

Remarks
by
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Deputy Minister of Finance
to
The Joint Foreign Chambers of Commerce
Grand Hyatt Erawan Hotel, 5 August 2010

Mr. Chairman, ladies and Gentlemen –

Thank you for this very kind invitation to speak here, today.

Before I say anything else, allow me to share with you my thoughts on the presence, in Thailand, of international investors, companies, and businessmen, such as yourselves.

I would like you to know, I firmly believe that it's through your presence that Thailand wins a place in the virtuous upward spiral that makes this country one where commerce advances, and with it, the prosperity of this country's people.

From where I stand, I see corporations such as yours, as vital to the economic development of Thailand and the prosperity of the Thai people.

You bring innovation and quality to the Thai people, in both goods and services. You train up people in the best management methods. You create and develop markets for products. And, you are good at paying your taxes!

And that's to say nothing of the huge sums that you invest in this country.

I want you to know, also, that I look on each and every one of you in this room as ambassadors for Thailand – people who champion this country to your colleagues overseas, to your bosses, and to your boards, and who protect Thailand against people who would rather see your company's investment dollars go to another country.

It is because of people like you that Thailand has been able to ride a little better the economic storms that buffet us from time to time; because, in good times and bad, you communicate an accurate picture of what is happening in this country – a picture that helps to round out two-dimensional television news reports.

My talk, today, is about the readiness of this country to face the single market of the ASEAN Economic Community – a market where labour, capital, goods, and investment will move freely between member countries, and all within 2015... That's less than 50 months from now.

The market we are talking about is a single market of almost 600 million people, a population that's larger than the EU's and double that of the United States. It has intra-regional trade of some 1.7 trillion dollars, and there is over 60 billion dollars in foreign direct investment coming in, every year.

That's the size of the prize that Thailand needs to be a part of – a prize that is far too big for Thailand to ignore if it wishes to see the importance of its role grow in this region.

In January this year, the elimination of virtually all tariffs between ASEAN countries came into effect. The early indicators have been promising.

We have seen extraordinary export growth. The latest figures, for June this year, show that Thailand recorded its highest monthly export figures, ever: at 18 billion dollars for the month.

What was even better news was that a large part of this growth was driven by regional countries, with the highest growth in ASEAN.

For the first half of this year, exports to Indonesia jumped 89%. Exports to Philippines jumped 90%, and to Malaysia 62% – and all from an already significant base.

This is all very welcome news and shows that ASEAN integration is helping Thailand.

Despite this good news, I am not celebrating. And neither should you be, either.

That's because it is going to lull our country into a false sense of security.

We still have no real, clearly articulated economic master plan to steer us into the ASEAN Economic Community – one that can help ensure our national resources are prioritized towards those sectors in which our country can have a clear competitive advantage, or towards those sectors that we should be doing a lot, lot more to support to give them an unassailable lead.

We also have no comprehensive plan to assist those sectors that will face the most serious threats from the region.

Which brings me to the most important thing that I want to say to you today:

that the business of government is far too important for the citizens of this country to leave to politicians. And that you, as representatives of the international private sector – people who know very well the regional and international competitive terrain – need to become more active participants and contributors to policy-making.

Politicians can get far too preoccupied with day-to-day issues, whether it be the lifting of the state of emergency in this province or that, or budgetary debates, or transfers, or the jockeying for positions, that they, sometimes, may forget that seventy million people are looking to them to set a direction for this country that heads towards the 'sunrise' side of our economy and away from the 'sunset'.

We are in an extremely competitive world and the speed with which the competitive environment is evolving means that Thailand can no longer 'drift to success' the way it, so often, has in the past, but must proactively set a direction towards success.

