'IELD AND REN-JYE LIU

of Taiwan's Machine
ıstitute of Developing

g Costs and Vertical
of Economics. 206-

:ing: The Japanese

'ide: Possibilities for

'book of Taiwanese

Analysis of Sourcing
nal of Operations

›proa Make-or-
29. ... 91.
talism. New York:

Implications. New

e That Changed the

l. Taipei: Hsu Shi

ırks and Industrial
ɜrence on Industrial
Taipei: Feng Chun

'oceedings from the
Fujen University
n Chinese).

Journal of Asian Business Volume 17 • Number 3 • 2001

The Making Of Thai Multinationals: A Comparative Study of the Growth and Internationalization Process of Thailand's Charoen Pokphand and Siam Cement Groups

PAVIDA PANANOND*

This paper unveils important forces behind the rapid growth and international expansion of two nascent Thai multinationals, the CP and the Siam Cement groups. It argues that the domestic and pre-1997 international expansion of both multinationals was led by both their industry-specific factors, such as scale and scope economies, as much as by their networking capabilities—the ability to draw on resources of different partners and to turn them to the firms' benefit. Three types of network relationships that were crucial to both these firms' domestic and international development were: ties with financial sources, links with foreign technology partners, and political connections. The practice of drawing on both technological and networking capabilities continued in their international expansion activities, thereby accelerating their international expansion. Although this strategy worked well in booming regional markets, its long-term sustainability remains questionable. The paper provides useful insights into the development of competitive advantages and on the dynamic mechanisms of the international expansion process of the two selected multinationals from Thailand.

Introduction

Since the growth of foreign direct investment from developing countries started in the 1960s and gained momentum in the 1970s, there has been a corpus of theoretical and empirical literature on multinational enterprises (MNEs) from developing countries. Although the number of studies is relatively low compared to studies on MNEs from developed economies, the existing literature does represent a distinctive and growing stream of research which can be further enhanced.

Because this stream of research is based on existing theories of traditional MNEs, the majority of work has focused on how MNEs from developing countries differ from their developed-country counterparts. The comparative connotations inherent in the literature not only suggest misleading stereotypes, but also bring about limited interpretations of how multinationals from developing countries emerge. While much ink has been spilled on how developing-country multinationals can catch up with their predecessors, little is known about how these multinationals

* Thammasat University, Bangkok, Thailand

My most sincere thanks go to the informants at the two companies who granted me interviews, to Chaovalit Ekabut and to Paul Handley for commenting and sharing the data used in this paper. In addition, the financial support from the Faculty of Commerce and Accountancy, Thammasat University, is gratefully acknowledged.

are developed or how their domestic development may influence their behaviors in international markets. Although it has been acknowledged that the social, cultural and political environment of the firm is a major contingency that influences its strategy, structure and behavior (see Hamilton and Biggart 1988, Fligstein 1990, Orrù *et al.* 1991, Whitley 1990, 1992, Biggart and Hamilton 1990, McVey 1992), such a view has rarely been integrated in the explanation of the emergence of developing-country multinationals.

This paper, therefore, attempts to explain the development and pre-1997 international expansion of two nascent multinationals from Thailand, the Charoen Pokphand (CP) and the Siam Cement groups. The paper argues that the domestic and international expansion of both multinationals has been led by both their industry-specific factors, such as scale and scope economies, as much as by their networking capabilities—the ability to draw on resources of different partners and to turn them to the firms' benefit. The environment characterized by rapid growth, low competition and strong government protection has led the selected Thai firms to rely on network relationships with different partners, in addition to their industry-specific technological skills.

In analyzing the international expansion of the selected firms, the paper draws from two different streams of literature, namely the literature on developing-country multinationals and the "late industrialization" literature. While the former stresses the need for developing-country multinationals to improve their industry-specific technological skills, the latter school points out how networking capabilities have been crucial to the development of firms from developing countries.

Literature Review
How Firms from Developing Countries Expand Abroad

The literature on "third-world multinationals"[1] can be broadly categorized under two different waves. While the first-wave, or those that emerged in the 1980s, is concerned with the cost advantages of developing-country multinationals *vis-à-vis* their competitors from developed countries, the second-wave literature, which gained acceptance in the 1990s, puts more emphasis on the technological accumulation capabilities of MNEs from developing countries. The principal argument of the first-wave literature is that the nature of competitive advantages of MNEs from developing countries differs from that of their competitors from developed economies. While the competitive advantages of multinationals from developed economies are derived from advanced proprietary technology based on R&D, superior management skills, or a large capital base, it is argued that developing-country MNEs derive their advantages from lower costs achieved through downscaling imported technology to suit local markets. Downscaling techniques involve small-scale, flexible, labor-intensive plants and a considerable use of cheaper local inputs. However, these cost advantages can be exploited only in other developing countries, whose level of economic development is similar or lower, and are likely to erode over time as local firms or local affiliates of developed-country MNEs soon catch up. This explanation sheds some light on the early emergence of developing-country multinationals, although it paints a rather pessimistic future for their sustainability. Proponents of this view include, among others, Wells (1977, 1981, 1983), Lecraw (1977, 1981), Kumar 1982, and Lall (1983a,b).

Though attention in the subject faded in the late 1980s, a renewed interest has surged since the early 1990s, following significant changes in characteristics of developing-country MNEs. Areas of noticeable changes include: the geographical and the sectoral spread of their overseas investment; their motivations to invest abroad; relevant locational advantages; and, more importantly, the nature of their competitive advantages (see, for example, Cantwell and Tolentino 1990, Tolentino 1993, Lecraw 1993, van Hoesel 1997, Dunning *et al* 1997, Yeung 1998). Differing from the first-wave literature, proponents of the second-wave literature argue that developing-country MNEs derive their advantages from the ability to accumulate technological capabilities and to improve their production efficiency. It is suggested that competitive advantages of developing-country MNEs are built from learning the techniques of simple manufacturing, innovating on incremental improvement to manufacturing processes and on minor product designs, and eventually introducing new products to the market (Hobday 1995, van Hoesel 1997). The main implication is that developing-country MNEs should accumulate their competitive advantages from the lower value-added production units before they begin to exploit those advantages in international market. Contrary to the first-wave literature that paints a rather pessimistic future for developing-country multinationals, the second-wave literature believes that the learning-by-doing technological accumulation process enables MNEs from developing countries to sustain their competitive advantages in the long run. Proponents of this view have included: Cantwell and Tolentino (1990), Tolentino (1993), Lecraw (1993), van Hoesel (1997), Dunning *et al* (1997), Vernon-Wortzel and Wortzel (1988), and Ulgado *et al* (1994).

Despite these valuable insights, the literature on developing-country MNEs is not without limitations. First, due to the dominance of aggregate studies at the industry level, most theoretical implications are directed at explaining the industry, rather than the firm behavior. Often, these industry-level analyses fail to reveal the detailed dynamism of the internationalization process and the other aspects of business organization such as cultural, political and social characteristics (Yeung 1994: 304-305). The second limitation of the literature on developing-country MNEs is its biased empirical representation. The majority of the literature is based on observations of firms from a few Asian countries, particularly the four East Asian Newly Industrialized Countries, or NICs (Hong Kong, Singapore, South Korea and Taiwan). Few studies have been carried out on firms from other Asian countries, even though some Southeast Asian countries such as Malaysia, Thailand and the Philippines are among the top ten outward investors in Asia and the Pacific (UNCTAD 1999: 60). With such a limited empirical representation, some conclusions drawn mainly from the experience of East Asian multinationals may not be entirely applicable to multinationals from other Asian countries. More empirical studies of firms based in other developing countries are certainly required in order to enhance our understanding of developing-country multinationals.

The third and the most serious challenge to the literature is its theoretical underpinning. The literature is implicitly guided by a comparative and under-socialized perspective. The primary drawback of the comparative approach is that it explains only what makes one group *different* from another (Limlingan 1986). The inclination to compare the two groups inevitably leads to some misleading stereotypes and deterministic implications on the emergence of developing-country multinationals (Yeung 1994). While MNEs from developed economies are portrayed as large, capital-intensive, innovation-driven, highly integrated vertically, horizontally and globally, those from developing countries are believed to be small, labor-intensive, low in technological capability and limited to investments in the same region. In addition, the comparative connotation of the literature conveys deterministic implications that MNEs from developing countries should follow the path taken by their predecessors from developed economies. As a result, a strong emphasis is placed on developing-country MNEs catching up with their competitors through the technological accumulation process. Little attention has been paid to other alternatives that may lead to the development of developing-country multinationals.

The existing literature is further weakened by its "under-socialized" view of economic activities, which posits that all economic actors are atomized units, free of any social networks and relationships (see Granovetter 1985, 1992, 1995). Such an under-socialized perspective leads to a rather narrow interpretation of what constitutes a firm's competitive advantages. With little interest in the social embeddedness of the firm, the literature implies that competitive advantages of the MNE reside within the boundary of the firm, in the form of efficiency-enhancing assets such as technological and managerial skills, financial prowess or proprietary innovations. Other types of resources, such as social ties or connections, are rarely seen as significant to the development of the MNE.

Influenced by both the comparative and the under-socialized perspectives, the existing literature on developing-country MNEs offers a rather limited and deterministic interpretation of what constitutes their competitive advantages and of how they emerge. Developing-country MNEs are believed to emerge only when they can develop and accumulate advantages similar to those of their developed-country counterparts. Efficiency-enhancing activities that can be built within the firm's boundary, be it cost reduction or technological accumulation, rise to the forefront as the crucial key to the development of developing-country multinationals. But the contemporary reality of developing-country multinationals is not that simple. Their international expansion is not always dependent on low-cost production and incremental technological accumulation process, and their competitive advantages are not limited only to cheaper costs or technological capabilities. The diversity of developing-country multinationals' international expansion indicates that existing theories may be far too narrow to capture the complexity of the phenomenon.

