

Thailand's Competitiveness: Where Does the Country Stand?

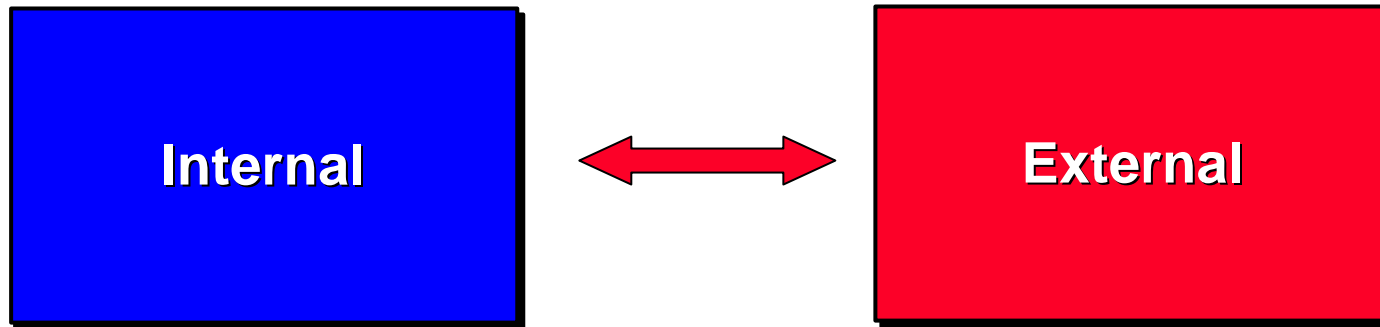
Professor Michael E. Porter
Institute for Strategy and Competitiveness
Harvard Business School

Bangkok, Thailand
13 July 2005

This presentation draws on ideas from Professor Porter's articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), "The Microeconomic Foundations of Economic Development," in The Global Competitiveness Report 2004, (World Economic Forum, 2004), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (Harvard Business School Press, 1998), and the *Clusters of Innovation Initiative* (www.compete.org), a joint effort of the Council on Competitiveness, Monitor Group, and Professor Porter. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter.

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Perspectives on Firm Success



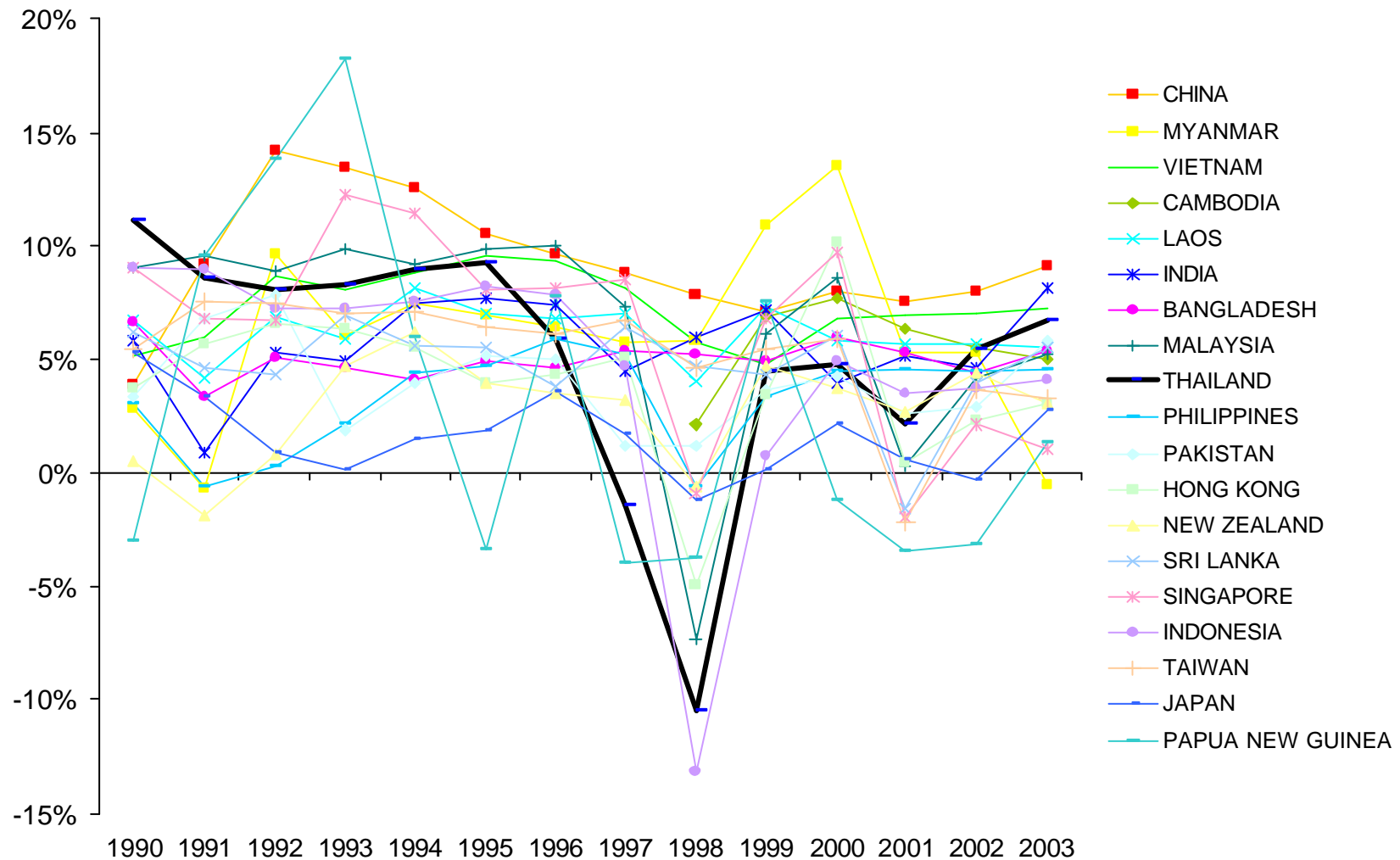
- Competitive advantage resides solely **inside** a company or in its industry
- Competitive success depends primarily on **company choices**
- Competitive advantage (or disadvantage) resides partly in the **locations** at which a company's business units are based
- **Cluster participation** is an important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

Comparative Economic Performance

Real GDP Growth Rates

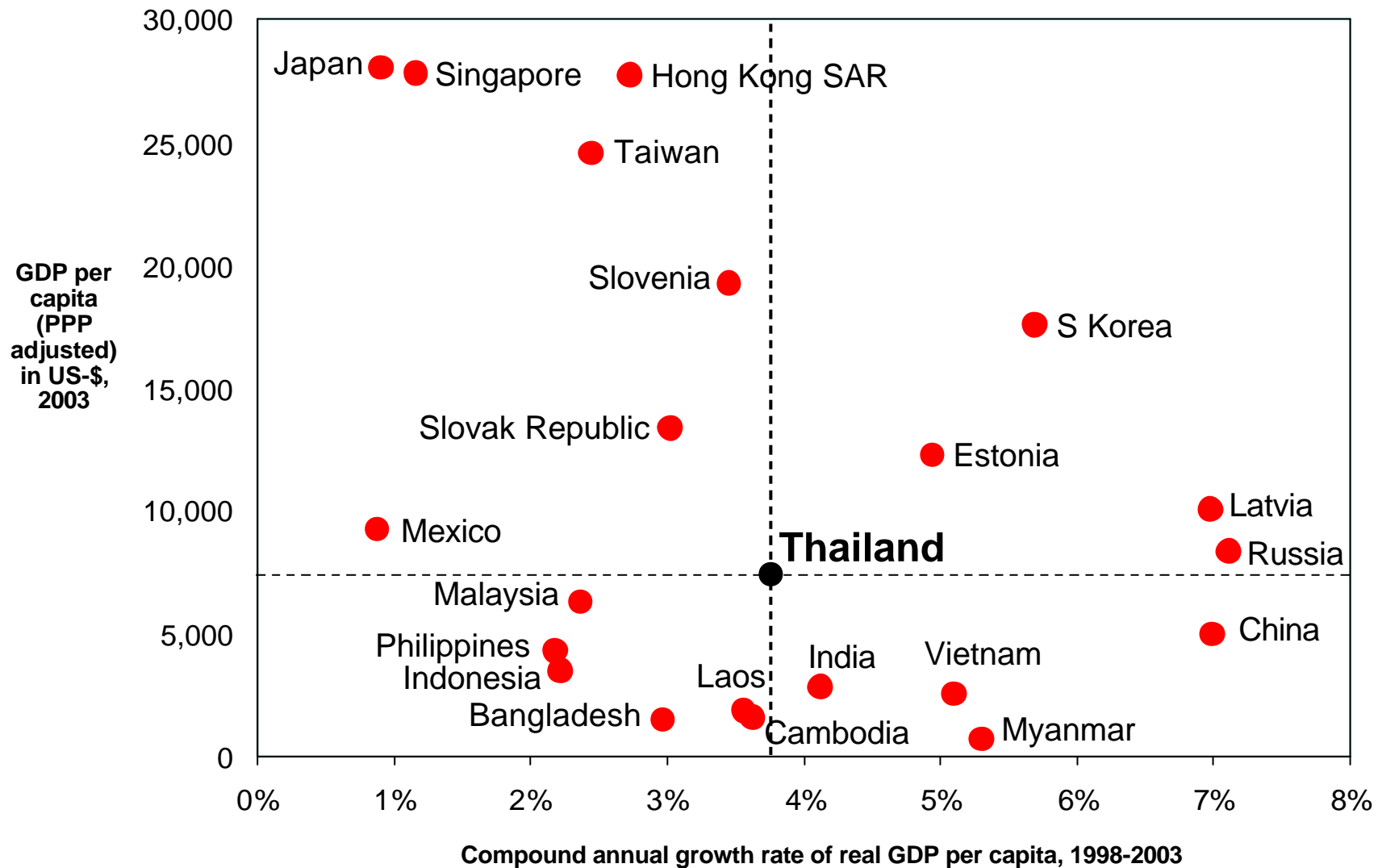
Annual growth rate
of real GDP

Countries sorted by 1998-
2003 annual real GDP
growth rate (CAGR)



Source: EIU (2004)

Comparative Economic Performance



Source: EIU (2004)

Thailand's Competitiveness

- The Thai economy had to deal with a **number of serious crises** (Asian crisis, SARS, 2004 Tsunami) in the last decade
- Despite these challenges, prosperity has **improved** at a solid rate since 1999
- The **2004 drop** in the Global Competitiveness Report ranking is a reminder, however, that further improvements are not automatic



- Thailand needs to **continue the upgrading** processes to deliver rising competitiveness
- A key task for the country is the improving ability to move from strategic ambition to **sustainable action**

What is Competitiveness?

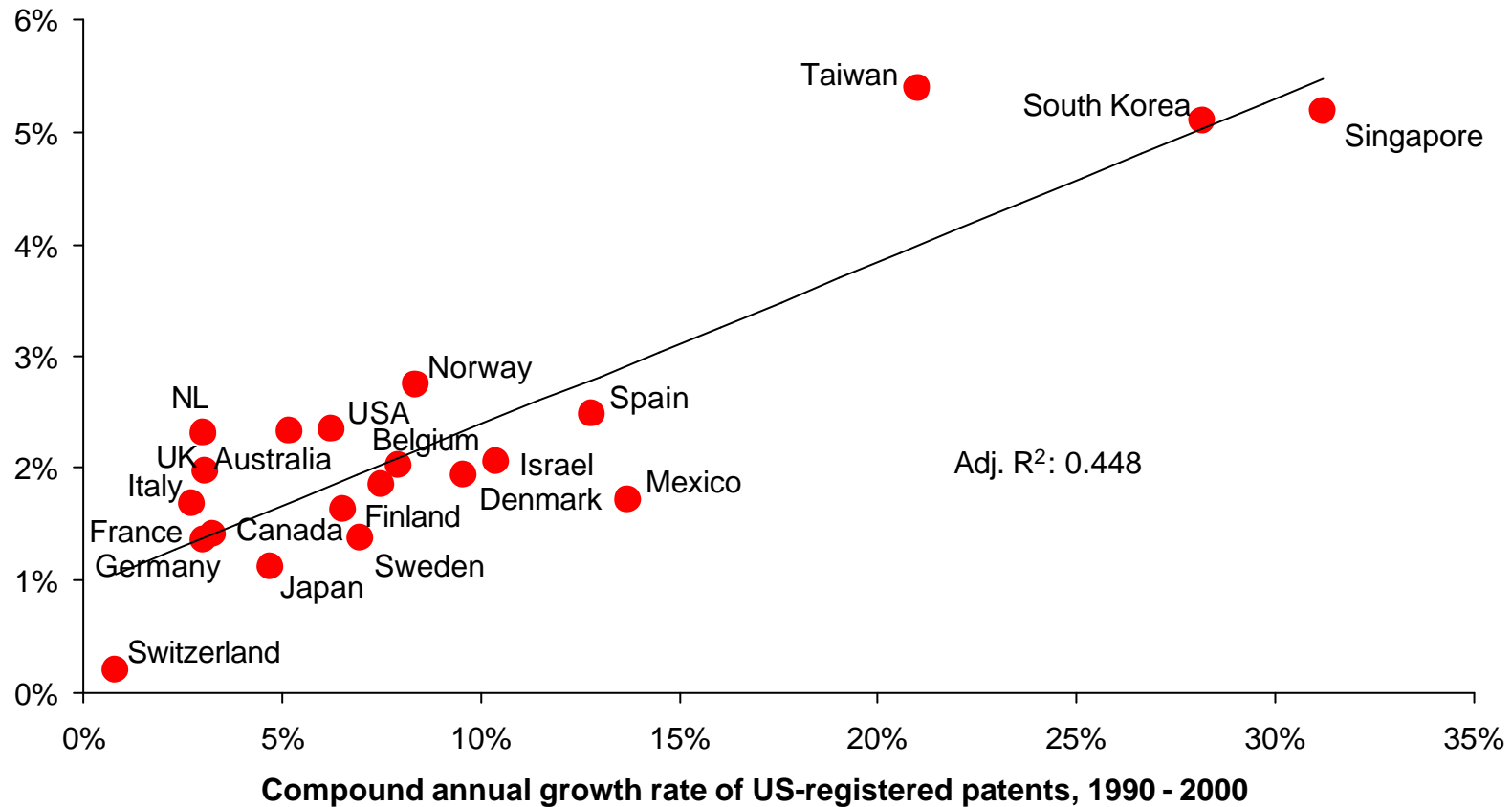
- Competitiveness is determined by the **productivity** (value per unit of input) with which a nation, region, or cluster uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns on capital, returns on natural resources)
 - Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.
 - It is not **what** industries a nation or region competes in that matters for prosperity, but **how** firms compete in those industries
 - Productivity in a nation or region is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.
 - The productivity of **“local”** industries is of fundamental importance to competitiveness, not just that of traded industries
 - Devaluation and revaluation do **not** make a country more or less “competitive”



- Nations or regions compete in offering the **most productive environment** for business
- The public and private sectors should play **different but interrelated roles** in creating a productive economy

Innovation and Competitiveness

Real GDP per capita
Growth, 1990 - 2000



- Innovation is **more than just scientific discovery**
- There are **no low-tech industries**, only low-tech firms

Note: * The share of a country's patents filed between 1994 and 1998 that were highly cited in 1999.