- That means government proactively taking the initiative to do things that enhance the competitiveness of the most important engine of prosperity for everyone – private enterprise.
- That means such things as looking at taxation – not as a way of raising more money to fund populist programmes, but as an important tool to enhance national and corporate competitiveness, and a tool to direct investment into areas that promise the greatest productivity gains for our nation.
- That means putting in the fundamental infrastructure that enables businesses, institutions and daily life to function efficiently, rapidly and at low cost – whether they be roads, railways, ports or telecoms systems. And doing it quickly. Now.
- That means ensuring that government institutions are there to help us all do more, and to do it better. And that our health and education systems are modeled on global best practices, and future needs, rather than on legacies and niceties.

- That means security forces providing us security.
- And it means ensuring the rule of law remains paramount.

If we can do these well, I believe, most of the rest will take care of itself...

Rather than focusing our energies on how the pie is being split and ensuring that everyone gets a small but fair piece, we need to, first, focus on doing what needs to be done to grow that pie, to double it, to triple it.

With much more to share, history has taught us, most will get more, regardless of what else happens. We need only to look at Singapore to see how much is possible, and continues to be possible...

In only the last five years Singapore has doubled its per capita GDP. Malaysia has increased its per capita GDP by 55%, or eight times – eight times! – faster than Thailand in the same time frame. And Indonesia has increased its per capita GDP almost 50% faster than Thailand. Our per capita GDP growth has languished at only 6.7% over the entire same five-year period.

Already, our ambition to be an industrial export powerhouse in the region has been seriously challenged.

Singapore and Malaysia have secured almost double our market share in ASEAN for exported industrial goods, and we could be overtaken by Indonesia, which has a market share of 14.4% compared to our 14.6%.

From being one of the foremost economies in this region, we are slipping behind.

We really have no time to lose to set this right.

It's time for us to stop looking at the past and at the colours of people's shirts, and to keep focusing more on what needs to be done to build opportunities for all.

We are not a country of shirts but a country of people, of brothers, sisters, mothers, and fathers, and good neighbours – and of quiet, peaceful people who just want to see a great, united country, and one in which we can work towards our dreams of prosperity.

The unprecedented booms in the United States and in Europe after the Second World War did not come because of the Nuremberg trials. Nor did they come about because of a total preoccupation with the ghost of totalitarianism.

They came about because leaders, while recognizing that justice needed to take its course, also recognized that true leadership is not about forensics, but about helping people to dream of what's ahead, and what is possible, and then enabling them to grasp those dreams. The dream was unprecedented prosperity and the comforts of the good life for all.

Far from meting out punishment, the victors did all they could to ensure prosperity for the people of the very countries they had vanquished as the best antidote to totalitarianism.

We need to leave the legal system to take care of the past, and as politicians, do our best to ensure the independence of the judicial branch, while we focus on the future.

I very much believe that our country is heading towards an historic crossroads, and that we have no time to lose.

Being ready for 2015 is about having the right priorities and putting into place the right policies.

It's also very much about how we approach doing that.

You in this room, whether you be the leaders of large corporations or of dynamic, small operations, must do your part, and do it better.

You need to become a more important part of policymaking – you need to make your voices heard. Because Thailand is just not going to succeed if you let politicians try to run this country without sharing your know-how, needs, and resources. It is going to succeed if you partner with them – partner in a collaborative process of doing what's right for the country, for its long-term future, and for its people.

We are fortunate that Thailand has a tradition of co-opting talent and advice from the private sector, and we need to build on that.

As elected representatives of the people, we also need to be mindful, always, of our obligation to protect minority interests that have less access and less opportunity, and to ensure that their voices are heard.

At the same time, we have to have the courage to ensure that shrill minorities do not hijack policy, and with it the long-term interests of silent majorities...

I invite you to become a part of the collaborative process to keep Thailand's dreams alive and to keep Thailand moving forward. When you start doing more of that, and when government learns how to engage with you effectively, that is when we will best be ready for the ASEAN Economic Community, and when we will be able to shift into higher gear.

'Nice words', you might be thinking.

Allow me, please, to spend a few minutes to let you know that I have been walking my talk.