In view of these criticisms, this paper seeks to understand the international expansion of the selected Thai multinationals from a non-comparative and a socially embedded perspective. The paper follows Granovetter's "social embeddedness" view that all economic actors are embedded in pre-existing social relationships and are influenced by their position within these networks. A firm's behavior, domestic or otherwise, should therefore take into account its position and relationships with its partners and alliances. While network ties are valuable assets, networking is also considered an important organizational capability. This paper refers to "networking capabilities" as the firm's ability to draw on complementary resources of partners and to turn these resources to the firm's benefit. The ability to combine the firm's resources with those of its partners has long been regarded as an important organizational capability and a source of advantage (see, for example, Dunning 1995, Ebers 1997, Loasby 1998, Yeung 1998). Hence, in the parlance of MNE theories, a firm's networking capabilities could be considered as organizational skills that form an equally critical part of the firm's competitive advantages. Nowhere is this more clearly seen than in Asian developing countries, where networking is largely intertwined with business practice.

Networking Capabilities and MNEs from Developing Countries

Explanations vary on why networking is such an important characteristic of Asian business. Lim (1996b), for example, suggests that the reliance on networks is a temporary response to weak market mechanisms in developing countries and would hence disappear once markets become further developed. The importance of business networks in Asia has also been explained as an inherent response to the social, cultural and institutional context of the region. Scholars in this group argue that the environment of the firm is a major contingency that influences its organization strategy, structure and behavior (see Hamilton and Biggart 1988, Fligstein 1990, Orrù *et al.* 1991, Whitley 1990, 1992, Biggart and Hamilton 1990, McVey 1992). One of the most important contingencies that influence firm strategy and structure is the timing of a country's entry into industrialization (Guillén 1997, 2000, Kock and Guillén 1998). According to this view, the mechanism that drives the growth of domestic enterprises in late industrializing countries, or countries that only entered the industrialization process after the Second World War, is different from that of firms in early industrializing countries. While leading enterprises of the latter can enjoy the competitive advantages that are derived from the possession of a core set of proprietary technology, firms from late industrializing countries have to rely on a set of "generic" skills that are not specific to any particular industry or activity, and can thus be transferred across industries. These skills are considered important competitive advantages that are used in competition against technological leaders from advanced economies.

Kock and Guillén (1998) propose that contact capabilities, or the ability to benefit from combining domestic and foreign resources to enter industries quickly and cost-effectively, are indispensable skills for indigenous firms from developing countries (see also Guillén 2000). These capabilities are most valuable during their initial development period, as markets in late-industrializing countries are characterized by resource asymmetries between foreigners and locals. The ability to bridge those asymmetries through foreign contacts and networks can therefore provide domestic firms with distinctive advantages that allow them to compete with more technologically-sophisticated competitors. In the parlance of MNE theories, the central proposition of the late industrialization view is that firms from late industrializing countries are endowed with competitive advantages that are different from those of their developed-country counterparts. Thanks to their innovating capabilities, multinationals from advanced economies can derive their advantages from a core set of proprietary technology. On the contrary, developing-country MNEs, which have yet to sufficiently accumulate industry-specific technological capabilities, are forced to rely on generic skills that can be transferred across sectors, like networking capabilities.

The late industrialization view reinforces the argument proposed earlier that networking capabilities can be regarded as an additional source of competitive advantages. Combined with technological skills, networking capabilities are instrumental in the domestic development of developing-country multinationals. As firms are confined to the exploitation of the advantages that drive its home market success, they are likely to follow a similar expansion strategy even as they internationalize (Kogut 1988, 1991, 1993). Accordingly, the internationalization process of developing-country MNEs should be regarded not only as an evidence of the successful technological accumulation process, as suggested in the existing literature, but also as the process of extending their networking capabilities to overseas markets. Based on this view, the paper uses an in-depth case study analysis to explain the process of domestic growth and the pre-1997 international expansion of two leading Thai multinationals, the Charoen Pokphand (CP) and the Siam Cement groups.

Methodology

The case-study research methodology is chosen for various reasons. First, the exploratory nature of the principal question posed in this paper—*how* the selected Thai multinationals expand abroad—lends itself better to the use of case study (Yin 1994: 4-8). An evident advantage of the case study research method is that it can be used to trace events over a period of time, hence succeeding in capturing some dynamic aspects that other research methods fail to notice. The second factor in favor of the case study method is the deficiency of statistics on Thai outward direct investment. Although statistics are collected by the Bank of Thailand (BOT) and the Board of Investment (BOI), data from both sources are hardly comparable, as there are a number of discrepancies in the way both agencies collect their data. For example, the BOT statistics are derived from commercial bank reports, revealing only the aggregate amount of capital outflows by industry and by country of destination. On the contrary, the BOI data[2] are based on information supplied by investing firms and BOI-equivalent agencies in other countries. The validity of the statistics is further weakened because of the organizational structure of Thai firms. Because most leading Thai enterprises are organized as conglomerate business groups, comprising a large number of subsidiaries and associated companies (see Krirkkiat 1982, Krirkkiat and Yoshihara 1983), not all their investment activities are consolidated under one account. These statistical limitations could severely hamper the reliability of purely quantitative analysis. Given the nature of the research question and available statistics, the case study method is considered the most appropriate research strategy.

The Charoen Pokphand (CP) and the Siam Cement groups were chosen for the following reasons. First, they were among the most active Thai firms that had expanded abroad prior to the 1997 economic crisis. Given their prominent role as pioneering Thai multinationals, the available information on their activities were diverse enough to ensure research validity through the cross-verification of information from different sources. Second, these two firms were representatives of the most dominant and powerful form of business organization in the postwar Thailand-- the conglomerate groups (Suehiro 1989, 1992). Although the findings from the two cases are not generalizable to all Thai firms, the fact that these two groups represented the most dominant force of corporate Thailand should make the findings from this study more compelling.

To ensure the research validity, this study collected data from various sources. The primary source were semi-structured interviews with company executives, industry experts, academics and journalists. Interviews lasted between one to two hours. In addition to interviews, a number of secondary sources, notably company documents (e.g., fact book, company history, interview reports, internal newsletter, annual reports, and additional reports submitted to the Stock Exchange of Thailand), academic theses, as well as a host of newspapers and magazines, were also consulted. Because the focus of this paper is on the pre-1997 international expansion of the two groups, events after the 1997 crisis are not covered in detail. The chronological order of the case studies is adopted to trace each group's growth and internationalization process (Yin 1994: 116-118).

Case Studies

The Charoen Pokphand (CP) Group

The Charoen Pokphand (CP) Group is a Bangkok-based multinational with affiliated companies operating in twenty countries, employing more than eighty thousand people and generating an estimated total group turnover of US$ six to seven billion a year.[3] At its peak before the 1997 crisis, the group's affiliated companies totaled more than 200, with fourteen listed in seven stock exchange markets around the world, namely Bangkok, Hong Kong, Jakarta, Shanghai, Taipei, London and New York (*Corporate Thailand*, May, 1996:12-80). The group has its strongest base in the animal feed industry, owning approximately fifty feed mills in nine countries. Before the 1997 crisis, the group's operations were organized under nine different business groups: Agro-Industry; Aquaculture; Seeds, Fertilizer and

Plant Protection; International Trading; Marketing and Distribution; Real Estate and Land Development; Petrochemical; Automotive and Industrial Products; and Telecommunications. The growth and development of the group discussed in this part is divided into five stages: international trading (1921-54), animal feed (1954-70), vertical integration (1970-79), conglomerate diversification (1980-97), and international expansion (1972-97).

International Trading (1921-1954)

The origin of the CP Group can be traced to the 1921 founding of the Chia Tai Chung Shop, a small shop selling vegetable seeds. Escaping the economic difficulty in China during the 1920s, Chia Ek Chor (b. 1895) and his brother, Chia Seow Hui (b. 1905), came to Bangkok and established a seed trading shophouse in the city's Chinatown area. While the younger brother stayed in Thailand, Ek Chor traveled to China, Hong Kong, Singapore and Malaysia to promote his trading business. In Thailand, the business expanded and branches were set up in Hat Yai, a major city in Southern Thailand in 1939, as well as in Penang and Singapore. The Chia Tai Chung shop in Bangkok initially focused on the trading of seeds and some agricultural chemicals, but later expanded into exporting of basic food items to China via Hong Kong. Commercial trading remained their main business until Ek Chor's eldest son started chicken feed milling in 1954.

Animal Feed (1954-1970)

In 1948, Jaran, Ek Chor' s eldest son, returned from his studies in China and was looking to start up a new business apart from seed trading. In 1954, Jaran set up his own feed shop named "Chareon Pokphand", meaning "commodity development" in Thai. The family business became divided into two lines, with Jaran running the feed business, while his uncle supervising the original trading business of seeds, fertilizers and insecticides.

Dhanin Chearavanont, the current Chairman and CEO, took over the leadership of the family firm in 1963. Dhanin's focus was to make the company more modern through the recruitment of non-family staffs, the development of compound animal feeds and investment in new machinery. At the end of 1960s, the company became an important player in the animal feed industry, holding 90 per cent of the market in 1968 (Wichai 1993:62). Animal feed production remained the core activity of the group until today.

