

Enhancing Thailand's Competitiveness through Cooperation between Public & Private Sectors

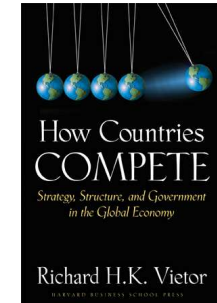
Kan Trakulhoon
President & CEO, SCG

October 2, 2009

การประชุมสัมมนาทางวิชาการประจำปี 2552 ในโอกาสครบรอบ 7 ปี ของการพัฒนาระบบราชการไทย

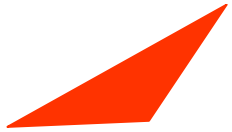
How Countries Compete

By Prof. Richard Vietor, Harvard Business School



1. Governments must guarantee basic property rights;
2. Governments must maintain sound macroeconomic policies:
 - Fiscal deficits cannot continue indefinitely;
 - Entitlements should be limited and securely funded;
 - Taxes should be somewhat redistributive and discourage excessive consumption;
3. Governments must stimulate savings and investment;
4. Strong (not necessarily independent) central banks are necessary for non-inflationary growth;
5. **Microeconomic liberalization (trade, foreign investment and privatization) by government is eventually necessary in a competitive global economy;**
 - **มาตรา 84(1): สนับสนุนระบบเศรษฐกิจแบบเสรีและเป็นธรรมโดยอาศัยกลไกตลาด และสนับสนุนให้มีการพัฒนาเศรษฐกิจอย่างยั่งยืน โดยต้องยกเลิกและละเว้นการตรากฎหมายและกฎเกณฑ์ที่ควบคุมธุรกิจซึ่งมีบทบาทสำคัญที่ไม่สอดคล้องกับความจำเป็นทางเศรษฐกิจ และต้องไม่ประกอบกิจการที่มีลักษณะเป็นการแข่งขันกับเอกชน เว้นแต่มีความจำเป็นเพื่อประโยชน์ในการรักษาความมั่นคงของรัฐ รักษาผลประโยชน์ส่วนรวม หรือการจัดให้มีสาธารณูปโภค**
6. Governments must maintain labor market flexibility to enhance productivity and facilitate competitiveness;
7. Governments must manage resource endowments carefully;
8. Governments must control corruption;
9. Governments are responsible for insuring equitable income distribution;
10. Governments cannot allow unsustainable current account asymmetries.

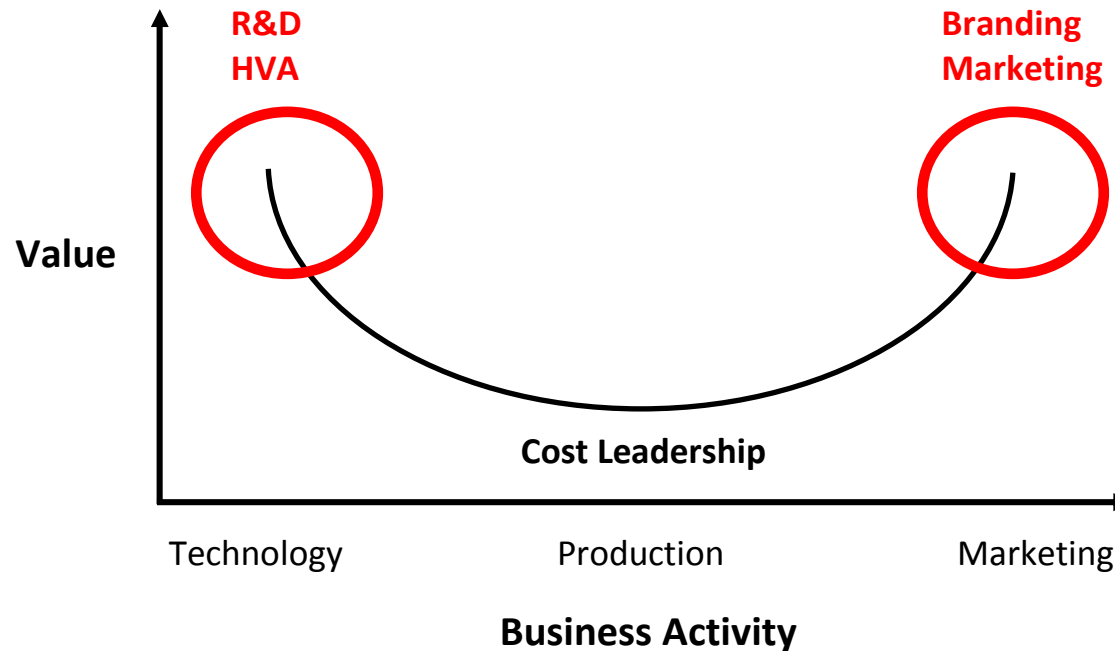
Ref: "How Countries Compete", Professor Richard Vietor, Harvard Business School, Advanced Management Program, October 2008



