

## **"EFFICIENT TRADE ASSOCIATIONS AND THE SUSTAINABILITY OF THE ECONOMY"**

5th August 2010

**Opening remarks of JFCCT chairman, Mr Nandor von der Luehe**

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Excellency, Deputy Minister of Commerce Alongkorn Ponlaboot, distinguished guests, friends from various trade associations and chambers of commerce.

I would like to thank the Department of Business Development of the Ministry of Commerce for having kindly invited me to give some thoughts on

“Efficient Trade Associations and the sustainability of the economy”, and I commend His Excellency for arranging such a topical and important seminar.

Before I move to this topic I would like to introduce to all of you the Joint Foreign Chambers of Commerce in Thailand – known as the JFCCT and what we stand for.

The Joint Foreign Chambers of Commerce in Thailand is the umbrella organization of the 30 foreign chambers of commerce and business associations in Thailand covering all continents and major trading partners of Thailand.

Through the 30 Foreign Chambers and Business Associations we have over 9,000 member companies active in various fields from manufacturing to trade and services.

The JFCCT is committed to economic growth and the development of Thailand and we see us as partners of Thailand with a mutual interest to develop the economy. Foreign participation in the economy should not be considered as competition but rather foreign investors are partners and friends to increase economy betterment and to strive for prosperity.

We work closely with various ministries, the Board of Investment, customs, NACC, the Board of Trade, the Federation of Thai Industries and other government bodies and organizations. Through the presidents' council we discuss and set the policies for the JFCCT.

Through the more than 9,000 companies we have a vast resource of talent, know-how and experience from both within and outside Thailand. To have clear and well founded policies we have set up various committees where experts are developing the best proposals that we submit to the government.

Presently we have committees on:

- ICT
- customs
- property
- taxation
- employment
- tourism
- law

These committees have regular meetings and all participants are experts in their field and are nominated by a chamber to participate in the committee.

To achieve economic growth the mission and goal of the JFCCT is to promote foreign investment and trade, to encourage skills

development and skills transfer with the aim of contributing to the economy. We work towards the goal to have a transparent and competitive investment climate ensuring a level playing field.

The role of the JFCCT is not to make demands on the Thai Government – but we consider it our duty to work closely with the government through supportive proposals to ensure a healthy development for the betterment of Thailand's economic platform. We support and lobby for positive developments but at the same time we consider it also our duty to oppose threats that would undermine Thailand's competitiveness and development in the long term.

Our clear aim is not to seek protection for those who have already made investments in Thailand, but to help make the economy more attractive generally for investment and sound business operation.

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

The export figures are positive with high growth rates and also the 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 competition for capital and skills.

For both local and foreign investments, we need to restore investor confidence. This is mainly not about incentives (e.g. taxes or other incentives, which do have their place and are useful) 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 crises 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 the State of Emergency had to be declared and in fact is still in force. Within one year in 2008 we have seen 4 Prime Ministers – outgoing Gen Surayud, PM Samak, PM Somchai followed by Prime Minister Abhisit. Unfortunately these many changes 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 facts. Unfortunately the way the political conflict was presented and discussed abroad did not always necessarily reflect what happened here and SMEs that rely mainly on the international media without direct access to resources in Thailand will think twice before selecting Thailand as the destination for their investments.

As outlined earlier opening up the manufacturing sector was a success – but what about the services sector? The services sector development has stalled and is underperforming, in fact slipping back relative to other important economies. This was also highlighted several times over the past years by the World Bank and again so this year at the recent investments seminar organized

by the Joint Standing Committee on Commerce Industry and Banking in cooperation with the JFCCT. 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.

Trade Associations often see their role to safeguard their members by lobbying the government to keep protective measures in place. There is sometimes an apparently well founded fear that opening up and taking away protective walls will harm them and their members. I believe that the role of Associations should be to strengthen the industry and to strengthen their members to be ready for greater levels of competition (much of which will come inevitably from international pressures and the unavoidable fact of an international marketplace but this is a fact of globalization) - not through protective measures - but through education, skills development, capability building and support that the members do understand new market conditions and how to win in them. Also, importantly education is needed so that members can know how to take advantage of Free Trade Agreements and the extended ASEAN community to the full extent.

Under the AEC agenda, it is planned that the ASEAN community will be fully integrated by 2015 and the economies of the member countries will merge. Some have said that that goal is not realistic; many have noted the great benefits of achieving it.

The main focus within ASEAN is presently on trading in goods as also highlighted in ATIGA (ASEAN Trading In Goods Agreement), and ACIA (ASEAN Comprehensive Investment Agreement), with services moving ahead more slowly (like via the ASEAN Framework Agreement on Services AFAS).

To have an integrated market place of almost 600 million people gives all the participants a lot of opportunities but it is important

that the participants in the various economies are well informed and prepared to take on the challenges and opportunities.

