



AEC 2015 and Beyond; Gaining Competitive Advantage for Myanmar Construction SMEs

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Background: AEC Characteristics

- A. A single market and production base,
 - B. A highly competitive economic region,
 - C. A region of equitable economic development, and
 - D. A region fully integrated into the global economy.
- *“These characteristics are inter-related and mutually reinforcing.”* AEC Blueprints



AEC Elements

A. Single Market and Production Base

- i. Free flow of goods,
- ii. Free flow of services,
- iii. Free flow of investment,
- iv. Freer flow of capital, and
- v. Free flow of skilled labour.



AEC Elements

B. Competitive Economic Region

- i. Competition policy
- ii. Consumer protection
- iii. Intellectual property rights
- iv. Infrastructure development (Promote greater participation of private sectors and international organisations)
- v. Taxation
- vi. E-commerce



AEC Elements

C. Equitable Economic Development

- i. SME Development
- ii. Initiative for ASEAN Integration (IAI)



AEC Elements

D. Integration into the Global Economy

- i. Coherent approach towards external economic relations
- ii. Enhanced participation in global supply networks



SME Development Framework

- a) Accelerate the pace of SME development, optimising on the diversities of ASEAN Member Countries;
- b) Enhance the competitiveness and dynamism of ASEAN SMEs by facilitating their access to information, market, human resource development and skills, finance as well as technology;
- c) Strengthen the resilience of ASEAN SMEs to better withstand adverse macroeconomic and financial difficulties, as well as the challenges of a more liberalised trading environment; and
- d) Increase the contribution of SMEs to the overall economic growth and development of ASEAN as a region.



SME Development Action

- i. Timely implementation of the ASEAN Policy Blueprint for SME Development 2004-2014 (APBSD),
- ii. Promote networking of SMEs and their participation in the building of regional production and distributions networks, and
- iii. Promote best practices in SME development, including SME financing.



Competitive Advantage of an Industry

What is Competitive Advantage?



Competitive Advantage of an Industry

“A sustained above normal return is competitive advantage.”

Peteraf M. A.

“Competitive advantage is having low costs, differentiation advantage, or a successful focus strategy in business.”

Michael E. Porter

“A distinctive capability becomes a competitive advantage when it is applied in an industry or brought to a market.”

John Kay

“A firm experiences competitive advantages when its actions in a market create economic value, above-normal performance and when few competing firms are engaging in similar actions.”

Jay B. Barney

“To have a positive added value it must be ‘different’ from its competitors , enjoying a favourable asymmetry . . .”
Brandenberger and Stuart

“A common theme for competitive advantage is value creation.”

Richard P. Rumelt



Competitive Advantage of Nations

Michael Porter (1990) identified four determinants of national advantage:

1. The factor conditions of a nation, such as the infrastructure and the availability of skilled labour;
2. The demand conditions, which refer to the home country's demand for products and services within an industry;
3. The presence or absence of related and supporting industries necessary for being competitive in the global market; and
4. The firms' strategy, structure, and rivalry with other companies that influence how firms are established, organized, and managed.



Porter's Five Forces Industry Analysis

Threat of New Entry:

- Barriers to Entry
- Industry Profitability
- Time and Cost of Entry
- Amount of Investment
- Economies of Scales
- Absolute Cost Advantages
- Technology Protection,
- Specialist Knowledge
- Sunk Costs, etc

Competitive Rivalry:

- Industry Structure
- Number of Competitors
- Quality Differences
- Demand Condition
- Switching Costs
- Customer Loyalty
- Costs of leaving market
- Exit Barriers, etc



Supplier Power

Competitive Rivalry in the Market

Buyer Power

Supplier Power:

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Ability to substitute
- Cost of changing , etc

Buyer Power:

- Number of Customers
- Size of each Order
- Differences between Competitors
- Price Sensitivity
- Ability to Substitute
- Cost of Changing , etc