How can Thailand compete?

Sources of Competitiveness: Country and Business

- Marketing & Technology will play more important role, comparing to production



To build the country's competitiveness

- Shift the country competitive advantages from low labor cost to **High Value Added products and services (HVA)** by supporting in R&D investment and IP management



*“Some businesses with a preference for lower labor costs may move to other countries, but others needing greater **technology development** and **creativity** will move to **Thailand**”*

*Alexander Feldman, President of the US-ASEAN Business Council, 41st AEM Bangkok 2009
The Nation Aug 13, 2009 –*

To build the country's competitiveness

- Develop **“Thailand Brand”** – Design & Creativity on Quality Products





How to make these happen?



We, public & private sectors, are the one
to make these come true...



Example of R&D Support

- Government's R&D incentive, such as Double Tax Deduction (DTD) of R&D expense from corporate income tax, supports private sector to invest more in R&D, thus increase long term competitiveness of a company and the country.
 - SCG spent 730 Mil Baht on R&D in 2008.
 - SCG will continuously invest in R&D. In 2013, budget for R&D will be 1,500 Mil Baht.
 - Number of Ph.D. staffs increase from 15 people before 2007 to 37 people in 2009.
- Feedbacks from private sector also allow government to adjust a supportive program to best fit with business practice.
- Additional cooperation between public and private sectors such as:
 - Government supports a shared R&D facility, or even R&D service, to provide more chance for private sector to access to R&D activities.



