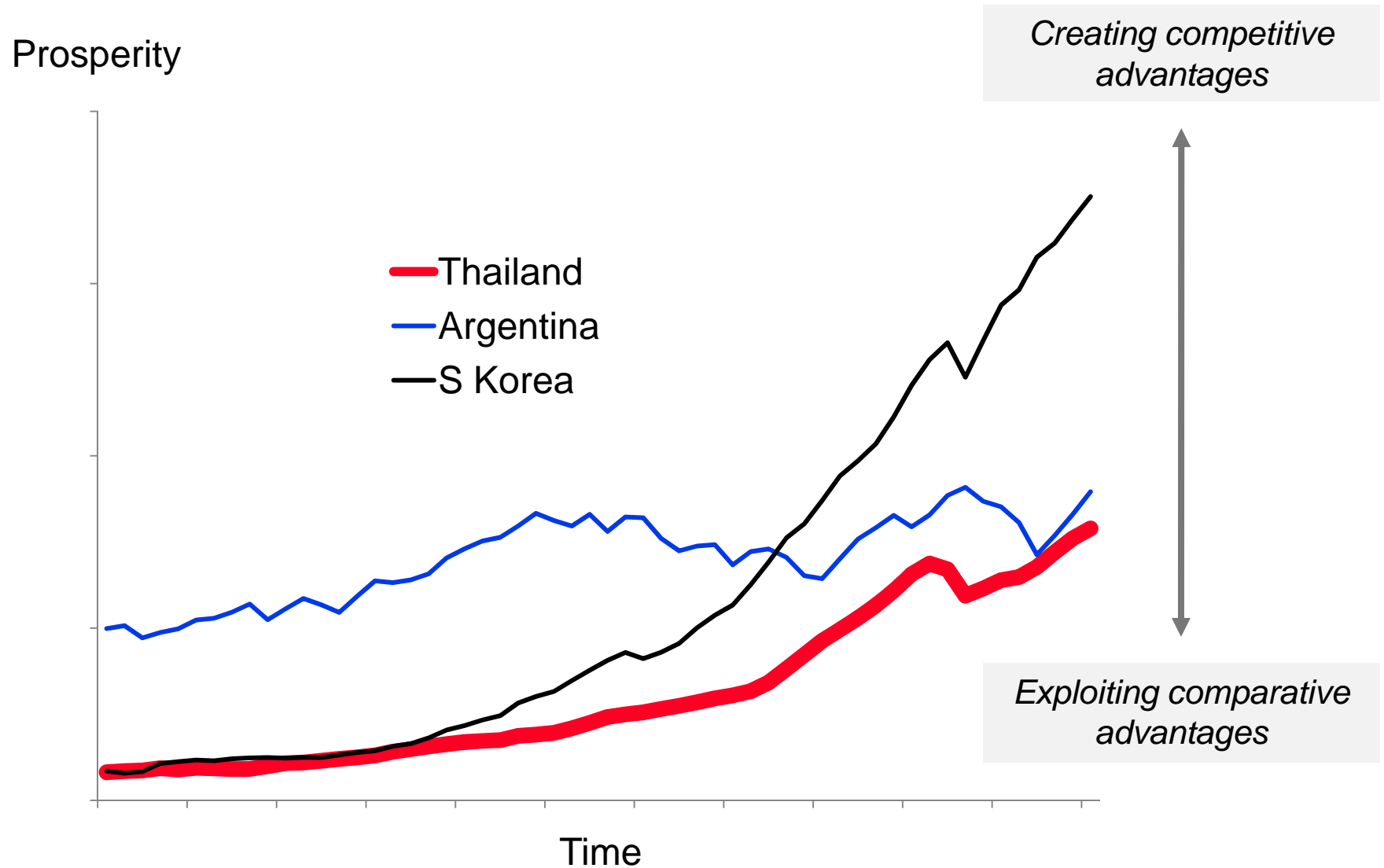
Source: Unpublished data from the Institute for Strategy and Competitiveness, Harvard University (2009)

