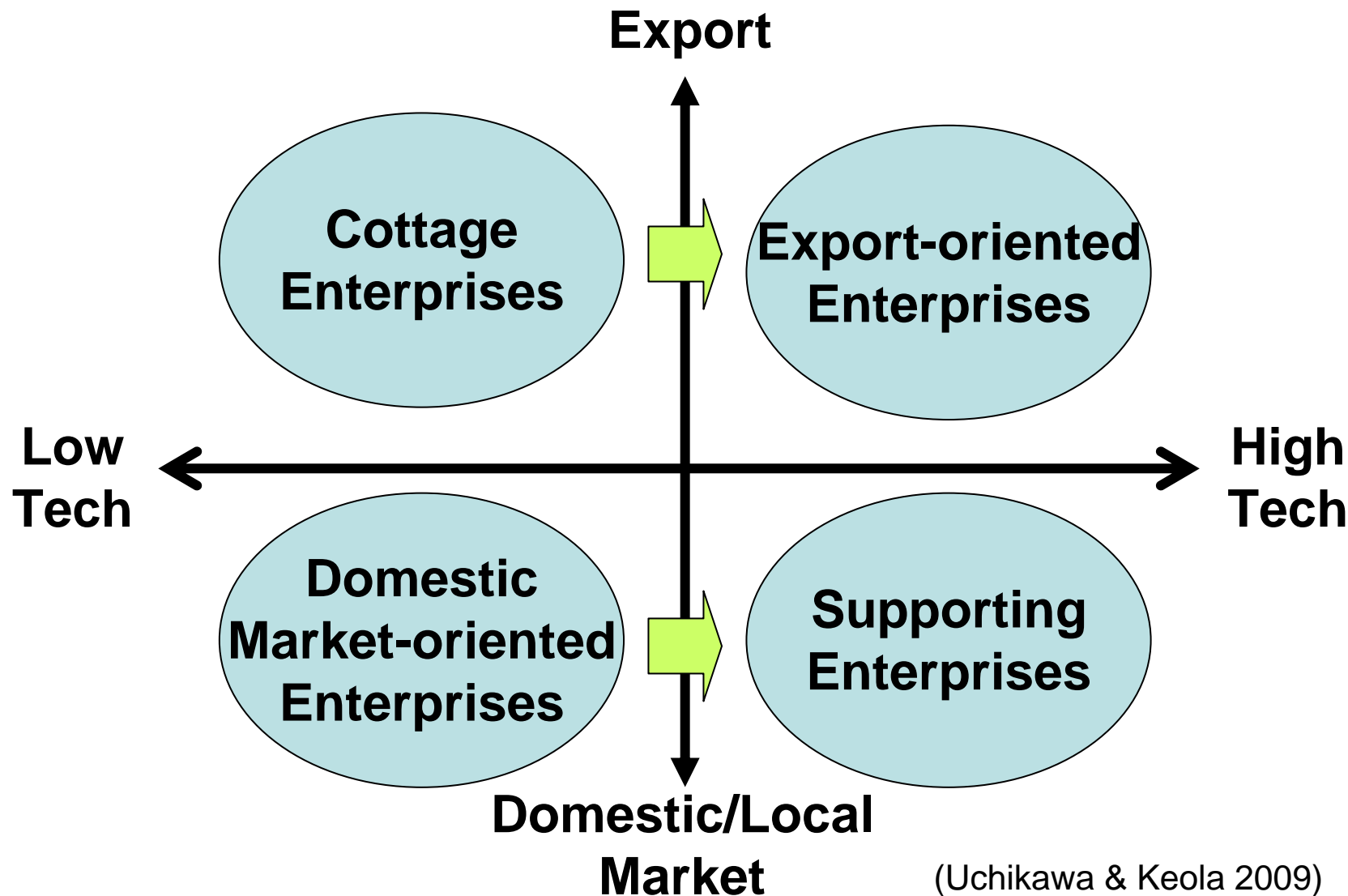


Responding to changing global and regional realities: challenges and opportunities for Thai SMEs