Example of SCG

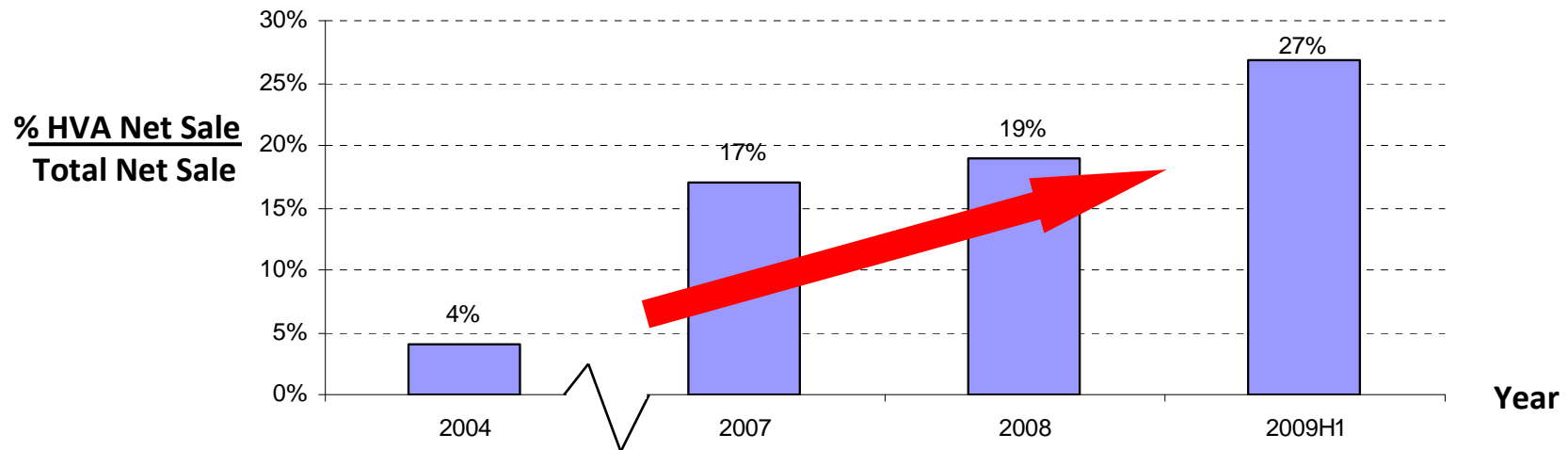
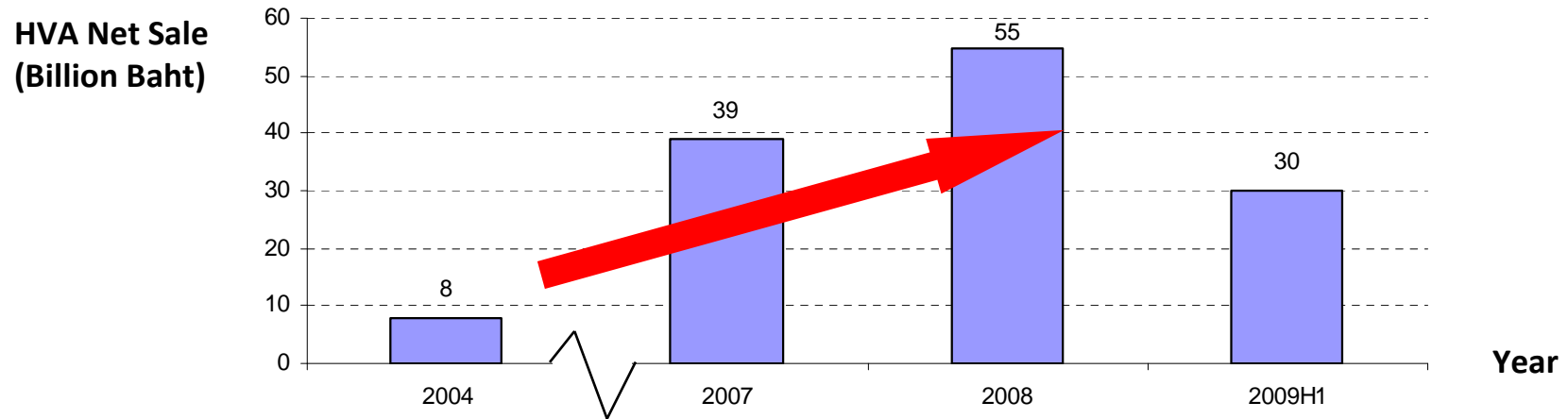
- Increase customer satisfaction
- Differentiate from the competitors
- Compete on Value to Customers, not price

HVA

High Value Added products
and services

Example of SCG

HVA contributed almost 30% of SCG Total Sales in H1, 2009



Note: Including associates

Example of Branding Support

- To help Thai private sector, especially SMEs, in building/expanding its brand in new market oversea, government can provide additional support such as Double Tax Deduction (DTD) of exhibition expense from corporate income tax.



Thailand have already had strong branding in service industry

Strong Identity of “Thai Cultures”



- Tourist industry
- Hotels & Restaurants
- Medicare industry

...with potential to be the Kitchen of the world



We should leverage on this competitive advantage



And the next potential brand... Thailand as the Regional Trading Hub

- ASIA will rise and ASEAN is an attractive Emerging Market
- Strategic location of Thailand – Connect with the ASEAN within 3 hrs
- Trading Business is one of the key driver of Thailand economy
- Large domestic demand as the base of trading business

Thailand can be, not only the hub for physical movement of the goods,
but also the hub for trade communications & market connections