Vertical Integration (1970 - 1979)

A major milestone for CP was its joint venture in 1970 with Arbor Acres, a leading US poultry-breeding firm. The 60:40 joint venture was established to import purebred chickens and to breed parent stock for CP's farming operations in Thailand. This joint venture proved most productive for CP, as the company acquired some basic breeding technologies and learned about the broiler industry from Arbor Acres's experience in the US market. It was the latter that prompted CP into further integration in chicken slaughtering and processing (Author's interview, 18 March 1998). Such integration not only increased the demand for animal feeds, but also allowed the group to enter lucrative markets of frozen chicken exports that were growing rapidly in the early 1980s.

With the production side under control, the CP group expanded further along distribution lines. By the end of the 1970s, CP was able to secure a strong hold in the integrated broiler industry, controlling activities from animal feed production, livestock farming, and meat processing to distributing to consumers. The success of the broiler industry led CP to replicate the vertical integration strategy in swine and shrimp production in 1980 and 1988, respectively. The revenues generated from the group's agro-industries further allowed it to diversify into a variety of industries unrelated to agriculture.

Conglomerate Diversification (1980- 1997)

CP initially expanded within agribusiness. The group began its diversification away from agribusiness and food processing only in the late 1980s when it invested in retailing. New investments in this area included: a joint venture with the Netherlands-based SHV Holdings to set up Makro, a warehouse supermarket (1988); a franchise agreement for the convenience store 7-Eleven (1989); Sunny's Supermarket, the group's own supermarket chain; and Lotus Super Center, the group's own chain of wholesale supermarket (1994). After retailing, CP entered the real estate industry in the late 1980s. Through its own subsidiaries and joint ventures with other domestic groups, CP was involved in a variety of projects including hotels, condominium complexes, office buildings, shopping centers, and golf courses.

CP's next wave of diversification was concentrated in the infrastructure sectors that were being liberalized or privatized. Two main activities under this category were petrochemicals and telecommunications. CP entered the petrochemical industry through a joint venture with a Belgian firm, Solvay, in 1988. The joint venture, named Vinylthai, produces PVC and vinyl chloride monomer, the main raw material for PVC. In addition, CP joined with the Thai state-owned Petroleum Authority of Thailand (PTT) in 1993 to establish a petrol station network under the name Petro Asia. Failure to overcome stiff competition led to persistent losses, and CP announced in 1996 that it wanted to leave the petrochemical industry (*Business in Thailand,* March 1998).

The most well-known, yet controversial, diversification of the CP group was in telecommunications. CP set up a new subsidiary, CP Telecommunications (later renamed TelecomAsia), to bid for a build-transfer-operate license from the Telephone Organization of Thailand (TOT). It was the first time that TOT allowed private firms to take part in installing and operating phone lines throughout Thailand. TelecomAsia (TA)'s winning of the concession in 1990 triggered a heated and prolonged conflict that became one of the most controversial episodes in Thailand's privatization history (Nukul 1996, Sakkarin 2000). CP's further expansion in the telecommunications industry was carried out through Telecom Holding (TH), the group's telecommunications investment arm. Through TH, CP had investments in at least forty subsidiaries covering a wide range of communications and media-related industries, including cable television, satellite-based communication services, and submarine fiber-optic cable network (TelecomAsia Annual Report, 1997).

CP's domestic growth before 1997 consisted of two major waves. While the first wave of expansion was restricted to different stages of the vertically integrated production process of the livestock and the aquaculture industries, the second covered a range of diversified businesses, such as petrochemicals, real estate, and telecommunications.

International Expansion (1969-1997)

Although CP claimed that it was international from its beginning, when the founding brothers traded seed in the Asian region, CP's committed international expansion did not begin until 1972 when the group set up its first overseas feed mill in Indonesia. CP's entry into Indonesia was made possible by the opening up of poultry farming to corporate farmers after President Suharto's rule became stabilized (Handley 1997). Further investment in poultry farming and fisheries later followed in 1974 and 1976. During the same period, CP expanded its feed mill investment to Hong Kong in 1974, Singapore in 1976, and Taiwan in 1977 (Wichai 1993: 269-274). International investment during the 1970s also included an insurance company and at least three investment and finance companies in Hong Kong. All these investment companies served as sources of funding in CP's China ventures because Thailand still imposed strong control over currency outflow.

Investment in China started soon after the Open Door Policy was implemented. In 1981, Conti Chia Tai, a joint venture between CP, Continental Grain Co., Ltd. of the USA, and a local Chinese authority was set up. This venture was reported to be the first foreign joint venture in the newly established Special Economic Zones (SEZ) of the Shenzen area (*FEER*, 21 October, 1993: 66-68). CP's activities in China were generally carried out in three forms: joint ventures, wholly-owned subsidiaries, and co-operation where the Chinese partners did not put up cash but provided other support such as land (Author's interview, 17 March 1998).

CP's investment in China followed its formula which had been proved successful in Thailand and Indonesia. Feed milling was used as a pioneer, then poultry farming and meat processing were later introduced. In 1997, CP operated feed mills in twenty-seven out of thirty provinces in China (*FEER*, 23 January, 1997). The group's first diversification away from the agro-industry came in 1985, when a motorcycle manufacturing plant was set up in Shanghai. CP received a license from Honda to manufacture a motorcycle model that Honda no longer made. CP's non-agribusiness activities in China were characterized by similar matching of technology partners with local authorities, with CP playing an intermediary role. CP's activities in China during the 1980s were mainly limited to agribusiness and motorcycle manufacturing. It was in the 1990s that the group expanded their activities to include aquaculture, downstream petrochemical and real-estate development. Most of these projects were concentrated in the Shanghai area. CP operated its real estate development project through Hong Kong Fortune, a joint venture with the real estate Univest Group of Thailand. Announced projects included a US$2 billion Shanghai satellite town project comprised of office

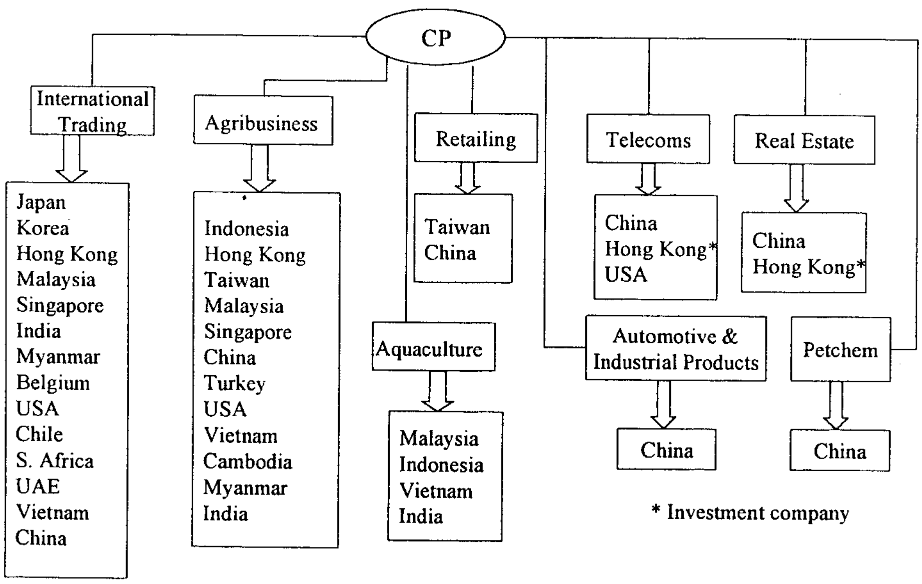
nmunication services, and
l Report, 1997).
ıjor waves. While the first
f the vertically integrated
ıre industries, the second
chemicals, real estate, and

m its beginning, when the
's committed international
its first overseas feed mill
ble by the opening up of
to's rule became stabilized
l fisheries later followed in
ts feed mill investment to
1977 chai 1993: 269-
ded an insurance company
n Hong Kong. All these
's China ventures because
v.
Open Door Policy was
between CP, Continental
was set up. This venture
newly established Special
tober, 1993: 66-68). CP's
ns: joint ventures, wholly-
rtners did not put up cash
v, 17 March 1998).
which had been proved
used as a pioneer, then
ed. In 1997, CP operated
hina (*FEER*, 23 January,
o-industry came in 1985,
Shanghai. CP received a
at Honda no longer made.
ed by similar matching of
ing a ermediary role.
nited to agribusiness and
e group expanded their
hemical and real-estate
n the Shanghai area. CP
g Kong Fortune, a joint
nd. Announced projects
ct comprised of office

buildings, hotels, shopping arcades and sport facilities (*Bangkok Post,* 12 July 1993). However, the two groups later decided to split and to proceed separately (Handley 1997).

Other manufacturing investments in China included two beer breweries. Shanghai Mila Brew was a joint venture with the Heineken group (announced in 1993), while Trillion Brewery (announced in 1994) was a joint venture of CP with two other Thai business groups: the Boonrawd Brewery group and the Siam Commercial Bank. CP later expanded its retailing activities to China. Together with the Netherlands-based SHV Holdings, CP opened its first Makro outlet in 1992. The two partners, along with a Taiwanese partner, had also operated Makro outlets in Taiwan since 1989 (*FEER,* 3 November 1994). In addition, CP introduced its own warehouse outlet, Lotus Super Center, to China in 1996 after a planned joint venture with the US-based Wal-Mart collapsed. Wal-Mart, on the other hand, entered China by itself in the same year (Handley 1997). By 1995, the number of CP's retail outlets in China reached 14 (Brown 1998: 629). Other retailing projects in China included shopping malls, a jewelry exchange center, and a seafood restaurant. All were joint ventures with both Thai and Chinese partners (*The Nation,* 22 November 1995).