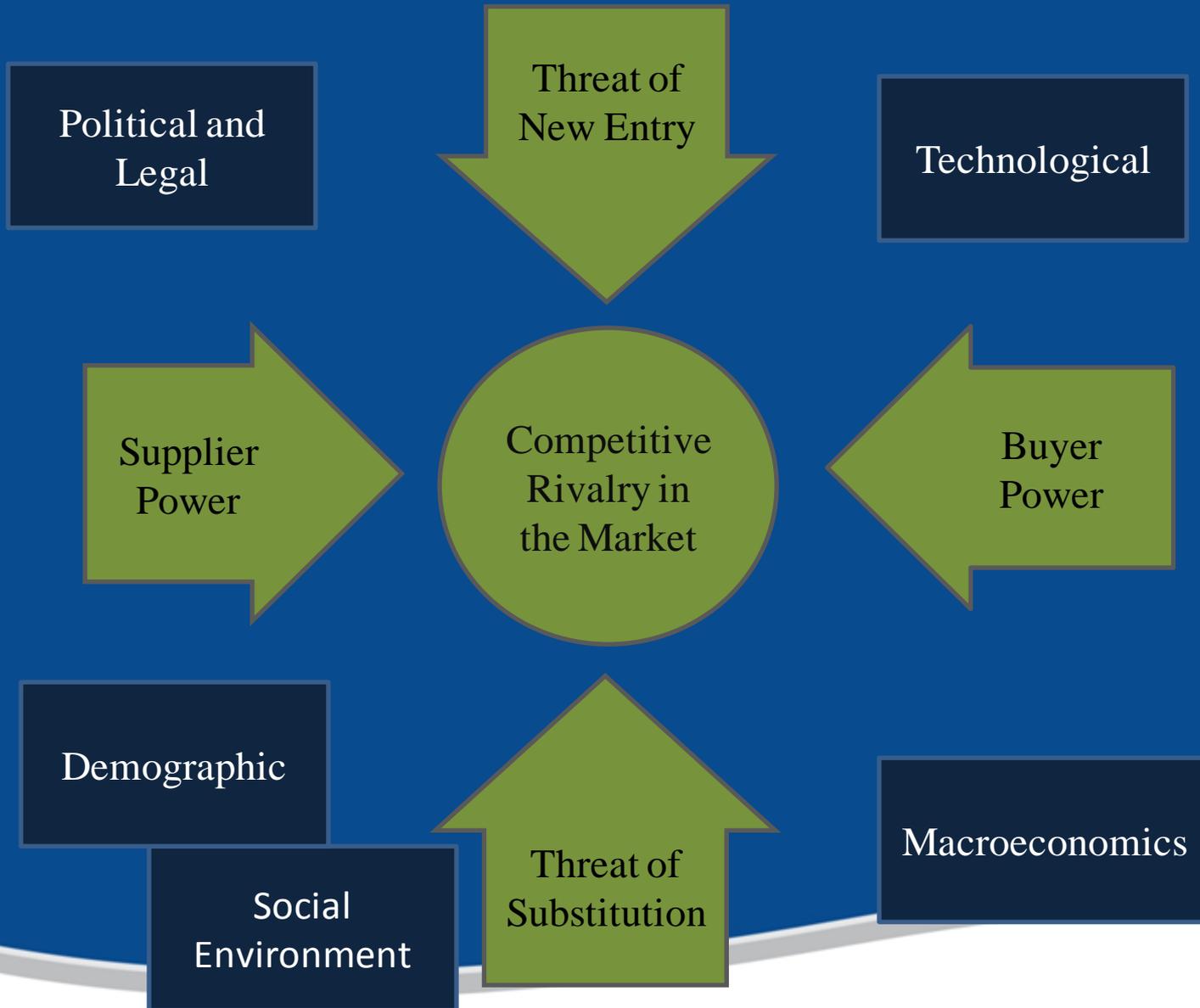
Threat of substitution:

- Substitute Performance
- Numbers of Substitute
- Cost of Change, etc

Threat of Substitution

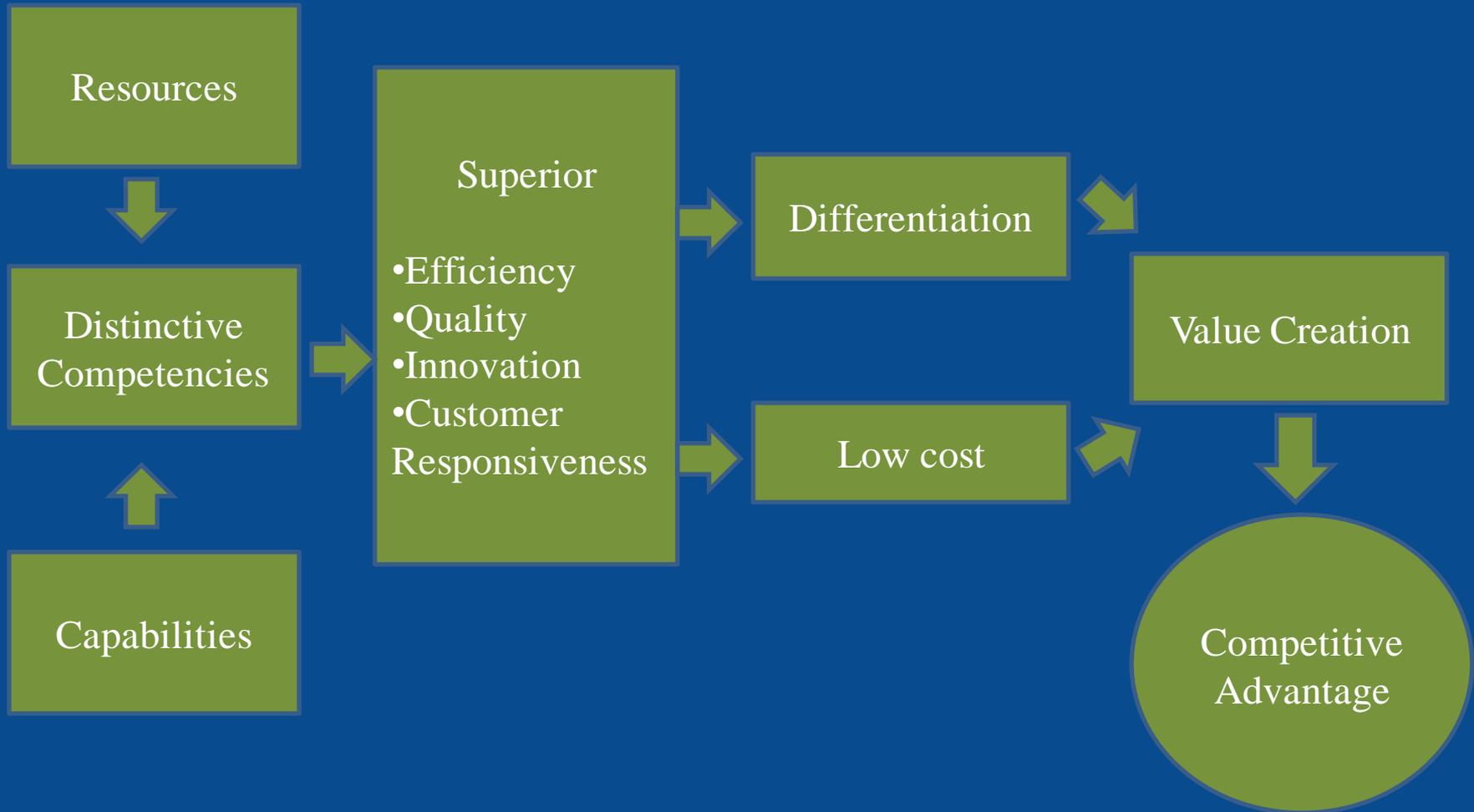


The Role of Macro-environment





The Roots of Competitive Advantage





Construction Industry

- *“Construction is an industry building or involving assembly of any infrastructure. It is a secondary sector industry (as a production of a good for the final users), as well as a tertiary industry or a service industry.”*

(Hillebrandt P. M., Construction Economist)

- *“A successful construction industry is essential to us all. We all benefit from high quality housing, hospitals or transport infrastructure that are constructed efficiently.”*

(Sir John Egan, Chairman of the Construction Task Force, UK)



SWOT Analysis of Myanmar Construction Industry

Strength
Internal Factors

Weakness
Internal Factors

Opportunity
External Factors

Threats
External Factors



SWOT Analysis: Strengths

- Attractive and abundance low-cost labour
- Already acquired market shares
- Rich construction resources ; production of construction materials such as hard woods, steel, bricks, and cements
- No significant language barrier in middle to higher management levels
- Availability of medium-educated technicians
- Flexible contract structure (meeting incentives)
- Strategic and familiar geographic location and advantages
- Reasonably large ports and transportation networks especially after 2015)



SWOT Analysis: Weaknesses

- Little or no investment in management systems, industry standards, construction methods, R&D, trainings and best practice areas
- Use of advanced technology in the industry, especially SMEs, is very limited
- Lagged behind significantly in occupational health and safety aspects (no safety culture)
- Lacks quality management systems and structural integrity in some projects
- Lacks significant volume of highly skilled labour



SWOT Analysis: Weaknesses

- Poor efficiency and productivity
- Abundant unskilled labours are mostly seasonal
- No country-wide standard building codes yet
- Lack of accountability and transparency are major weaknesses for the industry.
- Corruption in Tax and construction permits
- Lack of awareness to changes, economic laws and AEC 2015 in SMEs
- Bureaucracy in procedures and processes and
- Lack of good practice in competition



SWOT Analysis: Opportunities

- Positive and stable political change is in the strong progress
- Positive foreign direct investment potential
- AEC 2015 will bring huge Intra-ASEAN investment and with it, increased construction demand
- Experience working with foreign clients and construction companies will have a competitive edge



