

Thailand

A New Era

In September 2006 the world was surprised to hear of a sudden change of political leadership in the Kingdom of Thailand as the result of a peaceful coup. While attending the UN General Assembly, Premier Thaksin Shinawatra was ousted by the army commander-in-chief, General Sonthi Boonyaratglin, and an interim government was put in place headed by Prime Minister Surayud Chulanont. The promise of elections to swiftly restore democracy, purportedly in December 2007, have relieved the initial shock registered by the diplomatic and business community and is restoring consumer and investor confidence. In this introductory interview, Deputy Prime Minister and Minister of Industry Kosit Panpiemras clears the air about the Asian country's new course, and explains why Thailand is still a prime investment paradise on the global stage.

Thailand's New Government Invests in the Future

The appointment of a revered economist and former Chief Executive of the leading commercial Bangkok Bank as Deputy Prime Minister was a clear signal to the world that even though the military had taken charge of this economically important country, it was still serious about being open for business. Kosit Panpiemras may only be in an interim position, at least until the government announces democratic elections later this year, but he is intent on continuing Thailand's strong legacy as a regional and global market.

Widespread resentment of Thaksin Shinawatra's commercial and political interest-blending played a major role in his ousting. Hence the interim government has taken more of an observer stance, as Panpiemras explains. "Obviously I share the view that the private sector will always remain the key driver of economic growth. The government should have a supporting role. However, I certainly believe that competition and competitiveness cannot be forced by the government, yet no country can move ahead without strong cooperation." The Deputy Prime Minister adds that Thailand is looking for more competition from the private sector as it does not want to follow the protectionist model, where the private sector is guarded from foreign competition. This is a bold move, since Thailand faces some very dynamic competition from China, Vietnam and India.

"Our strength," continues Panpiemras, "lies within the history of our economic development, which has been implicated in large part by what is called the 'Asian Miracle Period'. If you look at our international trade, I think Thailand probably has one of the most open economies. Exports are now reaching over 70 percent of the Kingdom's GDP. We have been involved for many years in the globalization process."

As far as foreign investment goes, Panpiemras says he is not worried about the rivalry with neighboring economies, as their increased strength also makes Thailand stronger through its membership in ASEAN (Association

of Southeast Asian Nations). The same logic applies to China and India as they form part of the Asian pool of economic dynamism and cultural philosophy. "In terms of competition it's not about one country against another; it's the whole structure and we are probably just lucky to be here in this part of the world."

The key to improving Thailand's competitiveness lays in productivity and efficiency in manufacturing, and the government has recently initiated a national master plan for boosting just that. This is necessary as unemployment is very low, having achieved an educated and skilled labor force, and therefore Thailand is not able to offer incoming private investors the same low wages as in other countries. Hence it is focusing on intellectual infrastructure – business research, universities, and basic education – in collaboration with the private sector. This strategy is influenced by a concept introduced by King Bhumibol known as "sufficiency-economy", Thailand's new mantra. Panpiemras points out that the King refers to the "importance of understanding globalization and improving our ability to withstand its impact." Thailand's Foreign Minister Nitya Pibulsonggram says this includes rebuilding international ties. "The coup affected our relationship with a lot of nations, but it was a necessary intervention. The phrase 'coup' is misleading; it was merely a change of government. Now Thailand has good relations with the US, EU, China, and India, the best of four worlds."

As for the future outlook the Foreign Affairs Minister says the interim government will keep to the timeline of a charter in July, a referendum in September followed by elections in December 2007, a process that should fully restore investor confidence in the nation. "We have been through difficulties before," admits Deputy Prime Minister Panpiemras, "and I think the ones we are facing now are not new. This is a period of necessary adjustments, but no doubt the country will come back to democracy."

Investing in Asia?

Thailand Still Serves as the First Step

There is one widely known truth about Thailand, and that is the fact that Thailand is the land of investment where success stories begin. While the events of 2006 may have rattled some, the savvy investor has taken a long-term view, continues to recognize Thailand's many strengths, and consequently FDI has not dropped.