Source: CHI Patent, National Science Foundation and Council on Competitiveness data. Author's analysis.

Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Foundations

**The Sophistication
of Company
Operations and
Strategy**

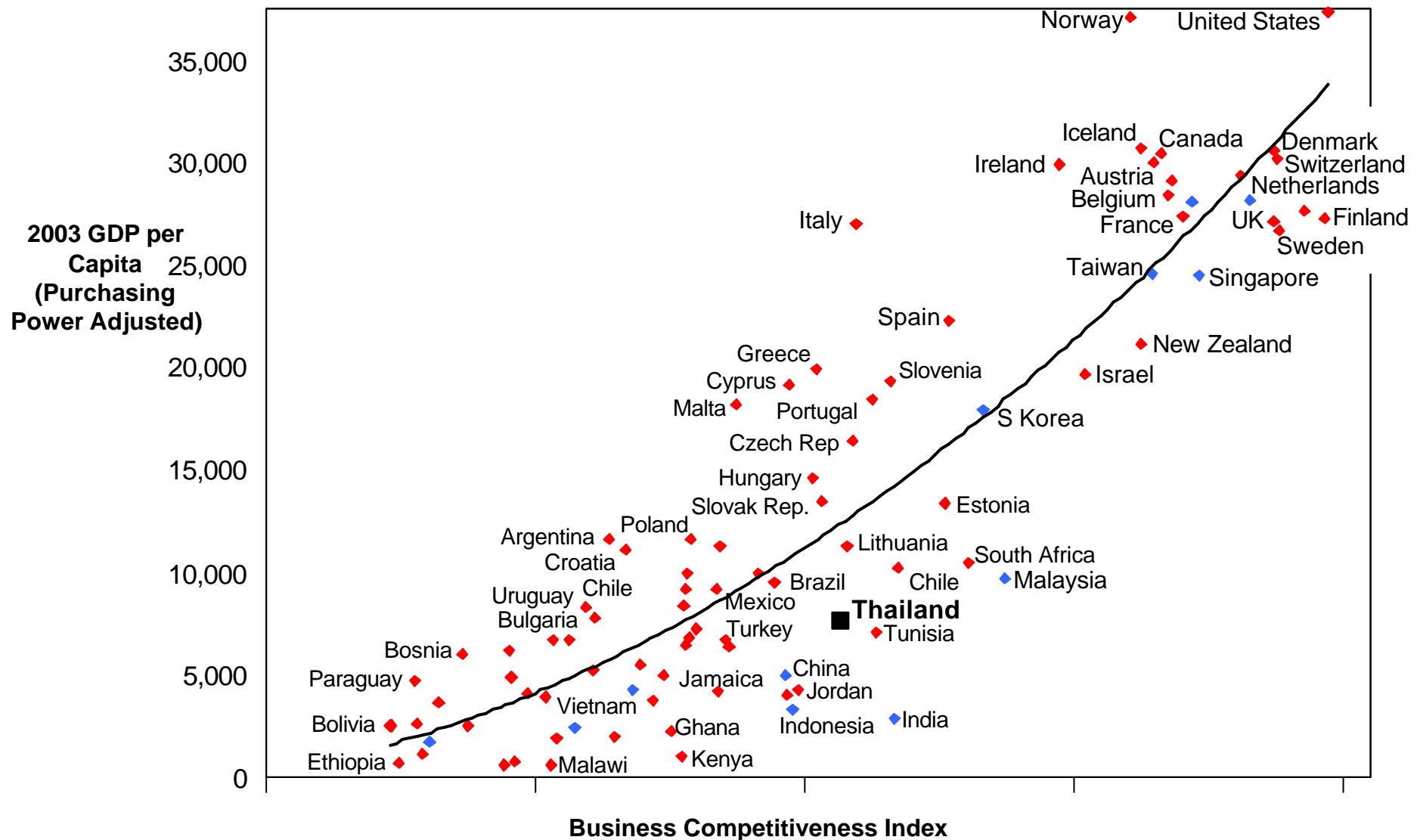


**The Quality of the
Microeconomic
Business
Environment**

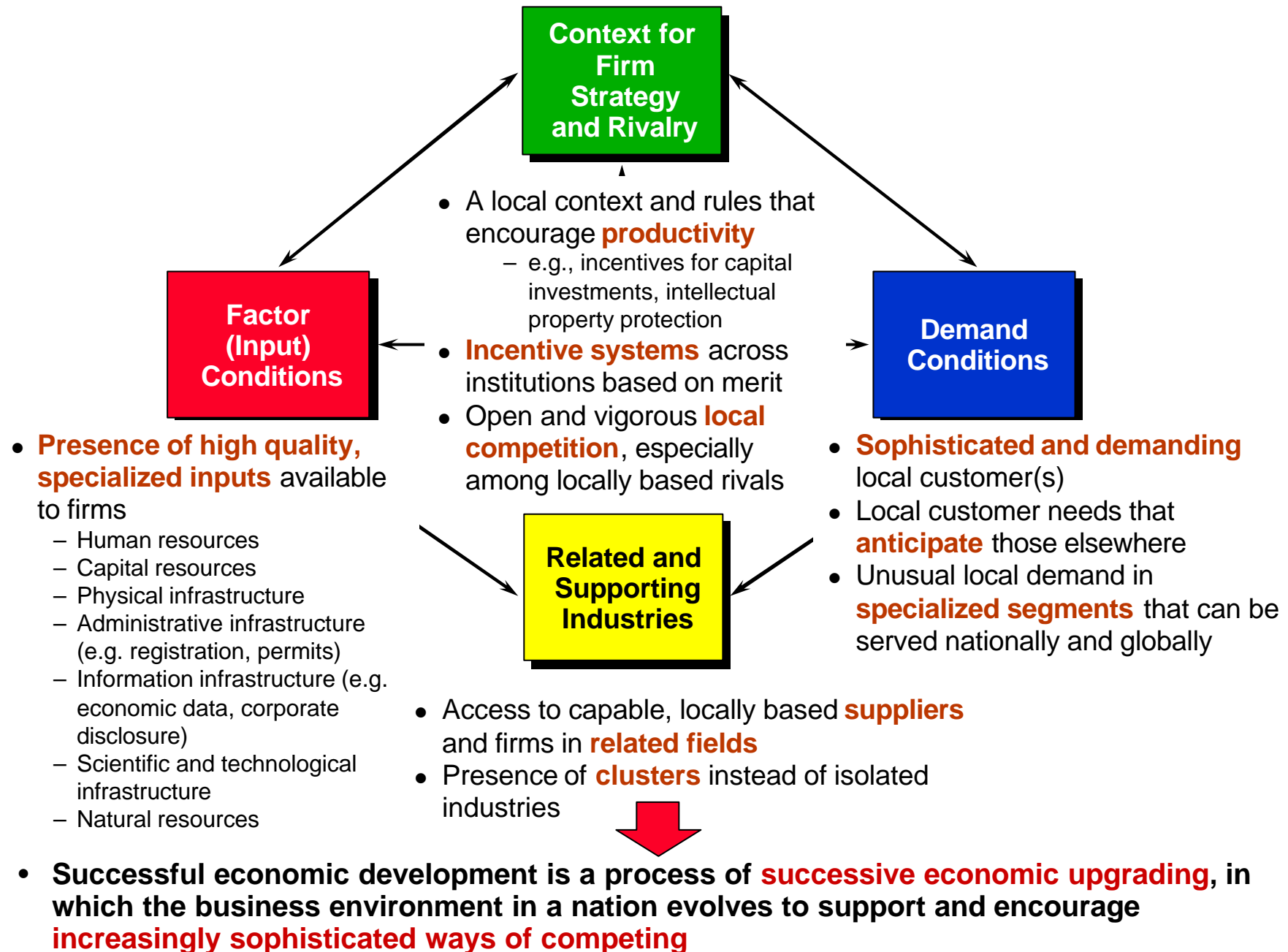
- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Only **firms** can create wealth, not government

Global Competitiveness Report 2004

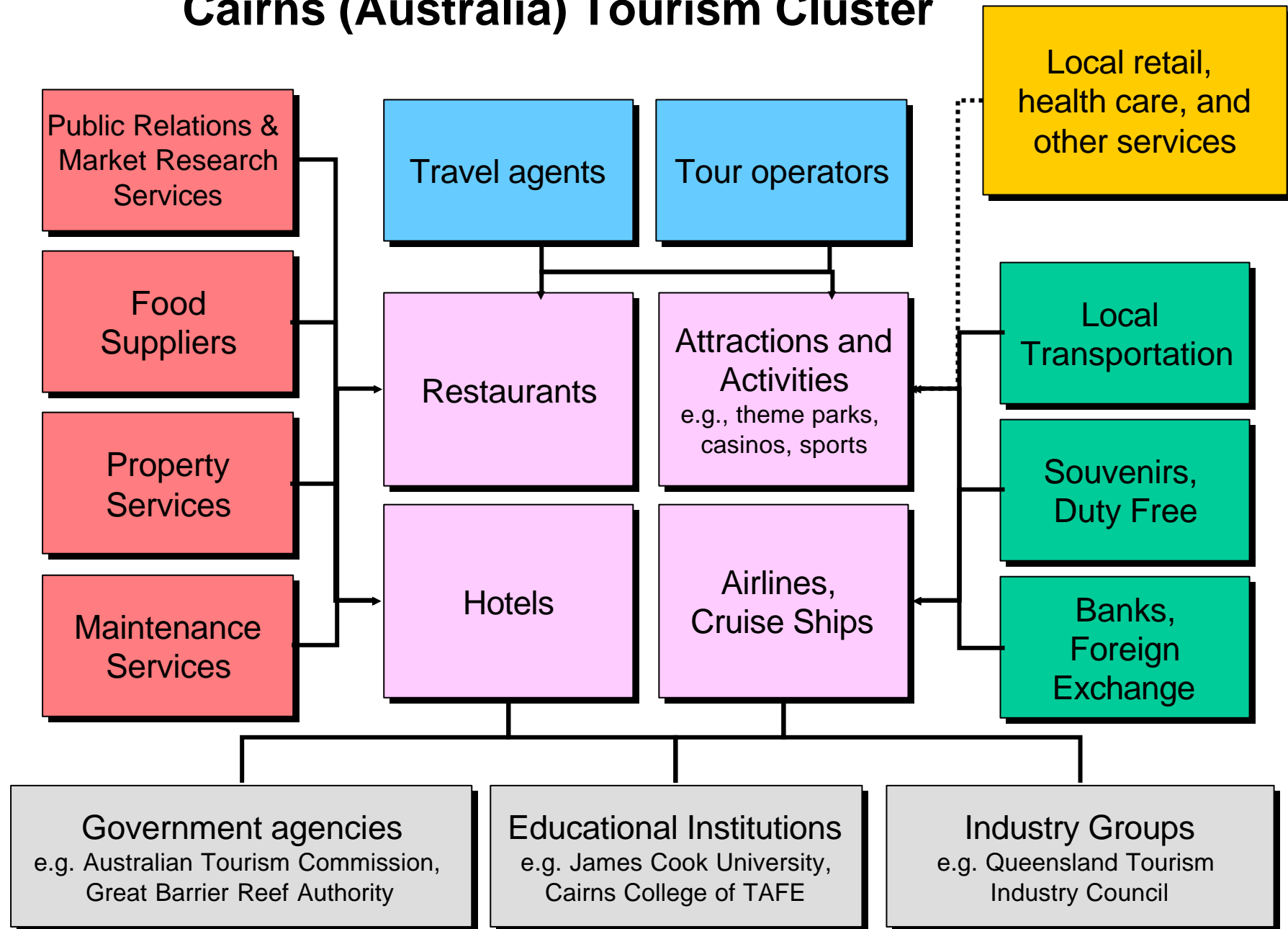
The Relationship Between Business Competitiveness and GDP Per Capita