Figure 1: Locations of CP's International Activities



In addition, CP was actively expanding its telecommunications business abroad. Again, most activities were concentrated in China, although the group held a 15-percent interest in Kopin Corporation, a Nasdaq-listed electrical equipment company, and a 16-percent equity in the Fibre-optic Link Around the Globe

(FLAG), [4] an international project led by Nynex, the major foreign partner in TelecomAsia. CP's telecommunications investments in China included: a 10-percent equity in APT Satellite, a satellite transponder controlled by the Chinese government; a 40-percent holding in Chia Tai Vision (Shanghai), a television program producer; and a 49-percent equity in a joint venture with a Chinese authority to manufacture telecommunications equipment (TelecomAsia, Annual Report 1997).

Figure 1 summarizes locations of CP's international activities under each business group. It should be emphasized that only in China was CP involved in these diverse projects. The group's investments elsewhere were mainly concentrated in its core activity—the agribusiness industry. Most of CP's international investments in agro-industry were organized under CP Pokphand (CPP), a holding company listed in the Hong Kong and London stock markets. Despite its wide range of investment, Tables 1 and 2 show that CPP drew most of its profit mainly from feed mill and poultry operations. In terms of geographical source of income, China ranked as the most important country for the group's international activities.

Table 1: CP Pokphand Profit by Business Type (US$ thousands)

Business Type	1992	1993	1994	1995	1996	1997	1998
Trading	1,626	431	(727)	326	(687)	1,468	(3,118)
Investment	430	417	4	45	(816)	(1,832)	(5,075)
Properties	10,760	14,215	21,501	21,891	2,871	(54,436)	11,227
Motorcycle	1,673	8,486	268	1,294	863	(4,869)	(6,658)
Investment Holding	31,926	23,650	50,966	58,178	15,704	72,470	83,420
Agribusiness	-	-	(1,706)	(4,243)	(7,713)	(7,935)	(6,687)
Retail & Dist.							
Total	46,415	47,199	70,306	77,491	10,222	4,866	73, 109

Source: *CP Pokphand Annual Report*, various years

Table 2: CP Pokphand Profit by Country

Country	1992	1993	1994	1995	1996	1997	1998
Turkey	1,867	2,901	2,351	4,905	4,652	8,633	12,322
Hong Kong	(921)	7,863	(2,230)	(6,018)	(17,575)	49	(23,470)
Thailand	15,548	11,680	13,671	11,517	12,634	(6,609)	26,897
China	26,049	19,374	50,396	61,023	7,478	57,299	57,360
Indonesia	3,872	5,381	6,118	6,064	3,033	(54,506)	-
Total	46,415	47,199	70,306	77,491	10,222	4,866	73,109

Source: *CP Pokphand Annual Report*, various years

Siam Cement Group

Since its foundation in 1913, the Siam Cement group has grown to be among the largest industrial conglomerates not only in Thailand, but also in Southeast Asia

(Suehiro 1989: 239-244). Before recent restructuring in 1999, Siam Cement was the parent company of more than 130 subsidiaries, employing more than 35,000 people in various industries. The group was organized under nine business groups, spanning Cement and Trading; Construction Materials; Iron and Steel; Ceramics; Electrical and Metal Products; Machinery Tire and Auto Accessories; Petrochemicals; Paper and Container; and Corporate Finance and Administration. Table 3 shows the group's sale by business group. The historical development of the Siam Cement group is divided into five periods: cement production (1913-1938), vertical integration (1938-1970), diversification (1970-1997), and international expansion (1990-1997).

Table 3: Estimated Sales by Business Group in 1996

Business Group	Sales (US$ mil)	Percentage
Cement	1,506	23
Electrical and metal products	1,075	16
Paper and containers	852	13
Machinery, tire and auto	713	11
accessories	704	11
Petrochemicals	540	8
Construction Materials	427	7
Ceramics	489	7
Iron and steel	258	4
Trading	6,594	100
Total		

Source: *Siam Cement Group Fact Book*, 1997

Cement Production (1913 - 1938)

When King Rama VI issued a Royal Decree to establish The Siam Cement Company Limited in 1913, his intention was to eliminate Thailand's dependence on imported cement and to add value to domestic natural resources. Because of this strategic importance, HM's Privy Purse Bureau (later Crown Property Bureau—CPB) took the majority control (50 percent) in the company. Despite its current public status, the CPB remains the largest shareholder, controlling approximately 34 percent of the company's equity (Annual Report, 1999). The company initially relied on technological assistance from Denmark, both in terms of machinery as well as other personnel assistance. With imported machinery, Siam Cement gradually expanded its production by increasing the number of machines as well as establishing new production plants. Thus far, there are five cement factories located in central, southern and northern parts of Thailand. Siam Cement was the only cement producer in Thailand and hence, enjoyed monopolistic position in the cement industry from the beginning until 1956, when the government finally allowed the establishment of a second cement manufacturer-- Jalaprathan Cement. After Siam Cement's monopoly was broken in 1956, more cement manufacturers were allowed to enter this previously protected industry. Siam City Cement was set up in 1968 and rapidly grew into the second largest producer in the cement industry. Competition in the cement industry was intensified with the entrance of new manufacturers in 1992 and 1993. In 1997, Siam Cement controlled 48 percent of the market, followed by Siam City Cement and TPI Polene controlling 25 and 17 percent of the market respectively (ING Barings 1997:76).

Vertical Integration (1938 - 1970): Cement-Related Construction Materials

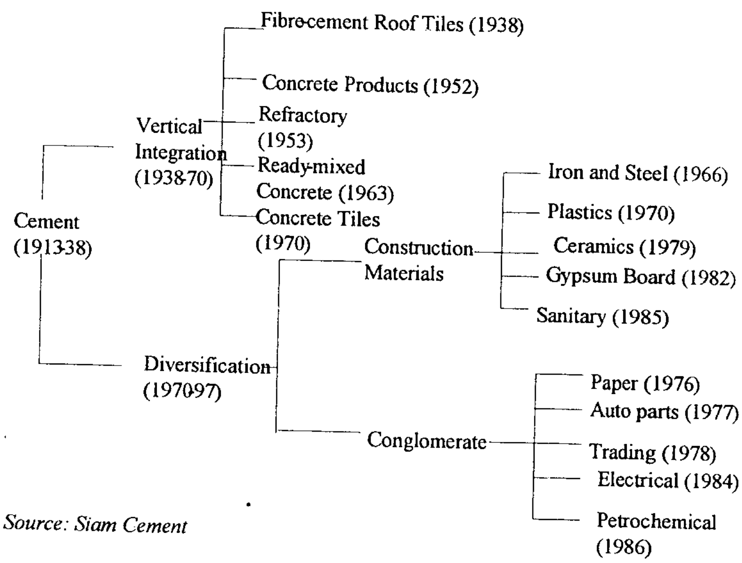
After twenty-five years of cement production, Siam Cement diversified into products which used cement as raw materials. Starting in 1952, Concrete Products and Aggregate Company (CPAC) introduced the use of concrete in other construction materials such as precast concrete slabs and concrete poles, panels and walls. Expansions into the production of other cement-related construction materials included refractory bricks in 1953, ready-mixed concrete in 1963, and concrete roof tiles in1970.

Diversification (1970-1997)

Unlike the post-war period when Siam Cement focused mainly on cement and cement-related products, the group's growth from 1970 to 1997 had been driven by diversifications into many industries unrelated to cement and construction materials. Diversifications into non-cement construction materials included: iron and steel in 1966, plastic products for construction use, such as PVC tubes or fiber glass roof tiles in 1970, ceramic floor tiles in 1979, gypsum board in 1982 and sanitary fittings in 1985. Unrelated diversifications into non-construction material sectors began in the mid-1970s. They included investments in pulp and paper in 1976, auto accessories in 1977, international trading in 1978, electrical products in 1984, and petrochemicals in 1986. With such broad diversifications, Siam Cement was unable to maintain satisfactory performance in all activities. Some sectors, such as steel and paper, suffered from substantial losses. In 1996, steel prices in Thailand were forced down as a result of the dumping of steel supplies from Eastern Europe (see Phujadkarn Rai Deun, October 1996). Although cement contributed the largest share to the group's consolidated sales, its sale contribution had receded over the years as more competitors enter the saturating cement market. Other construction materials faced a similar decline in the 1990s. The Siam Cement group was therefore pinning its hopes on newer sectors, such as petrochemical and auto accessories, as the next potential revenue contributors (see Phujadkarn Rai Duen, October 1996, Financial Day, 29 August 1996).

Siam Cement's domestic expansion path is summed up in figure 2. The group's early expansion during 1938-70 was led by its forward integration into industries that used cement as raw materials. Siam Cement then diversified into non-cement construction materials, such as ceramic tiles, gypsum board and sanitary ware. The group later expanded into industries completely unrelated to construction materials, such as automotive parts or petrochemicals. Despite their diversity, these additional industries shared some common features, including low competition level, small number of operators, and generous government support either through BOI investment incentives or high import tariff rates (Boonkiat 1993). Table 4 shows the level of competition in each industry Siam Cement entered, as well as the extent of BOI privileges the group received for its new projects.

Figure 2: Domestic Expansion



Source: Siam Cement

International Expansion (1990-1997)

Siam Cement had always been domestic-oriented until the early 1990s. The group exported cement and construction materials to neighboring countries only when there was excess domestic supply (Author's interview, 7 April 1998). The group's first direct investment abroad was in 1991, when TileCera was set up in Tennessee, USA to manufacture ceramic tiles. The United States had been a major market for Thai ceramic exporters, who benefited from the generous tax exemption given to developing countries under the Generalized System of Preferences (GSP).