End of last year I was attending a Board of Trade meeting in Chiang Rai where the Chairman of the Board of Trade informed all participants that their finding showed that 80% of the businesses in the provinces were not aware of the AEC and did not know what this meant to them.

It is important that the private sector through all the associations as well as the government informs businesses about the opportunities and challenges to make the extended markets a success to all participants. Without the proper preparation we will see disappointments. This worry does not apply as much to big businesses as they are well aware of the changes and usually have the resources to take full advantage. For smaller business, access to information is more challenging but the right information can be found. To be sure, a single, convenient database and Tariff Repository with all Free Trade Agreements and their terms and schedules would be useful– not only the ones signed by Thailand but all ASEAN member countries would be useful, but it would not be wise to wait for that. Businesses in Thailand as a member of ASEAN will be able to take advantage of FTAs in dealing with non ASEAN countries by also tapping into opportunities outlined in FTAs of other ASEAN members (and of course in existing bilateral FTAs). To take real advantage of these opportunities access to information, education and flexible minds are needed.

Under the AEC not only trading in goods is going to be opened up but also the service sector under AFAS targets already for this year (2010) 51% foreign ownership for all service sectors and some selected sectors will be opened up to 70% this year and by 2015 foreign ASEAN participation should 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 the 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 not yet Thailand. There is competition for skills (vital to the service sector) and capital. Who will get them?

In trade negotiations the service sector should not be treated the same way as negotiating on goods but should be considered as a support for the economy overall and support for trading in goods. The approach should thus be pro-active, not reactive.

In the world ranking of ease of doing business by the World Bank Thailand is ranked a proud 12<sup>th</sup> out of 183 countries – but the ranking in starting a business is 55<sup>th</sup>. In the ICT sector the ranking on nearly all network readiness type indicators – basics for a knowledge based economy – Thailand’s ranking is very low and Thailand is slipping year-on-year, a fact also acknowledged in the Ministry of ICT plans.

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 opening the avenue for liberalization of various business activities. Many sectors have in fact already become competitive but this fact is not acknowledged by releasing these sectors from unnecessary protection. Unwarranted protection of these sectors put them at risk to become uncompetitive and ineffective, even becoming backwater industries – only competition keeps them vigilant and strong. Ever since the enactment of the FBA in 1999 none of “the business which Thai national are not yet ready to compete with foreigners” has been released. Either these businesses did not look seriously into how to become strong and competitive over the past

eleven years - what in fact I very much doubt - or there is no need to keep them on the list – what I strongly believe. Knowing the talent of the Thai business community and having observed its strength over more than 20 years that I have been living in Thailand I am convinced they are more than ready to compete. The review process has been discussed many times - but it is time to see some results. Art 21 of the list three in the FBA the “catch all” clause is considered as an investment hurdle and is perceived as anti foreign investment 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 the few remaining local businesses that are not yet ready for competition and the other businesses should be opened up to full 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. Such a move would for sure also help Thailand to move up on the World Bank report scale of ease of doing business in the category of opening up a business from a low 55<sup>th</sup> to a more competitive level.

Under the AEC we will also see an opening up of the movement of skills and people. For some professions like in the medical field e.g. doctors, nurses and dentist just to mention a few this rules should be already implemented. In other fields Thailand should take a pro active role and build a knowledge based economy attracting the best and most talented. Administrative and policy hurdles do continue to exist in the areas of work permits and visa for example – but the benefits of an open approach should dominate the government policies.

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

We also see now moves to restrict foreign investment further in some sectors.

The political division has highlighted inequality in our society and reforms are needed. Associations can be supportive of these changes. 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 reforms and SMEs and rural people need better access to finances to enable them to 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 and populist policies.

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 current proposed rules for 3G lack clarity, create new monopolies like on the 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 like 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 reforms, the political will and vision of this government.

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

I would like to highlight an experience Switzerland went through and this might be useful to other countries to tap in. In the nineties Switzerland realized that she was slipping in attractiveness and was losing out in comparison with her neighboring countries. The government realized that the Professors at the universities did less research than their colleagues elsewhere. Doctors were happy with the status quo; everything was very expensive but not really competitive. The government opened up the labor market and competition was flowing in from the EU. In a short space of time Switzerland woke up, gained strength and outperformed her peers. This should highlight that the same applies to a highly developed country, or a developing country – only real competition keeps them strong.

Land ownership is a very sensitive issue in Thailand but we should look at other economies how they attract investments 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 investments 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.

That neighbor to the south of us some years ago was behind us in telecoms; that has now changed greatly.

The open minded approach is benefiting the economy and to stay competitive and attractive we should not look inward but be open to free trade principles and policies and as the ASEAN Secretary General Dr. Surin Pitsuwan said at last year's ASEAN business Forum – we can no longer hide behind the wall and this was echoed by the Prime Minister by asking the private sector not to seek protection but to gear up for competition.

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

Trade Associations can be at the forefront of that by grasping these opportunities and helping to ensure your members are knowledgeable about the benefits, and able to compete.