M R Chatu Mongol Sonakul: Corporate challenges in the new millennium

Speech by M R Chatu Mongol Sonakul, Governor of the Bank of Thailand, at the Annual Business Awards Gala Dinner of the Netherlands-Thai Chamber of Commerce held in Bangkok, 17 May 2001.

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Your Excellencies,

Distinguished Guests,

Ladies and Gentlemen,

First, let me thank Mr. Jan de Kam, President of the Netherlands-Thai Chamber of Commerce for inviting me to give the Keynote Address for this Annual Business Awards Gala Dinner, an occasion that exemplifies the co-operative relationship between the Netherlands and Thailand that dated back through time since 1602.

At the time, the Dutch East India Company had already begun trading with the southern part of Siam through their main trading station in Batavia, Indonesia. Several years later, it opened its Ayutthaya trading post and became very influential during the reign of King Prasat-Thong. And indeed, one of the best historical accounts of the Ayutthaya Dynasty was written by a director of the Dutch East India Company in Siam, Mr. Jeremias van Vliet.

Now in 2001, our co-operative relationship continues. Many prominent corporations of the Netherlands remain their presence in Thailand, including Philips, Shell (Royal Dutch), Unilever, Heineken, and ABN AMRO, only to name a few.

By now, it is generally accepted that the tide of globalization is here to stay. So, we must heartily embrace the process and take the best opportunities offered by the integration of the global communities while limit the potential adverse consequences that come along with the process. To do this, we must reexamine ourselves to review our weaknesses and our strengths. After all, there was an old Chinese saying: "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

Thailand learned her first-hand lessons the hard way and had opportunities to reexamine herself in detail in the past couple years. Several weaknesses were identified. Prominent in the list is, of course, we do not fully know our enemies. This has already been partially remedied by simply being part of the game, staying competitive in the world market, and actively participating in the new knowledge-based economy. Thai Ministry of Commerce now has 48 representative offices around the world. And in my case, the Bank of Thailand constantly sends our staffs to work at other public and private organizations, both inside and outside the country.

But still, at the core of all of these, we need to make sure that our corporate sector gets back on its feet. Sustainable growth at its full potential requires that there must be a corporate reform that emphasizes flexible and transparent organization, sound corporate governance, and increased economic value-added through moving up the technological ladders. By so doing, we will be ready for the intensified battles of globalization. And these will be our *Corporate Challenges in the New Millennium*.

So far, Thailand has made much progress in corporate restructuring. As of March 2001, more than 380,000 cases of debt restructuring have been completed, involving the credit outstanding of 2.1 trillion baht. Yet, we must not stop there. The true challenge of corporate reform remains to be tackled, should we want a vibrant and resilient corporate sector to emerge from the crisis. We have to move beyond the financial side of the corporations, move beyond the balance sheet cleaning up, and start to address the real issues that will determine the long-term competitiveness of the corporate sector and thus consolidate the economic recovery achieved thus far.

I will not have time to cover all of the important issues of corporate reform, but let me mention a few. Corporate governance will be one of the major themes of an on-going corporate reform around the world in the years to come. By good governance, I mean transparency, competitiveness, and good internal management, which include the relationship between the board of directors and managers as well as issues such as shareholder rights, management oversight, and information disclosures.

To illustrate my points, let me use the work that the Bank of Thailand has been engaging with the financial institutions during the past couple of years. We have provided guidelines to improve corporate governance within the Thai financial sector to complement the on-going change within the corporate sector. Bank directors are now required to have no more than 3 directorships in other profit-seeking institutions, so that they will have more time to carry out the required duties, as directors should do. Before, 82 directors did not qualify, but 60 of those have now complied. And for the rest, arrangements were made for them to observe the guideline.

To improve internal management, we ask major shareholders not to vote for the independent directors so that minority shareholders are better represented on the board. Audit committees are now a requirement and many banks now have nomination and compensation committees to reduce the power of the major shareholders. Most also have risk management committee or, at least, asset and liability management committee.

To further increase transparency, commercial banks now have to announce at the end of each month their NPL level, penalties and fines imposed by the authorities, as well as the amount of their related lending. By year-end, we will launch the Director's Handbook for the financial community and further encouraging increased transparency of appointment and compensations.

