

Address by Mr Nandor von der Luehe

CHAIRMAN, JOINT FOREIGN CHAMBERS OF COMMERCE IN THAILAND AT BOI CONSULTATIVE SESSION 23 JANUARY 2013

Your Excellency Prasert Boonchaisuk, Minister of Industry

Khun Udom Wongviwatchai, Secretary General of the Board of Investment

Representatives from the various government agencies

Presidents and representatives of the Foreign Chambers of Commerce in Thailand

On behalf of the Joint Foreign Chambers of Commerce in Thailand known as JFCCT I would like to thank His Excellency and the BOI for having organized this consultative meeting.

The JFCCT consist of 29 foreign chambers and represents more than 8,000 companies through the membership of the various chambers.

At the JFCCT we have always expressed our interest in a dialogue with the government and we very much welcome that His Excellency has accepted the continuation of the consultative meetings between the Ministry of Industry, the BOI, the various government agencies and the JFCCT.

I would like to highlight that whatever issues are raised and discussed by the JFCCT, they are raised in the interests of Thailand's competitiveness and to help ensure that Thailand becomes a center of excellence. We do not make demands on the government and we do not lobby for foreign interests but we believe that an attractive economic platform will enhance Thailand's competitiveness and support Thai and foreign businesses alike and all participants will benefit from the right and supportive policies.

The BOI has put forward the new five year promotion plan and new strategy and has organized a seminar last week and invited representatives from the private sector to express their views. The JFCCT has emphasized the importance of consultation by government agencies with the private sector before major changes to policy and laws are implemented. The approach by His Excellency and the BOI lives up in full to this proposal and we would like to congratulate His Excellency Minister Prasert and the Secretary General for giving the private sector the

opportunity to express their views before the changes are implemented. We welcome the fact that the BOI is reassessing the new environment we are living in, taking into consideration government policies, Free Trade Agreements which have been signed and with the opening up of the economy through the ASEAN Economic Community.

All these changes need a reassessment of the investment climate and how to support the economy.

Back in the 80s students had difficulty in finding jobs but through the right investment policies Thailand has been very successful in opening up the manufacturing sector and the BOI has played a vital role in this achievement. The automotive sector in particular is a success story and a showcase of how important the correct policies are to build up an industry cluster and to build a center of excellence. No matter whether we see street protests or whether some other upheavals are rocking Thailand the automotive sector is like a magnet and investments are attracted and are coming to Thailand. Not only the automotive sector has been successful but overall the manufacturing sector has benefitted from the positive economic platform supported by the government and in particular by the BOI.

Thailand is known as one of the most attractive places to set up a manufacturing plant and the promotional benefits extended by the BOI have helped to achieve this positive rating.

Unfortunately this success story of the manufacturing sector is not repeated in the service sector and Thailand has one of the most restrictive regulatory frameworks for entry in the service sector and the service sector is underperforming and has to be unlocked. Despite the open access for manufacturing Thailand is ranked 85th in starting a business in the ease of doing business report by the World Bank. This highlights the shortcomings in access to the service sector.

As the BOI assessment has correctly noted, Thailand suffers from the middle income trap phenomenon.

Worldwide we see the trend of growth coming from the business sector followed by the travel service and transportation. In Thailand the travel services are performing well but business services and transportation and logistics services are lagging behind.

The Foreign Business Act has been in force since 1999 and through its List 3 many businesses are shown on the basis that they are not yet ready to compete (with foreign firms). If businesses have not been able to adjust over the past 13 years they may never do so. I am convinced that the Thai businesses are very talented and are ready to compete in this wider

pool of players but the laws and regulations have not caught up with this development yet. Some sectors included in list 3 demonstrably are competing right now here in Thailand and internationally, yet are not open to foreign firms.

Rules and regulations particularly as we have seen in the telecom sector with the Foreign Dominance regulation are not supportive to attract investments and it is no surprise that only the three existing telecom participants entered the auction to obtain licenses for 3G.

The service sector should be looked at as the new locomotive to generate growth and to pull the economy, as it can bring innovation, productivity enhancements and greater national wealth.

Looking at the World Bank's Knowledge Economy Index in 2012 Thailand was ranked 66th whereas we were ranked in 2000 60th – in other words we lost 6 ranks in 12 years. It is not that we deteriorated but the competition has outperformed Thailand. Malaysia was ranked 48th and Singapore 23rd. With the integration of the ASEAN Economic Community we have to work hard to improve our standing as a knowledge-based economy.