"Those who have any doubts about the investment environment in Thailand," explains Secretary General of the Thailand Board of Investment Satit Chanjavanakul, "should consider that our investments have increased 74 percent this year when compared to the same period of 2006. We have a greater number of projects than last year and the amount of investments has risen from 74 billion baht (\$2.2 billion) to 129 billion baht (\$3.8 billion)." The Board of Investment (BOI) has received a record amount of investment applications so far this year, with the number of projects in the service sector more than doubling, and in the petrochemicals sector the number has nearly tripled. In addition, the automotive sector is experiencing a ripple effect after Toyota and Nissan both expanded their assembly plants in Thailand, acting as a magnet for other auto-parts investors.

The BOI has been instrumental in keeping up the attractiveness of Thailand's investment climate. Successfully marketing the country as the hub of ASEAN and a stepping stone for US and European investors to invest in the rest of Asia, the BOI has consistently attracted global corporations and mid-size suppliers to Thailand. "Japanese and American investors use Thailand as their production base for the rest of Asia, Australia, Europe, and the United States," says Secretary General Chanjavanakul. "Foreign investments in Thailand have a regional focus and are not dependant on Thailand's robust domestic market, so whatever happens on that score doesn't really impact them, and they can continue their competitive operations at a predictable cost basis."

Just as Thailand's resilient tourism sector has withstood adverse fluctuations in the tourism industry and the December 2004 tsunami, so too has the country's investment climate adapted to the competition of other Asian nations. The BOI's Secretary General points out that "low cost isn't necessarily the only factor for making an investment decision. There are lots of strengths in Thailand, the top three being the country's position as a hub of automotive and electronic manufacturing, its high-quality workforce, and a modern and efficient infrastructure." Also, Thailand is one of the world's top ranked countries for ease of doing business in the World Bank 2006 survey and among the top three prospective countries for FDI in Asia according to UNCTAD.

In recognition of this quality climate, major economies have signed economic partnerships and free trade agreements with Thailand. Most recently the Japan-Thai Economic Partnership Agreement was signed which will ease trade restrictions between the two

countries and should increase investment opportunities in Thailand. One area that could see particular benefit from this FTA is the automotive sector. "At the moment we are trying to encourage investment in the production of more fuel-efficient cars in Thailand and some auto makers have already expressed their interest to invest in our government's eco-car projects," says the Secretary General.

Preferential access to the ASEAN nations is also a deciding factor in basing international supply centers in Thailand. Through the ASEAN Free Trade Agreement (AFTA) investors can export and import with a low tariff of 0-5 percent between participating countries, which include Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. ASEAN is home to more than half a billion people, it has a GDP in excess of \$700 billion and intra-ASEAN trade of more than \$1 trillion per year. The agreement also greatly enhances the range of sectors for foreign investment. Specifically for Thailand these include agro-industry, automotives, bio-tech, electrical appliances and electronics, fashion, machinery, petrochemicals, and value-added services.

The field of agriculture has been particularly fertile, as Thailand is one of the top five net food exporters in the world, and has one of the most advanced processed food sectors in Southeast Asia. Thailand is also the world's leading exporter of such products as rice, tapioca, canned and frozen seafood, canned tuna, canned pineapples, and cassava, and is the number two exporter of sugar and a top-ten exporter of chicken meat. Global demand for rice this year is estimated at between 28-30 million tons, and Thailand should be able to export as much as 8.5 million tons. Thai tapioca has an annual export of more than 5 million tons that can also be used to produce up to 1,500 million liters of ethanol per year.

"For auto manufacturing we need high quality steel as we still have to import a lot for those products," says Secretary General Chanjavanakul. The same is true for electrical appliances and electronics. "It is our largest sector in export earnings. Last year we exported approximately \$42 billion worth of electronic goods. We are also the world's number one hard disk drive manufacturer, with approximately 40 percent of the world's market share." Thailand would like to attract more US companies that are strong in the electronics industry, as well as inviting biotechnology firms through the BOI's bio-tech promotional privileges. With the inauguration of Bangkok's new Suvarnabhumi International Airport, there are also increased opportunities for investment in aircraft maintenance and aircraft parts manufacturing.