When the US decided to terminate its GSP privileges to Thailand, Siam Cement decided to invest in the US to protect their previous export market. TileCera was set up in 1991 to manufacture ceramic tiles for the American market. Initially, TileCera was a 85:15 joint venture between Siam Cement and the Florim group of Italy. Siam Cement also held a 10-percent stake in the Italian firm. However, the Florim group pulled out in 1994 because of TileCera's persistent losses and of the Italian firm's own financial difficulty from the Italian currency devaluation (Author's interview, 28 March 1997). TileCera therefore became Siam

Cement's first wholly-owned subsidiary abroad. Through TileCera, Siam Cement also held a 25-percent equity in Lamosa Revestimientos, a Mexican ceramic tile manufacturer. TileCera cost Siam Cement many expensive lessons for international investments. Most importantly, the group realized that it was not yet ready for highly competitive markets like that of the US. The lesson learned from TileCera caused Siam Cement to shift its focus to Southeast Asia.

Table 4: Competition and Privileges

Industry	Year of Investment	No. of Competitors (when invested)	Import Tariff Rates (%)	BOI Privileges
Cement	1913	0	30	yes
Roof Tiles	1938	0	40	no
CPAC	1952	0	40	no
Refractory Products	1953	0	35	no
Ready-Mixed Concrete	1963	0	40	no
Iron	1966	2	25	yes
Concrete Tiles	1970	0	40	no
PVC Tube	1970	1	60	no
Ceramic Tiles	1979	5	80	no
Gypsum Board	1982	1	40	no
Plywood	1984	5	60	no
Sanitary Ware	1985	4	80	no
Fitting	1987	5	60	yes
Water Pipe	1991	0	60	yes
Glass	1991	3	50	yes

Source: *Boonkiat (1993: 80)*

Since 1993, Siam Cement has focused its foreign direct investments mainly on neighboring Asian countries, particularly the members of the Association of the Southeast Asian Nations (ASEAN). [6] Priority was given especially to Indonesia, Philippines, China, Vietnam, Laos and Cambodia (Author's interview, 10 April 1998). From 1993 to 1997, Siam Cement announced a total of twenty-seven investment projects in those countries. These projects covered a wide variety of industries, including ceramics, cement and trading, construction materials, petrochemicals, pulp and paper, and machinery. However, Siam Cement's actual realization of these projects was rather limited. Of all twenty-seven projects announced, only twelve had been implemented by the time the economic crisis broke out in 1997. By 2001, only three more projects had progressed while the rest were either suspended or terminated. The area in which Siam Cement was most active to invest abroad was ceramics. The group had ceramic-related investments in the US, Mexico, the Philippines, Indonesia and China. Table 5 summarizes Siam Cement's overseas investment projects prior to the 1997 crisis.

Table 5: Summary of Siam Cement's Overseas Investment Projects as of 1997

Country	No. of Projects	Operating	Under Construction	MOU Signed/ Implementing	Industry
China	4	1	2	1	Machinery, Ceramics, Construction Materials
Philippines	5	4	1	-	Ceramics, Construction Materials, Machinery, Paper & Packaging
Indonesia	9	2	5	2	Petrochemicals, Construction Materials, Ceramics, Cement & Trading
Myanmar	3	2	-	1	Cement & Trading
Cambodia	1	1	-	-	Cement & Trading
Vietnam	3	-	-	3	Construction Materials, Cement & Trading, Ceramics
USA	1	1	-	-	Ceramics
Mexico	1	1	-	-	Ceramics
Total	27	12	8	7	

MOU – Memorandum of Understanding
Source: Siam Cement 1997

How Domestic Growth was Achieved: Scale, Scope and Networking

Domestic growth of both CP and Siam Cement was led by both their industry-specific skills, as much as their networking capabilities. To secure economies of scale, both CP's and Siam Cement's early period of domestic growth followed the vertical integration along their production lines. At the heart of CP's empire was its agribusiness operations. Experience of agribusiness firms in other countries, especially in the US, has shown that the growth path for agribusiness firms follows the process of vertical integration (Boyd and Watts 1997: 199). The key advantage of vertical integration in this industry is the ability to reduce the problems of variation in input quality, fluctuations in the demand for products at various stages, and fluctuations in input supplies and their prices. Most importantly, vertical integration allowed the transaction costs that occurred between various stages to be minimized (Author's interview, 17 March 1998, Nipon *et al.* 1985).

Boyd and Watts (1997: 203-5) called the overall process of the broiler industry *filière*. According to them, the broiler *filière* comprised two main functions: production, and distribution. While production covered breeding, hatching, feed milling, and processing, distribution was concerned with bringing processed meat to consumers through different channels, such as restaurants, retail outlets, and exports. CP's expansion in agribusiness covered the gamut of *filière*, starting from producing feeds to farming, slaughtering, meat processing, and retailing.

Similarly, Siam Cement's early diversification into cement-based construction materials could also be understood as an attempt to create more demand for cement and/or to use up the excess of cement supply. Moreover, the group wanted to achieve scope economies in construction materials by covering as many different products as possible. Though the group used different brand names for their products, they usually included " Product of the Siam Cement Group" to reinforce the group's identity. Siam Cement was able to amass its scale-and scope-based advantages in those construction material markets, as competition was almost non-existent when the group entered each industry. These integrations allowed Siam Cement to control its production level and to add values to its excess cement supply (Boonkiat 1993: 77).

However, it would be incomplete to explain the domestic growth of both firms simply as following the vertical integration pattern of their individual industries. As discussed earlier, the evolution of firms from developing countries also benefits from these firms' networking capabilities. In Thailand, it has been argued that domestic firms need to cultivate network relationships with three important parties, namely: financial sources, foreign technology suppliers, and the state (see Krirkkiat 1982; Krirkkiat and Yoshihara 1983; Suehiro 1989, 1992, 1993). The two cases in this paper are no exception. Both groups benefited tremendously from their diverse networks. Starting with financial sources, Siam Cement is closely linked to the Siam Commercial Bank (SCB) through the Crown Property Bureau (CPB). [7] Having both the CPB and the SCB on its side has given Siam Cement a formidable financial credibility. By itself, the CPB is among the wealthiest domestic institutions, holding equity in more than sixty companies across industries (*FEER*, 30 June 1988, see also, *Phujadkarn Rai Duen*, March 1987 and November 1992). In addition, the CPB holds a majority stake in the Siam Commercial Bank, the country's fourth largest bank. The tri-partite links between the three organizations gave Siam Cement an image of stability and credibility no other private firms enjoyed. Such an image further enhanced the group's financing ability in international markets, enabling the group to borrow extensively from both domestic and international financial institutions. An industry analyst once commented: *"Siam Cement can borrow as much money as they want from any bank at any price"* (*FEER*, 12 July 1990). CP's connections with local and international financial sources were no less impressive. The group's close relationships with the Bangkok Bank date back to the 1970s when the bank served as the major creditor for CP's contract farming scheme. In addition, CP was closely connected with the Thai Farmers Bank, as the latter developed interests in CP's feed milling ventures (Christensen 1993: 268-94). CP's financial clout was further enhanced by the public listing of its subsidiaries in many overseas stock markets, including London and New York. Both groups' close ties with financial sources not only improved their financing ability, but also endowed them with valuable information and expansion opportunities both in the domestic and international markets.

The second crucial source of networks was political connections. CP's and Siam Cement's relationships to the local powerful elite were equally extensive, even though the nature of their relationships with the state differed in details. While Siam Cement was closely associated with the country's top-level technocrats through the CPB connections, CP had been known for its generous support to most major political parties in Thailand, particularly the currently ruling Thai Rak Thai party. On top of political connections, CP developed close links with the military, which held significant power in Thai society. The military maintained its influence in some industries, notably telecommunications—another significant activity in the CP's empire. CP's close links with political parties and especially with the military were epitomized in the infamous two-million telephone concession granted to the group in 1991 (see Nukul 1996, Sakkarin 2000, Pavida 2001: ch.6, Pavida, forthcoming). CP's later victory in various concessions was also allegedly linked to the major political party that was then in charge of the Ministry of Communications (*Corporate Thailand*, September 1996: 40-53). Furthermore, CP often invited top-level government officials to join the group as honorary advisors or full-time employees. Some of those included: the former directors of the Telephone Authority of Thailand and the Petroleum Authority of Thailand, a former army chief and prime minister, as well as wife of a former deputy prime minister (see Handley 1997).

Although Siam Cement avoided direct political networking, its links with the CPB were critical in securing favorable responses from the country's top bureaucrats and politicians. With its unique position, Siam Cement had been able to cultivate strong links with the country's top-level technocrats. For example, Sommai Huntrakun who was the Finance Minister during 1974-1976 and 1981-1986, held the top position at Siam Cement from 1976-1980 (Siam Cement 1983). During the 1980s, technocratic institutions had played a significant role in the country's macro-economic management. The private sector actors often voiced their interests through leading business associations such as the Thai Chamber of Commerce (TCC) or the Federation of Thai Industries (FTI) (Anek 1992). Siam Cement's executives have always been active in these associations. However, links with the CPB did not always bring benefits. In many circumstances, Siam Cement was pushed into unplanned diversifications or acquisitions because of its connections with the CPB (Author's interview, 28 March 1997). An example was Siam Cement's 1974 acquisition of the near-bankrupt Thai Kraft Industry, a Kraft paper manufacturer. The main reason for this diversification was the request from the ailing company's board of directors, which included the CPB, and its biggest creditor, the SCB. In addition to this acquisition, Siam Cement took over a few other bankrupt companies, most of which were partly owned by the CPB and had the SCB as their biggest creditor (see more examples in *Phujadkarn Rai Duen*, January, March and July 1987, Wirat 2000). Although these diversifications contributed to the group's rapid expansion in the late 1980s, they inevitably stretched the group's resources and drove it into many unplanned diversifications.

