"THAILAND'S INVESTMENT ENVIRONMENT: LOOKING FORWARD"
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Excellencies, distinguished guests

Looking at the macro economic data, Thailand has, despite the most recent political upheavals, performed well.

Export figures are positive with high growth rates and also local consumption has gained strength and has been growing steadily. Nevertheless we should not be complacent but should look at areas of concern and look at ways how we can keep up with the strong competition for Foreign Direct Investments and human talent. There is regional competition for capital and skills.

For both local and foreign investment, we need to restore investor confidence. This is mainly not about incentives (e.g. taxes or other incentives) but about structural and similar kind of reforms which will make various key sectors more competitive.

Thailand has been successful in the 80s in attracting a lot of Foreign Direct Investment in the manufacturing sector and achieved near full employment and enjoyed double digit growth rates till the financial crisis in 1997. Not only the manufacturing sector benefited from this economic success but many other sectors did as well and a lot of wealth was generated.

Ever since 2006 Thailand has been on a political roller coaster with regular reoccurrences of political tensions and several times a State of Emergency had to be declared and in fact is still in force. Within one year in 2008 we have seen four Prime Ministers – outgoing Gen Surayud, PM Samak, PM Somchai followed by Prime Minister Abhisit. Unfortunately this is an indicator of how unstable the political situation is. What businesses need – local as well as foreign – is political stability. Without political stability, predictability is absent. Investment decisions are long term decisions and political difficulties may impact existing investments less and they are less likely to leave the country - although even that has to be watched – but due to the increased country risk and the way Thailand has been shown abroad a perception has been created where Thailand faces difficulties in attracting new investment. We have to realize that perception is often stronger than fact. Unfortunately the way the political conflict was presented and discussed abroad did not always necessarily reflect what happened here.

Opening up the manufacturing sector was a success – but what about the services sector? The services sector has stalled and is underperforming as was also highlighted by the World Bank in the two past investments seminars. To keep Thailand competitive and attractive many parts of the service sectors need to be reformed and to be opened up to foreign participation and real competition.

Under the AEC and ASEAN Framework Agreement on Services (AFAS) the ASEAN community will be fully integrated and the economies of the member countries will merge and be integrated by 2015. The service sector under AFAS targets already for this year (2010) 51% foreign ownership for all service sectors and some selected sectors should be opened up to 70% this year and by 2015 foreign ASEAN participation will be opened up to 70% for all service sectors. With such a roadmap ahead the JFCCT would like to encourage the government not to wait with implementation until they have to fulfill what would become contractual obligations but to move ahead and be a leader in the trade and services liberalization and take advantage and reap the benefits ahead of the other participants within ASEAN. Unfortunately others are moving ahead but Thailand is not yet in this regard.

In the world ranking of ease of doing business by the World Bank Thailand is ranked a proud 12th out of 183 countries – but the ranking in starting a business is 55th. In the ICT sector the ranking on nearly all network readiness type indicators – the basis for a knowledge based economy – Thailand's ranking is very low and we see Thailand slipping.

Liberalization within ASEAN is one aspect but looking at the bigger picture and the FBA we already have a mechanism enshrined in the FBA – commanding a yearly review and allowing for liberalization of various business activities. Many sectors have in fact already become competitive but this fact is not acknowledged --these sectors have not been released from unnecessary protection. Unwarranted protection of these sectors puts them at risk of becoming uncompetitive and ineffective. The review process has been discussed many times - but it is time that we would like to see some results. Art 21 of the list three in the FBA the "catch all clause" is considered as an investment hurdle and should be deleted with only certain defined sectors left protected to gain strength to be ready to be released to full international competition. A clear roadmap with a binding timeframe is needed to strengthen local businesses and openspecific sectors to foreign participation.

In many meetings with the government we have been told that the approval rate for applications under the FBA is above 90%. With such a high approval rate we believe that a liberalization and opening up of the service sector should be the logical answer.

Under the AEC we will also see an opening up of the movement of skills and easier movement of people. For some professions like in the medical field e.g. doctors, nurses and dentists just to mention a few the rules should already be implemented.

Administrative and policy hurdles do continue to exist in the areas of work permits and visas for example – but the benefits of an open approach should dominate government policies.

In other fields Thailand should take a pro active role and build a knowledge based economy attracting the best and most talented.

Unfortunately we see in some sectors the opposite trend – the creation of new government monopolies and the protection of underperforming state owned enterprises.

The political division has highlighted inequality in society and reforms are needed. One area of concern is access to finance. Big corporations enjoy easy access to finance at competitive rates. SMEs in many cases do not even have access to working capital let alone start up funds. This disparity is also reflected in the ease of doing business report and Thailand ranks a poor 71st in getting credit. This low ranking highlights that the financial sector needs reform and SMEs and rural people need better access to finances to enable a wider participation in the economy. In the reconciliation process we need to start to move away from the rent seeking patronage system that is often understood to be the default and norm. Narrowing the income gap is only sustainable through enablement, not through handouts.

The ICT sector is a very important strategic area. A well performing telecoms sector has a multiplier effect on the economy. Unfortunately Thailand has been continuously slipping in the global ICT rankings and lesser developed economies in the region have overtaken us. 3G has not yet been introduced and the latest proposed rules for 3G lack clarity, create new monopolies like on the network supply side for state owned enterprises, and become very unattractive for investors as they would result in an environment which is almost impossible to work in, let alone have confidence in investing in. The 3G rules are unfortunately a cogent example of how not to attract investment. The JFCCT considers that before 3G is introduced we need the first step in sectoral reforms which is concession conversion, and we fully support the Minister of Finance in this view. Our thinking is also in line with the Prime Minister as he has outlined during his speech at the JFCCT luncheon in February last year that a proper role for the State enterprises has to be found that they can evolve and become more efficient and attractive but they should not compete with the private sector – this should not be the role of a State owned Enterprise. Again this sector needs reform based on the political will and vision of this government.

Education and skills enhancement have been spoken of many times. This is an area which also needs enhancement – skills should also be able to flow.

Land ownership is a very sensitive issue in Thailand but we should look at other economies as to how they attract investment and talent by having an open minded approach to land ownership, work permits and long stay visas.

Our neighbor to the south has reformed herself over the past year very fast and many measures were introduced to be competitive and to attract investment and talent.

As an example they are offering to retirees of the age of 50 plus the right to own their home, to import cars tax free, grant them a long stay visa to ensure that they can enjoy their investment and at the same time allow them even as retirees to work up to 20 hours a week. They are also doing sectoral reforms. This scheme brings to the economy the advantage that a lot of investment is going their way and the economy can benefit of the intelligence and talent this retirees bring along with them.

The open minded approach is benefiting the economy and to stay competitive and attractive we should not look inward but be open to globalization and as the ASEAN Secretary General Dr. Surin Pitsuwan said at the ASEAN business Forum meeting late in 2009 – we can no longer hide behind the wall.

Thailand has the opportunity now to effect reforms which are needed to support an attractive, efficient and innovative economy.