Global-Local Studies　第15号（2022年３月）1－10

【Article】

Competition and Complementation of Foreign Companies in Response to Advancements of Chinese Companies in Thailand

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Introduction

Thailand's consumer market has expanded and changed along with economic development due to foreign companies' active investment. Early foreign company investments mainly comprised tangible assets, such as household appliances and cars from Europe, the US, and Japan. At the beginning of the 21st century, Chinese company investments in the digital field and infrastructure maintenance have increased with China's economic development. The priority of Thailand's consumer market shifted to the service and digital sectors from the tangible property, whereas Chinese company investments shifted along market changes, contributing to rapid economic change. Although the presence of Chinese companies has increased, the activity of other existing foreign companies remains important. This study examines the trends and problems of foreign company investments in Thailand's consumer market based on the influence of the advanced expansion of Chinese companies.

1. Rapid expansion of Chinese companies overseas

China's export has increased through foreign direct investment (FDI). As this expansion increased capital accumulation and promoted the shift to high value-added industrial structures, external direct investments began to diminish in the 2000s. China's external direct investments were initially focused on acquiring resources from foreign countries to support domestic economic development and stability of state-owned enterprises. Investment targets included resource-rich countries, such as Australia, and developing countries in Africa and Asia, where China worked on resource development and construction of railways, roads, and communications infrastructure. In contrast, such investments contributed to the market reclamation of Chinese-manufactured products in the country of investment.

The rest of the global economy has stagnated since the financial crisis, such as the bankruptcy of Lehman Brothers in 2008. However, China has intensified its FDI due to relatively less damage and abundant investment funds. In addition to state-owned enterprises, private companies added to the presence of Chinese economy as investment groups. China's investment scope has expanded from consumer market resources to strategic resources, such as advanced techniques, and brand. Moreover, investments in developed nations increased; movements aimed at market cultivation and absorption of advanced techniques, and brands were strengthened. Many companies in developed countries struggled impoverishment, whereas Chinese companies adopted the so-called hands-off approach to acquisitions. This approach allowed acquired companies to continue their operations to a certain degree of independence and autonomy. As a result, psychological resistance to Chinese company investments declined.

The increasing utilization of brands and technologies from developed countries gained increased non-price competitiveness in China's domestic market, including the provision of high value-added products and services. This non-price competitiveness among Chinese firms contributes not only to the growth of China's domestic market but also to rapid market development in neighboring Asian countries, increasing their income levels. Chinese companies, such as Huawei (communications equipment), Lenovo (PCs), and Tencent (Internet services), are significantly increasing their international competitiveness by combining their strategic assets acquired from developed countries using a self-developed approach.

In response to the full-scale implementation of the Belt and Road Initiative, overseas investments in infrastructure development, power plant exports for railways and electric power, and refining and building material production industries have also greatly expanded. In addition to construction, the range of the overseas development in the production sector expands to tertiary industries, including wholesale and retail, leasing, service, real estate, and financial industries. China's FDI has expanded rapidly, causing a range of issues in host countries, such as expanded disclosure, a lack of consideration for local populations, and inadequate compliance with international laws. Strengthening Chinese companies' governance is likely to be an important factor to consider if they aim to strengthen their role in the global economy.

2. Trends of Chinese companies expanding to Thailand

Thailand has been the recipient of substantial FDI for economic development. According to the Thailand Board of Investment, inward FDI to Thailand improved the country's tempo of economic expansion from the latter half of the 1980s. This expansion continues to accumulate, including the time when investments were dull. The FDI comes predominantly from Japan, the US, Singapore, the Netherlands, Hong Kong, and China. Although Japanese investments were mainly in the manufacturing sector initially, investments in tertiary industries, such as services and public works, have recently increased. Tertiary-sector investments from the US are also increasing.

China has always been Thailand's largest export and import trade partner. Chinese investments have also been increasing recently, mostly in the tertiary industries, such as e-commerce and fintech. Nevertheless, Chinese investments have also expanded to the manufacturing sector in the last few years due to the relocation of production bases from China to Thailand in response to the US–China trade friction. As a result, China has become the largest source of Thailand's annual inward FDI in 2019. The Thai government views the expansion of Chinese company investments as an opportunity. Hence, it proposed a new policy to attract further investments from China. This new policy includes the new Thailand Plus, including investment preferential measures. The Thai government is also expanding its range of partner countries to boost the sophistication of their industrial sector. This expansion includes the establishment of regional industrial parks to provide suitable environments for companies of selected countries, such as South Korea and India.