The third source of crucial connections was with foreign technology suppliers. With its strong local position, both CP and Siam Cement had had no problem attracting leading foreign multinationals that were looking for local partners. Siam Cement's foreign technology suppliers included numerous world leaders in different industries, for example, Dow Chemicals, Toyota Motor, Michelin, Lafarge, and the Mitsubishi group. Siam Cement's total number of joint ventures with foreign partners was approximately eighty in 1998, thirty-nine of which were joint ventures with Japanese partners, seven with American and eight with European ones. The rest involve firms from various nationalities (Author's interview, 23 December 1998). Learning from these foreign partners contributed to Siam Cement's growth. Likewise, CP was second to none when it came to sourcing technological partners. In addition to the milestone partnership with Arbor Acres that allowed it to prosper in the poultry industry, the group formed a host of other alliances with leading foreign multinationals across industries. Examples included Nynex and Orange in telecommunications, the Mitsubishi group in shrimp feed, Oscar Mayer in meat processing, the Allianz group in insurance, and Tesco and Makro groups in warehouse retailing (see Pavida 2001).

Domestic growth of CP and Siam Cement has been led by both their quest for scale and scope economies in their industries, as well as by their network relationships with financial institutions, political forces and foreign technology suppliers. Although political connections were local-specific and were not much of use in other countries, CP's and Siam Cement's connections with financial sources as well as with foreign technology partners were crucial in their international expansion. In many cases, international projects were undertaken with the same partners with whom they had worked in Thailand. Moreover, the experience and skills of working in a developing-country environment helped facilitate their understanding of other developing country markets (see Pavida and Zeithaml 1998). How the advantages accumulated from home contributed to their international expansion is the focus of the following part.

Behind the International Expansion

Similar to their domestic growth, the international expansion of CP and Siam Cement was led by both industry-specific factors and by their attempts to exploit their vast connection networks. For CP, the nature of the agribusiness industry influenced their internationalization strategy, especially in the selection of markets. The integrated agribusiness industry favored locations with three specific characteristics: the existence of small marginal farmers who could be contracted; the availability of merchants or feed dealers who could extend credit to farmers; and the existence of a pool of low cost labor to work in the processing facilities (Boyd and Watts 1997: 209). These requirements generally lead to countries with large population and preferably low labor costs. In Asia, China, India and Indonesia were the most suitable candidates. However, when CP began its international expansion in the 1970s, China and India were rather unfriendly toward foreign investment.

Indonesia, on the other hand, was much more receptive to foreign investors as the Suharto rule stabilized (see Handley 1997), but Indonesia lost its attractiveness after China opened her doors in 1979. China was a country where domestic consumption alone, not to mention export possibilities, was large enough to ensure scale economies. In addition, China was fast catching up in the poultry industry, thanks to its low labor cost. Because of increasing wage rates, Thailand was losing the international competitive edge in the poultry sector it had enjoyed over the previous decades (Tisdell et al 1997: 8). CP's strategy to shift its production base to China was appropriate because China was quickly catching up with Brazil and the United States as a major poultry exporter. As a result, CP's poultry production in China became increasingly export-oriented, with internal consumption accounting for only 30 percent of the total production output (Author's interview, 23 March 1998). CP's investments in China were further facilitated by the group's overseas Chinese background. Although CP's investments in agribusiness were also directed to other countries, including Turkey, Portugal and Indonesia, their success did not match that of China. CP closed its Portugal operations in 1994, citing strong competition and language difficulties as their main obstacles (Author's interview, 17 March 1998). The dominance of CP's China operations was reflected in CP Pokphand's profit breakdown. In 1995, the group earned 69 percent of its total overseas profit in China, while Indonesia and Turkey accounted for eight and six percent respectively (CP Pokphand, Annual Report, 1995; see also Table 1 and 2).

CP's search for a lower-cost agribusiness production base was only part of the story. The group's investment in China spanned much wider activities than agribusiness. CP's empire in China included, for example, a mega real-estate project in Shanghai, several retail outlets, as well as technology-intensive areas such as telecommunications and petrochemicals. Similar to their domestic behavior, CP's ability to get involved in such diverse activities demonstrated the mastery of their networking skills. To Western or Thai companies that wanted to enter China but did not know how to work the bureaucracy, CP's connections with Chinese authorities were extremely helpful. CP's "friends" in China spanned the range of Zhao Ziyang, Shanghai's mayor, as well as local government officials (Handley 1997, Brown 1998). Mutual benefits were central to the relationships between CP and the Chinese state apparatus. To the Chinese government, CP could bring in the technology and foreign currency, which China desperately needed. With its vast financial resources and strong political connections in China, CP had been able to diversify into many industries unrelated to the group's core activity. The group relied on its networking capabilities to combine resources from various partners and put together investment projects. In many circumstances, CP was simply playing the intermediating role between the Chinese authorities and interested investors. The importance given to this role was clearly reflected in the words of the group's CEO and chairman, Dhanin Chearavanont. When asked how he decided on international projects, he said "..the most important thing is opportunity. When you find opportunity, it is not a problem to find technology and money later." (cited in Corporate Thailand, May 1997: 76).

Without its own technological skills, the extent of CP's reliance on imported technology and foreign partners in industries other than agribusiness was substantial. As discussed earlier, CP's motorcycle plants in China relied on licenses from Honda for a model the Japanese firm no longer produced. Their auto-part production also had to rely on technology from various Japanese companies (Author's interview, 18 March 1998). CP's other investments were also heavily dependent on technology from foreign partners. For example, the group's two beer breweries were joint ventures with Heineken and Thailand's Boonrawd Brewery. CP's extensive connections enabled the group to form joint ventures with a wide variety of partners ranging from Western and Japanese multinationals, Chinese authorities, and other Thai firms.

In a slightly different fashion, the international expansion of Siam Cement was not as dependent on close connections with local governments and foreign technology partners. Siam Cement limited its international activities to areas in which the group had previous experience. Although the group's strongest core business was cement production, international expansion in the cement industry was not easy. In addition to the need for a proper location that was near both a source of raw materials and construction hotspots, a cement plant required a large sum of investment. At least US$ 300 million is required within the first two years of operation (Chumpol Na Lamlieng, interviewed by Paul Handley, 19 June 1995).[8] Cement multinationals therefore preferred to expand abroad through mergers and acquisitions, rather than Greenfield investments (The Economist, 19 June 1999). Siam Cement was not yet ready for such major international investments, and opted instead to invest in smaller projects of other construction materials, such as ceramic tiles and sanitary ware (Author's interview, 28 March 1997).

However, Siam Cement's first overseas subsidiary, TileCera, turned out to be a difficult mission. The venture had been incurring losses from the beginning until it was sold in 1999 as part of the group's post-crisis restructuring. TileCera's failure forced Siam Cement to reconsider its international expansion strategy, and to re-evaluate its strengths and weaknesses in the international market. The most important lesson Siam Cement learned from TileCera was that its level of skills and production know-how was not sufficient for the fiercely competitive and design-intensive market of the US. More importantly, the group learned that while it could sufficiently transfer its operational know-how in standard production technology abroad, it still lacked the necessary local knowledge, such as labor issues or distribution management (Author's interview, 28 March 1997).

The above realization, along with the lessons learned from TileCera, led to two major changes in the group's internationalization strategy. First, Siam Cement shifted its focus from the highly competitive market of the US to the developing countries in Asia, especially the Philippines and Indonesia. Second, instead of setting up wholly-owned subsidiaries, the group chose joint venture relationships with local partners as the preferred entry mode. The group took a more conservative and risk-averse method of joining up with reliable local partners who could provide necessary local knowledge in marketing. Chumpol, Siam Cement's President and CEO, claimed that the group possessed enough technology and expertise to be competitive in the Asean region (Handley's interview, 19 June 1995). Nonetheless, many international projects also involved technology partners who had worked with the group in Thailand. For example, its sanitary ware venture in the Philippines was a tri-party investment with Toto of Japan and Mariwasa Manufacturing, a local ceramic manufacturer with whom Siam Cement had another joint investment in ceramic tile.

However, opportunity-driven expansions based on networking relationships were not always sustainable. Because CP's and Siam Cement's close links with banks enabled both groups to borrow money easily from domestic and international sources, both groups became highly leveraged in the early 1990s. Siam Cement's 2:1 average debt to equity ratio during the 1980s soared to 4:1 in 1996 and 5:1 in 1997 (Annual Report, various years). For some of CP's projects, debts rocketed up to ten times of equity (FEER, 8 April 1999). Such a high level of debts became disastrous after the Thai baht was floated in July 1997. Siam Cement group had a total consolidated debt of US$ 5.2 billion at the end of September 1998 (Annual Report, 1998), whereas the CP group was faced with a total debt of US$1.2 billion (The Nation, 28 July 1998).

On top of financial burden, rapid expansions inevitably stretched both groups' management resources. Although CP claimed that it was professionally managed, top decisions were still controlled by Dhanin, his brother Sumet, and their lieutenants who had been with the group mostly since the 1950s and 1960s (Handley 1997, see also Wichai 1993). The same set of people were named over and over as board members in most of their subsidiaries. Handley (1997) posited that the group's reluctance to let anyone new into this circle led to CP's weak performance in its non-core areas such as petrochemicals or telecommunications. Siam Cement suffered a similar fate. The group's rapid expansion since the 1980s had caught up with its management resources, despite its serious commitment to developing the group's personnel. Many executives admitted that the lack of qualified people to serve in the group's diverse international projects was a major obstacle to Siam Cement's overseas growth (Author's interviews, 28 March 1997, 4 April 1997). The economic difficulty that followed the 1997 devaluation further aggravated CP's and Siam Cement's operations. Not only did both groups find themselves in mountains of debt, their domestic revenues also dropped sharply due to slower demand. Many international projects were still in their infancy and had yet to generate any return.