Productivity and the Business Environment

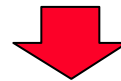
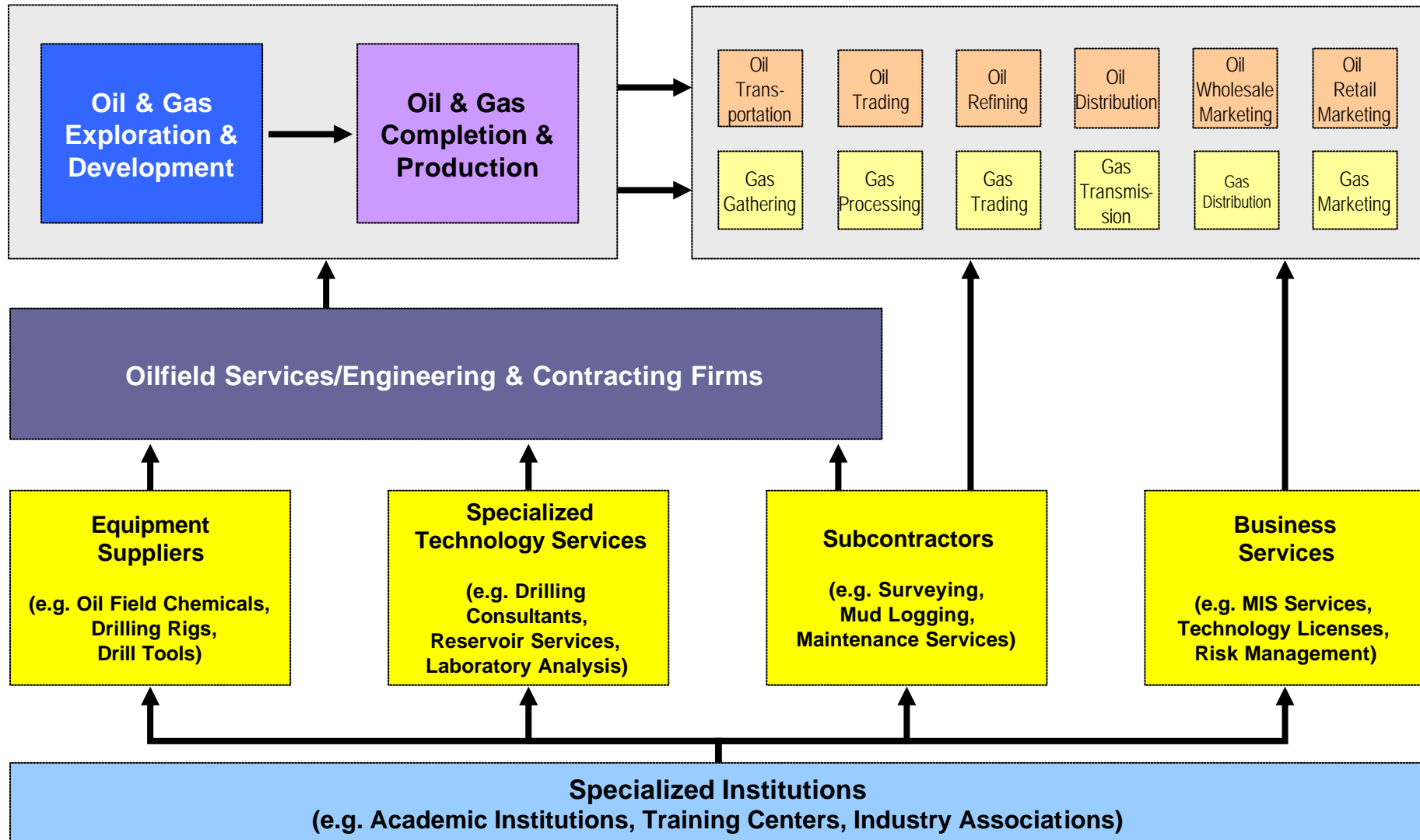


Cairns (Australia) Tourism Cluster



Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden

Houston Oil and Gas Cluster



- Houston exports technology, knowledge, and management, not just resources

Clusters and Competitiveness

- **Clusters Increase Productivity / Efficiency**

- Efficient **access** to specialized inputs, services, employees, information, institutions, and “public goods” (e.g. training programs)
- Ease of **coordination** and transactions across firms
- Rapid **diffusion** of best practices
- Ongoing, visible **performance comparisons** and strong incentives to improve vs. local rivals

- **Clusters Stimulate and Enable Innovations**

- Enhanced ability to **perceive innovation opportunities**
- Presence of multiple suppliers and institutions to assist in **knowledge creation**
- Ease of **experimentation** given locally available resources

- **Clusters Facilitate Commercialization**

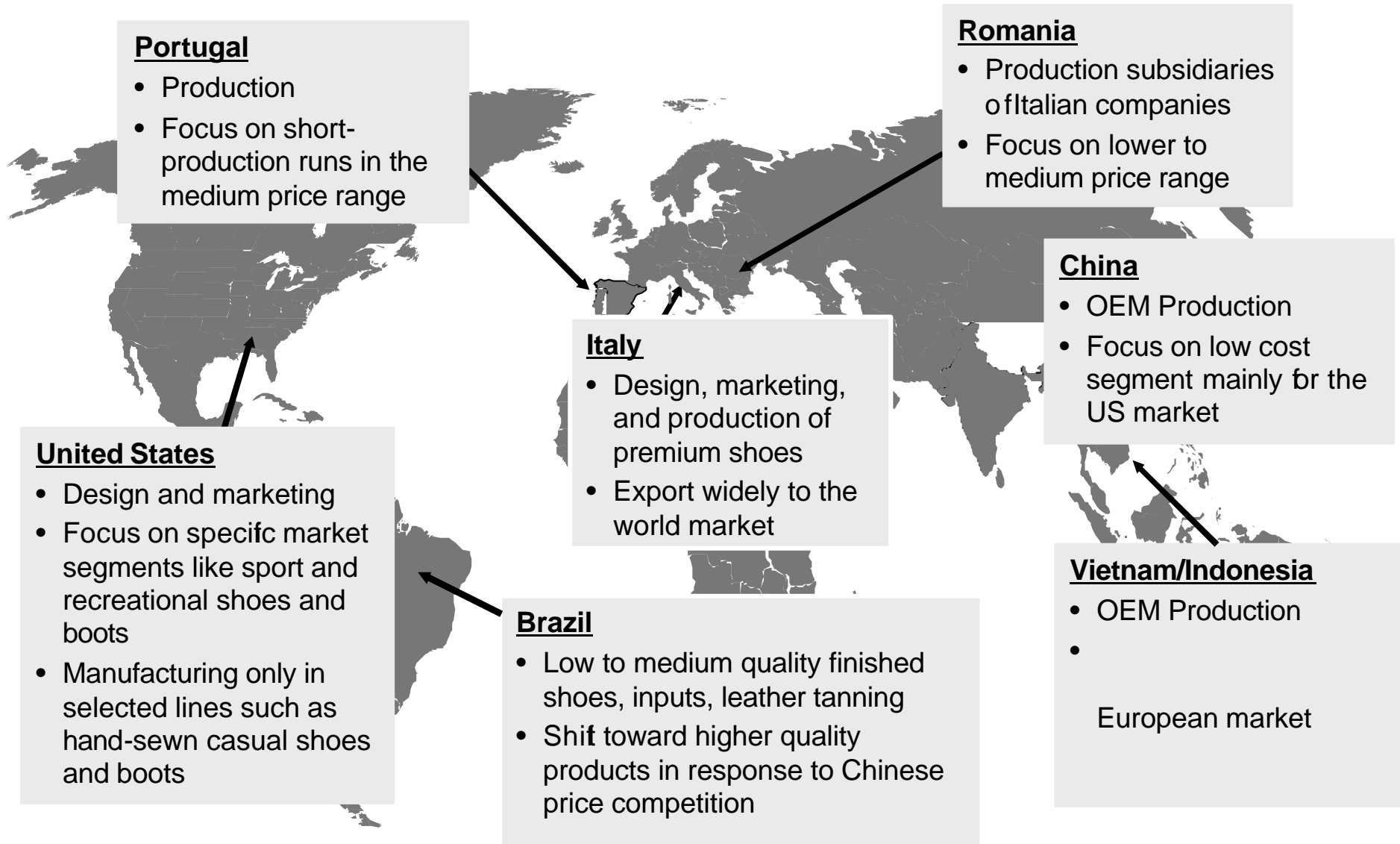
- Opportunities for **new companies** and **new lines of established business** are more apparent
- **Commercializing** new products and starting new companies is easier because of available skills, suppliers, etc.



Clusters reflect the fundamental influence of **linkages and spill-overs** across firms and associated institutions in competition

Levels of Clusters

Leading Footwear Clusters



Institutions for Collaboration

Selected Massachusetts Organizations, Life Sciences

Life Sciences Industry Associations

- Massachusetts Biotechnology Council
- Massachusetts Medical Device Industry Council
- Massachusetts Hospital Association

General Industry Associations

- Associated Industries of Massachusetts
- Greater Boston Chamber of Commerce
- High Tech Council of Massachusetts

Economic Development Initiatives

- Massachusetts Technology Collaborative
- Mass Biomedical Initiatives
- Mass Development
- Massachusetts Alliance for Economic Development

University Initiatives

- Harvard Biomedical Community
- MIT Enterprise Forum
- Biotech Club at Harvard Medical School
- Technology Transfer offices

Informal networks

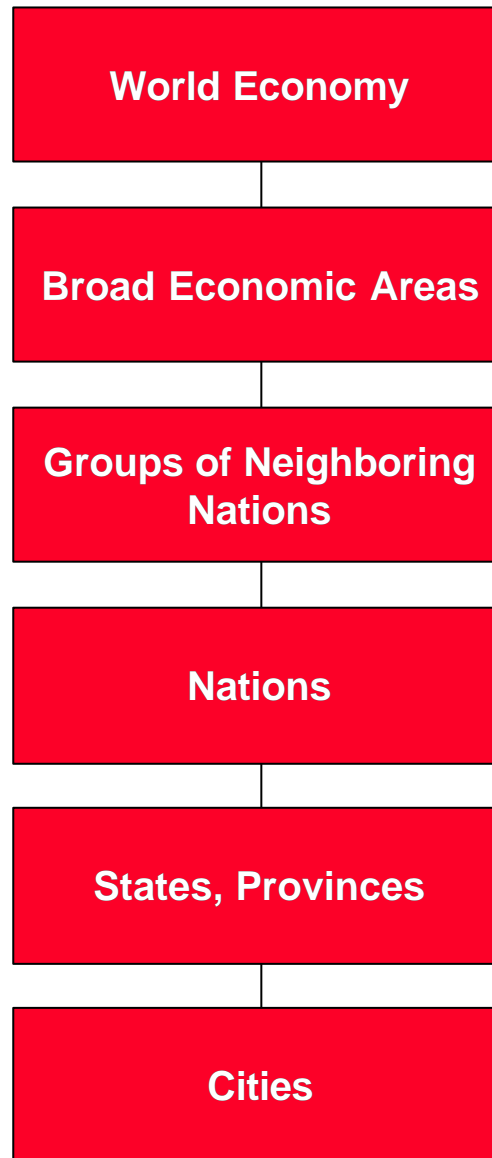
- Company alumni groups
- Venture capital community
- University alumni groups

Joint Research Initiatives

- New England Healthcare Institute
- Whitehead Institute For Biomedical Research
- Center for Integration of Medicine and Innovative Technology (CIMIT)

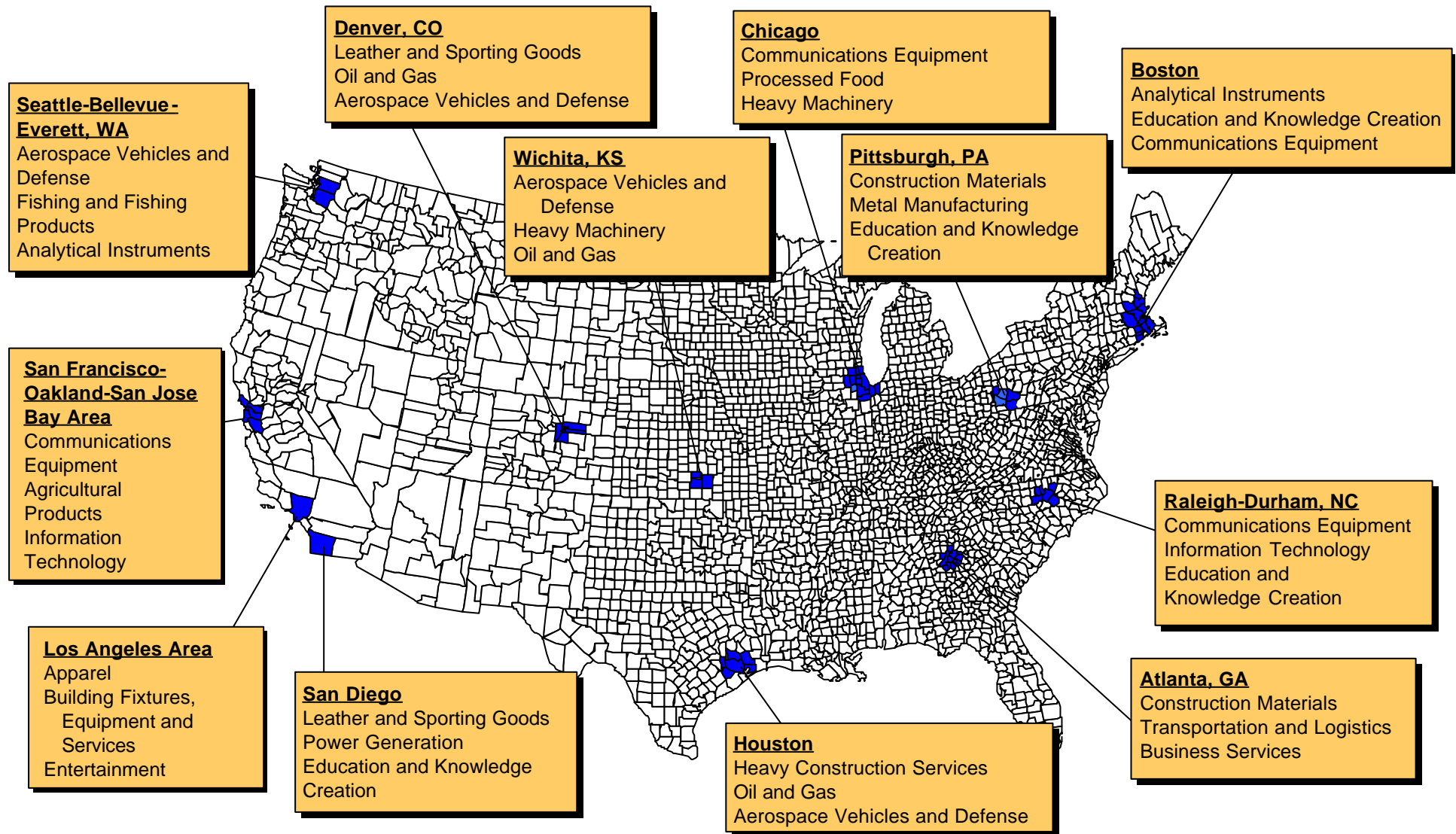
Influences on Competitiveness

Multiple Geographic Levels



Specialization of Regional Economies

Select U.S. Geographic Areas



Note: Clusters listed are the three highest ranking clusters in terms of share of national employment
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School
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Composition of Regional Economies

United States, 2002

	Traded Clusters	Local Clusters	Natural Resource-Driven Clusters
Share of Employment	30.5%	68.8%	0.7%
Employment Growth Rate, 1990 to 2002	0.9%	2.4%	-1.2%
Average Wage	\$45,511	\$29,010	\$33,066
Relative Wage	129.7%	82.7	94.3
Wage Growth	4.3%	3.6%	1.8%
Relative Productivity	144.1	79.3	140.1
Patents per 10,000 Employees	21.3	1.3	7.0
Number of SIC Industries	590	241	48

Note: 2002 data, except relative productivity which uses 1997 data.

Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

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Stages Of Competitive Development



Input Cost

- *Macro, political, and legal stability*
- *Efficient basic infrastructure*
- *Lowering the regulatory costs of doing business*

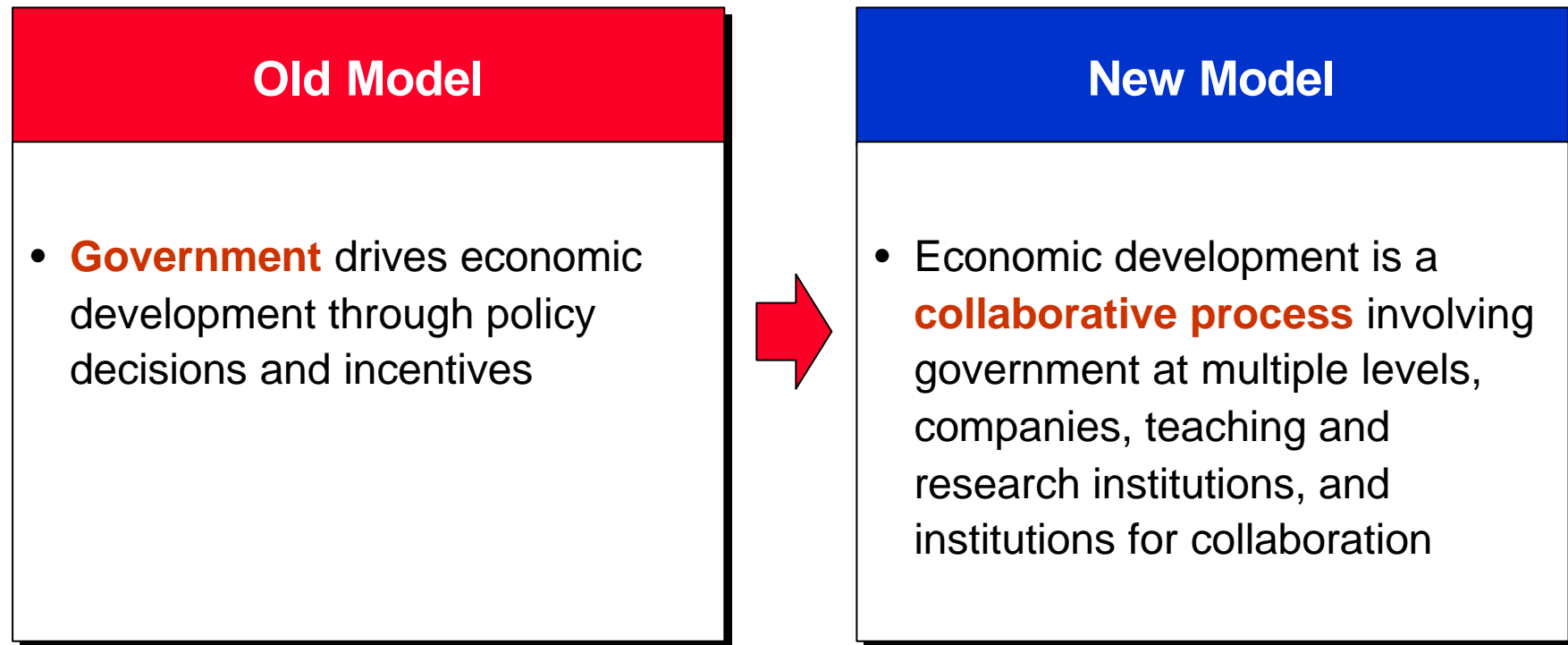
Efficiency

- *Local competition*
- *Market openness*
- *Incentives and rules encouraging productivity*
- *Cluster development*

Unique Value

- *Advanced skills*
- *Advanced infrastructure*
- *Incentives and rules encouraging innovation*
- *Cluster upgrading*

Shifting Responsibilities for Economic Development



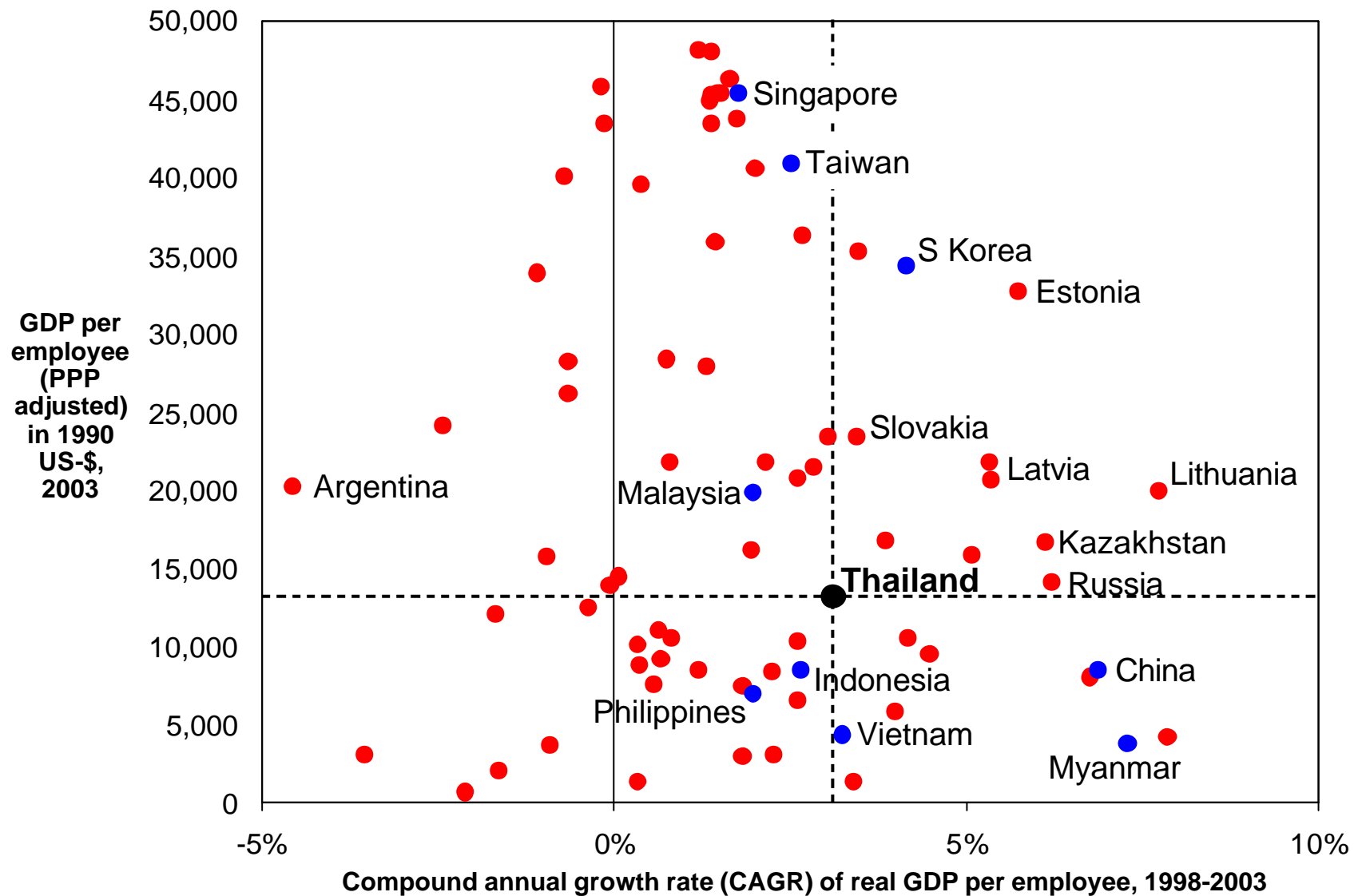
- Competitiveness must become a **bottoms-up process** in which citizens take responsibility
- **Every** community and cluster can take steps to enhance competitiveness

Assessing Thailand's Competitiveness

Results

- Labor productivity remains **relatively low** but has been growing at a steady rate in recent years
- Labor force mobilization is **high**
- Thailand's overall world export market share has been **stable** over time
 - Services (especially tourism) have not regained their position from the mid 1990s
- **Moderate** level of FDI; behind leading peers in the region
- Weak on **patenting**

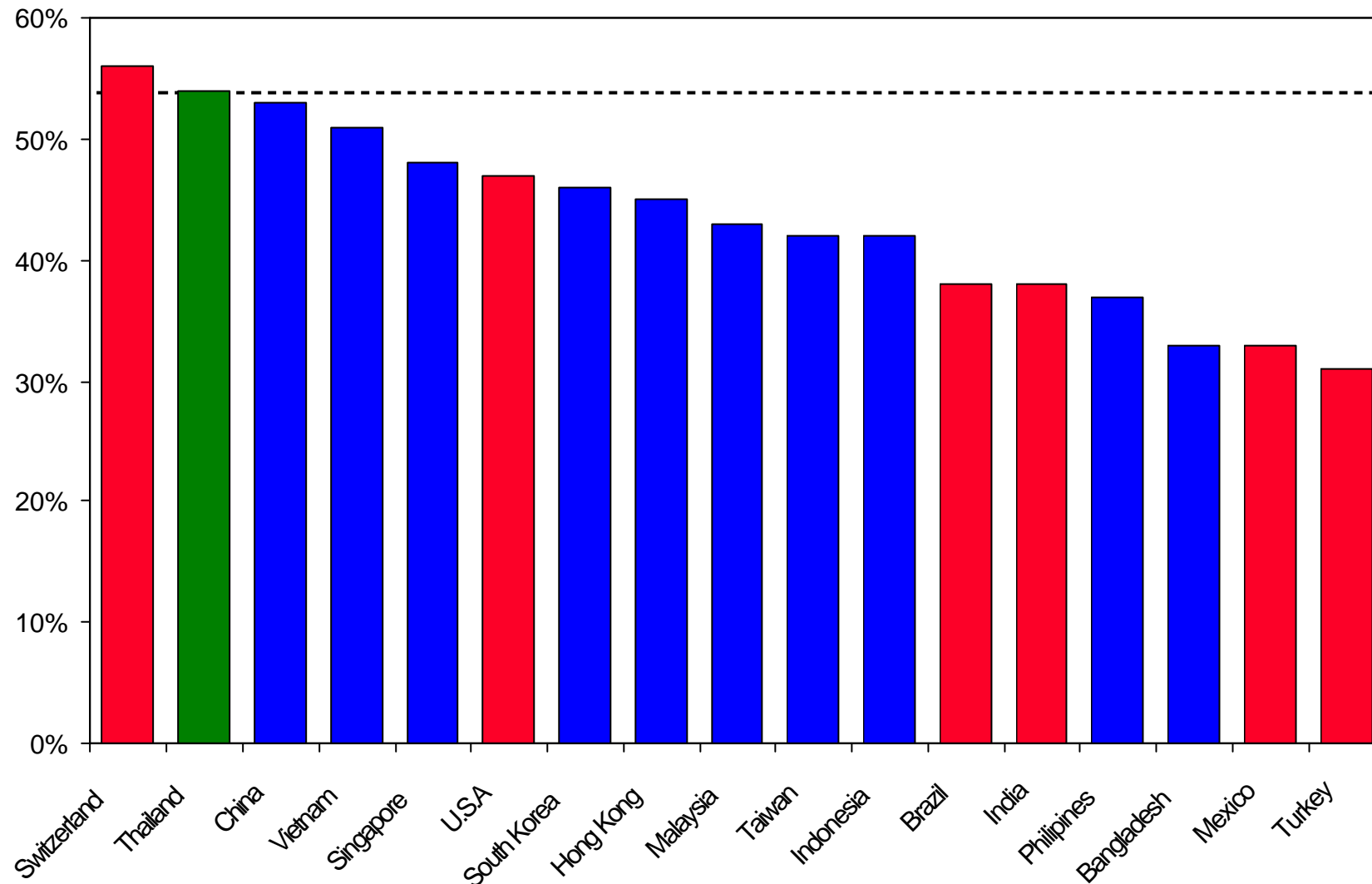
Comparative Labor Productivity Performance