To achieve this goal we have noticed that the BOI is pushing for more R&D. We believe that this is a very positive strategy and important for Thailand's development. Presently only approx. 0.25% of GDP is spent on R&D. The OECD countries are spending an average 2% on R&D and the US has spent in 2010 the highest amount of 405 Billion USD equivalent to 2.7% of their GDP on R&D. Countries like Japan and Korea are spending in the range of 3.7% of the GDP on R&D and also looking around closer to Thailand our neighbour to the south has spent three times as much on R&D than Thailand. The BOI's investment strategy to strengthen R&D is important. A study why Thai companies are not engaging more in innovative activities showed that 43.6% of the respondents mentioned as the main obstacle the high cost of financing or unavailable financing as the reason of not spending more on innovation (in this context I would like to highlight that the ease of doing business report by the World Bank ranks Thailand 70th in access to finance). As the second reason for not investing in innovation 42.7% of the respondents mentioned the lack of knowledgeable and trained personnel. To overcome the roadblock of lack of trained personnel in the long term, the education system has to be upgraded but we cannot expect to find all talent within our borders. As an immediate solution an open minded and supportive policy for visa and work permits should be looked at.

The restrictions and difficulties in the area of visa and work permits have been mentioned over many years to all governments but we still face the same problems. To be successful in the service sector whether for Thai or foreign companies a reform in this area is needed. We have

a summary table of recommended changes (some legal, some administrative) for ease of reference.

In the new investment strategy the BOI has proposed to cancel the incentives through the investment zones and to focus on clusters. In this policy we see some benefit but also some shortcomings.

The government policy to implement Baht 300 country wide has taken away the attraction to set up labour intensive production in the provinces where lower minimum wages were paid in the past. With the new proposal of building clusters instead of focusing on the zones the BOI is also going to take away incentives to move production to the less developed provinces. It will be difficult to convince the private sector to move to those less developed areas without any incentives. As much as we welcome the idea to build clusters we would like to encourage the BOI to reconsider the cancellation of the zoning approach and to look towards a combination of cluster building together with zone based incentives. This should also be considered with the focus to ensure a more equal income and opportunity distribution country wide.

To have a chance of success, initiatives such as creative economy measures will need to recognize ecosystems or clusters, and thus a cluster + geographical dimension could well be quite right.

Labour intensive low value-added production is becoming less competitive in Thailand and the policy of the BOI to play a dual role of attracting FDI but also to facilitate relocation of businesses and to encourage outbound investments is welcome. The Ministry of Commerce has taken a similar role and the Department for Export Promotion has changed in January 2012 the name to Department for International Trade with the dual focus to promote exports and also to facilitate outbound investments. We are in support of these developments and would like to see harmonized approach by the different government agencies.

The BOI has played an important role to attract investments and the role as a facilitator through the one start one stop office. We welcome that the BOI is looking to strengthen this role as a facilitator particularly looking at easing the administrative burdens in obtaining licenses permits etc. The sometime over administrative environment should be modernized to attract investments and to stay competitive.

The AEC and in particular the AFAS (ASEAN Framework Agreement on Services) will be an avenue of opening up the service sector. But services are not just about increasing foreign equity levels; it is also about:

- 1) Facilitation of free movement by changes to work permit and visa rules.
- 2) Sector specific changes and mandates by way of relaxation of restrictions on permits, licences and other barriers to entry, and to mandate access to facilities
- 3) other sector specific reforms or mandates (e.g. structural changes in a sector to make it competitive).

We would like to encourage the BOI to play a leading role in unlocking the very important service sector through promoting and facilitating activities in the service sector the same way as the BOI has unlocked the manufacturing sector in the past.

To achieve all this, investment must be attracted. Foreign (and local) investors expect that there will be rules by which they must abide, but hope they will be fair in design and implementation and that the rule of law will prevail. Unfortunately we see some confusing things. One is the foreign dominance regulation (already mentioned) which is generally considered by the business community as being anti-foreign investment. Another is a stated policy by the Business Development Department under the Ministry of Commerce to use the same kind of thinking, but even more widely and apparently intended to apply to all sectors. This would be very different to the general trend of opening up in the AEC context. As a general point, any major change in fundamental investment rules is really an evolution and needs explanation, consultation and industry support, otherwise it will not get the buy-in which it needs to be successful. Any huge change takes time and a time frame of some years (and cannot be done overnight) to be effective.

With these thoughts, we again welcome a productive session today and a value- adding follow up.