The promotion of China's Belt and Road Initiative enables the presence of Chinese companies in Thailand to increases the country's infrastructure maintenance. As part of this plan, a corridor that runs from Yunnan Province (Kunming), through Laos, to the Port of Laem Chabang in the neighborhood of Bangkok has been suggested as one of the important strategies. With the development of the North–South Economic Corridor, Southeast Asia has become a strategic base connecting countries worldwide. Thailand, which is at the central position of the planned network, would connect Cambodia, Laos, Myanmar, and Vietnam as well as China and India. Thus, the country has become an important production and distribution base. In addition to the China-Laos railway, China also provides technical assistance to the construction of a high-speed railway from the Laotian border to Bangkok (Nong Khai).

The Thai government also expects that China will assist in the formation of the industrial cluster of the Eastern Economic Corridor (EEC) that lies in the south of the north–south route. The EEC is a base for the creation of industrial clusters in the southeast of Bangkok and covers three provinces, namely, Chonburi, Chachoengsao, and Rayong. The Thai government aims at next-generation (hereafter next-gen) industry in this area as part of the Thailand 4.0 initiative (target industries: next-gen vehicles, robotics, and smart electronics). Foreign investments and support are highly expected for the achievements of these target industries and the EEC infrastructure development. However, Thailand utilizes the power of foreign countries appropriately following the Ayutthaya dynasty. Thailand would not have achieved high growth rate since the late 1980s without the utilization of foreign companies. The Thai government is aware of this phenomenon and preparing the largest possible incentives to attract foreign capital to the EEC. The Thai government is actively promoting China and has invited a large-scale mission because the development of the EEC is closely linked to the Belt and Road Initiative.

3. Competition with other foreign companies due to the expansion of Chinese companies in Thailand

(1) Precedent penetration of Japanese companies into Thailand's consumer market

Japanese companies have been investing in Thailand since the 1960s and have built industry networks considering that Thailand is the prime economic base in Southeast Asia. Japanese investments constitute Thailand's main FDI because Japanese companies consider Thailand an important investment area, that is, a market reclamation area. Japan's direct investment in Thailand's manufacturing industry began in the 1960s, of which the share of general machine and transportation equipment remains consistently high after the 1970s. In addition, investments in agriculture, farm products, and light industries were prevalent until the 1980s. Moreover, investments in electrical machine and chemical industry increased after the late 1980s and 1990s, respectively. These investment changes in industry types correspond to Thailand's industrial structural changes, that is, consumer market changes. Industrial agglomeration was created through continuous FDI inflows for 25 years in Bangkok and its outskirts. Japanese companies utilize the local industrial agglomeration to advance market reclamation earlier than other countries in the consumer market. They mainly target the tangible properties, including household appliances and cars.

The lifecycle theory helps explain Thailand's consumer market growth by dividing time progress into four phases, namely, introductory, growth, maturity, and decline periods.

The lifecycle theory's transition from the growth period to maturity period can be seen when a Japanese company reclaimed Thailand's consumer market.

When products are in the introductory period (early growth) of their lifecycle, other companies begin to enter the market opened by pioneering companies. As the products shift from their initial growth to later growth periods, the primary customer segment changes from early adopters, who prefer novelty, to those who prefer security and those who value fashionable products. However, major brands cannot manage to establish in this particular market. Market size increases with rising demand for products and services. Thus, demand can be shared in the market between initial startup companies and late market entrants. The stimulus provided by new entrants to the market encourages market expansion.

As product awareness spreads and purchases increase, sales growth of the entire market slows down and demand decreases. This phenomenon is the maturity period in the product lifecycle, at which specific companies' market share will be locked in. Companies that remained in the market continuously compete as market expansion is small and growth is limited. Thus, competitors scramble for product share in a limited market size during this situation.

(2) Rise of Korean and Chinese companies

Japanese companies demonstrated their strengths in high- and mid-price markets, where competitors of Western companies are active in the second half of the 20th century. Competition with Chinese companies was limited due to segmentation between Japanese companies. Western and Chinese companies predominantly produced high- and mid-price products and low-priced goods, respectively. Moving into the 21st century, Korean companies have rapidly progressed in high- and mid-priced markets, whereas Japanese companies have weakened in these markets. As the non-price competitiveness of Chinese products greatly improved, the presence of Chinese companies increased.

The time of excessive competition and confusion accompanied with the rise of companies of such a late departure depicts the latter half of the maturity period in the lifecycle theory. Ongoing market share competition between old and new companies in the latter half of the maturity period can lead to excessive competition on price and cost reduction. The minimum required item that a company should keep includes security; the relief may be downplayed for cost reduction. Continuous attempts to achieve a lean company can exhaust participant companies, particularly existing companies in the market. The idea that companies can achieve low prices through corporate efforts is partially true. Making efforts has limits, when these limits are reached, companies can only reduce the field of fundamental technologies and human resources. This condition destroys the industry, reducing its value-added, which is referred to as commoditization.

