

Speech by Mr. Chartsiri Sophonpanich, President, Bangkok bank

Thai Economy: Optimism in the Midst of Uncertainty

His Excellency Michael Glos

His Excellency Dr. Christoph Bruemmer,

Prof. Dr. Klaus Wucherer

Ladies and Gentlemen,

Good morning. It is indeed an honor for me to be invited to address this important gathering of the Thai-German Business Forum, organized by the German-Thai Chamber of Commerce to mark the first visit of His Excellency Michael Glos, the German Federal Minister of Economics and Technology to Thailand.

Dr. Wucherer and I met for the first time at the Thai-German Joint Economic Committee on 31 March 2003, at the Ministry of Foreign Affairs in Bangkok. As we all know, the world economy has become much more complex and unpredictable since then.

I am sure you don't need reminding of the various problems that have beset the world economy such as oil price hikes, the burst of the housing bubble, the collapse of the US sub-prime market and the resurgence of global inflation. The combination of these and other factors has slowed global growth, with the IMF recently revising down the projected world growth rate to 3.8% for this year.

In Thailand, we have fortunately been spared the worst of the worldwide economic storm. However we have had our own challenges, including political uncertainty, which led to a period of low business and consumer confidence.

Thailand's economic situation

From an investor's point of view, it is important to take a long term perspective so I would like to take a brief look at the Thai economic performance over a period of several years.

On average during the past decade, Thailand achieved a decent GDP growth rate of 4 or 5 percent. Last year the economy grew by a solid 4.8 percent.

The Bank of Thailand recently revised upwards its forecast for this year to 4.8-6.0%, on the grounds that a better than expected economic performance, especially in exports, was achieved in the first quarter of this year.

For the whole of 2008, export growth is expected to be at least 16.5 %. The growth in exports is being driven by new markets in Asia, Africa and ASEAN which have now overtaken our former traditional US, Japanese and European markets by a wide margin.

Imports are projected to grow at an even faster pace than exports at 25.5 %, due to rising prices in oil, basic materials and capital goods. The country's official international reserves (net of forward position) hit a record US \$110.0 billion in March - an indication of Thailand's healthy financial standing.

Domestic demand is increasing. It is expected to rise from 2.7% in 2007 to an estimate of 4.5 to 5.5% this year. This reflects a steady increase in consumer confidence even though it leveled off a bit last month, due to the rising price of rice and other costs of living.

Investment growth will also be strong. This reflects not only the rise in business and consumer confidence, but the government's commitment to various mega projects which are due to be rolled-out in the 3rd quarter of this year. Total domestic investment, public and private, is likely to grow from 1.4% last year to over 9% this year. Private investment is projected to grow a little faster at 10% as against the public sector's 7.5% because the public outlay will only begin later in the year.

Loans extended by commercial banks as a whole grew by 5.0% in the first quarter of this year and major banks are increasing their capital bases, in anticipation of the expansion in investment in the second half of the year.

Meanwhile, Thailand has improved its position in the competitiveness table, up six places to 27th from 33rd in the annual competitiveness rankings compiled by the Swiss-based Institute of Management Development (IMD).

So the overall picture is positive and the Thai government has expressed its determination to keep this momentum going.

It has designated 2008-2009 as Thailand Investment Year – with the aim to restore investors' confidence, to promote investment in target industries and to stimulate entrepreneurial development to enhance Thailand's overall competitiveness.

It plans to stimulate investment in areas such as:

- High potential sectors such as the automotive and parts industries, hard disk drives, electronic and electrical products.
- Knowledge-based industries such as life science, biotechnology, bio-degradable materials and LCD panels.
- Alternative energy sources such as ethanol, bio-fuels, biogas, solar and wind energy.

The government also intends to develop the country's infrastructure to enable further expansion, provide tax incentives to companies to change or upgrade their machinery, improve their technology or reduce environmental impacts and to review the framework of regulations and incentives to encourage investment into Thailand.

Foreign Direct Investment

As far as FDI is concerned, Thailand continues to be one of the preferred FDI destinations of the world's MNCs, particularly for those that have already set up their production base and operated here before.

Thailand has had a long and excellent track record of being friendly and accommodating to foreign investors and this situation should continue. The central bank has recently removed the capital controls which were introduced to stabilise the baht and has indicated that it will take other measures to improve the investment

environment – additional factors which are helping to restore the confidence of foreign investors.

As we have seen from our export performance, Thailand is already benefiting from its excellent geographic location close to the economic power houses of China and India and in the centre of the fast growing region of Southeast Asia. Growth in the region is expected to accelerate even further with the opening up of many new transport links along with various free trade agreements, such as ASEAN, China, Japan and India.

Our strengthening ties with our Asian neighbours, in no way detracts from our longstanding relationships with European countries. As a case in point, Thailand and Germany have traditionally enjoyed an excellent economic relationship. Germany is Thailand's principal trading partner in the European Union and there are around 400 German companies operating in Thailand.

Trade between our two countries has now topped US \$ 6.8 billion a year.

With regard to FDI, you may be pleased to note that in 2007 the Board of Investment approved 29 German investment projects totaling THB 6.8 billion, with the largest of these projects, THB 4.5 billion for Siemens VDO Automotive in Rayong. Only last week, **Continental GmbH** announced that they will go ahead with a THB 5 billion project to manufacture parts and components for mass transit and eco-cars in Thailand. We look forward to many more German producers following suit in the near future.

Thailand has always valued German products, German technologies and Germany's hands-on technical training system and the Thai-German Economic Commission was established with the purpose of strengthening our cooperation. Initiatives have included proposals for Technical Cooperation in Food Safety, the establishment of a Working Group on Sustainable Energy and advanced vocation training in ICT.

Given this background and Germany's expertise and experience in sectors such as engineering and the environment, I am sure that German companies will have an important role to play in the mega projects.

Ladies and gentlemen, with vision and understanding, foresightedness and cordial support from our people and government, we have every reason to look forward to an even more active and fruitful relationship between Thai and German businesses in the future, particularly in the areas of infrastructure, automotive, telecommunication, tourism, environmental and medical technologies.

In conclusion, it is indeed our hope that we shall be able to celebrate the 150th anniversary of the relationship between Thailand and Germany in a more meaningful way during the second half of this year. I have no doubt that that we can look forward with confidence and pleasure to another 150 years of a closer and more cordial relationship between our two countries.

Thank you