Source: Groningen Growth and Development Centre and The Conference Board, 2005

Labor Force Mobilization

Employees as % of Population, 2003



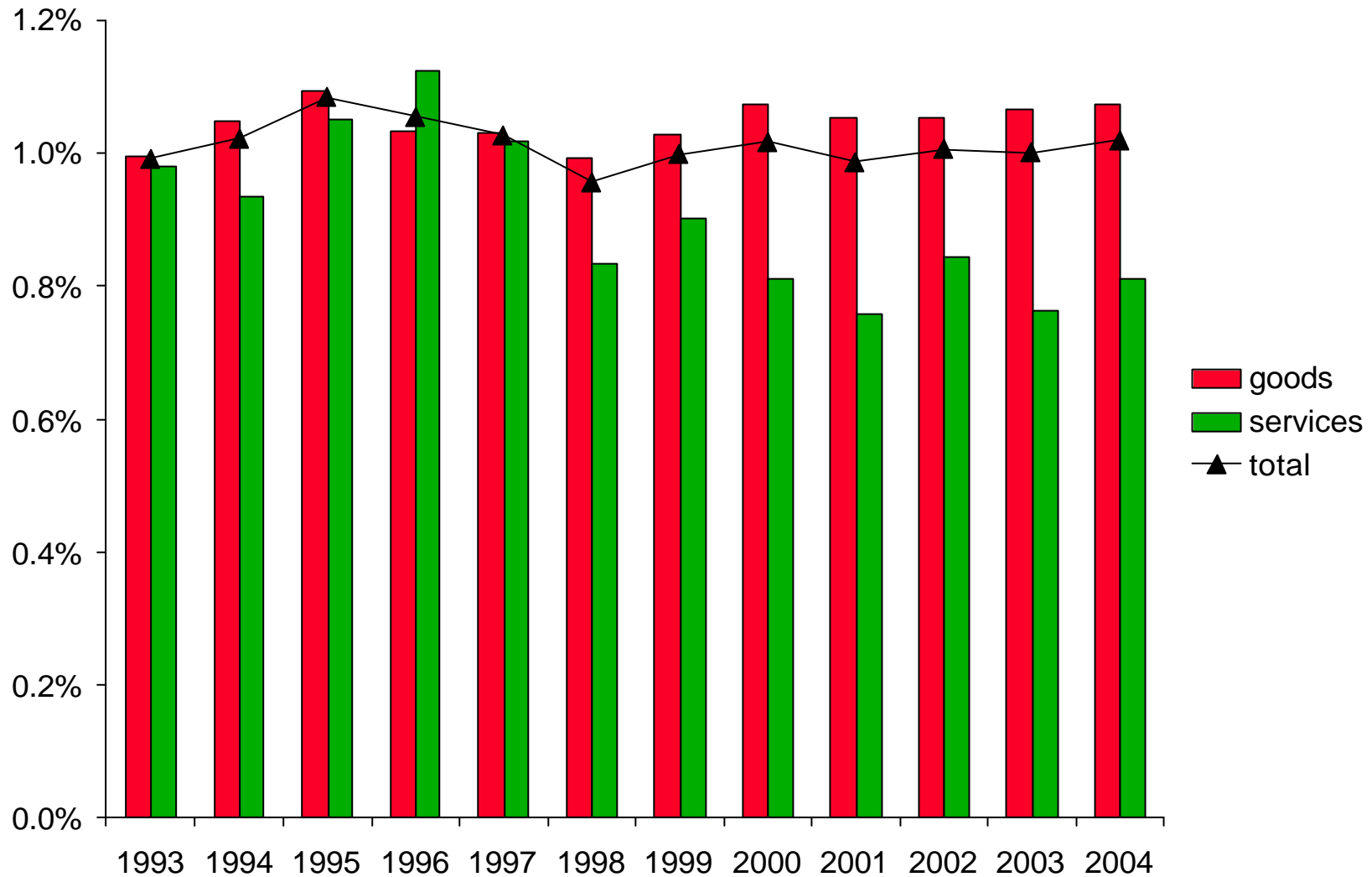
Note: Asian countries in blue, other countries in red

Source: Groningen Growth and Development Centre and The Conference Board, 2005

Thailand's Export Performance

World Export Market Shares

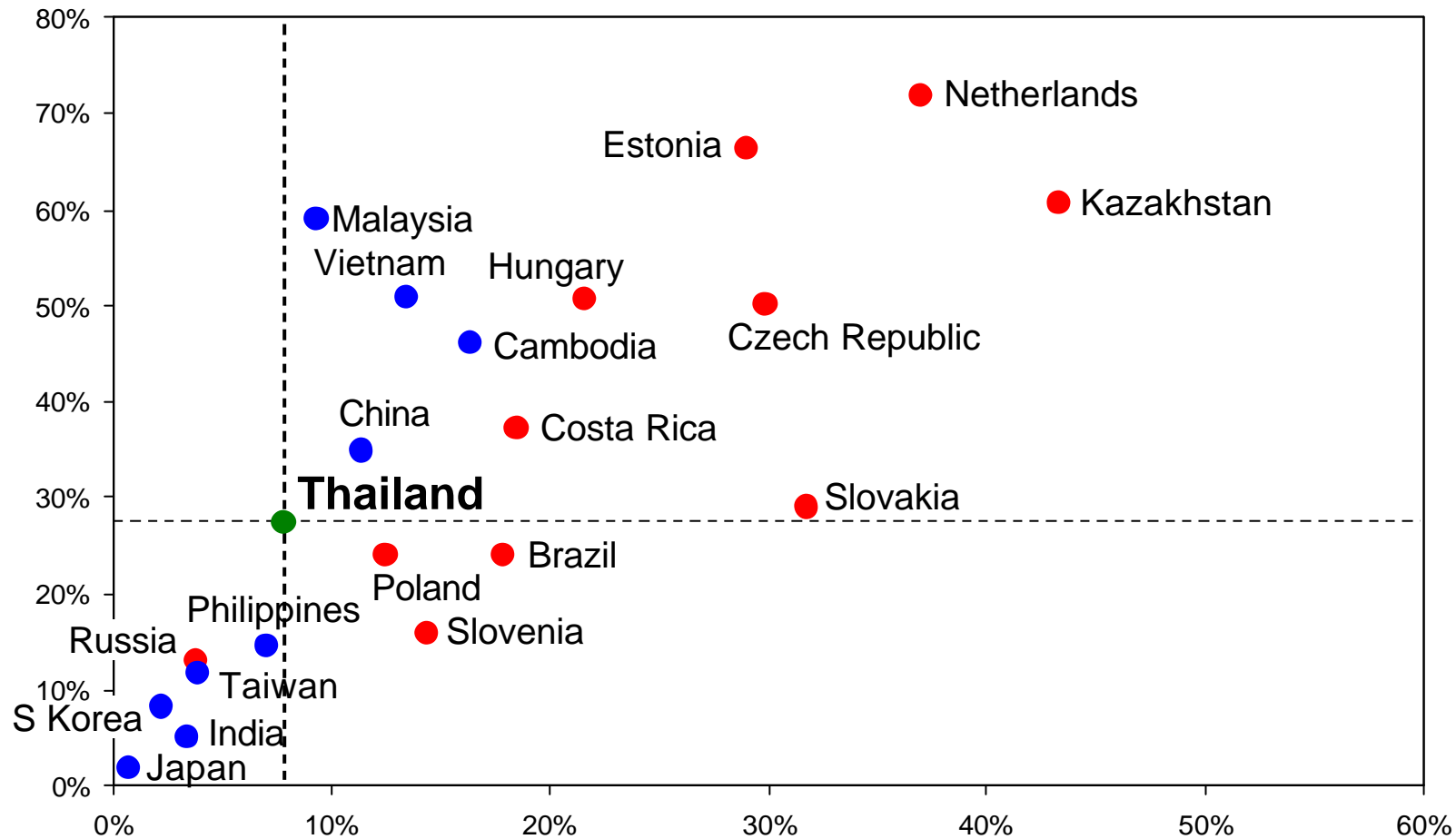
World export
share in %



Comparative Inward Foreign Investment

Selected Countries

FDI Stocks as % of GDP,
Average 2001-2003



FDI Inflows as % of Gross Fixed Capital Formation, Average 2001-2003

Note: Asian countries in blue

Source: UNCTAD (2004)

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International Patenting Output

Selected Countries

Country	Number of patents, 2003	Number of patents per million capita, 2003	Growth of number of patents, CAGR, 1998 - 2003
Japan	35,517	279.2	2.86%
South Korea	3,944	82.3	3.89%
Australia	900	45.4	4.56%
Singapore	427	101.9	28.91%
India	341	0.3	32.03%
China	297	0.2	32.87%
Hong Kong SAR	276	40.1	13.97%
New Zealand	135	33.7	3.44%
Mexico	84	0.8	8.06%
Malaysia	50	20.0	16.80%
Thailand	25	0.4	13.97%
Philippines	22	0.3	22.40%
Indonesia	9	0.04	24.57%

Source: US Patent and Trademark Office (www.uspto.gov). Author's analysis.

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Determinants of Thai Competitiveness

Macroeconomic, social, political, and legal context

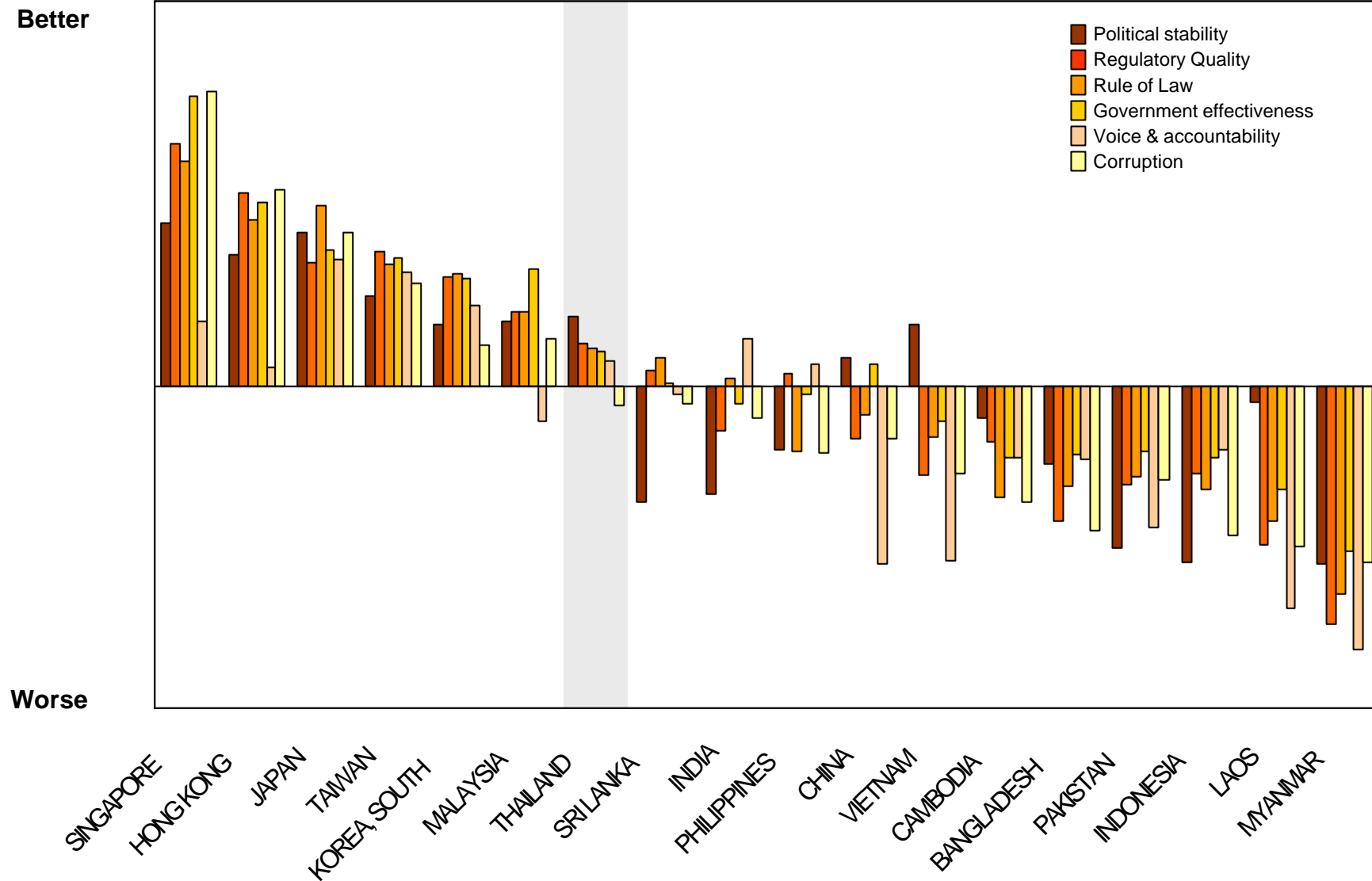
- Thailand provides only an **average** overall context for competitiveness
- The **level of corruption** particularly is an important impediment to the country's competitiveness

Microeconomic business environment

- Key strengths are the **emerging clusters** present in the Thai economy
- Key weaknesses in **human capital** and **technological sophistication**

