

M.R. Pridiyathorn Devakula` s speech
on
"Thailand and Asia's Economic Outlook in the next Two to Three Years"
at ISAT Member Meeting 2/2014 at The Siam Kempinski Hotel Bangkok.

Ladies and Gentlemen,

I could say that this is the decade of Asia. In this decade and at least for another decade, Asia is and will be the fastest growing region in the world, especially East Asia comprising China, Japan, Korea, Taiwan and ASEAN.

US and Europe used to be the pillars that support the world economic growth. Now their roles have diminished. *What has been going wrong?* It is natural that any economy, which has been growing for quite sometimes, would normally accumulate certain type of bubble in the economy and such economic bubble would finally burst, ending up with a financial crisis. It happened in Hong Kong in 1982-1983, Japan and Sweden in 1991-1992, Thailand in 1997 and the US in 2007-2008 followed by Europe in 2008-2009.

As for the US, beside the accumulation of foreign debts as a result of continuous deficit balance of payments for decades, the growth of US economy from 1985-2007 has been depending mainly on the financial sector which has outgrown the real sector continuously for two decades. Such pattern of growth leads to the accumulation of bubbles in the financial sector. The problem revealed itself when one derivative product, which has been the fastest growing financial product in the economy, started to default in the gigantic amount of hundreds of billions of Dollar. These caused a contagion to other parts of the financial sector so much so that quite a few huge financial institutions could not withstand and collapsed, not to mention many small ones which went bankrupt. The failure of financial sector stopped the growth of US economy for quite a while and caused unemployment to be as high as 10% A lot of money supply was continuously injected into the economy to increase liquidity and induce investment. Investment did increase in the real sector but not enough to absorb all the 10% unemployment which was mainly from the financial sector. Six years after the crisis, the unemployment rate is still over 6.1% now After the IT revolution in the US, which created a lot of investment and employment in the past, there is no other evolution that can be depended to jump start the real sector of the US economy. The financial sector, which had been over expanded for two decades, has no room to play in the growth of the economy. Therefore, it would take a few more years to reduce the remaining 6.1% unemployment rate. The US economy will remain an important player in the economy only by its size, but not by its growth potential.

As for Europe, beside the collapse of some parts of a financial sector due to the Hamburger crisis, many European countries had chronic problems of very high public debt which started to default when a financial sector became weak. A major fiscal overhaul was needed for many economies such as Greece, Spain, Portugal, Italy, Ireland and many Eastern European countries.

As a result, unemployment in such countries shot to an unbelievably high rate of 20 to 25%. Since these countries are members of the European Union, problems occurred unavoidably became a burden of other members of the European Economy as well. As a consequence, the whole European Economy almost came to a halt. It has started to recover but at a very low growth rate of less than 1%. And it would take a very long time before all the unemployment can be absorbed.

Ladies and gentlemen,

It is widely known that, currently, East Asia is the fastest growing region in the world where China is the major force for the regional growth. The 1,200 population of China has become not only a major production force for various consumer products for the world, but also a huge demand for products from other countries. Countries in East Asia benefit most from the Chinese market due to, first, their proximate locations which help save logistic cost, second, the profile of their products which suit the taste of Chinese consumers and, third, the trade connection with overseas Chinese. Products from East Asian Economies not only suit the needs of Chinese consumers but also feed Chinese manufacturing industries as raw materials and intermediate products for further value added production. Vice versa, other East Asian Countries also import certain Chinese products. Intra-Regional Trade has, therefore, expanded rapidly. For example, Thailand alone is trading more with China than any other countries in the world. Fifteen years ago, I remember that our export to China (excluding Hong Kong) is only around 2% of our total trade. But now, our export to China (excluding Hong Kong) is around 12% of our total trade while our trade with the US, Japan or EU are all now less than 10% of our total trade. Export to all East Asian countries altogether are now more than 55% of our export to the whole world. It is still expanding at a faster rate than trading with other parts of the world. The gradual integration of ASEAN economic community which has started for a number of years and will be fully integrated by the end of next year has also contributed to the growth of intra-regional trade in East Asia as well as the growth of its GDP.

While the growth of GDP in the is recently in the rage of 1.5-2.5, EU less than 1%, Japan 1-2%, the growth in East Asia is recently over 6%. It is quite obvious that the potential growth for ASEAN countries lies in East Asia, both in trade and in investment.

