

“Pushing Thailand Forward – The Vision”

Keynote Speech by

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Mr. Pakorn Malakul Na Ayudhya, Chairman of the Stock Exchange of Thailand;

Distinguished Participants;

Ladies and Gentlemen;

Introduction

I would like to express my great delight to be here at *“The Thailand Focus 2008”* organized by CLSA Securities and The Stock Exchange of Thailand. This forum, which has been held in the past four consecutive years, serves as an established venue for institutional investors to obtain the latest information and insights about the Thai economy and government policies from high-level government representatives and Thai business leaders. Given the recent political developments in Thailand in the past few months, investors are, of course, keenly interested in how these events would affect the Thai economy and the companies operating here. For many investors, it may seem that 2008 has not been such a good year due to both global financial market turmoil and domestic political turmoil. Investors do have justifiable concern about putting their money into Thailand. However, I also believe that there is a silver-lining for the country and its economy. Certainly, investors may be worried about the present political situation, but what we should also recognize in trying to understand the current events is the underlying “social dynamism” that is taking place in this country. We are witnessing the evolution of the Thai society under the democratic system in which people are learning to

**Political
situations and
outlook for
Thailand**

resolve their political differences peacefully and under rule of law. I would like to think that the current political struggle will ultimately lead to a maturing democratic system in Thailand. A good, stable democratic system needs time to develop and grow. I am confident that the current political struggle is part of the learning process for us to live in a matured democratic society.

Ladies and gentlemen;

**Vision for
Thailand and
future trends
shaping the
country**

My objective today is to share my view on the vision for Thailand and how the Thai Government plans to push the country forward. Like all other countries, our future will be shaped simultaneously by external and internal forces. Over the next 20-30 years, we will live in a world very much different from today. Today, I would like to highlight some of the major trends that, I think, will shape our future and outline how we plan to deal with them.

**Trend #1
Emergence of
Asian economies**

First, today and in the foreseeable future, we will see the emergence of Asian countries as the main engine of world economic growth. China and India have already made their impact felt in the world economy and are expected to continue their rising economic power in the years ahead. Thailand has benefited from the emergence of Asian economies in terms of intra-regional trade and investment. One main reason for our economic resiliency that enabled us to grow at 4.8 percent in 2007 and 5.7 percent in the first half of 2008. Despite all the negative factors is our strong export sector. For 2008, we had earlier expected our export performance to slow down in line with the global economy, but so far, it has been above most expectations. Our continued strong export comes from diversified export markets. Thailand's export growth to China, India, ASEAN, and the Middle East expanded by around 30-40 percent during the first half of this year compared to first half of last year. To this end, the Government has

been promoting regional integration to strengthen our ties with these high growth economies. In the past few years, the Government has been actively promoting free trade areas with major trading partners. Under the current FTA framework, bilateral trade between Thailand and China, specifically in agricultural products, has drastically expanded from 8.4 billion USD in 2002 to 31 billion USD in 2007, or almost four times in size. The FTA between Thailand and India contributes to steady increase in bilateral trade from 2.8 billion USD in 2005 to 4.7 billion USD in 2007. For Southeast Asia, the ASEAN Free Trade Area has made impressive progress over the years, resulting in lowering import duties in the region and expanding trade value from 21 billion USD in 1995 to 41 billion USD in 2007. Ultimately, Thailand's exports have potential of selling to almost three billion people within Asia alone. The important question is how to position Thailand, being at the strategic center of rapidly-growing China, India, and Southeast Asia, to benefit from this emerging trend in the coming years.

Trend #2
Limited natural
resources and
higher energy
and
commodities
prices

Rapid growths in the world's spending power and consuming capacity do have unintended consequences. Most importantly, we may no longer have abundant and limitless supply of natural resources to extract from. In the future, Thailand and the rest of the world will have to cope with high energy and agricultural prices. The Government is preparing Thailand for this certain future. We are promoting the uses of alternative and renewable energy. The most recent economic measure announced on the 15th of July was intended not just to support people affected by rising energy bills, but it also gives financial incentive for people to switch towards renewable fuels, namely gasohol and bio-diesel, from traditional gasoline and diesel through the temporary reduction of excise taxes on these products.

