

Prasarn Trairatvorakul: Economic transformation and inclusive growth in frontier economies

Welcome and opening remarks by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the conference on “Economic transformation and inclusive growth in frontier economies”, jointly organized by the International Monetary Fund (IMF) and the Japan International Cooperation Agency (JICA), Bangkok, 28 January 2013.

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Ministers and Central Bank Governors,

Distinguished guests,

Ladies and Gentlemen,

1. It gives me great pleasure and honor to welcome each and every one of you to Thailand, and more specifically, to the Conference on “Economic Transformation and Inclusive Growth in Frontier Economies”. This event is the second in a series of conference jointly organized by the International Monetary Fund (IMF) and the Japan International Cooperation Agency (JICA).

2. ***The topic of the conference is timely and relevant to current developments in the region.*** Frontier economies are new and becoming large markets. They all have the potential to grow into tomorrow's emerging economies. In recent years, we witness faster economic growth in frontier economies than larger emerging economies. We have seen frontier economies integrate into the regional and global economy.

3. Frontier economies are full of potential. ***However, continued efforts on strengthening policy frameworks are still needed.*** This is to ensure long term economic growth and sustain robust economy. And I believe that today's conference will contribute to these efforts as we will share and learn the appropriate lessons of others. One can leap jump the process, without repeating the mistakes. Our discussion will revolve around the critical decisions on policy considerations for economic development and the way forward.

4. Sharing lessons about economic development leads naturally into a discussion about the development experiences of Thailand. Thailand's rapid growth between the late 1970s and 1997 was the result of the structural transformation. We moved from primary production to industrial production, mostly manufacturing and high-value agricultural products. ***The combination of (1) processed agricultural products, (2) import substitution industrialization, and (3) export promotion was the principal feature of economic development.***

5. Moving up global production chains elevated Thailand's per capita income of \$100 in the early 1960s to nearly \$3,000 after 1997. More importantly, the process has resulted in the dramatic fall in poverty and improved the living conditions of the Thai people. The rate of poverty had been reduced from 57 per cent in early 1960s to around 24 per cent in 1981 and to 8 percent in recent years. Thailand's economic development story has thus attracted broad interest from policy makers, multilateral agencies and academics.

6. As in most transformed economies, economic transformation can be associated with rising income inequality and depletion of resources. In 1970s, the average household income in Bangkok was 2.6 times larger than the rural area, then in 1998, increased to 3.4 times. And, during the transformation period, Thailand's forest cover rapidly depleted by nearly half. Thus, we shouldn't discard these in our desire to achieve sustainable and equitable growth, since this can lead to the deterioration of social solidarity and ecology.

7. Here, it is worth noting that the three prerequisites for sustainable and equitable growth should be properly addressed. ***They are (1) social inclusion, (2) ecology and, (3) the stability of financial system.*** Any kind of disruption in any of these fundamentals can jeopardize sustainable and equitable growth. Thus, today, lessons that will be drawn from the development experiences of Thailand shall be focused on these three fundamentals.

8. Firstly, with regard to social inclusion, one obvious consideration is how to create opportunities for everyone to contribute to and benefit from economic growth. Therefore, ***we need to take into account the principle of equality of opportunity when planning and implementing the process of economic development.***

9. ***To follow the principle of equality of opportunity, we need to ensure unbiased governance and regulatory environment for businesses and people.*** This is to remove or reduce arbitrary restrictions and to create “competitive neutrality”. A level playing field is the first and foremost step for the prevention of income inequality.

10. Although a fair playing field is important, it is, in itself, not enough to uphold the principle of equality of opportunity. ***By realizing that everyone is endowed with different capacity as well as is in different social and economic contexts, supportive policy adapted for each social group is needed.*** For instance, as in the case of Thailand, researches indicate that broadening financial access and promoting financial literacy has significantly raised the country's growth rate. In this light, the Bank of Thailand (BOT) has included financial access as our urgent aspect in the current BOT's financial master plan.

11. Secondly, on ecology, we heed the lesson of how to progress while ensuing to environmental sustainability. After the rapid development stage in Thailand, ecological problems have become more prevalent. Concerns have been raised over the sustainability of ecology and, more fundamentally, the socio-economic well-being of the people.

12. Today, effort has been made to maintain the balance between the ecology and growth. For instance, environmental protection and sustainable development have been included as an integral part of Thailand's National Development Plan since 1997. However, the goal of ensuing environmental sustainability cannot be easily established. ***And I hope that today's conference will also examine the environmental sustainability while focusing on growth and inclusiveness.***

13. Lastly, on the stability of financial system, the lessons that can be appropriately derived from Thailand's experiences are on external imbalances and the effects on financial institutions. The 1997 financial crisis was originated from large capital inflows. Between 1992 and 1996, Thai economy had attracted massive volumes of capital inflow of more than 355 billion bahts from abroad. At that time, the volatile international capital flows went into our financial system and increased the system's vulnerability. The crisis then erupted when there was a sudden and large capital outflow, which during 1997–1999 amounted to some 389 billion bahts. What followed is the closing down of numerous financial institutions as well as the economic slump.

14. ***In hindsight, we have learned that international capital flows work both ways.*** On one hand, they support long-term income growth through saving and investment. On the other hand, they increase vulnerabilities in the financial system. ***We must, therefore, keep in mind that foreign capital can be the “Achilles Heel” to the financial system.*** In this regards, high-frequency monitoring data and shock-absorptive policy framework are essential.

15. ***We have been improving our financial system from the lesson of the 1997 crisis.*** Legal and regulatory reforms have been made to ensure the stability of financial system. Today, we may say that our effort has paid off as our financial system is now resilient and in a good position to support growth. This is especially evident during the

2008 financial crisis where the resiliencies of our financial system as well as the framework of our monetary policy were put to test. Nevertheless, there is no fixed formula for the success among policy makers. ***The best policy mix is timely, contextual selection of market tools, and coordination across agencies.***

Ministers, Governors, Ladies and Gentlemen,

16. I expect that our dialogue today will contribute to the traditional-and-beyond insight and information on how to achieve sustainable and equitable growth. This will help alleviate standard of living for the entire region. And I am convinced that today's conference will play an important role in sharing developments in the frontier economies – the next wave of emerging economies which will contribute to the regional and global growth and prosperity.

17. Last but not least, I would like to express my sincere gratitude to our co-hosts, the International Monetary Fund (IMF) and the Japan International Cooperation Agency (JICA), who make the conference possible. I wish you all a successful conference and look forward to your discussions.

18. Thank you.