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SME Typology



(Uchikawa & Keola 2009)

SMEs in Thailand

- **Defined as companies having up to 200 employees and capital of up to 200 million baht (small: <50 and 50m)**
- **Account for 99.7% of all enterprises**
- **Registered number 2.8 million, 960,000 in services**
- **Account for 76% of employment**
- **Contribute 37.8% of GDP and 30% of exports**

SME competitiveness in a globalized environment

Within the context of global value chains and associated production networks, competitive performance is now to a large extent a function of **reliability**, which involves getting the **right products** in the **right quantity**, of the **specified quality**, at a **competitive price**, to **the right place**, at the **right time**. Along the way, firms must be able to meet an increasing number of **stringent standards, conformity requirements and certifications.**

The ideal is....

- Selling products directly to international consumers with “Brand Presence” & “Pricing Power”
 - Have information related to market/process/product
 - Have capabilities over the full Value Chain; design, production, marketing, distribution, etc.
 - Respond effectively to the changing market conditions



Very difficult for SMEs in developing countries

- Alternate option: Reaching global /regional markets through global/regional value chains

Emergence of GVCs: Drivers

- ❑ Multilateral and regional free trade agreements; international investment agreements
- ❑ Rising labour costs at home/high value of national currency: rapid growth of FDI
- ❑ Willingness to be internationalized
- ❑ Policy Liberalization
 - Trade, investment, capital & finance, HR
- ❑ Technological innovation
 - Transportation and ICT
- ❑ Increasing competition (pressures for lower cost, higher efficiency/ quality etc.)
- ❑ New management strategies
 - EDI, ERP, JIT, lean manufacturing, TCM, SCM, etc.

Shift in GVC governance during the past two decades

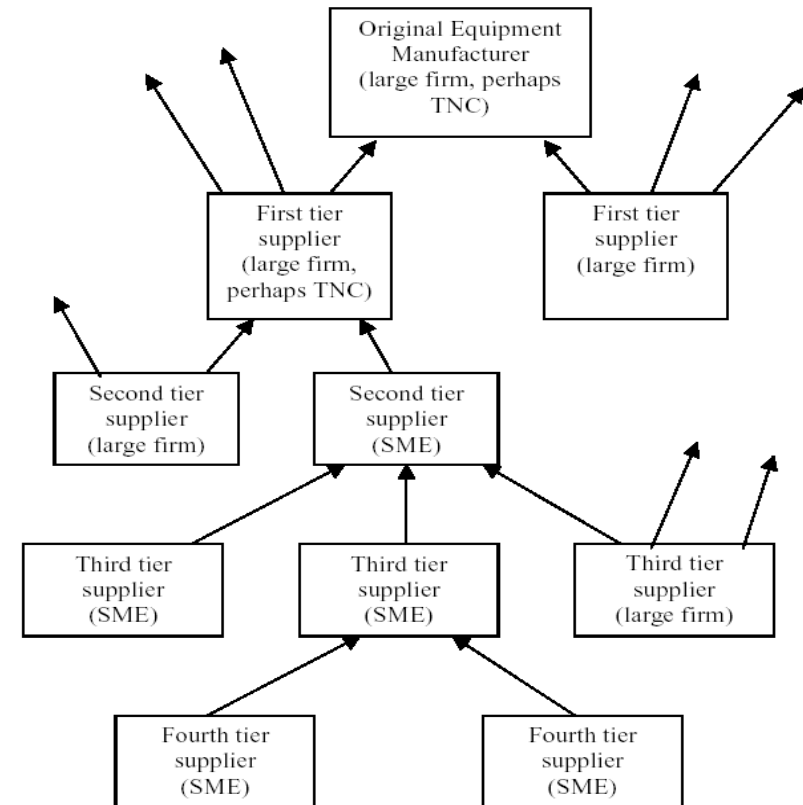
TNCs controlling all production



Ownership of overseas subsidiaries/ franchises



Outsourcing to suppliers
(no legal ownership)
TNCs focus on core values



Source: UNIDO, Integrating SMEs in Global Value Chains

Opportunity for SMEs in developing countries:
Specialize in a limited set of activities or components
in the GVC