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

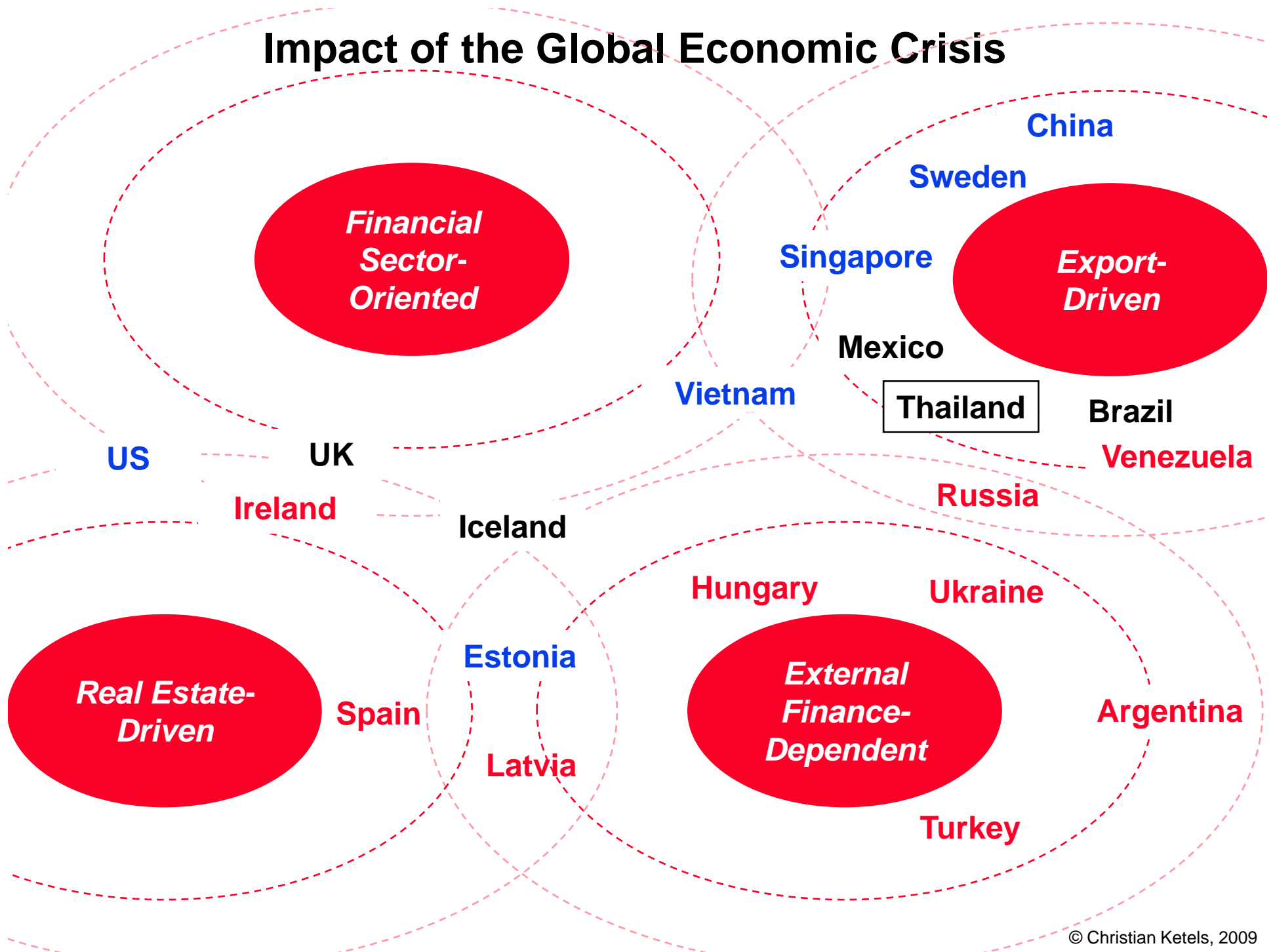
Thailand Approaching a Critical Junction



