

**Keynote Address**  
**“Strengthening Thailand’s Competitiveness through Economic Reforms”**  
**Mr. Kiatchai Sophastienphong**  
**Vice Minister for Finance. Thailand**  
**Launch Event of 2016 European Business Position Paper on Thailand’s**  
**competitiveness.**

Your Excellency Jesus Miquel Sanz, Distinguished Speakers, Ladies and Gentlemen.

It is my honor to be invited to the Launch Event of the 2016 European Business Position Paper on Thailand’s competitiveness. Today, I will speak on the topic “Strengthening Thailand’s Competitiveness through Economic Reforms”.

First of all, I would like to touch upon global and regional economic issues. Global economic activity remains stagnant with uneven and modest recovery in advanced economies, while growth in emerging economies, especially those reliant on China’s economic performance, hits a snag. The world economy is also going through a period of uncertainties as a result of economic rebalancing in China, high volatility of capital flows and exchange rate following divergence in the global monetary policies, oil and commodity price slumps. Moreover, regional geo-political conflicts continue to weigh down on our economic growth and stability.

For Thailand in 2015, Thai economy expanded by 2.8 %, our exports of goods and services contracted by 2.8 percent and our agriculture sector declined by 5.4 percent from the year before.

Let me now address the challenges that Thailand is facing, both internally and externally. Internally, most of the manufacturers in Thailand are producing things that are labor-intensive. In the past, Thailand relied on low wage for her comparative advantage. However, this advantage is being eroded by the rising cost of labor. Moreover, Thailand lags behind neighboring countries in research, innovation and enterprise, which are needed to develop a knowledge-based and innovation-driven economy and society. Public investment in research and innovation has not grown over the last two decades. Currently, Thailand has a weak scientific base. Our

universities and research institutes have inadequate R&D capabilities. We need to embark on new and creative initiatives to enable Thailand to become a nexus for international R&D collaborations and a global R&D hub.

There is an urgent need to foster industry-science linkages to catalyze new economic activity. In my opinion, we should take steps to encourage public-private research partnerships and industry consortia. Through strategic research programs in various fields, we will be able attract major global companies to set up operations in Thailand. Thailand's start-up ecosystem is still at the formative stage, with a stagnant number of technology start-ups and an environment not conducive for entrepreneurship. While Singapore ranks tenth in the world (and first in Asia) for best start-up nations, according to The Global Startup Ecosystem Report 2015, Thailand's ecosystem is still rudimentary and so remains unranked.

Therefore, Thailand needs to step up and produce more sophisticated products which require skills to come up with innovations. The shortage of skilled labor for a knowledge-based economy caused by the lack of good ecosystem for research and development has also trapped Thailand in inconvenient position. As a result, Thailand is losing its competitive edge compared to our neighboring countries.

In the IMD competitiveness ranking of 61 countries, Thailand has been ranked at the 30<sup>th</sup> place in 2015, slightly down from 29<sup>th</sup> place from last year. The slip is due to weak domestic economic performance, antiquated business legislation, diminishing productivity, and the delayed implementation of infrastructure projects. While we did better in social framework, productivity, efficiency and education, we fared poorly in other areas such as domestic economy, business legislation, technology infrastructure, science infrastructure, health and environment.

To improve national capacity, the government has been focusing on reforming economic structure which can be divided into 6 aspects.

1. Thailand lacks the fine-tuned institutional and factor endowment mix that would allow us to compete in knowledge intensive products, typical of high-income countries. Hence, the Thai government has identified ten "S Curve" industries that

will help Thailand climb the technology ladder and move from being an OEM producer to a knowledge-based economy with focus on skills-intensive industries rather than labor-intensive industries, thereby improving the country's productivity and overall competitiveness. These include the upgrading of 5 existing industries, namely

- Next-Generation Automotive
- Smart Electronics
- Affluent Medical and Wellness Tourism
- Agriculture and Biotechnology, and
- Food for the future

Moreover, we are seeding and promoting 5 new industries to create the “New s-curve” for Thailand, namely

- Robotics
- Aviation and Logistics
- Biofuel and Biochemical
- Digital and
- Medical Hub.