Of course, we cannot change others without changing ourselves at the Bank of Thailand. Our reorganization strategy focuses on four aspects, namely organizational structure and work process, human resource management, decision-making process, and database and information technology.

Our hierarchical structure has now been reduced from a total of seven layers to four. Authorities and responsibilities are being further delegated toward a lower level to the operating officers in charge. This helps reduce the previously lengthy approval process and increase our flexibility.

New departments have been established to better cope with the rapidly changing economy and the rising information need of the organization. These include the Data Management Group, the Information and Public Relation Group, the Planning Group who conducts a bank-wide risk assessment as well as a new Department of Risk Management and Information Technology Examination, who monitor risk profile and risk management at the financial institutions.

In addition, our business processes are now more client-oriented with a new website, new voice-mail, and new central point of contacts being offered as services to our stakeholders.

Both the Netherlands and Thailand are small open economies in the world market. To survive the tide of globalization, we both need a well thought out strategies. We have to choose our battleground and cooperate with friends around the world. To do this, local strength has to be further strengthened while lessons and technologies must be learnt from others. Here, international co-operations through jointed ventures, through foreign direct investment, or through international trade will play major roles in our successes.

On this front, Thailand has done remarkably well, registering a substantial increase in net inflow of foreign direct investment in the four years following the crisis despite the overall net capital outflow due to debt repayment within the banking sector. Foreign direct investment (to the non-bank sector) increased from an average around 1.4 billion US dollars during 1992-1996 to 3.4 billion US dollars during 1997-2000.

Though much work is required on the corporate sector in the march toward modernization of the Thai economy, the government and the central bank also have vital roles in maintaining stable economic environment and providing the required infrastructures to allow the private sector to drive forward to create wealth and prosperity.

Several long-term plans have been made in the past couple years.

On the macroeconomic front, the Bank of Thailand has adopted Inflation Targeting as a framework of our monetary policy since May 2000. It may be a little too early to claim our success, but the results thus far have been encouraging. Long-term interest rates of the interpolated 14-year government bonds were reduced from 8.3 percent at the beginning of 2000 to currently at 6.1 percent. Inflation remained subdued and will stay within the target range during the next two years. The maturity of state enterprise debentures offered in the market increased from a maximum of 7-year in 1998 up to 20 years in 2000, reflecting greater confidence on the long-term economic stability.

On the financial system level, we are drafting a new Financial System Master Plan in cooperation with stakeholders and representatives from other regulators within Thailand such as the SEC as well as the Department of Insurance. This will provide a new and vibrant financial system whose survival will be judged by the value added it creates and delivers to the clients. And these will ensure adequate provision of financial services as required by the new economic environment.

As for the current economic policy, we are not yet out of the crisis. The economy recovered from a 10.8 percent contraction in 1998 and posed a 4.2 percent and 4.3 percent in 1999 and 2000, respectively. Nevertheless, the global slowdown, particularly from our main trading partners such as the US and Japan who account for roughly 35 percent of our exports, have complicated our tasks. Here, it is the lack of confidence in the overall economic conditions that is the main problem that prevents the resumption of business lending.

Earlier this week, the government announced its plans to put in place additional fiscal stimulus for the fiscal year 2002, as well as programs to stimulate domestic spending. These include new measures to utilize excess liquidity in the banking sector to further enhance economic activities, to increase investment through a matching fund, as well as to retrain the workforce. These should provide the much-needed economic stimulus to the corporate sector.

Prosperity of our nations rests on the hard work of the corporations, for what really matters in the long run is your productivity. Corporates must strive to improve their competitiveness, increase their economic value added, move up the technological ladders, and stay innovative. All of these cannot be achieved without true corporate reform.

For those of you who love to play soccer, good government policies are like good players in the backfield. We can help defend the goalie – the stability of the country; send the ball up to you who are in the front field. But, if you do not try hard to score on the behalf of our countries, then who will?

So, I wish to congratulate those who win the award today. They have set the examples of what the Netherlands and Thailand need in order to prosper in the new millennium.

Thank you for your attention..