(3) Progress of Chinese companies in the digital field

Japanese companies' investments mainly targeted the production sector. Nevertheless, investments in the service sector, such as public works, increased at the beginning of the 21st century. Thailand's industrial structure and consumption action intensified the service sector. With the expansion of the digital economy, advancements of Chinese companies in the digital section significantly progressed. With a hardware side such as the spread of smartphones, the progress on the service side such as the online business is remarkable. For example, China's Alipay is an international brand that targets Chinese tourists and has successfully cooperated with a retailer, that is, an airport in Thailand. Chinese tourists comprise approximately one-third of Thailand's international tourist income. Alipay and Thailand's Kasikornbank PCL strengthened their joint promotion of the QR code settlement for Chinese tourists in Thailand. A store generates a QR code for payment processing. The settlement is completed when the Chinese tourist reads the QR code through the Alipay application in a smartphone. With the expansion of the digital economy, Thai people's lifestyle has greatly changed. Japanese companies in the digital economy- have lost their presence.

The growth of existing market stops when the stage in the lifecycle theory shifts to the decline period from the maturity period, giving rise to the growth in a new field. This situation indicates that the leading role of the market in the digital economy extends, whereas tangible assets, such as household appliances and cars, are saturated.

Sales and profits shrink as the product life cycles move from the maturity to the decline period. Activities in terms of adding new features to the product are reduced. Remain active companies in the market will focus on efficient operations, such as reducing lines to match falling demand. However, innovation tends to intensify in these situations., and grows from the maturity period in many cases. As pressure from market leaders and major brands decreases with market transitions from maturity to decline, sufficient space is provided to new entrants who want to build on their market.

Products in a domain other than that of existing products are launched out through innovation. This situation presents an opportunity to destabilize leading companies and major brands' existing market share. In certain cases, existing market leaders advance innovation to overcome the "inertia of success" and continue growth. As existing products' market growth begins to decline, new criteria for evaluation and selection are presented to consumers. These criteria are differentiated from those of existing products and thus will open up the market to new entrants, thereby providing revitalization.

Activities that utilize innovation to replace existing products include: (1) innovation based on existing products but adds distinctiveness through increased functionality (such as hybrid vehicles in the automotive sector), (2) innovation that opens up new markets by changing the sales approach rather than the products, and (3) innovation that offers new products based on new conventionally different concepts (for example, smartphones in the digital camera market).

In the medium term, Chinese companies are expected to enter the Thai market in earnest due to the end of the investment approval process and infrastructure development. The presence of Chinese companies may also increase significantly in the long term if Chinese companies expand their operations in Thailand in sectors such as electric vehicles, next-gen communication technologies, and artificial intelligence, in all of which they have high international competitiveness levels.

4. Complementation with Chinese companies and other foreign companies in Thailand

Other foreign companies are affected by the investment expansion of Chinese companies in Thailand. Thus, the drop in existing market share of other foreign companies indicates the continuity of the difficulty in market reclamation of the digital section. Moreover, other foreign companies need to remain calm about the competition with Chinese companies in Thailand and to deal from the perspective of complementarity. For example, an order between China and Japan about the infrastructure export to Thailand has a conflict. In many cases, Chinese companies will participate in projects that risk-averse Japanese companies are not willing to take on, leading to economic infrastructure development in the area. In turn, these developments may benefit Japanese companies by utilizing them. Additionally, the development of next-gen communication networks by Chinese companies will improve the productivity of Japanese factories in Thailand by using the Internet of things and automated production. In other types of industry, the movement promotes cooperation to use Japan and China's strength is spreading.

Complementation with Chinese and other foreign companies is managed at a high level. Hence, Thai companies' productivity rapidly improves, achieving consumer satisfaction in the country. The construction of complementary relationship is an important strategy in market expansion and has multistoried structure (overlay) and niche market.

(1) Formation of the multilayered and multistoried structures (overlay)

Certain animals that eat the same plant consume the tips of the leaves, whereas others feed near the roots. Although giraffes eat the same kind of leaves of the tree, they avoid competition with other animals by eating leaves on tall trees only. Similarly, consumers in the same market type are stratified into multilayered and multistoried structures (overlay) due to differences in their consumption patterns.

Furthermore, a multilayered provider can address the needs of a single layer of consumers in certain instances. For example, bedding is designed to provide comfortable sleep, though produced from different components with varying functions and roles, including futons, mattresses, sheets, and blankets. Similarly, in digital infrastructure, overlay networks exist in certain cases, such as Internet connections that use radio waves operating alongside those that use telephone cables on the ground. Information communication traffic through an overlay network can operate without interference between upper and lower layers. Service quantity and quality can be improved compared with operating only a single network. Furthermore, residents of any given area have multilayered connections, whether they are connected by geography, blood, occupation, or commerce. Unlike in an overlay network, these elements in this multilayer network have no basic separation. However, the existence of multilayered connections positively affects community life. The existence of overlay and multilayered networks also helps to maintain effective alternative health and safety solutions during disasters.