Like other Thai firms that were crippled by foreign debt, Siam Cement and CP were faced with the immediate task of debt repayment. Both groups' post-crisis response centered on debt restructuring, cost cutting, limiting future borrowing and consolidating their businesses. International projects were among the first to be shed, as they required foreign currency investment. CP and Siam Cement hoped that the sale of some overseas projects could bring in foreign currency to pay back their loans. Since 1997, CP has sold most of its non-agribusiness stakes in China, including its 50-percent equity in the Shanghai motorcycle factory, its minority stake in Aptstar, a Chinese satellite operator and all its shares in the beer brewery joint venture with Heineken. Other changes in international projects included the sale of its 15-percent stake in the Nasdaq-listed Kopin and a reduction of shareholding in Charoen Pokphand (USA), its agribusiness subsidiary in the US (CPF Notification to the Stock Exchange of Thailand, 16 February 1998). On the domestic front, CP also reduced its exposure in activities other than agribusiness, retailing and telecommunications. Of greatest significance was the sale of a majority stake in Lotus Supercenter, its homegrown warehouse store, to Britain's Tesco for US$365 million (see FEER, 8 April 1999).

Likewise, Siam Cement suspended almost all of its international projects, except for those that were already operating. The group decided to withdraw from the North American and the Chinese markets. As a result, Siam Cement either reduced its shareholding in its Chinese projects or completely sold them off. Their US operations, TileCera and Impo Glazetile, were sold to the Florim group, their initial Italian partner. The group's ceramic operation in Mexico was also sold to its Mexican partner (Annual Report, 1999). At home, Siam Cement initiated an extensive organizational restructuring that drastically reduced the group's wide-ranging lines of businesses down from nine to three core areas, namely cement, petrochemicals and pulp and paper (Siam Cement 1998). It now appears that the first wave of both Thai firms' rapid international expansion has been brought to an untimely end.

Conclusion

This paper unveils important forces behind the rapid growth and international expansion of two nascent Thai multinationals, the CP and the Siam Cement groups. It argues that the domestic and international expansion of both multinationals was led by their industry-specific factors, such as scale and scope economies, as much as by their networking capabilities—the ability to draw on resources of different partners and to turn them to the firms' benefit. While industry-specific technological skills were fundamental in increasing these two firms' competitive advantages, networking capabilities served as an additional source of advantages that could be exploited across industries during the firms' growth and expansion. Three types of network relationships that were crucial to both these firms' domestic and international development were: ties with financial sources, links with foreign technology partners, and political connections. These networks compensated CP and Siam Cement with resources they previously lacked. By drawing on resources of different partners, the two firms were able to combine their partners' resources with their own in such a way that enhanced their competitive advantages. Put simply, these networking capabilities were significant organizational skills that served as an additional source of advantages, apart from industry-specific technological skills. These networking capabilities, developed in response to multiple opportunities and weak market institutions in their domestic market, allowed the two firms to accelerate their domestic and international expansion. By investing in other Asian developing countries, whose comparable conditions lent themselves to a similar reliance on networking practices, both CP and Siam Cement were able to employ both their technological and networking capabilities in their internationalization endeavors. For a short while, both groups were able to seize opportunities in other developing countries. The 1997 economic crisis exposed how vulnerable these firms were when the operating environment became adverse. Their heavy reliance on foreign loans suffocated them financially when the 1997 flotation of the baht almost doubled their foreign currency debts. Worse still, CP and Siam Cement realized that their resources had been spread too thinly from their previous hasty expansion. The unpleasant consequences after the crisis illustrated too well the susceptibility of such a strategy in the long run.

On a positive note, however, the 1997 economic crisis served as a shock therapy that forced Thai firms to pause and to consider how they want to make their next moves. Looking inward, many firms have found that they need to rely more on their core strengths. This has led to a huge wave of corporate restructuring in the Thai business community. In the case of Siam Cement and CP, both groups decided to shed most of their non-core activities and put more resources into strengthening their core business. Siam Cement, for example, has put even more emphasis on ensuring that their products meet international standards. The group now turns to export markets as an important source of foreign currency revenues. Although the first wave of Thai outward investment may have ended with the 1997 economic crisis, the lesson they learned should prepare them for their next step. As Thai firms have yet to resume their international investment up to the pre-1997 level, it is still too early to explore these issues in depth. Nonetheless, it is hoped that these firms have learned from their past mistakes and would become more cautious in the next phase of overseas ventures.

Notes

1. The term "third-world multinationals" has been criticized for its imperialistic implication and its unproductive nature of conceptualizing international business (Yeung 1994). Moreover, recent changes in international politics and the failure of the communist bloc (the hitherto "second world") also have rendered the term "third world" obsolete. Accordingly, this paper shall employ the more acceptable, meaningful and less condescending "developing-country multinational enterprises". As a point of clarification, this paper also uses the term "multinational enterprises (MNEs)" interchangeably with "multinationals".

2. The discussion on outward direct investment statistics is based on interviews with Chachawal Intarak, a researcher at the Bank of Thailand, and with Dr. Atchaka Brimble, director of the International Affairs Division, Board of Investment in March 1997.

3. Unless stated otherwise, the historical background of the CP group is based on Wichai (1993), and the company's own document, *From Opportunity to Opportunity* (1993).

4. CP diluted its shareholding in FLAG down to 10 percent after the latter was listed in Nasdaq in February 2000 (*The Nation*, 1 February 2000).

5. Unless stated otherwise, Siam Cement's historical development summarized in this part is drawn from the group's publication to commemorate its seventieth anniversary in 1983, *Poon Cement Thai 2456-2526* [Siam Cement Group, 1913-1983], and Boonkiat (1993).

6. The Association of Southeast Asian Nations (Asean) was set up in 1967. Its ten members are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. Member countries have agreed to set up the Asean Free Trade Area (Afta), which aims to reduce intra-regional tariffs down to 0-5 percent by 2003 (see more details at www.asean.or.id).

7. The Crown Property Bureau (CPB) holds a dominant stake in both the Siam Commercial Bank (SCB) and Siam Cement. The CPB is a special entity established in 1936, four years after Thailand changed from absolute to a constitutional monarchy. The CPB's portfolios is diverse, consisting of more than forty companies spanning a wide spectrum of business activities. Their largest and most evident shareholdings are SCB and Siam Cement (see *FEER*, 30 June 1988; *Manager Monthly*, November 1992).

8. Chumpol Nalamlieng was interviewed by Paul Handley, an *Institutional Investor* correspondence, on 19 June 1995. Part of the interview was published in the October 1995 issue of the magazine. Paul Handley also kindly allowed the full transcript to be used in this paper.

References

Anek Laothamatas. 1992. *Business Associations and the New Political Economy of Thailand*. Singapore: Institute of Southeast Asian Studies.

Biggart, Nicole Woolsey and Gary G. Hamilton. 1990. "Explaining Asian Business Success: Theory No.4." *Business and Economic Review* V:13-15.

Boonkiat Ketkaewmaneerat. 1993. *Plutikam Krachai Karn Longtun Khong Borisat Poon Cement Thai Jamkat* [Diversification Behaviour of the Siam Cement Group]. MA Thesis, Faculty of Economics, Thammasat University, Bangkok.

Boyd, William, and Michael Watts. 1997. "Agro-Industrial Just-In-Time: The Chicken Industry and Postwar American Capitalism." in *Globalising Food: Agrarian Questions and Global Restructuring*, edited by D. Goodman and M. J. Watts. London: Routledge.

Brown, Rajeswary A. 1998. "Overseas Chinese Investment in China - Patterns of Growth, Diversification and Finance: The Case of Charoen Pokphand." *The China Quarterly* (September): 610-636.

Cantwell, John and Paz E.E. Tolentino. 1990. *Technological Accumulation and Third World Multinationals.* Discussion Papers in International Investment and Business. No. 139. Reading: University of Reading.

CP Intertrade. 1997. Fact Book.

CP Group. 1993. *From Opportunity to Opportunity*. Bangkok: CP Group.

Christensen, Scott R. 1993. *Coalitions and Collective Choice: The Politics of Institutional Change in Thai Agriculture*. Unpublished PhD Thesis, University of Wisconsin, Madison.

Dunning, John H. 1995. "Reappraising the Eclectic Paradigm in an Age of Alliance Capitalism." *Journal of International Business Studies*, 3: 461-491.

Dunning, John H., Roger Van Hoesel, and Rajneesh Narula. 1997. *Third World Multinationals Revisited: New Developments and Theoretical Implications*. Discussion Papers in International Investment and Management, Series B, No. 227. Reading: University of Reading.

Ebers, Mark. 1997. "Explaining Inter-Organisational Network Formation." In *The Formation of Inter-Organisational Networks*, edited by M. Ebers. Oxford: Oxford University Press.

Fligstein, Neil. 1990. *The Transformation of Corporate Control*. Cambridge, Mass.: Harvard University Press.

Granovetter, Mark. 1985. "Economic Action and Social Structure: The Problem of Embeddedness." *American Journal of Sociology* XCI, 3: 481-510.

Granovetter, Mark. 1992. "Problems of Explanation in Economic Sociology." In *Networks and Organisations: Structure, Form, and Action*, edited by N. Nohria and R. G. Eccles. Boston, Mass.: Harvard Business School Press.