Benefits from the Regional Trading Hub

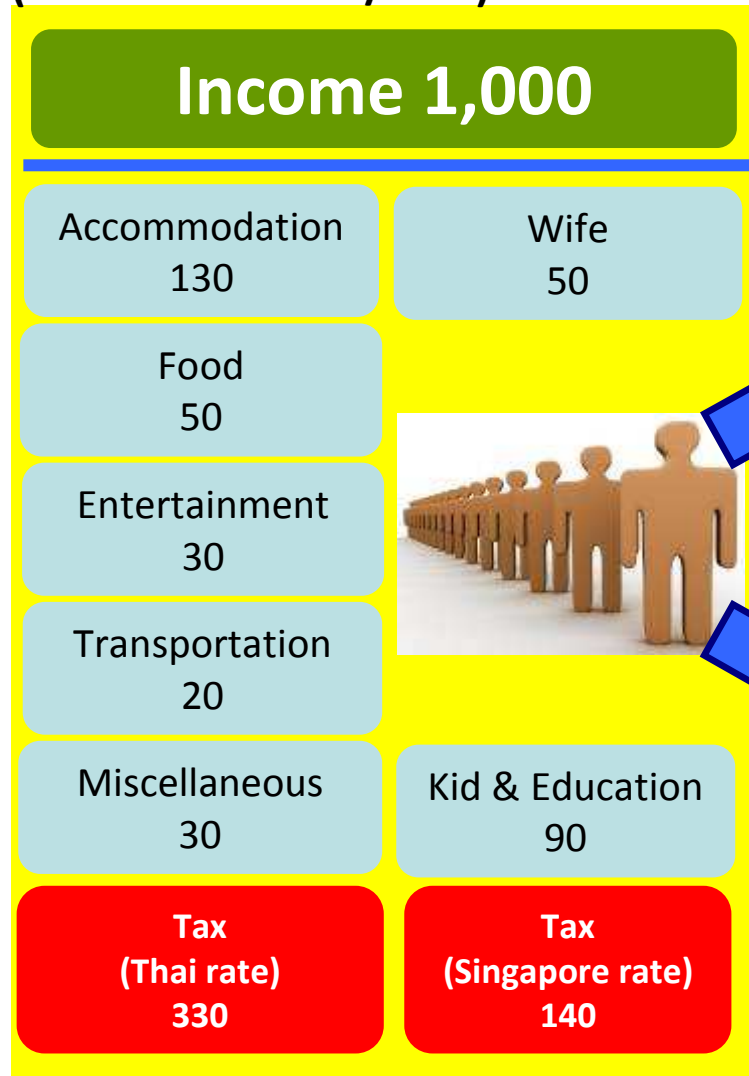


- Bring in Investment and new technology from the world
 - Increase competitiveness of Thai companies from export market expansion, resulting in Economy of scale and Sourcing Opportunity
 - Development of innovative financial instrument
-
- Knowledge and Expertise from the Talent
 - Expansion of Office , Residential Buildings and Commercial complex
 - Share facilities on IT and infrastructure
 - Revenue from the Expat

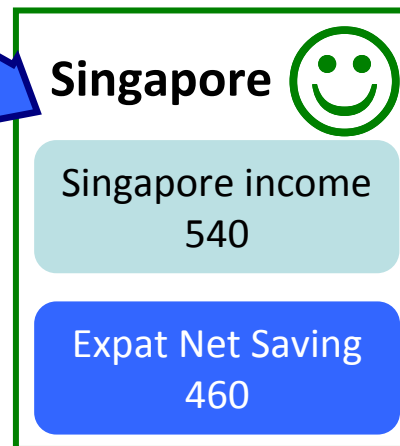
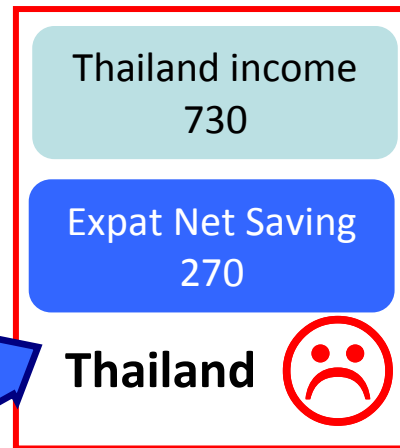
Example benefits from 100,000 new expatriates

Expatriate's Income & Expense

(Unit: Billion Baht/Year)



Decision Making

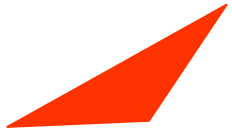


Result



- At the same rate as Singapore, Thailand can get the income at 5.4 MB/expat.
- Loss from lower tax on existing expat can be compensated as 1 new expat can compensate loss from 3 existing expat.