After the full integration of AEC at the end of next year, intra-regional trade within ASEAN will definitely grow faster. Also, trade with other East Asian countries will grow as all ASEAN countries have promoted good trade relations with important economies in East Asia through free trade agreements in the context of ASEAN + three.

In addition to the existing network of supply chain for industrial products with East Asia which are quite strong, the fully integrated ASEAN would lead to additional smaller supply chains within ASEAN itself. Cross country investment among ASEAN members has gradually happened. Hotel chains from Singapore and Thailand have expanded in countries throughout ASEAN. Thailand and Singapore are competing to invest in many service industries in the newly emerging economies in ASEAN. Thai companies have expanded their production bases for many kinds of consumer products in the emerging economies. Such cross-country investment provides the much needed private equity to the emerging economies as well as the industry know-how.

Amidst all developments in the western world, in East Asia and in ASEAN, how has Thailand lived with and taken advantage of the situation?

In trade, luckily, Thailand has been able to diversify its market from G3 to other places of the world especially East Asia. In 1992, our export to G3 was almost 70% of the total export. However, right now, our export to G3 is less than 27 % while our export to non-Japan East Asia is as high as 45%, if Japan is included, total export to East Asia is around 55% of total export. As we have developed strong trade connection with countries in East Asia and particularly China, we stand a good chance to gain more as East Asia grows. Moreover, as we are known to be the champion of consumer products among producers in ASEAN, Thailand, therefore, will profit in the trading within ASEAN after the full integration. In investment, Thailand has successfully industrialized during the past 53 years. The planned industrialization started in 1961, starting from labor intensive industries producing simple downstream product such as electrical appliances, textile, canned pineapple, garment etc. and later on venturing into more capital intensive industry from upstream petrochemical to mainstream and variety of downstream products which adds to hundred items of export with higher quality and higher value added. Our agriculture sector has also developed in parallel with the manufacturing sector as well as agro-industry. We are now leading producer and exporter for rice, rubber, sugar, canned pineapple, canned tuna, and tapioca. We are also lead producer and exporters in many industrial products such as electrical appliances, high quality garments, construction materials, pick-up truck, eco car, jewelry and melamine ware, for example. Our economy has advanced in agriculture, industrial and service sector up to the point that our unemployment is now less than 1% and we have to rely on foreign labor up to as high as 4 million people now-a-days.

With the shortage of labor, the new investment is now mainly on the capital intensive industry, the upgrade of technology on existing plant and the premium service industry. As for the labor intensive industry which Thai companies have expertise, the Thai companies chose to expand their production bases into emerging economies in the region; cement, ceramic tile, melamine ware, sugar, jewelry, natural gas, canned tuna, animal feed, to name a few. The purpose of expanding production bases are 1) to gain access into the market of the host country and 2) to provide additional product to feed trade network of the Head Office. The expansion of production bases have turned some Thai companies to be an important player in world trade; ceramic tile, canned tuna, melamine ware, and sugar. With the success of these companies, other Thai manufacturers are looking for an opportunity to follow suit in expanding their production bases into emerging economies in ASEAN as well.

All these movements will make it possible for Thai companies to have more roles in world trade. We are following the foot step of Japan by developing to be the Trading Nation of the world. It is not beyond reach for Thailand to aspire to be the trading nation of the region.

However, one more ingredient that we need to enhance the possibility of Thailand becoming trading nation of the region is the establishment of trading headquarters in Thailand. However, up until now, no international trading companies have set up their offices in Bangkok and some Thai companies with overseas production bases chose to set up their trading headquarters in other countries in the region such as Hong Kong or Singapore. This is simply because Thailand trade regulations are quite complicated. Trading companies are bound to many requirements and constraints. Current-Tax regulation in Thailand is also an obstacle as trading companies in Thailand are taxed on their worldwide profit while trading companies in other countries are taxed only for the local profit. The Thai government will get rid of all these obstacles by deregulation and the change of the tax regulation to match those of other countries in the region. I believe, with this deregulation, trading Headquarters would move to Thailand and improve the chance of Thailand becoming a trading nation of the region in the near future.

Ladies and Gentlemen,

Thank you for your patience.