These target industries will be granted BOI privileges and additional tax incentives. We are also setting up the Competitiveness Enhancement Fund to provide financial incentives for leading companies in these target industries to invest in Thailand

2. Our top agenda is National e-payment. With this initiative, financial transactions among people, business and government will be easier, faster, cheaper and more transparent and secure. The government expects to launch the program by the 4<sup>st</sup> quarter of this year. This would result in Thai business being more competitive, and the government will be able to expand their tax and financial information database, improve transparency, and achieve greater coordination among agencies.

3. The third aspect is the capital market reform. The government is in the process of establishing the Capital Market Development Committee to draw up a long-term master plan and create a venue to foster, monitor and steer the implementation of the said Plan. The goal is to develop the capital market as the engine of economic growth and wealth distribution. At the same time, we envision the capital market to be a preferred investment destination with linkages for global investment and includes 5 pillars, specifically

- Accessibility, we would like to see the capital market being accessible to all and provide greater benefits to more people. We want to encourage greater participation by small SMEs.

- Competitiveness, we want the capital market to be competitive at regional and global level. The capital market shall be conducive to efficiency and fair competition.

- Connectivity, we want the capital market to be regional connected among ASEAN members.

- Sustainability, we want to inculcate a culture of corporate governance and corporate social responsibility in our capital market.

- Institution Strengthening, we envision stronger institutions and first class infrastructure to support the development of the capital market. Rules and regulations will be made clearer and more transparent while our manpower will be well-trained and professional.

4. On the financial side, the Ministry of Finance is working with the Bank of Thailand to formulate Financial System Master Plan 3 covering the period 2016-2020. This plan revolves around 4 key themes, namely “Competitive, Inclusive, Connected, and Sustainable” and it adheres to the principles of 4 key pillars along their representative policies as follows:

- Digitization and Efficiency: we plan to actively advocate the use of electronic financial services, raise efficiency of the system by improving electronic infrastructure

- Regionalization: we will work with Thai commercial banks to operate in ASEAN countries by acquiring Qualified ASEAN Bank (QAB) status and promote bilateral swap arrangement and local currency.

- Access: we plan to develop non-conventional funding source such as crowd-funding and venture capital for SMEs, reverse mortgage and so forth that accommodate demographic changes and cater more to customers' needs.

- Enablers: we plan to improve financial literacy among the public and set higher standard for consumer protection, enact legal and regulatory reform to facilitate legal procedure such as bankruptcy.

5. Another aspect is State Own Enterprise (SOEs) Reform through the Supervisory Board to restructure SOEs. We will also create the Super-Holding Company responsible for the management of SOEs. Both Supervisory Board and Super-Holding Company have been set up to realign the mission and mandate SOEs with government's policy and to achieve greater efficiency and good corporate governance.

6. Last but not least is infrastructure reform. To improve Thai infrastructure, the government is vigorously implementing its 1.769 trillion baht infrastructure development plan for 2015-2022 in order to improve connectivity in (1) Provincial Rail way Network (2) Public transport system in Bangkok and metropolitan (3) Highways that connect with production bases and neighboring countries (4) Air transport and (5) Water Transport. The upgrade both inter-city and intra-city transportation will help to increase efficiency, improve national and regional connectivity and reduce transportation costs.

The major sources of fund (60%) are from annual budget allocation, government borrowing, and SOEs revenue/borrowing. However, to maintain fiscal space and reduce government borrowing, we are encouraging participation from private sector in the form of Public-Private Partnerships (PPPs). And, to further motivate private sector's involvement, we have also implemented the PPP fast track scheme which will reduce processing time to 9 months from 25 months.

In addition, the government will establish the Thailand Future Fund worth 100 billion baht to expand the channel which the investor can participate in these infrastructure investment plan and allow individual and institutional investors to indirect invest to infrastructure project.

With these policies in place, I am confident that Thai economy will expand around 3.7 percent in 2016, significantly better than the 2.8 percent growth achieved in 2015, and is well on track to sustainable growth and improve our competitiveness in the long run.

I have now reached the end of my remark. Thank you for your kind attention. Hope you have a good day.