Understanding the regional context

- Increased market integration (GMS; ASEAN/AEC; China-ASEAN, RCEP)
- Thailand has FTAs with India, China, Australia, Japan, New Zealand
- Rapid growth countries amidst stagnating world economy
- National policy focus on export & FDI driven development
- Competition more intense
- Gradual industrialization toward products with high value added
- Infrastructure development needs
- Growing importance of services

GVCs in GMS

- ❑ **Thailand**: various GVCs in auto, electronics, high-tech, agri-business, consumer-goods sectors.
- ❑ **Viet Nam**: GVCs under development in garment, consumer goods, auto and electronics sectors
- ❑ **Cambodia, Lao PDR and Myanmar**: Agro-business and garments; need promotion to attract GVCs (underdeveloped domestic markets)

Typical SME constraints

- Low bargaining power for both sales and procurement (i.e., low price and high cost, leading to low income and less profit)
- Weak market access
- Limited scale advantages
- Low level of technology use and adaptation
- Lack of brand development
- High debt structure; low access to formal financial sector
- Weak management with little training
- Weak human resource base with low level of compensation
- Inadequate institutional support
- Unfamiliarity with foreign regulations, culture, language, consumer behaviour

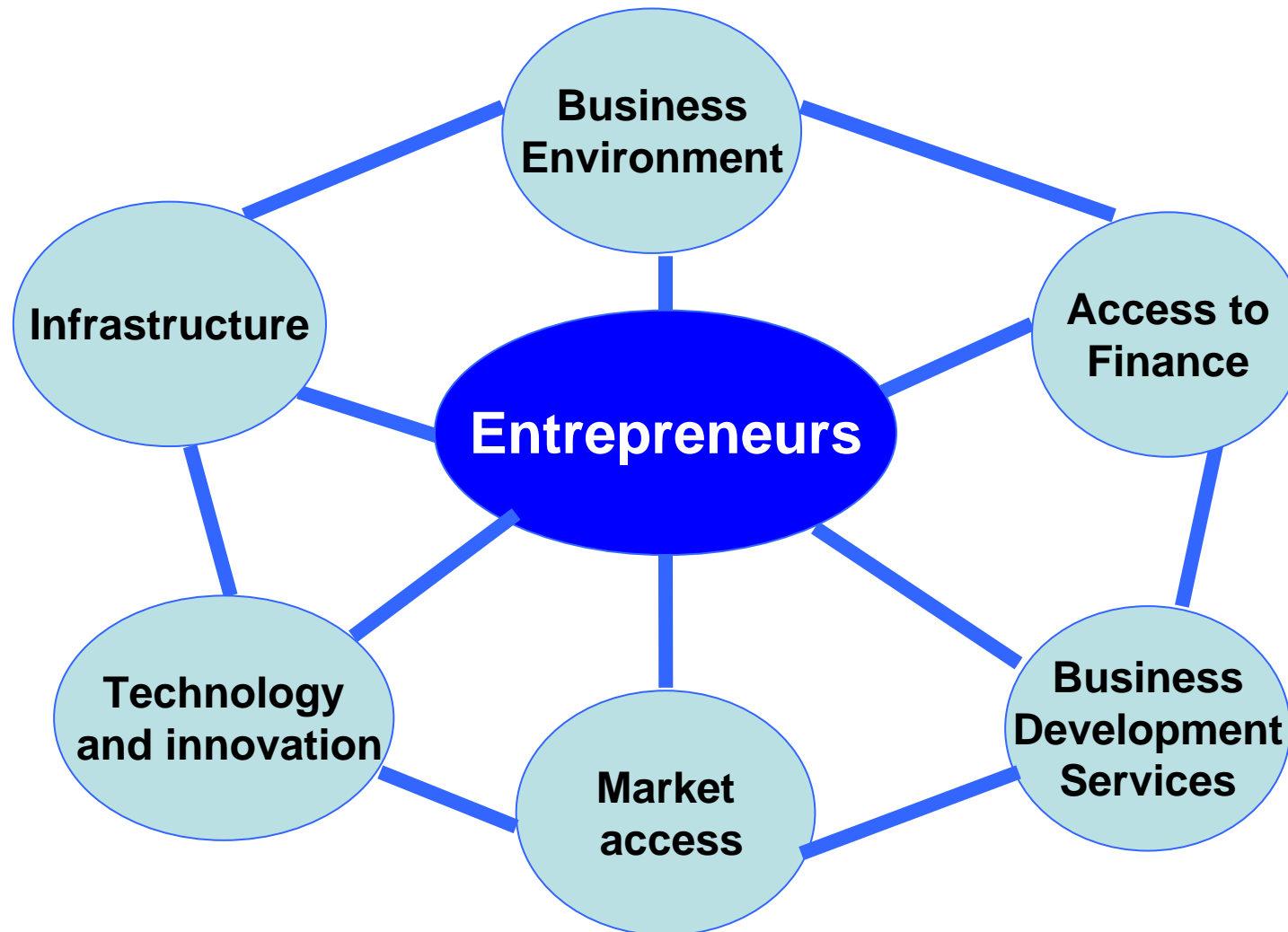
Favourable business climate is key!