Allow me, also, to recognize some of the great collaboration I have received from the Joint Foreign Chambers, as well as some of the individual national Chambers of Commerce.

Last year, I initiated a programme to reform the Customs Department. With 70% of Thailand's GDP generated by foreign trade, the Customs Department needed to become easier to deal with if we wanted foreign trade to flourish.

The way I work is to listen, at first hand, to the real users of a service or product. Then I get inputs and buy-in from government officials. And then I act.

I began the Customs reform programme by inviting representatives from various foreign chambers of commerce to meet with me personally at the Ministry of Finance and to talk to me about their needs. They gave me their inputs through eight different sessions.

Prior to my assumption of this office, a draft Customs Bill had been moving around the various departments of the Ministry of Finance for some five years.

Not only was it taking a long time to go nowhere, but during those many years of drift it had slowly transformed into becoming a draft law that promised to create even more issues than it solved – one among them being a provision to actually increase the penalties on errors in Customs declarations, both for those that were inadvertent, and otherwise.

I froze that draft, and we now have a new draft law as well as a set of regulatory changes.

The new draft law and the regulatory changes that I initiated comprise the single biggest reform package since the establishment of the Customs Department in 1874 – more than 135 years ago. The package will make dealing with the Customs Department easier, more transparent, and more predictable for importers and exporters.

Among the most common complaints was that companies could not get the Customs Department to confirm exactly how a particular product will be classified and how its duty will be calculated prior to the product being ordered or arriving at Customs.

This was a huge disincentive to trade since businesses could not calculate their real costs until after they had already committed to investing in a piece of machinery or to ordering a product.

Moreover, importers of goods also found that the same product could have its dutiable value calculated differently from shipment to shipment.

This will no longer be the case.

Through regulatory changes that I have introduced, the Customs Department can now provide businesses advance rulings on products and materials that they would like to import. The Department will confirm both the duty classification and the valuation method of products in advance of their importation. It will also commit to a single, consistent valuation method for customs duties on a product, regardless of when and how it is imported.

Next to this, there were many other issues.

Underlying most of them seemed to be a feeling that judgements made by Customs appeared to be arbitrary.

My belief was that this was probably because the mechanism to ensure state accountability was not easily accessible to the public. The existing law made it a very high risk proposition to question the judgements of Customs.

If anyone took the Department to court, and lost, the judge was compelled to assess a fixed penalty of four times the total import value of the goods.

On the other hand, if you chose to settle at Customs, it could be as low as only two times the difference of what you had declared and what was assessed – potentially a ten, twenty, thirty-fold difference. Clearly, there was a big incentive not to argue with Customs officers, no matter how arbitrary the ruling may seem.

In the new draft, I have proposed giving judges complete flexibility in assessing penalties, up to a ceiling of four times the value of the goods. What this will mean is that, if the judge sees merit or mitigating circumstances, he will have the power to impose very low penalties.

This will remove the enormous financial risk around questioning a Customs Department's ruling if you believe your case really has merit.

This will also give room for judges to recognise genuine mistakes and levy a lighter penalty, if any at all. In the past, the law forced a judge to penalise the person who made a small technical error with the same severe penalties as the committed smuggler.

By making it easier for individuals and companies to take the Customs Department to court, to get impartial scrutiny, and to invoke precedent, I hope, in one stroke, to force greater transparency, consistency, and accountability in the Department's actions.

The new draft Customs law has just passed its second review by the Council of State and should be ready for submission to Parliament in the current session that just commenced this week.

It has been a 15-month process that has involved three Directors-General at the Customs Department, and push-back from multiple quarters, including the Council of State, but I think we are finally there...

I would like to thank the Joint Foreign Chambers of Commerce, and AmCham and Judy Benn in particular, for the frank, systematic, and collaborative work-style that has helped to make these reforms possible.

The comprehensive document that the Joint Foreign Chambers had produced was clearly something into which you had put a lot of thinking. I would like to express my appreciation to all those who put that document together and to let you know that it was a very important starting point for my work in the reform process.