SWOT Analysis: Opportunities

- Geographically and demographically large country
- Strong domestic demand in energy, health, education, transportation, housing and other public sector infrastructures regarding construction and facility provision
- ASEAN suppliers with tax free quality imports and materials and
- Possibility of earning higher than usual profit (associated with greater risks)



SWOT Analysis: Threats

- Tough competition from ASEAN powerhouses in 2015
- Huge capital will flow in with construction competitors
- Highly efficient, experienced, high-tech, and high quality construction services and products will be brought in by ASEAN competitors
- Tariff-free trade, free flow of products and services will demand our firms to compete only on merit i.e., meeting time, cost and quality targets
- Land price is relatively high
- Lacks basic infrastructure (electricity/internet)



SWOT Analysis: Threats

- Sensitive, unstable and centralised rules and regulations
- Short-term macroeconomic plans, policy formations and pursuing quick results
- Complex monetary transactions, especially foreign currency
- Weak (private) insurance sector at its infancy stage
- Presence of political risks
- Presence of legal risks (history of money laundering and cronyism)
- Presence of environmental and social risks and
- Some sanctions and embargos still active



Recommended Strategies and Objectives

Strength Opportunity (Maxi-Maxi)

Use the nation's strengths to take advantage of opportunities in the global market.

Weakness Opportunity (Mini-Maxi)

A developmental strategy to overcome weaknesses in order to take advantage of opportunities.

Strength Threats (Maxi-Mini)

Use of strengths to cope with threats or to avoid threats.

Weakness Threats (Mini-Mini)

Minimizing both the internal weaknesses and the external threats.



Strength Opportunity (Maxi-Maxi)

- Increase technical abilities of engineers, supervisors, and construction managers
- Train low-cost unskilled labours to be skilled labours
- Systematically increase Public-Private Partnership projects (local/foreign)
- Give incentives to build special economic zones with foreign aids



Strength Opportunity (Maxi-Maxi)

- Initiate housing projects and infrastructure development projects (PPP, non-PPP)
- Expand industrial zones and complexes
- Give special tax incentives to (construction) SMEs and
- Use the country's strategic location and resources in a responsible sustainable ways by introducing systematic frameworks



Strength Threats (Maxi-Mini)

- Form partnerships with ASEAN competitors in the industry
- Build strong relationships with ASEAN suppliers
- Learn new technology, methods and systems from ASEAN counterparts
- Acquire ASEAN market shares for Myanmar contractors, professionals, skilled labours and construction material suppliers



Strength Threats (Maxi-Mini)

- Collaborate/build teams between architects, suppliers, contractors and clients
- Improve strategic transportation networks and ports
- Consider land price regulations and tax , and
- Sustain continuous improvement within the industry



Weakness Opportunity (Mini - Maxi)

- Initiate strong private sector SME involvements before 2015
- Use certifications such as ISO and OHSAS to increase productivity & superior quality
- Improve management systems, methods, R&D and best practice areas for productivity improvement
- Introduce advanced project management techniques (Primavera, MS Projects)
- Introduce Building Information Modelling, Co-ordinated project information, and ICT
- Government should encourage best practices in the industry as a largest client



Weakness Opportunity (Mini - Maxi)

- Bring in best practices from other industries, countries and larger firms
- Implement National Building Codes and enforcement by local and central govt
- Create standards and conformance
- Create knowledge sharing practices
- Create safe and decent working conditions in the industry
- Attract seasonal labours to be permanents in the industry and
- Improve arbitration, adjudication and dispute resolution processes



Weakness Threats (Mini - Mini)

- Improve financing, investment climate and development banking for construction SMEs (MEB, MICB, Private Banks, ADB, WB loans)
- Create long-term visions and macroeconomic plans
- Guarantee political stability and minimise risks
- Promote roles of professional associations and networks (MES, MAA, etc) with SMEs
- Create task forces where necessary
- Improve local insurance sector
- Legislate anti-corruption/money-laundering/competition laws
- Improve transparency and accountability



Weakness Threats (Mini - Mini)

- Implement systematic planning and cost controls
- Improve construction processes with minimum cost and maximum value by considering customer needs
- Integrate process and teams, target maximum efficiency and measure performance feedbacks
- Create quality driven, value creation agenda
- Improve domestic complementary/supplier/supporting industries
- Create incentives to promote innovation and
- Improve awareness of social and environmental responsibilities



Conclusion

- Policy makers, government agencies, professional bodies and private sector construction entities (architects, contractors, suppliers and clients) must share responsibilities and work as a team to be ready for AEC 2015
- For SMEs, resource is limited, but it is imperative to frontload the necessary resources to gain competitive advantage in the ASEAN AEC 2015 market



Thank you!!

Feedbacks and Inputs are much appreciated.

