

# **CHAPTER 1**

## **INTRODUCTION**

### **Introduction and Statement of the Problem**

Thailand, with its high capacity for food production, is among the largest food suppliers in the world. Its production capabilities not only meet the domestic demand of the country, but have also allowed for a thriving and lucrative export sector. Thailand's food production has become a strategic link in the country's quest to maximize its position in the global marketplace. It was not long ago that the food exporting industry within Thailand lacked the global brand power of its agro-competitors. However, this situation has changed due to the industry's meeting and exceeding international standards and diversifying its product output to meet global demand. Extensive research has been conducted of both the private and public sectors, leading to a more focused approach in how individual companies remain export competitive and how the government allocates its financial support for the country's export industries.

## **Thailand in the International Economy**

As a major food producer and exporter, Thailand has the capability to become one of the prominent players in the food industry. It already holds top positions in the rice and rubber export markets.

One of the issues that Thailand must deal with is the appreciation or depreciation of its currency, the Thai baht. Over the past three years, the baht has slowly appreciated and depreciated in relation to the US dollar, typically trading around 32:1, but most recently appreciating to 30.1:1 internationally and 28.9:1 locally. Many observers see the appreciation of the baht as being bad for Thai exports since foreign companies can procure fewer goods for the same price than in the past. However, officials in Thailand have stated that the effect of the strong baht will not be fully felt until months in the future due to two main factors (Rungkasiri, 2010). Firstly, export orders and exchange rates are commonly agreed upon months in advance. Secondly, Thailand has been diversifying the destination for its exports. In the past, ASEAN, Japan, the US, and the EU were its main trading partners. Currently, however, China has been importing a large percentage of Thai goods, typically in the form of raw materials and semi-finished goods used in Chinese manufacturing (Rungkasiri, 2010).

## **Domestic and International Financial Crises**

### **1997 Financial Crisis**

While Thailand is currently running a successful current account surplus, it experienced severe problems in the late 1990s, during and after the Asian Financial Crisis. The loss of international competitiveness of Thai products was reflected in the negative growth of exports in 1996. Optimistic analysts disregarded the alarming indications of a serious fundamental economic problem resulting from the effect of slow growth in world demand. Emergent problems of price deflation, mismanagement of loans, and an increasing number of non-performing loans led to a domestic financial crisis in Thailand. Domestic problems added to the international trade problems and Thailand was forced into currency turmoil, payment difficulties, and an external debt crisis.

### **Late 2000s**

Declining global economic conditions were felt in the export economies of East Asia in 2009. Sharp declines in buying power from the affected countries caused a decrease in global demand that year, but the resilient Thai export market has since rebounded strongly. Despite the upswing, however, the world has seen that a financial crisis in developing countries can have a profound effect on industrialized countries and further spread to other parts of the world causing a significant decline in global

growth. Markets are highly integrated and interdependent globally. Declining world demand for consumer goods threatens export-model economies, which will likely lead to a global economic downturn without government intervention to prop up faltering financial systems.

### **Brief History of Thai Exports**

Thailand has a long history of exporting agricultural products and especially from the 1940s to the 1970s, rice had been the dominant Thai export item. The 1970s saw Thailand experiencing an agricultural boom with double-digit growth in this export sector. Early in the 1980s though, prices and demand of agricultural commodities began to fall, which stifled Thailand's export growth (FDIC, 1996). It became clear that in order to continue to be active in the international marketplace, a country must make the necessary adjustments to satisfy ever-changing global demand. As the structure of world trade shifted from raw agricultural products to manufactured products (Drucker, 1986), Thailand quickly made adjustments and followed suit. Thailand's export structure shifted to processed foods, textiles and garments, electronics, jewelry, leather products, wood products, computer components, automobiles and automobile parts. Most of these products were resource intensive and labor intensive in nature. This allowed for a competitive advantage due to Thailand's abundance of resources and low cost of labor. Unfortunately, this economic strategy is easily mimicked by other developing countries with lower production costs.

## Thailand's Shift to Manufactured Goods

Thailand's exports have shifted from an agricultural base to manufacturing. A study of Thailand's exports shows that export growth rates of many products have tended to decline since 1996. Exports of technology-intensive products grew by 10.73 percent, while traditional agro-product exports grew by only 2.94 percent, and industrial product exports rose by a mere 2.10 percent.

**Table 1**

*Composition of Gross Domestic Product at Current Market Prices, 1970-2005*

year	Agriculture	Manufacturing	Other	CDP (in millions of baht)
1970	25.9	16.0	58.1	147,385
1975	26.9	18.7	54.4	303,319
1980	23.2	21.5	55.3	662,482
1985	15.8	21.9	62.3	1,0569,496
1990	12.5	27.2	60.3	2,183,545
1995	10.9	28.2	60.9	4,202,835
2000	9.0	29.1	61.9	4,922,731
2005	10.2	30.3	59.5	6,924,273

*Note.* From *The National Economic and Social Development Board* (p. 5), by The Prime Minister's Office, 2009, Bangkok: Author.