Governance Indicators

Selected Countries

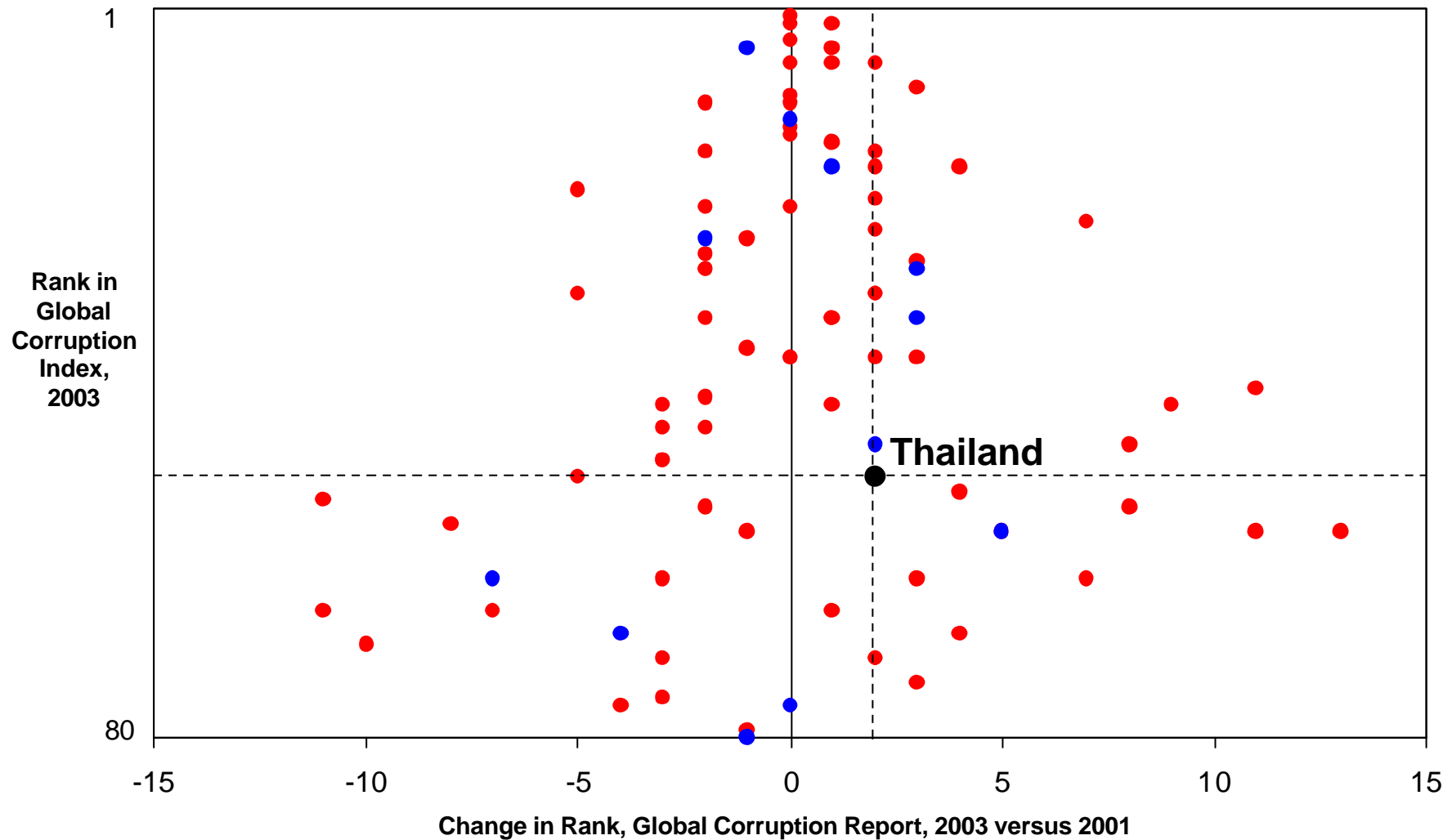


Note: Sorted left to right by decreasing average value across all indicators

Source: World Bank (2004)

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Corruption



Note: Asian countries in blue, constant country sample

Source: Global Corruption Report, 2003

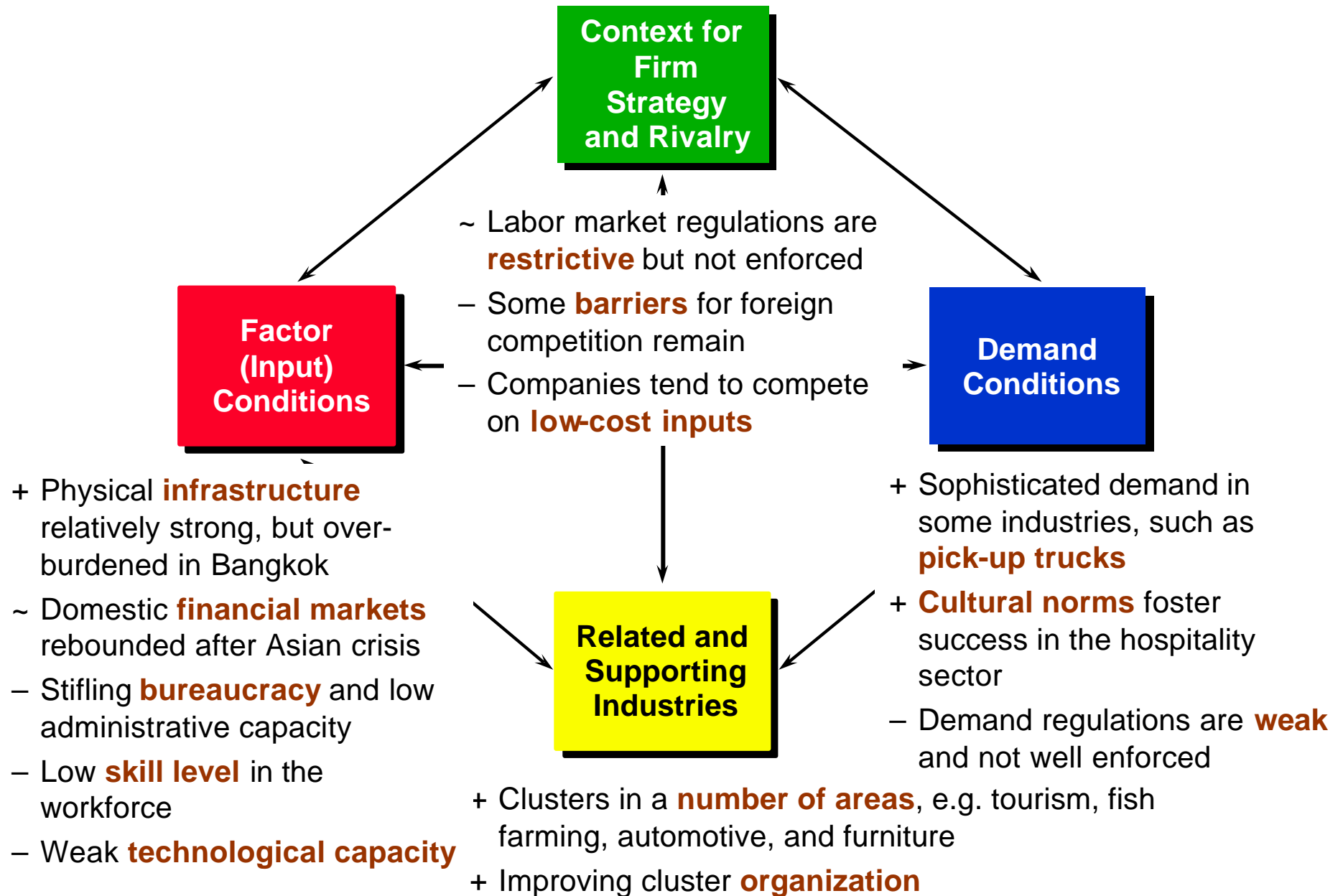
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Business Competitiveness Index Rankings, 2004

Rank	Country	Rank	Country
1	United States	26	Spain
2	Finland	27	Estonia
3	Germany	28	Chile
4	Sweden	29	India
5	Switzerland	30	Slovenia
6	United Kingdom	31	Tunisia
7	Denmark	32	Portugal
8	Japan	33	Italy
9	Netherlands	34	Czech Republic
10	Singapore	35	Lithuania
11	Hong Kong SAR	36	Thailand
12	France	37	Brazil
13	Australia	38	Slovak Republic
14	Belgium	39	Greece
15	Canada	40	Hungary
16	Austria	41	Jordan
17	Taiwan	42	Indonesia
18	New Zealand	43	Cyprus
19	Iceland	44	Morocco
20	Norway	45	China
21	Israel	46	Costa Rica
22	Ireland	47	Latvia
23	Malaysia	48	Malta
24	S Korea	49	Namibia
25	South Africa	50	Turkey

Thailand's Business Environment

Key Strengths and Weaknesses



Infrastructure and Skills

Thailand's Relative Position

Competitive Advantages Relative to GDP per Capita

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

INFRASTRUCTURE

Air transport infrastructure quality	27	↑
Overall infrastructure quality	34	
Quality of electricity supply	35	

SKILLS

University/industry research collaboration	31	↑
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Competitive Disadvantages Relative to GDP per Capita

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

INFRASTRUCTURE

Internet users per 10,000 people (2003)	51
Telephone/fax infrastructure quality	46
Railroad infrastructure development	45
Port infrastructure quality	41

SKILLS

Availability of scientists and engineers	65
Quality of the educational system	61
Quality of public schools	53
Quality of math and science education	51
Quality of scientific research institutions	50
Quality of management schools	38

Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52^d in 2003 PPP adjusted GDP per capita

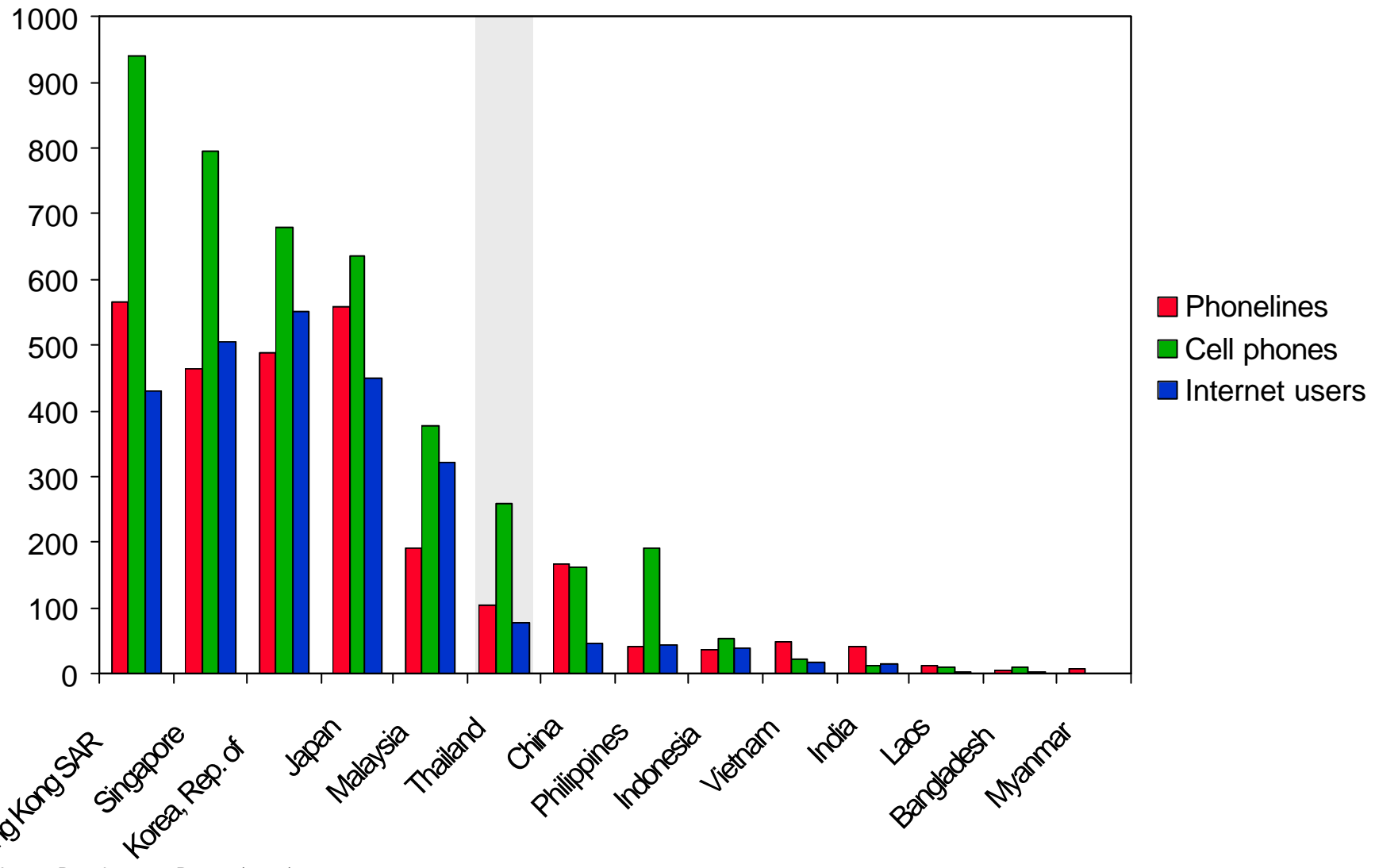
Source: Global Competitiveness Report 2004-2005

**Factor
(Input)
Conditions**




Communication Infrastructure

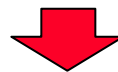
Thailand's Relative Position

Per 1,000 inhabitants,
2002



Financial Markets Thailand's Relative Position

Competitive Advantages Relative to GDP per Capita		Competitive Disadvantages Relative to GDP per Capita	
Country Ranking, Arrows indicate a change of 5 or more ranks since 1998		Country Ranking, Arrows indicate a change of 5 or more ranks since 1998	
Local equity market access	21 	Ease of access to loans	41
		Venture capital availability	41 
		Financial market sophistication	37 



- Thai companies continue to be among the **most leveraged** in Asia
- This legacy of the Asian crisis leads to large swings in their profitability, and increases their **vulnerability** to external shocks

Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52^d in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Administrative Infrastructure

Thailand's Relative Position

Competitive Advantages Relative to GDP per Capita

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

Administrative burden for startups	22	
Efficiency of legal framework	32	↑

Competitive Disadvantages Relative to GDP per Capita

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

Extent of bureaucratic red tape	90	↓
Reliability of police services	43	
Judicial independence	42	

Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52^d in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Context for Firm Strategy and Rivalry

Thailand's Relative Position

Competitive Advantages Relative to GDP per Capita

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

Extent of locally based competitors	8
Cooperation in labor-employer relations	25
Decentralization of corporate activity	27
Intensity of local competition	29
Prevalence and ease of mergers and acquisitions	31
Effectiveness of bankruptcy law	35
Intellectual property protection	35



Competitive Disadvantages Relative to GDP per Capita

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

Foreign ownership restrictions	83
Hidden trade barrier liberalization	64
Centralization of economic policy-making	61
Efficacy of corporate boards	52
Effectiveness of anti-trust policy	51
Tariff liberalization	49
Favoritism in decisions of government officials	46
Business costs of corruption	46
Regulation of securities exchanges	39
Protection of minority shareholders' interests	38

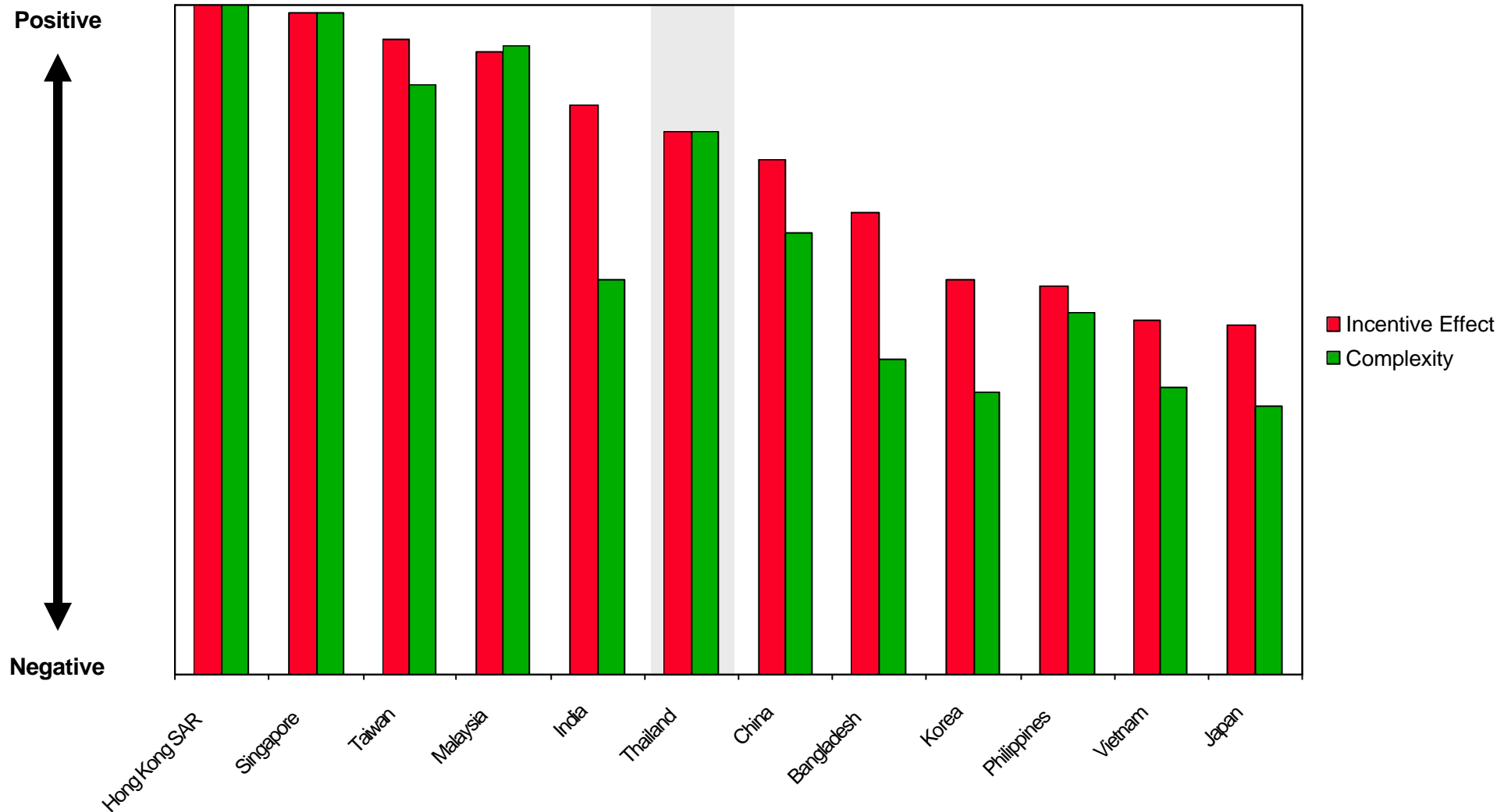


Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52^d in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Taxation

Selected Asian Countries



Demand Conditions

Thailand's Relative Position

Competitive Advantages Relative to GDP per Capita

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

Government procurement of advanced technology products	22
Openness of local buyers to new products and processes	26

Competitive Disadvantages Relative to GDP per Capita

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

Laws relating to ICT	42
Stringency of environmental regulations	42
Overall local buyer sophistication	40
Presence of demanding regulatory standards	38

Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52nd in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Related and Supporting Industries

Thailand's Relative Position

Competitive Advantages Relative to GDP per Capita

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

State of cluster development	20
Local availability of components and parts	24
Extent of collaboration among clusters	30
Local availability of process machinery	31
Local supplier quality	34
Local supplier quantity	34

Competitive Disadvantages Relative to GDP per Capita

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

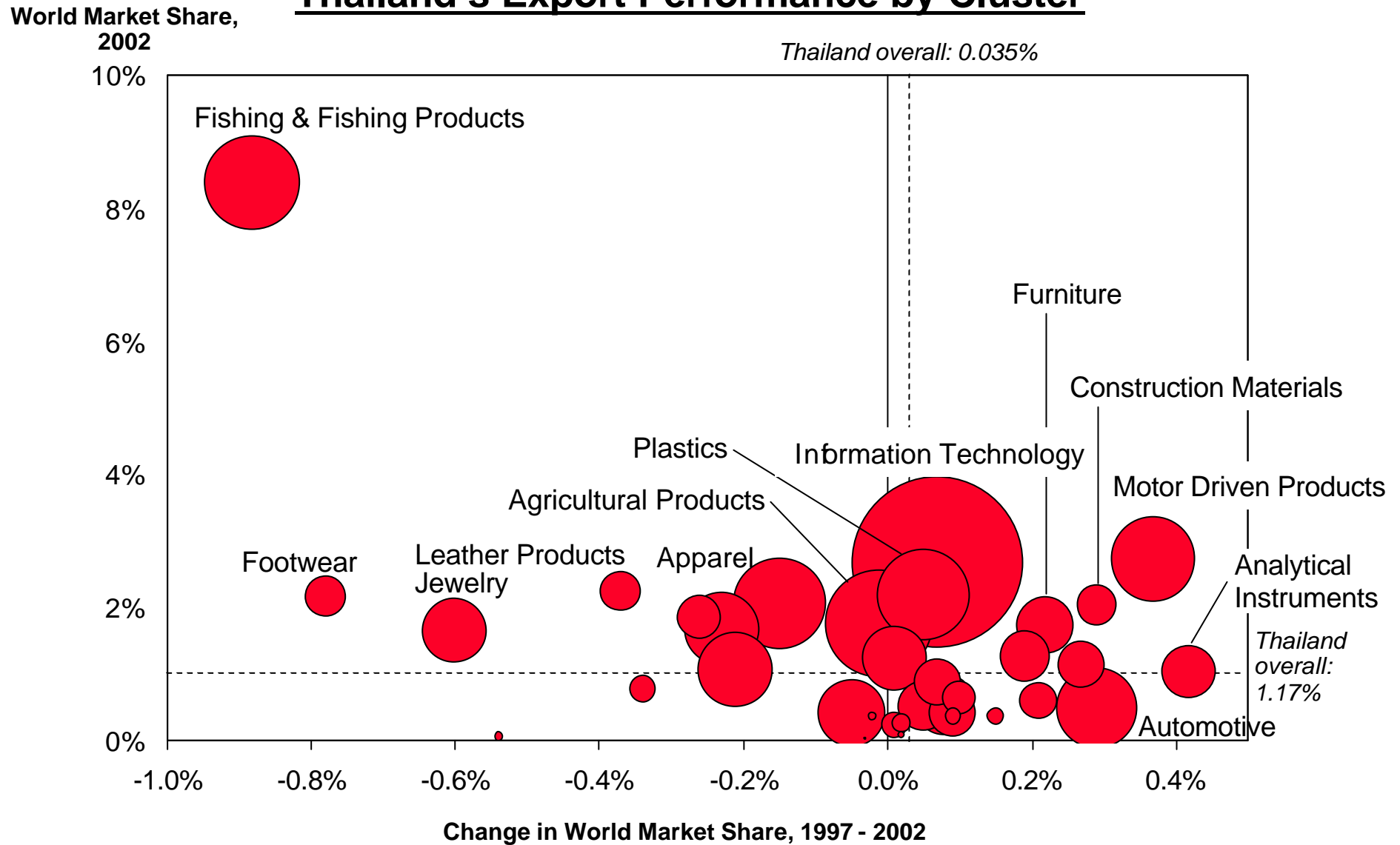
Local availability of specialized research and training services	45
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Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52^d in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

Cluster Composition

Thailand's Export Performance by Cluster



Source: International Cluster Competitiveness Project, Institute for Strategy and Competitiveness, Harvard Business School

Thailand's Top 50 Export Industries by Market Share

Industry	Cluster	World Export Share	Point Change in Share 1992 - 2001	Export Value (in \$1,000)
1 Natural rubber, balata and similar natural gums	Plastics	42.12%	12.96%	\$1,321,163
2 Rice, milled or semi-milled	Agricultural Products	33.75%	-1.20%	\$1,548,678
3 Industrial diamonds	Jewelry, Precious Metals and Collectibles	33.61%	32.95%	\$158,513
4 Turntables, record players	Entertainment Products	23.79%	23.76%	\$88,583
5 Miscellaneous prepared or preserved fish, crustaceans	Fishing and Fishing Products	22.10%	1.67%	\$2,011,904
6 Fruit, nuts and other preserved by sugar	Processed Food	17.28%	0.35%	\$34,538
7 Precious, semiprecious stones	Jewelry, Precious Metals and Collectibles	14.31%	-7.07%	\$201,760
8 Hygienic, pharmaceutical rubber articles	Medical Devices	14.19%	11.74%	\$81,143
9 Vegetable padding or stuffing materials	Agricultural Products	13.18%	-38.65%	\$596
10 Starches, inulin and gluten	Processed Food	12.60%	4.14%	\$124,453
11 Plastics or rubber apparel and clothing accessories	Apparel	12.34%	3.81%	\$367,114
12 Electric motors<=37.5w	Motor Driven Products	11.40%	8.39%	\$633,583
13 Gypsum, plasters, limestone	Construction Materials	11.09%	-3.87%	\$62,731
14 Crustaceans, mollusks, and aquatic invertebrates	Fishing and Fishing Products	10.25%	-4.52%	\$1,603,906
15 Wood for domestic use excluding furniture	Furniture	10.18%	-1.25%	\$188,189
16 Babies' garments, clothing accessories	Apparel	9.84%	1.36%	\$390,224
17 Other cereal meal, flours	Processed Food	9.37%	-4.74%	\$42,371
18 Whole bovine skin leather	Leather and Related Products	8.93%	1.94%	\$83,288
19 Air conditioning machines and parts	Motor Driven Products	8.66%	4.81%	\$1,151,222
20 Portland cement, aluminous cement and similar	Construction Materials	8.38%	8.23%	\$343,865
21 Aluminum doors, windows and frames	Building Fixtures and Equipment	8.12%	-1.25%	\$91,394
22 Miscellaneous plastic or rubber headgear	Apparel	7.71%	1.33%	\$3,256
23 Trunks, suit-cases, executive-case and similar	Leather and Related Products	7.55%	1.77%	\$314,798
24 Other sports shoes with leather uppers	Footwear	7.42%	-10.56%	\$224,330
25 Miscellaneous manufactures of leather or of	Leather and Related Products	7.21%	-8.43%	\$114,075
26 Gym, training shoes and the like rubber or plastics	Footwear	7.13%	-0.86%	\$134,012
27 Embroidery	Textiles	6.94%	3.64%	\$68,748
28 Other sports shoes with rubber, plastics uppers and	Footwear	6.87%	-0.20%	\$103,729
29 Miscellaneous prepared or preserved meat & offal	Agricultural Products	6.67%	5.86%	\$395,444
30 Tin	Metal Manufacturing	6.67%	3.42%	\$82,414
31 Combs, hair-slides, hairpins, curling pins and the like	Apparel	6.59%	-4.52%	\$25,214
32 Fruit, preserved or prepared	Agricultural Products	6.39%	-2.40%	\$375,316
33 Homogenized food preparations	Processed Food	6.20%	-1.07%	\$17,441
34 Sugars, molasses and honey	Agricultural Products	6.15%	-2.35%	\$765,183
35 Men's or boys' shirts, knitted	Apparel	5.95%	-0.29%	\$213,636
36 Parts and accessories, motorcycles	Sporting, Recreational and Children's Goods	5.81%	4.64%	\$146,257
37 Artificial flowers, foliage or fruit and parts thereof	Furniture	5.59%	-8.60%	\$38,336
38 Miscellaneous articles of ceramic materials	Building Fixtures and Equipment	5.45%	3.96%	\$121,544
39 Gold, silver jewelry or ware	Jewelry, Precious Metals and Collectibles	5.44%	0.33%	\$993,370
40 Clock, watch, spectacle glasses	Lighting and Electrical Equipment	5.40%	3.17%	\$6,747
41 Parts for automatic data processing machines	Information Technology	5.39%	1.84%	\$5,937,621
42 Other electric transformers	Lighting and Electrical Equipment	5.23%	3.29%	\$228,720
43 Miscellaneous electrical parts of machines	Analytical Instruments	5.01%	4.83%	\$144,862
44 Synthetic fibers suitable for spinning	Chemical Products	5.00%	4.40%	\$170,154
45 Ceramic household articles	Furniture	4.91%	2.38%	\$152,845
46 Mineral tars and products	Oil and Gas Products	4.86%	4.80%	\$163,057
47 Twine, cordage, rope and cables	Textiles	4.84%	0.72%	\$67,464
48 Filter blocks, slabs and plates, of paper pulp	Forest Products	4.82%	4.82%	\$3,421
49 Wood of non-conifer worked, shaped	Furniture	4.81%	1.32%	\$68,163
50 Printed circuits	Information Technology	4.79%	1.24%	\$687,022