It is obvious that Thailand has not stood still when it comes to business. Having implemented an expanded line of incentives for investors of all sizes, the BOI assures that "the political transition has not affected investment policies, incentives and services. Thailand is open for business as usual."

Financial Sector Spearheads the Dynamics of Innovation


A message of assurance about Thailand's stability also emanates from the country's financial sector, but it is coupled with characteristic modesty. There is not so much concern about inflation, as that has been kept expertly under control. National and foreign analysts were more interested to see how the change of government would affect economic growth, and influential bodies such as the Bank of Thailand are now making adjustments to the forecasts. This doesn't necessarily mean it is bad news, as the Bank's Governor, Dr. Tarisa Watanagase explains. "Our estimate is 3.8 percent," she says of the projected growth rate. "I think this level of growth is quite respectable and in fact if you look back at 2006 we managed to do a very good job economically considering there were a number of adverse impacts. Despite the oil crisis, the tsunami, as well as flooding alternating with drought, the economy has shown a lot of resilience."

Watanagase's decision to implement a 30 percent withholding rule on foreign capital flowing into the economy was instigated as a measure to weaken Thailand's over-strong baht, but it backfired in the form of investor reactions, and was consequently reversed. The governor insists it was nevertheless a necessary step to take, as certain entities were cashing in on the foreign exchange gains. "If the economic stability of the country is under threat, then you have to take whatever action that is needed," she says, adding that nation-

al issues are also affected by the impact of global imbalances, "including volatile and excessive capitalist goals." Modest growth will ease pressure on the baht, and it hasn't stemmed investor interest. Dialogue is the most effective way of dealing with such challenges, and Watanagase would like to use this transition period to push forward the financial institution act and the deposit insurance act. "Fortunately, now is a winning time for such actions, as the interim government is supportive of all these changes. Thai people are very versatile and we can adjust to whatever the trend or need is. In that sense, we have the potential here and

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we believe foreign investors see that.”

The research department of Thailand's largest bank, the Bangkok Bank, also forecast the growth rate at 4 percent. “This is an adjustment period for Thailand,” comments Chartsiri Sophonpanich, President of Bangkok Bank, “the government is trying to implement a framework for sustainable growth in the medium term which balances business, social and economic perspectives.” Founded in 1944, the Bangkok Bank has been at the forefront of supporting the business interests of customers, notably import-export financing. It was able to weather the 1997 Asian financial crisis and make the most of the ensuing reforms by restructuring and adopting international banking practices. Understanding the dynamics of innovation, the public company has been focusing on risk management systems and will next year adopt Basel II rules.

“The Bank is driving innovation in new products and services through our extensive distribution network of more than 700 branches,” says Chartsiri. These include its overseas branches, a total of 21 offices in 15 countries, established in a drive to become the leading international bank in South East Asia. It is already well established in China, and has been present in Hong Kong for over 50 years. This gives Bangkok Bank a perspective on the international market's demands as well as a hedge against turbulent times. “The wisdom we have gained from these experiences helps us to keep things in perspective so that we can steadily pursue our business objectives.

Even though this is a very challenging period for us, once we can put it behind us we will have a very good foundation for the future.”

“The wisdom we have gained from these experiences helps us to keep things in perspective so that we can steadily pursue our business objectives.”

Chartsiri Sophonpanich, President of Bangkok Bank



YOUR INTRODUCTION TO THAILAND AND ASIA

Bangkok Bank is the largest commercial bank in Thailand and one of the largest regional banks in Southeast Asia.

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Powering Integrated Energy and Sustainable Solutions

The philosophy of sustainability within global commerce, and especially the energy sector, has become somewhat of a hot item during the past years. Think tanks and former presidential candidates are spreading the message of how our industrialized world and western way of living needs to undergo drastic changes in order to secure a healthy future. Our consumer society has only just come to realize that the cost of progress is taking a heavy toll on the environment, and so slowly but surely, multinational corporations and oil industry leaders are warning to sustainable alternatives in the energy sector.

“We are committed to accountability, responsibility, equitable treatment, transparency, long-term vision and ethics.”