WB Ease of doing business ranking	Country	Country Ranking		
		2005 (135 countries)	2008 (183 countries)	2013 (185 countries)
1	Singapore	3	1	1
2	Malaysia	25	24	12
3	Thailand	20	15	18
4	Brunei	n.a.	78	79
5	Viet Nam	98	91	99
6	Indonesia	131	123	128
7	Cambodia	142	145	133
8	Philippines	121	133	138
9	Lao PDR	163	164	163

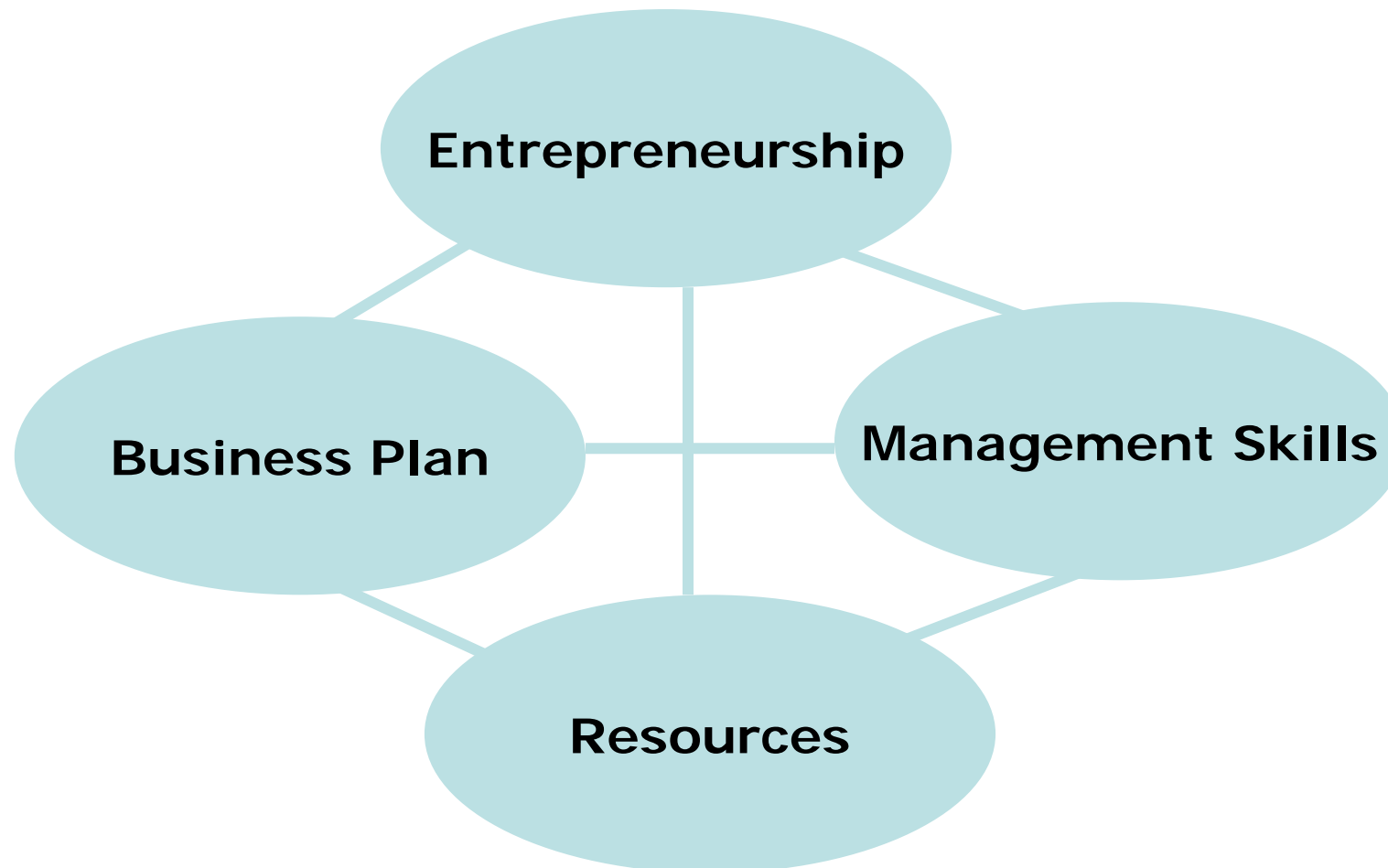
Opportunities for SMEs in developing countries

- ❑ Barriers are falling: increased access to international markets
- ❑ Support from TNC (training/investment in business process/information sharing etc.)
- ❑ Technology and knowledge transfer
- ❑ Long term buyer-supplier relationship
- ❑ Reputation and brand development
- ❑ Opportunity to upgrade and move up to the next tier
- ❑ Exploit emerging market opportunities: services and climate-smart products
- ❑ In conclusion: opportunity to grow