Company Operations and Strategy

Thailand's Relative Position 2004

Competitive Advantages Relative to GDP per Capita		Competitive Disadvantages Relative to GDP per Capita	
Country Ranking, Arrows indicate a change of 5 or more ranks since 1998		Country Ranking, Arrows indicate a change of 5 or more ranks since 1998	
Prevalence of foreign technology licensing	11	Production process sophistication	55 ↓
Extent of regional sales	25	Reliance on professional management	54
Degree of customer orientation	25 ↑	Extent of branding	50 ↑
Willingness to delegate authority	27	Capacity for innovation	50
Breadth of international markets	32 ↑	Value chain presence	49
Extent of staff training	33	Nature of competitive advantage	49
		Extent of incentive compensation	47
		Extent of marketing	42
		Company spending on research and development	40
		Control of international distribution	39

Note: Rank versus 93 countries; overall Thailand ranks 36th in Business Competitiveness and 52nd in 2003 PPP adjusted GDP per capita

Source: Global Competitiveness Report 2004-2005

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Thailand's Competitiveness

Action Priorities

- Upgrade the **capabilities of the public sector** to implement modern economic policies
- Address **remaining weaknesses** in the business environment
 - Skills
 - Openness for foreign competition and investment
 - Bureaucracy
- Leverage and build on existing **cluster efforts**
- Mobilize stronger **cross-national cooperation** within ASEAN and with neighbors to speed up domestic reforms and enhance productivity

Public Sector Capabilities

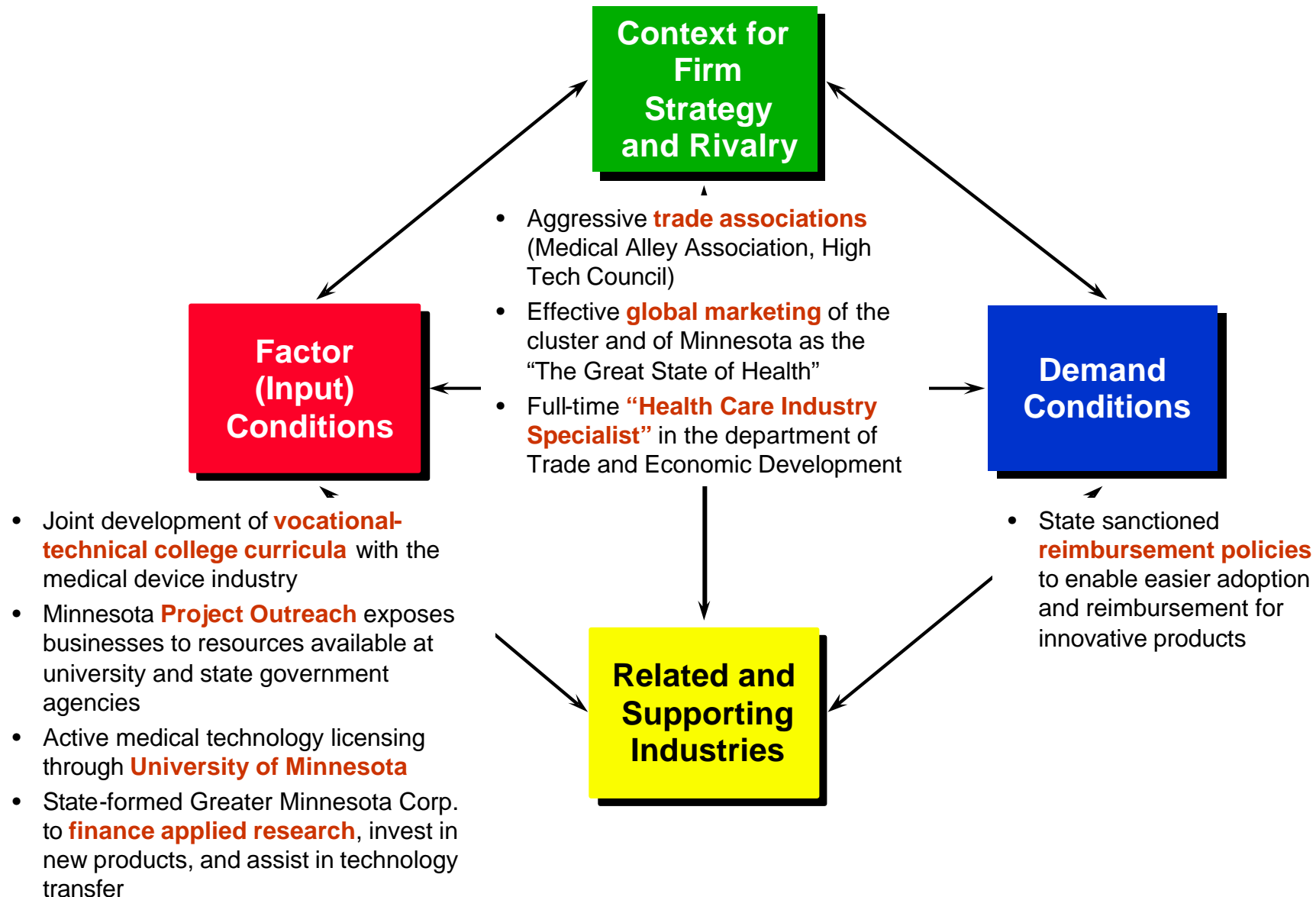
- Industry and government leaders have in 2003 launched a **series of efforts** to upgrade Thai competitiveness
- A number of **clusters** have been the spearhead of these efforts and have developed specific action plans



- Government agencies have often played a **useful role** in executing the action agenda of the clusters
 - In the Shrimp cluster, the government banned sales of chemicals and permitted imports of new brood stock
 - In the tourism cluster, NESDB and the Governor of Phuket developed a specific action plan to implement the cluster recommendations
- The ability of government agencies to sustain a longer-term strategic agenda, however, has often been **low**, frustrating participating private sector leaders

Public / Private Cooperation in Cluster Upgrading

Minnesota's Medical Device Cluster



Clusters as a Tool For Economic Policy

Overview

- A **new way of thinking** about an economy and organizing economic development efforts
- Better aligned with the **nature of competition and sources of competitive advantage**. Clusters capture important **linkages** in terms of technology, skills, information, marketing and customer needs that cut across firms and industries. Such linkages are fundamental to competition and, especially, to the **direction and pace of innovation**
- **Recast the role** of the private sector, government, trade associations and educational or research institutions
- Brings together **firms of all sizes**
- Creates a **forum** for constructive business-government dialog
- A means to identify **common opportunities, not just common problems**
- Provides guidance for both **economic and social policies**

Appropriate Roles of Government in Cluster Development

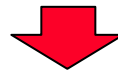
- A successful cluster policy builds on **sound overall economic policies**
- Government should support the development of **all clusters**, not pick winners among them
- Government policy should **reinforce established and emerging clusters** rather than attempt to create entirely new ones
- Government can **seed new clusters** through attracting foreign direct investment
- Government's role in cluster initiatives is as **facilitator** and **participant**. The most successful cluster initiatives are public-private partnerships
- *Government should **NOT** provide subsidies, set preferential tariffs, exempt companies from competition laws, give preferential tax exemptions, etc.*

Role of the Private Sector in Economic Development

- A company's competitive advantage is partly the result of the **local environment**
- Company membership in a cluster offers **collective benefits**
- Private investment in “**public goods**” is justified



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract new supplier investments
- Work closely with local **educational and research institutions** to upgrade **quality and create specialized programs addressing cluster needs**
- Provide government with **information** and **substantive input** on regulatory issues and constraints bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
 - Greater influence
 - Cost sharing

Regions and Economic Strategy

Traditional Views

- Regions as **free trade zones**; regions as **economic unions** (e.g., United States, European Union)

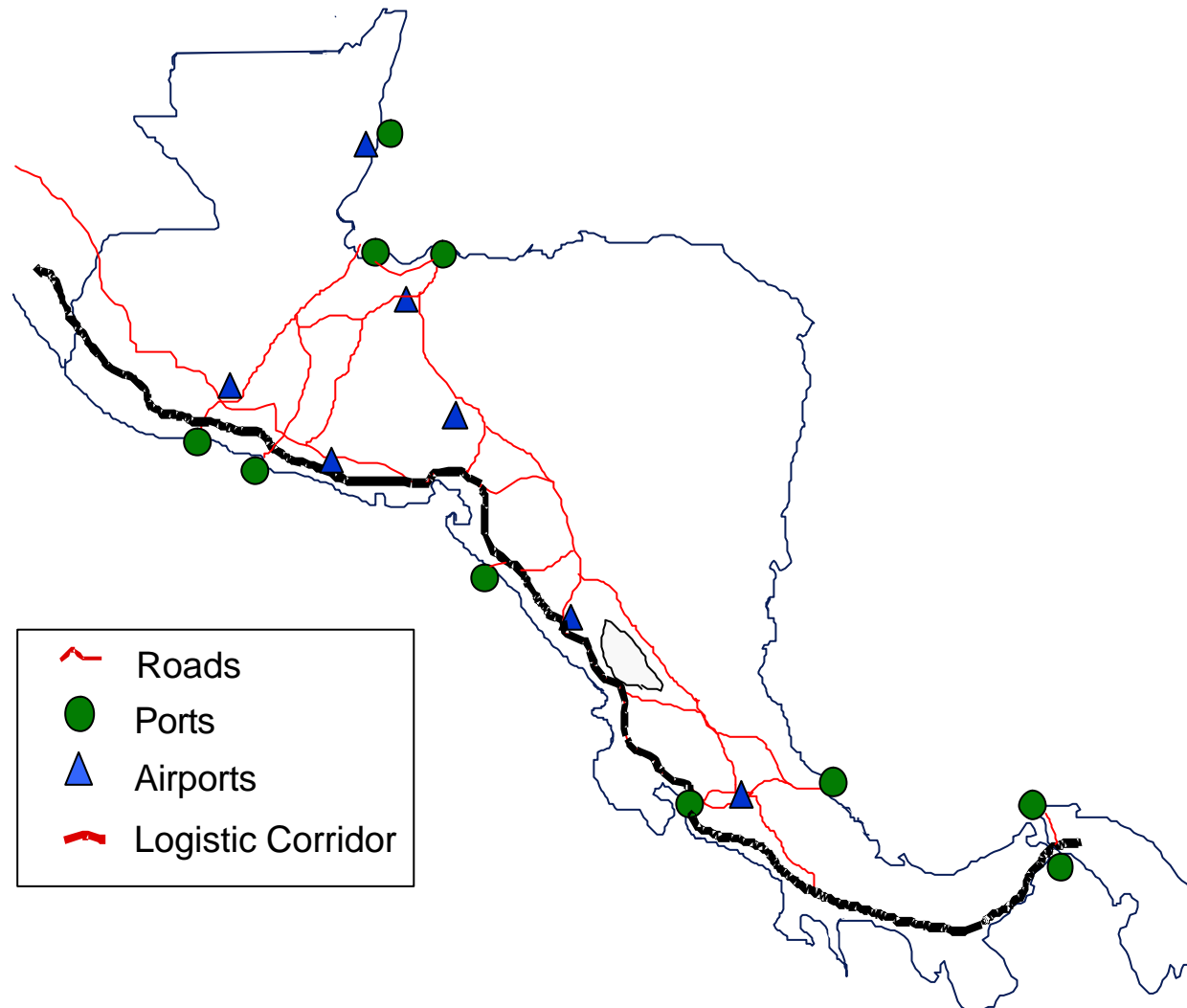


New View

- A regional strategy as a powerful tool to enhance **competitiveness** across countries
 - Expanding internal trade and investment
 - Gains from internal trade and investment
 - AND
 - Upgrading company operations and strategy
 - Enhancing the **competitive capability** of firms
 - Expanding trade in **non-traditional** export industries
 - Improving the business environment
 - Mutual benefits to the **productivity of the business environment** through policy coordination that captures **external economies** and the benefits of **specialization** in institutions and infrastructure across borders
 - Fostering cluster development
 - **Cross-border cluster** specialization and integration
 - Attracting foreign investment
 - Enhancing interest and investment in the region by the **international community**
 - Accelerating the economic policy process
 - Improving economic policy formulation and implementation **at the national level**

Central American Logistical Corridor

Schematic Design



Thailand's Competitiveness in 2005

- Thailand has made a number of **right steps** towards improving the foundations of its competitiveness
- The **critical barriers** to overcome – in public sector reform as well as in business environment upgrading – are political, not financial



- The government, based with a majority unique in the country's history, has the **opportunity** and **obligation** to aggressively pursue further competitiveness upgrading