How to be the Regional Trading Hub?

By Leveraging good foundation, we are ready to “Take Off”

- Turn Bangkok into “Expat Haven” by building on our assets
 - Professional Talent; with communicable English
 - Safe City
 - High Quality International School
 - World Class Medicare
 - Mass Transportation System
 - Famous Thai and international food



Thailand could be more attractive

- Income Tax reduction

Thailand (37% since 1992)

Taxable Income (Baht)	Tax Rate
For the first 150,000	0%
150,001 – 500,000	10%
500,001 – 1,000,000	20%
1,000,001 – 4,000,000	30%
4,000,001 and above	37%

If income around 4,000,001...

Singapore (17% since 2007)

Taxable Income (Baht)	Tax Rate
For the first 470,000	0%
470,001 – 705,000	3.5%
705,001 – 940,000	5.5%
940,001 – 1,880,000	8.5%
1,880,001 – 3,760,000	14%
3,760,001 – 7,520,000	17%
7,520,001 and above	20%

Hong Kong (17% since 2007)

Taxable Income (Baht)	Tax Rate
For the first 180,000	2%
180,001 – 360,000	7%
360,001 – 540,000	12%
540,001 and above	17%

Law & Regulation should be more open to support trade and attract the expat

- Attractive Tax Scheme
- Financial liberalization
- Supportive work permit and customs processes
- Open for Foreign Investment in construction and communication projects





Plus additional infrastructure support...

- Invest in **Communication & IT Infrastructure**
 - e.g. Broadband Internet
- Invest in strategic **logistics facilities**
- Keep focusing on building **professional talent**
 - Quality of Education / Experience (On-the-job training)
 - Increase knowledge of Trading Business, Global Market and Multi-national practices
- Develop **G2G long-term relationship**
 - Opportunity emerges from the cooperation among ASEAN countries

Quick-win to build the Regional Trading hub

- Speed up infrastructure & IT Projects
- Be proactive
 - Identify target companies
 - Develop attractive incentive package
 - Convince target company by road show or one on one meeting

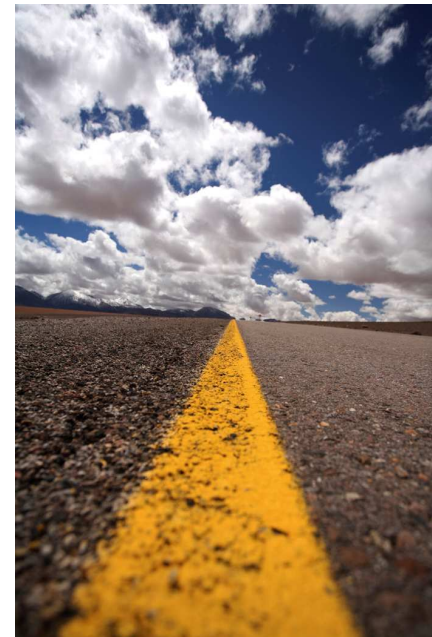


In Summary (1)

- **Focus but Integrate** on Priority Agenda

In order to achieve an initiative, everyone should focus on the same agenda and continuously drive it.

But to focus does not mean to work as a silo. Cross-function and integration among units are very important keys to success.

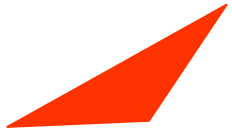


In Summary (2)

- Power of **change** and **collaboration**...



Change in government's role and country management plus **public + private + people** collaboration will definitely enhance country's competitiveness.



End of Presentation

~ Thank You ~

**Kan Trakulhoon
President & CEO, SCG**