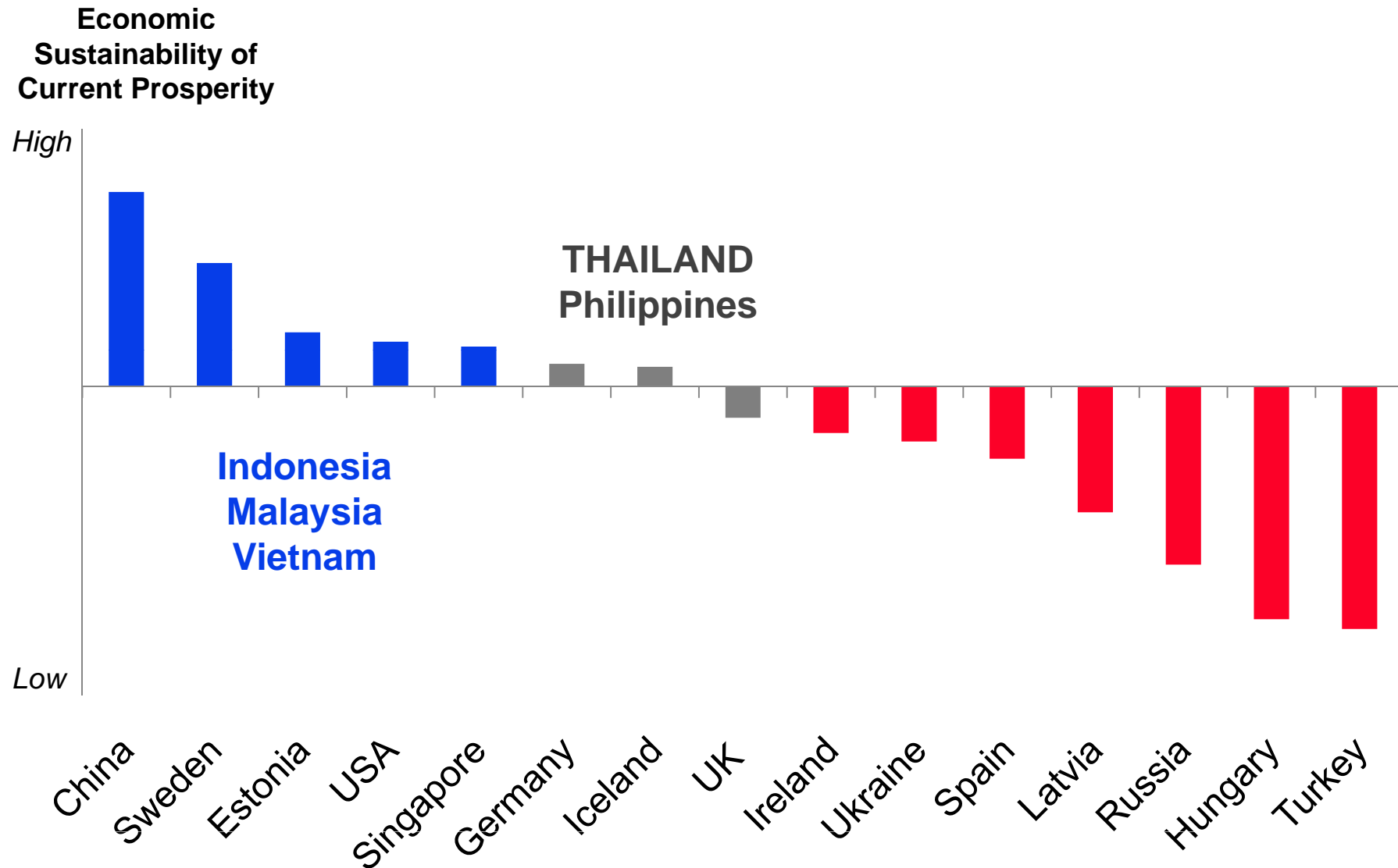
Themes

- The concept of competitiveness
- Thailand's Competitiveness: From Assessment to Action
- **Competitiveness and the New Global Economy**
- Competitiveness and Environmental Sustainability

Impact of the Global Economic Crisis



Prosperity and Competitiveness



Competitiveness and the Crisis

Economic Sustainability of Current Prosperity

High	Moderate	Low
<ul style="list-style-type: none">• High short term impact given high openness• Quick recovery possible• Remain on course	<ul style="list-style-type: none">• Short term impact depends on openness• Recovery likely to be prolonged• Balance crisis management with upgrading	<ul style="list-style-type: none">• Short term impact depends on openness• Recovery only with reforms• Use the crisis as a promoter of change

