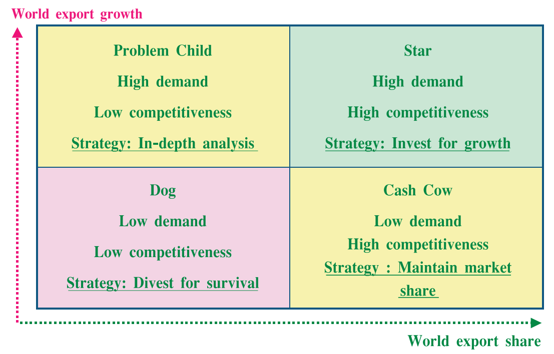
Thailand's competitiveness and real sector adjustment

National competitiveness depends on a variety of factors ranging from productivity, entrepreneurs' adjustment capability, trading partners' economies, to exchange rates. One of the frameworks frequently used to assess competitiveness at the industry level is the Boston Consulting Group Growth-Share Matrix (the BCG Matrix) (Chart 1). According to this methodology, a country's products can be classified into four categories[1/] based on their relative world export share and world export growth, which reflects competition status and interest in the products, respectively. The results can then be used to form and develop product plans and policy.

Chart 1 BCG Growth - Share Matrix



In the case of Thailand's export industries, labour-intensive products (e.g. fabric, footwear and leather products), which fall in the Dog category under the BCG Matrix classification, show a deteriorating trend in both export market shares and growth rates. There is also a possibility that garments, currently in the Cash Cow category, may move to the Dog category due to labour costs that are higher than labour costs of competitors, especially China and Vietnam. On the other hand, high-technology products (e.g. computers and parts, integrated circuits (IC) and parts and electrical appliances) appear to be able to maintain their competitiveness, because in these industries multi-national enterprises (MNEs) use Thailand as a major production base. The main determinant of FDI in these industries, however, is not cheap labour costs but rather the productivity and quality of labour which allows the country to compete with low-labour-cost countries such as China and Vietnam. In the vehicles and parts industry, although Thailand does not have a high relative market share, the existence of strong supporting industries, Eco-car production, and export market expansion to the Middle East point to a continued robust outlook. Likewise, agricultural products (e.g. rice, rubber products, frozen shrimps and sugar) can maintain competitiveness because Thailand has a comparative advantage in their production and because world market demand has continued to expand steadily.

One of the important factors that influence competitiveness is export market concentration.[2/] Compared to low-market-concentration products, high-market-concentration products have a tendency to lose their competitiveness, and entrepreneurs' adjustment flexibility is even more limited if the original equipment manufacturer (OEM) strategy is employed. For Thailand, owing to a rather low concentration of export markets, high-technology products (e.g. vehicles and parts, electrical appliances and integrated circuits) can maintain competitiveness (Charts 2 and 3). At present, although computer production can also maintain competitiveness, there is a risk of losing future competitiveness as market concentration increases. At the broad level, however, Thailand's

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[1/] 1) Star: market share and growth rate are higher than average. Stimulating growth rate through investment is an appropriate business strategy to increase market share.
2) Problem Child: market share is lower than average, but growth rate is higher. Research and Development (R&D) strategies should be employed to stimulate growth rate and increase market share.
3) Cash Cow: market share is higher than average, but growth rate is lower. Such businesses should be 'milked', extracting profits and investing as little cash as possible.
4) Dog: lower market share and growth rate are expected. Such industries are candidates for divestitures; they should be moved to other locations having higher comparative advantage.

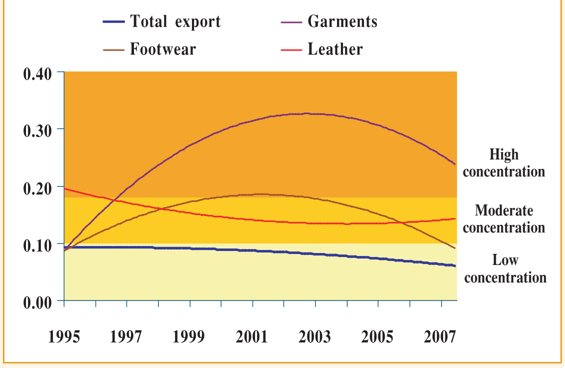
[2/] Market concentration is measured by Herfindahl Index (index < 0.1 means low concentration; 0.1 < index < 0.18 means moderate concentration; index > 0.18 means high concentration).

export market concentration has declined steadily, driven by entrepreneurs' search of new export markets to diversify their risks.

In industries with a tendency to lose competitiveness, the baht appreciation has made matters worse, forcing some factories to close down. Based on the opened/closed factory statistics (Chart 4), industries having to close down plants generally have low import content and are labour intensive. These characteristics make their adjustment rather limited, prompting certain entrepreneurs to undertake FDI abroad to improve business returns and diversify risks. Nonetheless, even in industries where several plants have been closed, new ones have opened, along with new capacity expansion. As a consequence, employment in the manufacturing sector as a whole has grown, suggesting the ability of the economy to absorb displaced labour.

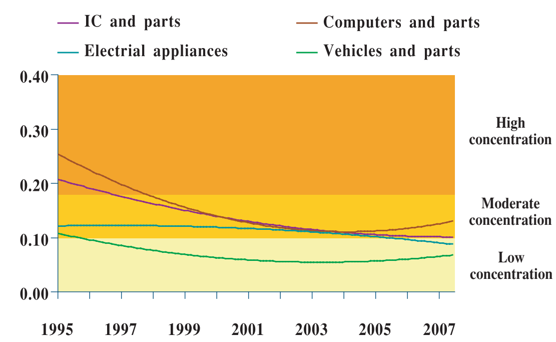
Going forward, it is imperative that both the public and private sectors establish a policy that can increase productivity continuously. Apart from stimulating productivity, skill development of workers is important to ensure that the supply of skilled labour is enough to satiate labour demand in the real sector in response to economic changes in the future.

Chart 2 Degree of market concentration (1)



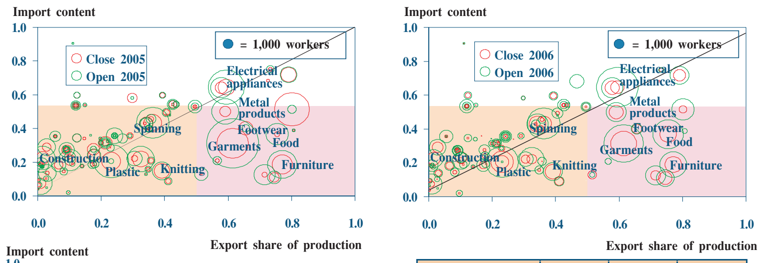
Source: Customs Department, Ministry of Finance, and calculations by the Bank of Thailand

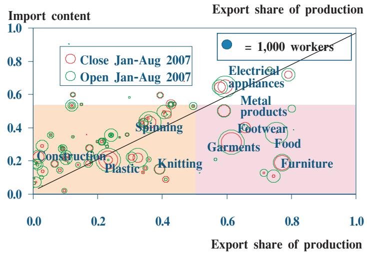
Chart 3 Degree of market concentration (2)



Source: Customs Department, Ministry of Finance, and calculations by the Bank of Thailand

Chart 4 Factory opening and closure





	2005	2006	2007 (8 Months)
Number of workers			
closed plants	67,105	52,251	32,215
opened plants	158,339	148,408	74,091
Number of factories			
closed plants	2,266	2,037	1,303
opened plants	6,116	5,222	2,946

Note: Newly opened factories are required to report data, but closed plants may delay reporting. Thus, there may be a consistent bias in the information.

Source: Ministry of Industry