In the future, we need to make our energy usage more efficient. The Government has been promoting alternative energy industries. We have to

add value to our existing agricultural products that can be used as raw materials for bio-energy. Tapioca can be processed into alcohol and bio-fuel. Sugar can be used as raw material for ethanol production. The government is actively promoting uses of bio-fuels, solar cells, energy-saving machinery and equipment or those utilizing alternative energy through various tax incentives. The eco-car industry is being promoted with the recent excise tax incentive measure. We will further encourage the widespread use of bio-diesel and gasohol with tax incentives.

Agricultural prices are rising, and Thailand will benefit from this trend as it is a world supplier of agriculture products. Farm prices have risen by 30 percent in the first seven months of this year. We are well-positioned to benefit from the strong global demand for primary and processed agricultural products. We are the largest rice exporter in the world as well as the world's largest natural rubber producer, with 3.5 million metric tons exported in 2007. We are also a large producer and exporter of sugar and tapioca, which will be in strong demand for use as raw materials for alternative energy in the coming years.

Ladies and Gentlemen,

There is also another inevitable change that Thailand as well as other countries has to deal with, which is global financial volatility. The contagious financial crisis in Asia more than 10 years ago and the present sub-prime crisis in the U.S., show that the global financial system can both be a destabilizing as well as a positive force for global economic development. Thailand is a small open economy that needs to harness the benefit of foreign capital, but also needs to learn to cope with volatile capital movement. [When we faced the 1997-1998 financial crisis, our capital market, including both stocks and bonds, was only about one-third as big as our banking system. When Thai banks started to collapse at that](#)

time, several businesses crashed due to the lack of new sources of funds, namely from the Thai capital market. However, over the intervening decade, the Thai capital market has grown rapidly in size and importance, and as of end-2007, it was almost double the size of our banking system. Not only that, our capital market now offers much more than just stocks and bonds, for we offer a full range of financial instruments, including derivatives such as option and futures, ETF and property funds. The huge increase in capital market size and variety of securities means that businesses have much more efficient channels to manage their financial activities.

Ladies and Gentlemen,

The key to cope with increasing financial volatility and mobile capital movement is to promote long-term investors and deepening of financial markets. The continued development of the equity and bond markets in Thailand will enhance the greater depth of our financial markets.

Fully realizing the importance of the above goals, the current government early this year, as a historic first, appointed the Capital Market Development Committee, consisting of all top players in the overall financial system, from both the public and private sectors. The Committee, with the technical assistance from Asian Development Bank, has found that financial system reform in Thailand needs to follow three principles. That is, we must, first, be “Free”, or “Be a liberal market under market principles”. Second, we must be “Fair”, or “Be a transparent and reliable market” and third, we must be “Global”, or “Be an international and advanced market”.

To fulfill these ambitions, the Committee released seven key “Big Bang” measures, which are:

First, the demutualization of The Stock Exchange of Thailand. We plan to have the Exchange's IPO in 2011.

Second, further market liberalization, which includes liberalization of brokerage licenses as well as brokerage trading commissions.

Third, further financial deregulation, especially to lessen obstacles to issuing new products and asset classes, and monitoring and surveillance based on a disclosure basis rather than a merit basis.

Fourth, legal reform, focusing mainly on updating old-fashioned acts, such as the Bankruptcy or Securitization Acts.

Fifth, tax reform, to reduce duplication and raise competitiveness to international levels.

Six, privatization of state-owned enterprises, which will be finished by the year 2017.

Seven and last, we will reform the bond market, and I will elaborate about this later.

Ladies and gentlemen,

**Trend #4
Aging Society**

The next trend that Thailand is facing is our aging population. By 2050, we forecast that over 22 percent of the world population will be aged over 60, or double the current 11 percent. In Thailand, we forecast that our population will within 20 years at 70.6 million people and begin to decline thereafter. Our aging society will have major implications in terms of (1) higher public health care and social welfare costs and (2) labor shortages. How the Government deals with these two challenges will have major ramifications for our economy and people.

