

IFCT Nomura/JAFCO Holdings Co., Ltd.
Seminar on Venture Capital Business
Address by Mr. Anand Panyarachun
in Thailand
April 29, 1993

Distinguished Guests, Ladies and Gentlemen,

I am indeed honoured and pleased to be invited to address this impressive gathering of entrepreneurs. We are well into what many people refer to as the "Pacific Decade", the decade in which economic growth in the Asia Pacific will outpace that of any other region in the world. The thrust throughout Asia will be to increase value-added, export oriented industrialisation, expand technological development, and to massively improve infrastructure. I sincerely believe that the nucleus of that thrust will come from entrepreneurs like yourselves.

I would like to begin my address by highlighting a major economic development in South East Asia.

ASEAN

At the ASEAN Summit held in Singapore in January 1992, member-nations endorsed the formation of an ASEAN Free Trade Area (AFTA). After a decade of buoyant economic growth, the Governments of the ASEAN nations have boldly stepped into a new era of regional economic liberalisation and integration.

The vision to attain free trade within ASEAN in 15 years is another "feather in the cap" for ASEAN and its member countries. Already, ASEAN has been recognised and respected within global circles as a cohesive economic unit intent on promoting regional cooperation.

Now with the creation of AFTA, this new spirit of economic cooperation will not only raise trade and investment linkages between member countries, but also strengthen and better insulate the region against recessions and protectionism in the world market.

Furthermore, the economic development of ASEAN will have far reaching effects on other nations in the Asia Pacific. Because of its strategic location and vast natural resources, the region will see increased trade activities with its neighbours, particularly China and Indochina. I am sure that many opportunities can be created to combine the respective strengths and resources in the finance and investment areas of ASEAN and its Asia Pacific neighbours.

Thailand, being a member of this privileged group of economies, is poised to

regain its economic momentum and shift into a higher economic gear.

Thailand

Thailand has made a dramatic transition from an agricultural and resource-based economy into a more export-led economy - one that combines agriculture, agro-industry, manufacturing and services. After low growth in the early 1980s, Thailand embarked on a comprehensive transition and structural programme to unlock the vast potentials of a free enterprise economy, achieving a GDP growth of 6.8 % in 1992 in the midst of a global economic downturn.

This “open door” policy emphasized the promotion of the private sector role in economic development. The private sector will continue to lead Thailand’s economic growth in the 1990s. Privatisation will be the Government’s route for mobilising investment priorities, particularly the development of new infrastructure.

With the Government taking a secondary role, room is made available for strategic alliances to undertake to develop, expand, and steer the Thai economy into the Pacific Century.

The Government has adopted rational tax policies to encourage domestic consumption and investment, and maintain the country’s relative competitiveness. The introduction of a value-added tax and the reduction of both personal and corporate income tax, and import tax on capital equipment will boost the level of investments.

The key to Thailand’s continued economic transformation, I believe, will be to implant regulatory reforms that diminish risks for investors, yet at the same time enhance the flow of investments from domestic and international sources by making domestic markets more accessible.

This brings me to comment on the importance of small and medium-sized businesses in the economic evolution of Thailand.

Small and Medium-Size Enterprises (SME)

Small and medium-size enterprises or businesses are the key elements of economic development. Contrary to popular belief, it is the SMEs that drive a nation’s economic growth, not large conglomerates. It can be evidenced from some of the OECD nations, that emerging small and medium-sized companies provide key support to the vitality of a nation’s economy

I wish to cite the United States as an example. In the early 1970s, instead of relying on a handful of multinationals, SMEs were encouraged to participate in the country’s economic growth. They would share the economic burden, and with it, the economic rewards. Today, with the systems infrastructure firmly set in place, many SMEs have become corporate giants, and they would be expected to lead

the American economy out of its recession.

Thailand has a diversity of small and medium-size businesses. From agriculture to manufacturing, tourism to retailing, Thai entrepreneurs have been the cornerstone of the early development of these sectors, and have laid the foundation for their continued expansion. This diversity contrasts with other ASEAN nations, whose focus has been on the electronics sector.

Unfortunately, in the past, Thai entrepreneurs have lacked the necessary direction to expand their businesses. This is partly because appropriate guidelines were not formulated to assist Thai entrepreneurs. Now with the liberalizing of the financial systems and minimising of bureaucratic processes, corporatisation of businesses has been very much facilitated. Next, barriers that prevented foreign investments have been removed and joint ventures encouraged. Finally, Thailand's international competitiveness has been greatly improved by the adoption of rational fiscal and monetary policies.

Thailand will continue to experience strong demand for capital in the next five to seven years in order to fund the country's rapid economic expansion. Infrastructure development is a key Government priority - massive sums will be required in the years ahead.

Thailand's Capital Market

Thailand has historically developed largely shorter-term funding. This is because the capital market is relatively under-developed and greatly needs to emulate standards set by leading international markets. The short-term focus of the Thai market will make it difficult to encourage equity market investment in infrastructure projects, especially in the near future. As the market matures towards the end of the decade, the private sector will begin to focus on longer-term capital funding needs.

Therefore, in the medium-term, the foreign investor will be of vital importance to Thailand. The country's current levels of domestic savings, are insufficient to satisfy the massive sums of capital urgently needed for development, particularly infrastructure. As such, many ventures or projects will need to be funded primarily by foreign capital sources. Towards the end of the decade, domestic savings will have grown rapidly and will be directed by the Government through the private sector into mutual funds, provident funds and insurance companies, which will emerge as significant sources of capital for the domestic financial markets.

There has been an explosive growth in the number of shares traded on the Stock Exchange of Thailand ("SET"). Last year alone, 34 companies were listed on the SET. I believe the emphasis will increasingly shift to quality. Listing procedures will be made simpler and quicker, but listed companies will be forced to disclose significantly more information, to strengthen investor protection. Further, the establishment of Thailand's OTC market will open the door for equity financing to

emerging companies, now that a secondary market similar to NASDAQ in the US will soon be made available to investors. These measures will more effectively mobilize both domestic and foreign capital to support strong private sector investment growth.

IFCT-NJH

In this respect, I am pleased to learn of the establishment of IFCT

NOMURA/JAFCO HOLDINGS CO., LTD. in Thailand. This corporation was formed by one of the most established and dynamic institutions in Thailand, together with Japan's largest investment group, to support fast-growing small and medium size businesses, by offering much needed medium to long term equity funds and corporate alliance advice and services.

On a broader scale, Thailand will need higher technology, along with greater amounts of capital and skilled professionals in its next stage of industrial development. The greater need for technology transfer can be greatly assisted by joint efforts by organisations such as IFCT-NJH and the private and public sectors, particularly in facilitating the diffusion of Japanese technology and management skills, as well as the building up of Thailand's technology infrastructure and support systems.

I wish IFCT-NJH and its business partners in Thailand every success. I am confident that their endeavours will prove rewarding, not merely for them alone, but for Thailand as a whole.