**Table 2***Value of Agricultural Exports by Product, 2004-2008*

(Unit: Millions of Baht)

Items	2004	2005	2006	2007	2008
Value of total exports	3,867,224	4,341,016	4,932,848	5,296,507	5,853,034
Value of agricultural products	883,177	936,519	1,071,618	1,128,658	1,339,412
Top ten principal agricultural exports					
Rubber and rubber products	221,233	250,516	331,745	330,499	375,552
Rice and rice products	114,150	99,093	104,593	126,872	213,418
Fish and fish products	74,223	87,735	90,368	91,207	115,015
Shrimp and shrimp products	67,278	71,357	86,300	81,781	84,403
Wood and wood products	60,314	60,167	61,158	58,686	56,835
Fruit and fruit products	38,958	43,698	46,518	48,486	55,499
Sugar and sugar products	37,725	34,574	33,376	48,797	54,749
Prepared or preserved meat or blood of					
the species <i>Gallus domesticus</i>	20,820	27,339	28,707	31,989	50,277
Cassava and cassava products	34,092	34,190	43,479	47,931	47,721
Paper and paper products	34,077	39,947	45,102	47,139	47,688
Other agricultural products	180,307	187,902	200,257	215,270	238,254

*Note.* From *The Center for Agricultural Information* (p. 8), by The Office of Agricultural Economics, 2008, Bangkok: Author.

**Table 3***Export Markets for Agricultural Products of Thailand*

(Unit: Millions of Baht)

Market	1999	2000	2001	2002 (Jan-April)	2003 (Jan-April)
World	291,956.1	312,529.9	306,758.6	93,110.8	115,979.0
Asia	36,513.0	37,596.8	39,951.6	12,546.3	15,642.0
EU	37,727.0	43,599.6	37,055.4	11,502.5	15,372.9
Japan	64,035.6	69,294.0	75,229.1	24,596.5	24,530.7
USA	48,569.7	45,161.3	34,930.3	9,919.9	13,422.4

*Note.* From *The National Economic and Social Development Board* (p. 7), by The Prime Minister's Office, 2009, Bangkok: Author.

Resource-based theory, which examines a set of key resources within a certain organization, has been used in this study to form the theoretical approach. Resource-based theory has been an established theory since the work of Edith Penrose (1959). Many other authors have also contributed to the study of resource-based theory such as Wernerfelt (1984) and Barney (1991). In the 1990s, this theory continued to gain popularity, and it is now widely accepted for use in export research.

This study applies resource-based theory to the relationship between a firm's capabilities and its export strategy. It also attempts to understand the role that certain capabilities play in the overall proactive nature of Thai exporters. The results of this research can be used to improve performance amongst Thai export firms.

The international trade policy of the Thailand Development Research Institute Foundation (TDRI) shows that to improve competitive international market share, it is necessary to improve both food products and market extension simultaneously. For example, companies must conduct market research on foreign customers regarding their unique needs in order to develop and improve Thai products. Moreover, it is necessary to have good service and export management systems.

### **Research Objectives**

The objectives of this study include the following:

1. To study factors having an impact on the competitiveness of Thai food exports.
2. To verify the Linear Structural Relationship (LISREL) of factors influencing the competitiveness of Thai food exports.
3. To study direct paths, indirect paths and total paths of factors influencing the competitiveness of Thai food exporters.
4. To create a model of the influence of the competitiveness of Thai foods industry exports in accordance with the hypothesis, congruent with the empirical data collected.

### **Operational Definitions in this Study**

Operational definitions in this study are defined as follows:

Capabilities are tangible and intangible assets that are firm-specific and created over time through complex interactions among resources.

International trade is the term used to describe the exchange of goods and services with foreign countries.

Exports are goods and services produced in one country but bought, sold and shipped to a different country.

Competitive advantage is the product or market allocation decisions that generate economic rents (Makadok, 2001). Porter (1986) defines competitive advantage as a function of providing superior buyer value when compared to the competition. It can also be thought of as performing activities at a comparable cost as competitors but doing so in unique ways that create considerable buyer value and command premium prices. In short, firms with competitive advantage either can produce products at lower cost than their competitors can, or they can produce differentiated products to satisfy the requirements (known and unknown) of consumers. This idea touches on elements of demand management as well.

Export success is defined in terms of export sales profitability, growth in export sales value, and proportion of export sales value to total sales value of the firm.

### **Scope of the Study**

The scope of this study encompasses industries with a real potential for success. The following four industries were chosen on the basis of local

resources and are recognized by the Thai Department of Export Promotion (DEP) and the Ministry of Commerce as high potential export industries. The DEP has a program to encourage and support exporters from these industries to build international brand names and trademarks in order to enhance their labels abroad and be legally protected under intellectual property law.