Prasert Bunsumpun, President of PTT

In Thailand, the country’s leading energy company and one of the nation’s largest corporations, PTT Public Company Limited, has not only incorporated this concept into its vision, but it is actively producing complete production chains of sustainable solutions. With stakes in 39 companies in the three main industries (gas exploration and production, retail and wholesale oil, and petrochemicals and refining), PTT has used its clout to bring several groundbreaking projects to fruition from initial thought through research and development to production and retail.

As early as 1984, King Bhumibol initiated the research into alternative fuels in Thailand as a means to resolving the various effects of fossil fuel use, including oil scarcity. PTT made progress with two viable solutions, Gasohol – a combination of alcohol derived from Thailand’s sugarcane and a low level of gasoline – and palm diesel. In 1996, following the creation of a dedicated production plant and refinements to its composition, Gasohol was made available for general distribution to the Thai public. Palm diesel was made publicly available the same year. On January 11, 2001, a PTT Service Station at the company’s headquarters was the first in Thailand to offer gasohol. As of October 2006, PTT offers ‘PTT Gasohol 95 Plus’ at every PTT Station nationwide.

PTT has also put a lot of effort into developing environmentally friendly fuels to curb the capital Bangkok’s air pollution. In 2002 it introduced natural gas for vehicles, or NGV, which is now distributed through 30 outlets to support the growing number of NGV-fuelled vehicles, including many of Bangkok’s taxis. Such efforts have won PTT a slew of prestigious awards, including ‘Best Company in Asia for Corporate Governance 2006’ by Asiamoney, ‘Best Managed Company in Thailand’ (Finance Asia) and ‘Thailand’s Business Leader of the Year’ (CNBC).

“These achievements are only the beginning of our journey,” says Prasert Bunsumpun, President of PTT. “We are striving to be a world class, high performance company.” Its financial highlights of 2006 support this ambition, as sales revenues totaled \$37 million (1.2 billion baht), a 31 percent increase on the previous year. Combined with six listed affiliates, PTT accounts for 26 percent of Thai stock market capitalization. Bunsumpun says the main drivers have been augmented sales volumes as well as oil price increases. Once purely an oil importer, PTT now has exploration interests in Oman, Algeria, Myanmar and Indonesia, contributing to its spectacular growth. “Current revenue from overseas is around 143 million baht (\$4.3 million) or 9 percent of total sales revenue,” says the company’s President, adding PTT applies the same focus on sustainability abroad as it does at home. “The PTT Group’s integrated management approach is based on value driven focus, never neglecting social and environmental value. We are committed to accountability, responsibility, equitable treatment, transparency, long-term vision and ethics.”

Despite being a net oil importer, the country is endowed with natural gas reserves in the gulf of Thailand, and PTT has built up an impressive network of pipelines nationwide and with neighboring countries. “Energy demand will increase by 6 percent annually,” Bunsumpun points out. “Oil and gas will constitute over 80 percent of the total consumption. In order to reduce the import bill and create a price hedge it is unavoidable to secure further resources both within and outside the country.”

As early as 1984, King Bhumibol initiated the research into alternative fuels in Thailand.

As part of PTT’s quest to become one of the major global players, it has initiated a 5-year plan, entitled ‘Building the Premier Thai Multinational’. The first highly significant step was marked last April when PTT signed a Sale and Purchase Agreement to acquire ConocoPhillips’ entire fuel retail business in Thailand. The \$275 million deal strengthens PTT’s retail base with 147 JET service stations. In addition, Bunsumpun reveals that PTT is “actively pursuing the NGV project, in which we are aiming to substitute transportation oil demand by 10 percent until 2011, as well as conducting research in wind and solar power.” Thereby PTT continues to spearhead Thailand’s role as a pioneer in alternative and renewable sources of energy.

Prepared by Strategic Media

Directors: Maja Lapcevic, Elodie Piat, Stephen de Vasconcellos-Sharpe

Project Director: Stephen Carter

Project Coordinator: Alicia Santamaria

Chief Editor: Mark Riley

Creative Director: Marie Sotirali

For more info contact: info@smlstrategicmedia.com

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The Smile of Success of all Thais

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PTT Public Company Limited is the Thai national energy company operating an integrated petroleum business engaging in the exploration and production of natural gas, oil refinery and petrochemicals.



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