

Liberalisation of the Thai Economy
by Mr. Anand Panyarachun
for the 4th Asian Management Awards
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Good evening. Your Excellencies of the diplomatic corps, distinguished members the Thai government, business leaders and industrialists, observers and friends from the media, faculty and students, ladies and gentlemen:

On behalf of our gracious host, Viroj Phutrakul, and the Asian Institute of Management, thank you for joining us this evening as we honor the recipients of the 4th Annual Asian Management Awards in Thailand.

As I watched the presentation this evening, I must say that I was just as moved as some of the recipients - and I felt as proud. In fact I think that all of us can be proud of what Thailand and its private sector-government partnership has achieved.

You, tonight's recipients, are outstanding symbols of what has happened in Thailand of how significant economic growth can be achieved in an environment where democratic institutions and practices prevail.

Our double-digit GDP growth in the late 80's and our projected 8% - plus growth this year and next is enviable. Inflation is controlled at well under 5% (I hope), we have attracted over ten billion dollars of foreign investment over the last few years, our foreign exchange reserves at \$25 billion have never been higher, our per capital income of \$2300 is very respectable and is rising and unemployment is at a low 3.3%.

Today, however, we face a very different challenge. (The prevailing political and socio-economic forces of the 1980's have all changed. The disintegration of the former-Soviet block has opened up previously controlled-economies. New countries and republics are being formed and admitted to the United Nations at an ever-increasing rate. It is in this light of change, that we must forge our new vision and policies to lead us into the 1990's and beyond.

I know that many experts will speak of how we need to prepare for changes in technology that will affect the way we live and the way we compete. Others say we must be ready for how the newly-emerging economies - China, India, and Indochina - will at the same time be our competitors for foreign investment and markets for our products.

Within this regional context, other pundits are convinced that Thailand's real priorities should be to resolve infrastructure bottlenecks, alleviate rural poverty and create a more equitable distribution of wealth.

All of these pressing concerns are important, but today we address an issue of

equal importance, one if not handled appropriately may relinquish Thailand's competitive edge in the newly-forming global economy.

From being a lackluster resource-based under-developed economy in the 1970's, we became one of Asia's emerging dragons in the last 10 years or so. How? Economists, businessmen and politicians-the pundits, I spoke of - are generally agreed that our growth and success were due to both sound macro-economic policies coupled with prudent economic liberalisation.

In the 1980's, we started to liberalise our economy with the enactment of an export-promotion policy. At the same time, the Board of Investment, aggressively encouraged and fostered increased foreign direct investment, triggering a boom in foreign investment in manufactured products. As a result, exports surged in the late 80's.

Since the late 1980's, more liberal policies on capital flows, privatisation and rules on foreign investment have led to an additional influx in direct foreign investment. This has led to further industrialisation, growth and technology transfer for Thailand.

To drive growth into the 90's however, Thailand must not only continue our current efforts at liberalisation but also move swiftly to become one of the most open trading nations in Asia. Even as we continue to reduce tariffs, gradually liberalise our financial services sector via BIF, and relax rules on foreign ownership, we must do more.

Competition amongst companies and multi-national corporations is fierce. A recent issue of the Harvard Business Review says, I quote: "Competition is now a 'war of movement' in which success depends on anticipation of market trends and quick response to changing customer needs. Successful competitors move quickly in and out of products, markets, and sometimes even entire businesses - a process more akin to an interactive video game than to chess. In such an environment, the essence of strategy is not the structure of a company's products and markets, but the dynamics of its behavior."

Likewise, competition amongst nations will be equally fierce. Nobel Laureate Milton Freedman, recently stated that: "It is today possible, to an extent greater than any time in the world's history, for a company to locate anywhere, to use resources from anywhere and to produce a product that can be sold anywhere."

What does all of this mean for Thailand? We can only compete effectively in the global economy if our private sector is linked to the international community.

Our success came at a time when we were a relatively liberal economy compared to those around us: China, India, Vietnam, Indonesia, the Philippines, and the Soviet Union were more protected than we were. The success stories are clear: the open ports of Singapore and Hong Kong thrived while the controlled-economies of Burma and Vietnam stalled.