Entrepreneur centred development strategies



Four Success Factors for SMEs



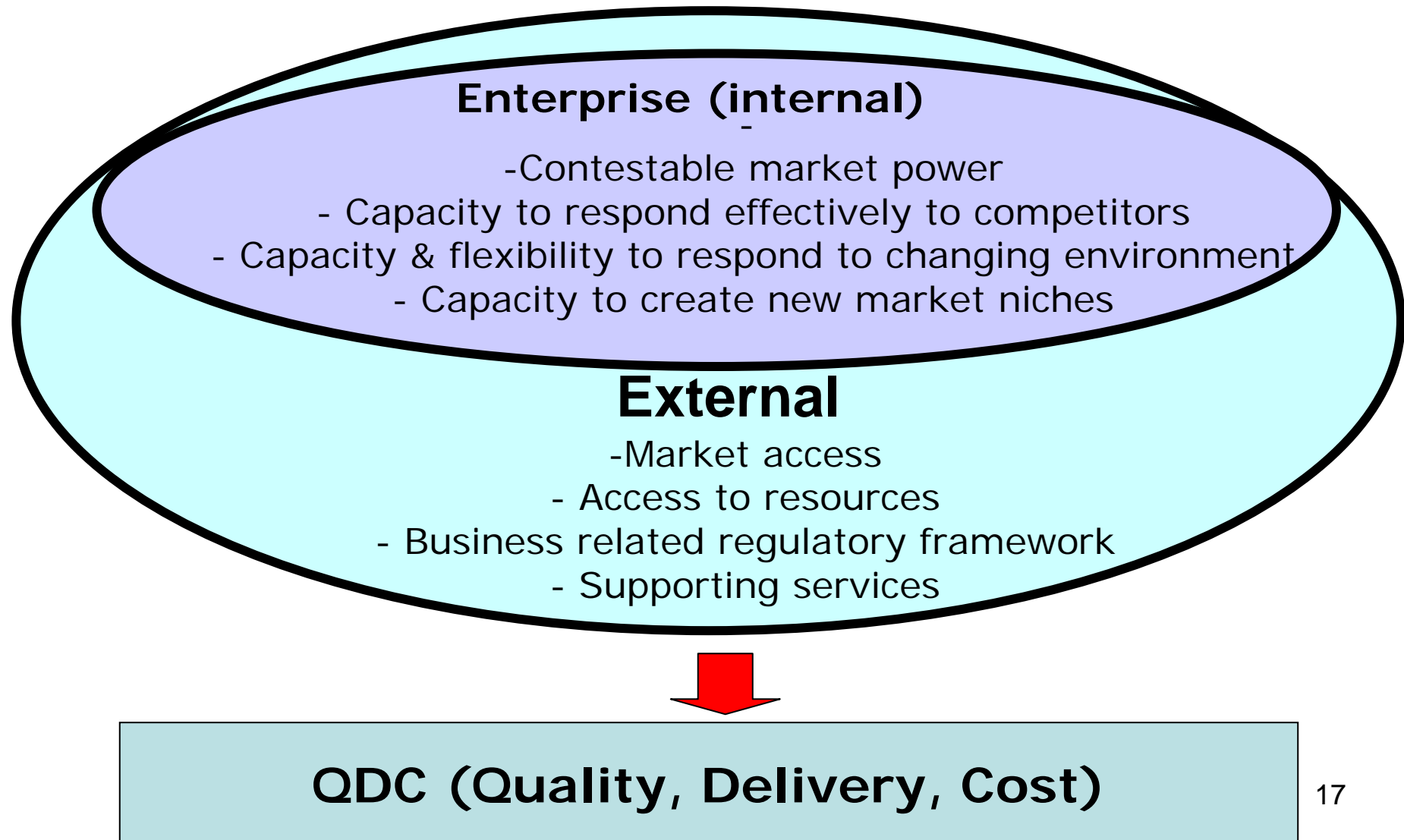
Four Success Factors (cont.)

- **Entrepreneurship**
 - The individual and/or team process of doing something new or something different to add value to the society
- **Business plan**
 - An executable plan that details how the enterprise is going to meet its objectives
- **Management skills**
 - Accounting, finance, marketing, HRM, business & innovation incubation, etc.
- **Resources**
 - Financial, human, physical, intangible

SMEs' Growth: Five Critical factors to remain competitive

- 1. Customer development: identify new market niches/nurture customer relations**
- 2. Product development: identify shifting market demand**
- 3. Improve productivity: Human resources development and technology**
- 4. Risk management**
- 5. Cash flow management**

Business Competitiveness Framework



SMEs' corporate strategies: improving innovation and competitiveness

- ❑ Invest in quality and standard conformity; marketing
- ❑ Invest in your own R&D, if need be in partnerships or clusters: innovation is key!
- ❑ Invest in your people: human resource management!
 - English language skills
- ❑ Reach global and regional markets through existing GVCs that are most likely dominated by lead firms
- ❑ Move up GVCs to high-value added activities over time
- ❑ Find adequate financing for investment and accessing quality workforce (tap the GVC)
- ❑ Collaborate with other SME players vertically and horizontally in a GVC – cluster approach
- ❑ Invest abroad to tap resources and demand: CLMV/Indonesia
 - Focus on industrial estates/EPZs
 - Find suitable local partners
- ❑ Engage with government: articulate your needs
- ❑ New normal: adopt responsible business practices



Thank you