Next in the pipeline is to reduce or eliminate the rewards system at the Customs Department. It is something on which I am working as part of a second phase of reforms.

These are fundamentally important reforms and, together, deliver on my vision to make the Customs Department a service provider to facilitate trade.

With the Revenue Department, I have also been working on some things that I hope can better prepare Thailand's competitive position in the ASEAN Economic Community.

There is a new set of tax privileges offered to companies that choose to put the regional headquarters of some of their functions in Thailand – or what we have called the Regional Operating Headquarters programme.

Thailand has a lot to offer in terms of being an attractive centre from which to do regional business. But when I look at how the regional landscape is set to evolve in the next several years, I know that we need to be doing a lot more to ensure that this country stays a competitive and a convenient place from which to do business.

Essentially, if your company provides any services to companies outside of Thailand, we will call that function a 'regional operating headquarters'. You need only serve one other country in the first year, two in the third year, and three in the fifth year to be considered a regional operating headquarters and, therefore, qualify for special tax and other privileges.

Typically, the services that could be put into a regional operating headquarters are:

- Business management and administration
- Sourcing of raw materials, parts and finished products
- Research and development
- Technical assistance
- Marketing and sales promotion

- Regional human resources training
- Business advisory services
- Investment feasibility studies and analyses
- Credit management and control...
- and possibly other services approved by the Revenue Department on a case-by-case basis.

The benefits we are offering regional operating headquarters are substantial and very competitive in the region.

- For income earned on such services provided to companies outside of Thailand, there will be zero corporate income tax for up to 15 years.
- For income earned on such services provided to entities inside of Thailand, there will be only ten percent corporate income tax, again, for up to 15 years.
- We are also offering substantial personal income tax benefits. Expatriate employees will, for eight years, be taxed at only 15%.

However, these personal income tax benefits will be subject to a requirement that income generated from services to overseas companies must be at least 50% of an ROH's total revenues.

- Next to these tax benefits, the Bank of Thailand is also supporting ROH companies by making foreign currency dealings of regional operating headquarters easier.

There are a host of new regulations that improve convenience and reduce costs through the relaxation of conditions governing the operations of a Treasury Centre. For example, the ROH can now transfer, lend or borrow from affiliated companies in foreign currency rather than being compelled to convert into Thai baht.

Finally, we have also classified a whole new area of income as qualifying for tax benefits, which I believe will be very relevant to many of you here.

Companies or units providing international procurement services will be able to get similar tax benefits on their entire trading income and not just on fees for their procurement services. This is a big step forward, after many years of debate at the ministry, and one that I hope will encourage many large companies to put their procurement functions into Thailand.

As we go into the ASEAN Economic Community I hope these measures will go some small way to help us get our fair share of the enormous opportunities being opened up by the Community.

- I know that if we fail to grab our fair share, others will take it, and our country will lag in its development, and perhaps even trail its ASEAN neighbours.
- More than that, because of the free flow of labour and services, if we do not attract functional leadership into our country, we may find some of our best brains and talent draining out of Thailand...

We have to move quickly and decisively if we want to maintain an important role in this region.

Politicians need to stop talking about politics and to start talking more about what they are going to do for this country, and to focus on the business of bettering the prosperity of our nation and people.

And you need to input more into that – into what politicians will do, into their priorities, and to keep them accountable for their promises.

Security issues need to be left to security experts, with the appropriate political oversight.

And we need to let the judicial process move forward – let it move forward without politicians' involvement, and without distinction between red and yellow.

And let the law be above everything, because the inviolability of the rule of law is the cornerstone for the development of any great nation.

Thailand has lost too much time. It now needs to move forward. Your recommendations, knowhow, and points of view are very important parts of this process – a collaborative process – of helping Thailand to move forward towards the reality of the ASEAN Economic Community.

Thank you for being a partner in our nation's development.

[Approx 30 minutes]