But today we are in danger of becoming more protected than our neighbours. If this happens the situation will be reversed: we will be hurt by our protectionism, and they will benefit from their liberalism. And Thailand cannot afford to let this happen.

The AFTA Monitor has made a very succinct case for free trade. It says, and again I quote:

“History has shown that protectionism hurts economic growth and condemns consumers to higher prices and lower quality. It also created unemployment, lower wages and lower productivity. Protectionism leads to economic stagnation - so much so that the world economy all but collapsed during the depression of the 1930's, a markedly protectionist period. It was thought that world leaders had learned their lessons from that experience, lessons like:

Cutting or eliminating tariffs exposes domestic industries to foreign competition. This competition forces both domestic and foreign industries to become more efficient, either by themselves, or by forming alliances. The result: consumers, have a wider range of goods and services to choose from and better-quality goods at low prices. Those industries no longer able to compete invariably shift their resources to areas in which they can compete, i.e., where the resources are used more efficiently. This leads to higher productivity of a country's factors of production and therefore to better living standards.

As an added benefit, more jobs and higher incomes result from the entry of foreign competition and technology. Workers are trained quickly and become more productive. Domestic industry also flourishes as new technology is acquired and new markets are opened. Every economy that has tried freer trade has obtained these results”. End of quote.

The ones who will be hurt the most by protectionist policies will be the protected industries themselves. Granting indefinite protection assures that our local business or industry will become uncompetitive in the long-run in the quickly converging world economy. We must instead insure that as we liberalise and move to a true “free trade” area, that our local industries be equipped to compete globally.

Consider what protectionism alone will do to Thailand and its workers.

First, we penalise our country because being protected, we are making inefficient use of our resources, and Thailand must strive to use its resources wisely.

Second, we must realise that for every industry that is protected, another industry is penalised. If cement is protected, that construction industry will suffer from high prices and lower quality. If we protect textiles or leather, then we penalise clothes and leather goods manufacturers.

Third, we penalise consumers - our fellow Thai's - who have to pay higher prices

for lower-quality goods. Because if goods were priced lower and were of better quality, the industry would not need protection from foreign competition.

Just as there are well-dressed fools, there are well-dressed foolish ideas, and protectionism is one of them. Protectionism only benefits a very small group - and only for a short period. Meanwhile millions suffer.

Government alone cannot move to liberalise the economy. Businessmen who propose protectionist measures must recognise the implications of indefinite protection. In the long-term, they will be uncompetitive. They must now take the first step to prepare for a more open economy. As the government moves to liberalise our economy and welcome not only foreign direct investment geared towards export but foreign competition in the local markets as well, our local industries must be ready to compete with tough foreign challenges. This is the first and most crucial thing for us to do as we drop our protectionist shell.

I wish to call on the rest of us in the private sector and government to be on the lookout for and expose those who would propose and those who would implement protectionist measures.

They say that a person who sees the advantage but not the disadvantage is like a fish who sees the bait but not the hook. I hasten to assure you that I am no such fish. Instead of looking only at trade-offs and sacrifices, we must seek out mutually beneficial endeavors, those in which both parties can share in a "win-win" scenario. Let me give you a few examples. Those in manufacturing have discovered with economics of scale we can achieve higher quality at lower prices. So also we now know that the ideals of democracy can be well served even with a strong central government. Well, it's time we believed that economic liberalisation can help us achieve a much better standard of living for our people without sacrificing nation interest or national pride.

Just like the trophies you have received today with their Pillars of Hercules and the saying 'Plus Ultra', or 'everything lies beyond', Thailand must go forth into the next century standing on the twin pillars of sound macro-economic management and economic liberalisation. The time for discussion is past. It is now time to act. And if we do, everything lies beyond for Thailand and we can move forward with confidence.

I congratulate all of the recipients of tonight's Management Awards. You are amongst not only Thailand's best, but Asia's best. I ask that all of us here this evening, help our nation to remain one of Asia's best as we move to liberalise our economy.

Thank you.

(CJ note: Quotes from current sources e.g. AFTA Monitor may not be appropriate given Khun Anand's standing.)