_____. 1995. "Coase Revisited: Business Groups in the Modern Economy." *Industrial and Corporate Change* IV, 1: 93-130.

Guillen, Mauro F. 1997. "Business Groups in Economic Development." In *Academy of Management Proceedings 1997*: Academy of Management.

_____. 2000. "Business Groups in Emerging Economies: A Resource-based View." *Academy of Management Journal* XXXXIII, 3: 362-380.

Hamilton, Gary G., and Nicole Woolsey Biggart. 1988. "Market, Culture, and Authority: A Comparative Analysis of Management and Organisation in the Far East." *American Journal of Sociology* XCIV, (Supplement): S52-S94.

Handley, Paul. 1997. *De-mythologising Charoen Pokphand: an Interpretive Picture of the CP Group's Growth and Diversification*. Paper presented at the "Chinese Business in Asia" conference, 23-25 June 1997, Kuala Lumpur.

Hobday, Mike. 1995. "East Asian Latecomer Firms: Learning the Technology of Electronics." *World Development* XXIII, 7: 1171-1193.

Hoesel, Roger van. 1997. *Beyond Export-Led Growth: The Emergence of New Multinational Enterprises from Korea and Taiwan*. Rotterdam: Erasmus University.

ING Barings. 1997. *ASEAN Cement Review: Clinker, Clinker Everywhere*. Bangkok: Asian Regional Research.

Kock, Carl, and Mauro F.Guillen. 1998. *Strategy and Structure in Developing Countries: Business Groups as an Evolutionary Response to Opportunities* *for Unrelated Diversification*. Paper presented at the 1998 Academy of International Business Conference, Vienna.

Kogut, Bruce. 1988. "Country Patterns in International Competition: Appropriability and Oligopolistic Agreement." in *Strategies in Global Competition*, edited by N. Hood and J.-E. Vahlne. London: Croom Helm.

_____. 1991. "Country Capabilities and the Permeability of Borders." *Strategic Management Journal* XII (Special Issue on Global Strategy): 33-48.

_____. 1993. "Learning, or the Importance of Being Inert: Country Imprinting and International Competition." in *Organization Theory and the Multinational Corporation*, edited by S. Ghoshal and D. E. Westney. New York: St. Martin's Press.

Krirkkiat, Phipatseritham. 1982. *Wikroh Laksana Karn Pen Chao Khong Turakij Khanat Yai* [The Distribution of Ownership in the Thai Big Business]. First Edition. Bangkok: Thai Studies Center, Thammasat University.

Krirkkiat Phipatseritham, and Kunio Yoshihara. 1983. *Business Groups in Thailand*. Research Note and Discussion Paper No. 41. Singapore: Institute of Southeast Asian Studies.

Kumar, Krishna. 1982. "Third World Multinationals: A Growing Force in International Relations." *International Studies Quarterly* XXVI: 397-424.

Lall, Sanjaya. 1983a. "The Rise of Multinationals from the Third World." *Third World Quarterly* V, 3: 618-626.

_____.1983b. *The New Multinationals: The Spread of Third World Enterprises*. New York: John Wiley & Sons.

Lecraw, Donald. 1977. "Direct Investment by Firms from Less Developed Countries." *Oxford Economic Papers* XXIX, 3: 442-457.

_____.1981. "Internationalization of Firms from LDCs: Evidence from the ASEAN Region." in *Multinationals from Developing Countries*, edited by K. Kumar and M. G. McLeod. Lexington, Massachusetts: D.C.Heath.

_____. 1989. "Third World Multinationals in the Service Industries." in *Multinational Service Firms*, edited by P. Enderwick. London and New York: Routledge.

_____. 1993. "Outward Direct Investment by Indonesian Firms: Motivations and Effects." *Journal of International Business Studies* (Third Quarter): 589-600.

Lim, Linda. 1996a. "The Evolution of Southeast Asian Business Systems." *Journal of Asian Business* XII, 1: 51-74.

_____. 1996b. "Southeast Asian Business Systems: The Dynamics of Diversity." In *East Asian Capitalism: Diversity and Dynamism*, edited by A. E. Safarian and W. Dobson. Toronto: University of Toronto Press.

Loasby, Brian J. 1998. "The Concept of Capabilities." In *Economic Organisatioon, Capabilities and Co-ordination: Essays in Honour of G.B. Richardson*, edited by N. J. Foss and B. J. Loasby. London: Routledge.

McVey, Ruth. 1992. "The Materialization of the Southeast Asian Entrepreneur." in *Southeast Asian Capitalists*, edited by R. McVey. Ithaca: Cornell Southeast Asia Program.

Nipon Poapongsakorn, Chirmsak Pinthong, Chitriya Pinthong, and Dow

Mongkolsamai. 1985. *Food Processing and Marketing in Thailand*. Geneva: United Nations Conference on Trade and Development (UNCTAD).

Nukul Prachuabmoh. 1996. *Cheewit tee kumka* [Fruitful Life: An Autobiography]. Bangkok: Dokya Publishing.

Orru, Marco, Nicole Woolsey Biggart and Gary G. Hamilton. 1991. "Organizational Isomorphism in East Asia." in *The New Institutionalism in Organizational Analysis*, edited by W. W. Powell and P. J. DiMaggio. Chicago: The University of Chicago Press.

Orru, Marco, Nicole Woolsey Biggart and Gary G. Hamilton (eds) 1997. *The Economic Organization of East Asian Capitalism*. Thousand Oaks, CA: Sage.

Pavida Pananond. 2001. *The Making of Thai Multinationals: The Internationalisation Process of Thai Firms*. Unpublished Ph.D. Thesis, Department of Economics, University of Reading.

_____. forthcoming. "Built on Shaky Ground?: The International Expansion of Thailand's Jasmine Group." *Asia Pacific Business Review* (Special Issue on Asian Management in Crisis).

Pavida Pananond and Carl P. Zeithaml. 1998. The International Expansion Process of MNEs from Developing Countries: A Case study of Thailand's CP group. *Asia Pacific Journal of Management* 15 (2):163-84.

Perkins, Dwight. 1994. "There are at Least Three Models of East Asian Development." *World Development* XXII, 4: 655-661.

Petri, Peter A. 1997. "Common Foundations of East Asian Success." in *Lessons from East Asia*, edited by D. M. Leipziger. Ann Arbor: University of Michigan Press.

Sakkarin Niyomsilpa. 2000. *The Political Economy of Telecommunications Reforms in Thailand*. London: Pinter.

Siam Cement Fact Books, various years.

Siam Cement. 1983. *Poon Cement Thai, 2456 -2526* [Siam Cement,1913 – 1983]. Bangkok: Siam Cement.

Suehiro, Akira. 1989. *Capital Accumulation in Thailand 1855 - 1985*. Chiang Mai: Silkworm Books.

_____. 1992. "Capitalist Development in Postwar Thailand: Commercial Bankers, Industrial Elite, and Agribusiness Groups." in *Southeast Asian Capitalists*, edited by R. McVey. Ithaca: Cornell University.

Suehiro, Akira. 1993. "Family Business Reassessed: Corporate Structure and Late-Starting Industrialisation in Thailand." *The Developing Economies* XXXI, 4: 378-407.

Tisdell, C., T. Murphy and T.Kehren. 1997. "Characteristics of Thailand's Commercial Pig and Poultry Industries, with International Comparisons." *World Annual Review* XXCIX, 2: 2-11.

Tolentino, Paz E. E. 1993. *Technological Innovation and Third World Multinationals*. London: Routledge.

Ulgado, Francis M., Chow-Ming J. Yu and Anant R. Negandhi. 1994. "Multinational Enterprises from Asian Developing Countries: Management and Organisational Characteristics." *International Business Review* III, 2: 123-33.

United Nations Conference on Trade and Development (UNCTAD). 1999. *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*. New York: United Nations.

Vernon-Wortzel, Heidi and Lawrence H. Wortzel. 1988. "Globalising Strategies for Multinationals from Developing Countries." *Columbia Journal of World Business* (Spring): 27-35.

Wells, Louis T. 1977. "The Internationalisation of Firms from Developing Countries." in *Multinationals from Small Countries*, edited by T. Agmon and C. P.Kindleberger. Cambridge, MA: MIT Press.

_____. 1981. "Foreign Investors from the Third World." in *Multinationals from Developing Countries*, edited by K. Kumar and M. G. McLeod. Lexington, MA: D.C.Heath.

_____. 1983. *Third World Multinationals: The Rise of Foreign Investment from Developing Countries*. Cambridge, MA: MIT Press.

Whitley, Richard D. 1990. "Eastern Asian Enterprise Structures and the Comparative Analysis of Forms of Business Organisation." *Organisation Studies* XI, 1: 47-74.

Whitley, Richard D. 1992. *Business Systems in East Asia: Firms, Markets and Societies*. London: Sage Publications.

Wichai Suwanban. 1993. *CP: Turakij rai Promdan* [CP: The Borderless Empire]. Bangkok: Than Setthakij.

Wirat Saengthongkham. 2000. *Yuthasat Kwam Yai Krua Cement Thai* [Grand Strategy of The Siam Cement Group]. Bangkok: P.Press.

Yeung, Henry Wai-Chung. 1994. "Third World Multinationals Revisited: A Research Critique and Future Agenda." *Third World Quarterly* XV, 2: 297-317.

Yeung, Henry Wai-chung. 1998. *Transnational Corporations and Business Networks, Routledge Advances in Asia-Pacific Business*. London: Routledge.

Yin, Robert K. 1994. *Case Study Research: Design and Methods*. Thousand Oaks, CA: Sage Publications.