First, we have to improve our health care system. We now have universal health care that provides accessible health care to all Thais. We are now focusing on preventive health care. I can assure you that our medical service in Thailand is world-class, as we have competent and expert

physicians and medical staffs with modern and well-equipped, state-of-the-art hospitals. In recent years, many foreigners have come to Thailand for effective and relatively lower cost medical treatment.

Given that our society is aging, Thailand is likely to face increasing labor shortages, so one way to solve this situation is to improve labor quality. The government has recognized the importance of education and training for our people. To this end, the government has introduced the Income Contingent Loan program to provide opportunities for higher education to all Thais, and students will be given financial incentives to study in important fields in science, engineering, and technology.

The factors of global financial volatility and our aging society emphasize the urgent need for Thailand to establish a national pension fund that would promote long-term contractual saving for Thais to use in their retirement as well as be a major long-term investment vehicle for our capital market. At present, establishing such a pension fund is under careful study by my Ministry of Finance.

**Capital Market
Development**

Since I am here at this investors' seminar, I would like to highlight the role of capital market development in supporting Thailand to meet the above trends. The capital market is vital for our sustainable growth as the debt and equity markets are pillars of our financial system, along with the banking system. [In addition to the aforementioned measures carried out by the Capital Market Development Committee, we also have the Capital Market Development Plan.](#) This Plan looks not only at the equity market, but at corporate bonds also, as the bond market size is now less than 15 percent of the equity market. The Plan will, first, increase the share of individual investors in the bond market; second, it will raise the share of institutional investors in the equity market, and third, it will foster the development and usage of risk management instruments.

Mega project investment

In addition to strengthening our financial system infrastructure, the government will invest massively in physical and social infrastructures, or the so-called mega-projects, worth approximately 1.88 trillion Baht over 2009 to 2012. This will cover key areas such as mass transit, logistics and transportation, water resources management, education and public health, low-income housing projects, energy and telecommunication.

Mega-project Investment Plan (2009-2012)

						Unit: Million Baht
Economic sector	2009	2010	2011	2012	Total	%
Mass Transit	61,248	100,843	138,712	193,782	494,585	26%
Airport Link	9,167	-	-	-	9,167	0%
Transportation	58,588	122,083	137,516	126,932	445,119	24%
- Road Transport	29,453	48,134	73,132	66,185	216,904	11%
- Dust-Free Road	13,922	20,368	-	-	34,290	2%
- Rail System	9,048	21,383	14,768	20,928	66,128	4%
- Air Transport	3,158	26,502	44,282	39,818	113,760	6%
- Water Transport	3,007	5,696	5,334	-	14,037	1%
Water Resource	23,548	44,891	63,599	52,031	184,069	10%
Education	38,089	43,134	42,910	-	124,133	7%
Public Health	12,962	11,544	9,873	5,012	39,391	2%
Housing for poor	30,897	28,701	21,478	-	81,076	4%
Energy	110,619	163,784	110,941	79,969	465,314	25%
Telecommunication	17,357	12,835	8,197	5,010	43,400	2%
Total	362,474	527,816	533,227	462,735	1,886,252	100%

Source: Public Debt Management Office, MOF

Physical infrastructure projects such as mass transit would be implemented by state-owned enterprises, with financing from retained earnings, domestic and foreign borrowing, and public-private partnerships (PPPs). Other social infrastructure projects and water resources management will be undertaken by the government using budget appropriations and borrowing. We expect that mega-projects will attract private investment, as some mega-projects will be through public-private partnerships and

improved infrastructure will encourage the private sector to expand their investment in real estate, machinery and equipment. Thus, in the medium-term, these mega-projects will promote economic efficiency and competitiveness in Thailand.

Ladies and gentlemen;

Conclusion

I would like to conclude by emphasizing that Thailand currently possesses strong fundamentals and will benefit from the changing trends in the world economy. With our vision for creating a competitive, sustainable and prosperous nation, we are committed to push forward the Thai economy. Finally, I wish you every success in Thailand Focus 2008, and know that you would find many investment opportunities in Thailand. Thank you very much.