In consumer markets, every field has various brands, including food and drink, clothing, home appliances, cars, and Internet services. Different companies in each sector provide products and services in an overlaid and multilayered manner, enriching customers' lives.

Health administrative and medical expenses increase with Thailand's aging progress in the future and health-related consumption, including sports, increases. Accordingly, chances of businesses such as elderly person care, drugstores, health supplement sale, medical equipment sale, and medical tool sale increase. By contrast, products and services supporting aging have complicated needs. Hence, multilayered and multistoried structures are easily formed. Additionally, the operation of manufacturers' supply chain and acquisition method of consumer information have multilayered and/or multistoried structures. For consumer information acquisition, companies can connect to consumers through retail business data. In contrast, design data that consumers demand are provided by manufacturers. Thus, obtaining the peculiarity according to the segment is easy. Furthermore, customer information becomes available in a practical marketing strategy from inventory pricing control through collecting general big data.

(2) Securing the niche market

Not every company can create a major brand when securing market share. As major market leaders increase their sales and market share, certain companies will leave the market. Companies that are less dominant than the leaders will need strategies that will enable them to avoid direct competition and secure their niche market positions to survive.

From an ecological viewpoint, securing the niche market implies occupying a different position that differs from a superior survivor to compete. For instance, pandas have ensured their survival by moving to highlands where predators do not exist and by feeding on bamboo, which keeps growing even in harsh winters. Thriving in the right place is not a question of absolute strength or weakness but of considering the advantages and disadvantages of any given situation and securing an appropriate place for oneself. For example, large dump trucks best suited the highways, whereas bicycles are used at alleys. Inversely, the highway is not a suitable place for bicycles and large dump trucks are not well-suited to alleys.

Companies that operate in niche markets must secure a niche market position to survive. They can achieve this goal by pursuing strategies such as targeting the weaknesses of market leaders and their competitors and turning them into their strengths. The basic strategy of the niche market includes clarification of the company's positioning and characterization. However, niche companies may follow a strategy of cooperation, in which it maintains its strength by coexisting with market leaders and its competition. Certain examples of coexistence and cooperation strategies are as follows: (1) incorporating the company's key products with unique functions into the products of dominant market leaders (for example, providing specific parts in engine development), (2) substituting a company's function with a part of the market that is held by leading companies (for example, installing ATMs in convenience stores), and (3) building a cooperative relationship with competitors by handling their products, (for example, using products with the strongest brands in candy sets sold at festivals but also including in-house products in the bundle).

Thai consumers' intention showed pluralistic movement until now, and the tempo of the change improves with the spread and application of the digital technology. Sale extended through the Internet, including the e-commerce, to bring consumers convenience. The development of virtual and augmented reality techniques strengthens trust in the certainty of online shopping. In addition, online business spreads between companies, volume of the business such as product transportation, and IT service increases. Regarding products and services for aging, their sale through actual wholesale in retail stores has shifted to online forms through digital technologies. To respond to the sudden changes in consumers' intention, differentiation through individuality remains necessary for all businesses in future, and good convenience is increasingly demanded from consumers. These changes in consumers' intention allow a new niche market to emerge and enable the survival of foreign companies with strength in a specific field.

Conclusion

Foreign companies, including Chinese companies, respond to the changes in consumer preferences in the Thai consumer market. High competition and complementarity levels between Chinese and other foreign companies are expected to boost the Thai industry and enhance consumer satisfaction. Furthermore, the attractiveness of Thailand's consumer market expands neighboring nations' economy.

Furthermore, foreign companies have been investing in Thailand for many years mainly in the manufacturing sector. Thai production bases have an important role not only in the Thai market but also in developing ASEAN markets and markets in India, Africa, and other territories. The Regional Comprehensive Economic Partnership enables easy market access to participating nations. India, which canceled participation, is one of the important markets.

Product development and reclamation of new overseas markets by utilizing the existing industrial agglomeration in Thailand as a strategic base will also contribute to the advancement of Thailand's industrial sector. The complementary relationships between Japanese and Chinese companies can also be expanded by restructuring the supply chain, that is, from one that is made up primarily of Japanese companies to that including Chinese firms. Expanding this complementary relationship will enhance the Thai industry's industrial sophistication and strengthen its foundations.

Furthermore, in Thailand may have a negative potential impact of aging, which slows down its economy due to population increase. Companies in Thailand have increasingly employed skilled workers in specialized fields., Human resources are important in these developing business field and markets with high uncertainty levels. Hence, the Thai industrial structure can expand the opportunity of inviting overseas human resources and effectively utilizing various human resources with domestic personnel training. Furthermore, the existence of high-level human resources will improve income and contribute to Thailand's consumer market.

・The authors would like to thank Enago (www.enago.jp) for the English language review.

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