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
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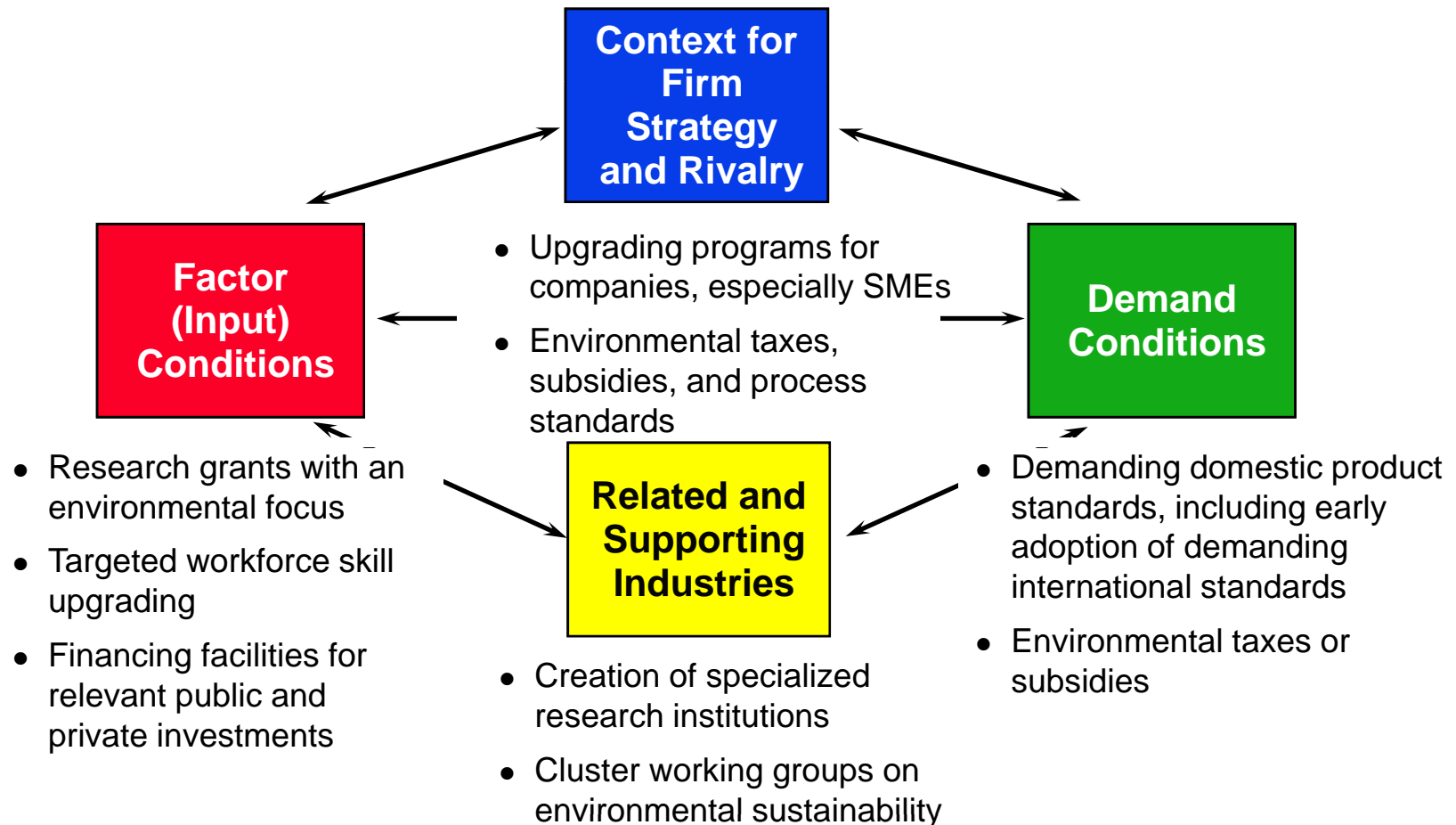
Competitiveness and Ecological Sustainability

- 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

Ecological Sustainability of Clusters

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



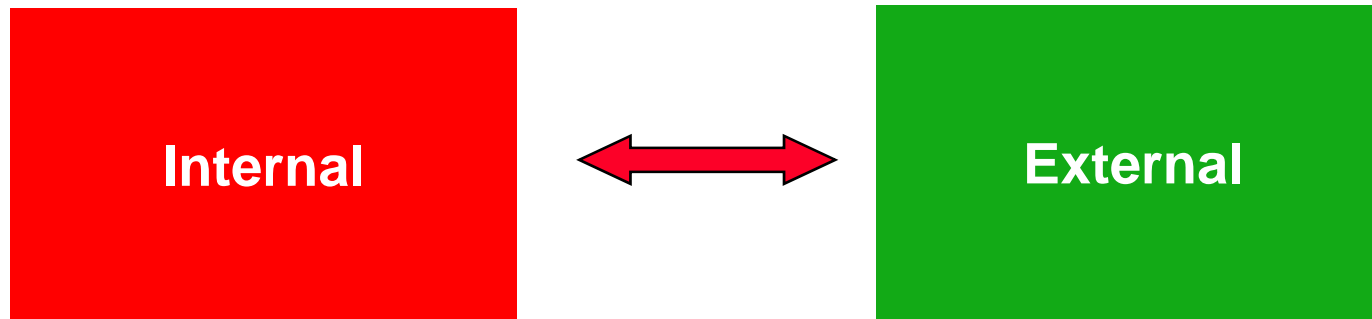
- The demand for products, services, and processes that are environmentally sound is going to increase across **all clusters**
- Environmental issues will affect competition on all markets; no cluster will be successful unless it **actively addresses them**

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

Thailand: Looking Ahead

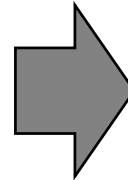
ISSUES

Domestic

- The Middle Income Trap
- Policy Implementation
- Political Volatility

Global

- New global economy
- Climate Change



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