

Thailand's Future Competitiveness On World Stage:

Agenda For The New Government

Adapted from remark by Mr. Thirachai Phuvanatanarubala, Secretary-General, Securities and Exchange Commission, Thailand, at the Federation of Capital Market Organizations Seminar on 2 June 2011

What makes a country competitive? What makes a country great? The answer is the same, talent.

It is the combined talent in the country of its leaders, its public sector and its private sector. And it is the talent that the country develops by itself, and retains, as well as the talent that the country can attract from abroad. Talent is needed in both human individuals and business enterprises.

Developing domestic individuals' talent is a lengthy and demanding process. The country has to instill into its population such virtues as the sense of responsibility, the upholding of integrity and commitment, the habit of learning. At the same time, to retain talent, it has to provide such right environment as individual freedom, intellectual pursuit, open communication, the rule of law, etc.

Developing domestic business' talent is even more difficult. Capable businesses demand capable founders and capable executives. But the authority generally cannot do much except get out of the way.

In the business sense, how does a country become competitive on world stage?

A country is competitive only when its domestic businesses, or the foreign businesses that operate in the country, have the edge to offer better goods and better services than the competing businesses in other countries. If these businesses can compete in the domestic market against imports, and if they can win in markets abroad whenever they export, then the country is competitive.

A business is able to do that only when it has low and competitive costs, business friendly rules and open entry. And it must have employees with the talents to enable it to innovate, produce the leading technical edges, anticipate the needs of users as well as communicate and market those points well. In simple term, it has to always surprise and delight the customers. And when a company is world class at something, it shows.

In this remark, I shall focus only on the role of the Thai capital market. How can the capital market make Thailand more competitive on world stage?

The capital market can make Thailand competitive only by serving the businesses in Thailand well. That means at least four things:

First, the capital market should allow deserving projects or credit worthy needs the chance to be financed. Financing is not a right to be demanded. A well functioning capital market will automatically allocate scarce resources efficiently based on economic priorities which are determined by rates of return. It does so by open comparison and extensive analysis of prospects and results those are prepared according to strict standards.

In its task of capital allocation, the capital market channel is generally more efficient than the banking channel because it can accommodate longer term investment and, being open and transparent, it can also prevent the buildup of overinvestment or overcapacity as occurred in the run up to the Asian Crisis.

Second, in the capital market there should be methods to convenient share risks among the various classes of investors and creditors that require different levels of risk and return. The capital market must have the infrastructure for the bundling or unbundling of risks in order to satisfy all investors.

But in addition to that, it must also provide convenient tools for risk management for business enterprises. In the capital market, it is the role of derivatives. The facilities for derivatives trading must therefore be accessible, transparent and resilient.

Third, the capital market should provide for convenient cross border transaction and fund transfer. As more domestic companies expand their businesses abroad, and as more foreign companies that are based in Thailand expand into the region, they will need the facilities to tap simultaneous financing in multiple markets and in multiple currencies. The capital market must provide such opportunity, and eventually even by using the same set of documents and the same set of rules. And for the companies that have temporary surplus cash, the capital market must also provide for multicurrency investment management across borders.

Fourth, and this is the most important point, the capital market has to provide all these services at the costs that are competitive with other regions in the world. The benefits must be placed first and foremost on the welfare of the customers which are the savers and the users of funds. The customers must take first priority. The financial institutions and financial intermediaries can only come second.

With such goals, what are the policy implications for the Thai capital market?

First, there must be market openness. Competition, as long as it is subjected to proper prudential requirements, will lead to lower costs and wider choices for the customers. Competition will benefit not only the customers, but it will also lead to more efficient financial institutions and intermediaries. Those that prosper will have to always be lean and innovative.

This is why for securities licenses, the SEC had announced five years in advance that from 2012 onward, application for licenses will no longer be limited by number, but only by the fit and proper criteria.

Second, there should no longer be a monopoly in the stock exchange business and nor a barrier to competition in the stock brokerage business. Monopoly, while necessary for the infant stage of the Stock Exchange of Thailand, will prevent innovation and efficiency if allowed to continue. This is why the SEC had proposed for the law to be amended to remove the monopoly restriction in the stock exchange business. And this is why the SEC had announced five years in advance that from 2012 there will be no more commission floor.

Finally, there must be more regional integration. ASEAN Economic Community 2015 will lead to more trade within the region. More Thai companies will do business in other regional countries, and more foreign companies that operate region-wide will come to Thailand. Both types of company will require convenient financing for their more active cross border activities.

This is why the ASEAN Capital Markets Forum of which I am Chairman had proposed the Implementation Plan for capital market integration to the ASEAN Finance Ministers in 2009. The Plan is today on track and progressing well.

How does it translate into the agenda for the new government? The best thing that the new government can do for Thailand's future competitiveness on world stage is to have a strong political will to push on with these initiatives.