**Thailand 2025: Dealing with Major Trends**
Keynote address by Veerathai Santiprabhob, Governor of the Bank of Thailand

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Permanent Secretary of Commerce,
Chairperson and members of the TNSC Board of Directors,
TNSC members,
Distinguished guests,
Ladies and gentlemen,

Good evening to you all.

I’d like to first thank the Thai National Shippers’ Council for inviting me. Let me also congratulate TNSC on the occasion of its 25th anniversary. Over the past 25 years, exports have become Thailand’s main engine of growth, and TNSC has played a major role in making that possible through its commitment and dedication to serve the community of over 2,000 exporters.

With today’s topic of “Thailand 2025”, I would like to commend TNSC for inviting us to look beyond short-term issues: what this year’s GDP growth rate will be, how many tourists we will get this year, or what will the exchange rate be by year-end. While paying attention to these short-term issues is important, it’s equally—or even more—important to take our eyes off the few meters in front of us and look further ahead to ensure that we’re heading in the right direction.

Ladies and Gentlemen,

We are at an important juncture in our economic history. Now is the time to look into the future and imagine what the Thai economy will look like five years from now. Amidst many critical transitions, the speed of these changes, and a number of structural issues that we are facing, what has got us here will definitely not get us where we want to be in the future.

Indeed, we will not know with certainty what the Thai economy will look like in 2025, but we know the major trends that will have significant implications for the
future landscape in which we operate. Today, I will highlight five major trends: demographic change, climate change, changes in value chains, digital transformation, and global excess liquidity with historically high leverage. These trends will have big implications for Thailand. While most people would think of these trends as threats to existing business models, they are indeed business opportunities for those who look ahead and get ready for them.

1. Demographic Change

The first trend I’d like to highlight is demographic change.

Thailand is aging and is aging fast. We were the third Asian country to become an aging society, and by 2035 we will be the first developing country to become a hyper-aged society by the definition of the World Health Organization—meaning 20 percent of the population will be over the age of 65. This change will have implications on at least two fronts, both very important to the business sector: labor force, and consumer spending.

Impacts on labor force

Let me first start with implications on the labor force.

The Thai labor force has already passed its peak in 2013 and will only keep declining. For businesses, the shrinking and aging labor force will have an impact especially on labor-intensive sectors such as textile, apparel, leather, and wood and furniture, which account for around 7 percent of the value-added in the manufacturing sector. Businesses, particularly those that are labor-intensive, will need to rethink business models and find ways to increase productivity, be it through process automation or focusing on R&D to create higher value-added products and services. Retaining and retraining employees will also have to become an integral part of businesses.

Impacts on consumer spending

The second implication of demographic shift will be on the market, as consumers’ spending will change, both in terms of value and composition.

Thailand’s aged dependency ratio—the ratio between population aged 65 and over to the working age population—is projected to increase from less than 20 percent today to more than 50 percent twenty years from now. This demographic shift
would impact the country’s productivity and present a challenge to the country’s fiscal sustainability, as nearly half of Thai people are not enrolled in retirement plans. With the majority of the people having high household debt, low savings, and little financial security, aging population will add more burden to households in the form of increased spending for elderly care.

Moreover, people tend to consume less as they grow older. A study by TDRI found that Thais in their 50s will decrease their consumption by more than 20 percent when they are in their 60s. Aging population will introduce a dramatic change to the consumer market.

But this is also an opportunity: the domestic market for the seniors will become larger. In 2017, consumption of Thai population older than 50 is worth 2.8 trillion baht or around 18 percent of the GDP. This will only continue to grow, creating a large niche market for businesses.

Realizing this will open doors for many opportunities ahead. The demand for products focused on senior lifestyles such as orthopedic shoes and anti-slip floorings will grow. Huge opportunities also lie in health-conscious products such as organic produce, food supplements, and low-sodium diets, where Thailand’s well-developed food industry could give us a solid foundation.

Being one of the first countries to become an aging society will also give us a head start to develop new businesses that would help address the needs of the elderlies, and expand to other markets abroad that will soon become aging societies as well. According to the UN, ten percent of the world population will be older than 65 five years from now, with more than 200 million living in China. Medical tourism industry, for example, need to take advantage of Thailand’s established foundation and scale up to serve the needs of broader spectrum of senior travelers from all over the globe.

In addition to demographic change in the Thai market, we should also look at demographic changes at the global level. Outside of Thailand, demographic changes mean more than just an aging society. In most developing nations, particularly those in South Asia and Africa, populations are booming with urbanization, modern lifestyles, and better access to healthcare and basic infrastructure.

These two often overlooked markets are filled with big and growing young population, and a fast-growing share of the middle class that are expected to play an
important role in driving the global consumption and economy in the future. By 2030, these regions will be home to more than 45 percent of the world population. These huge young markets with high potential for income growth will have to be the new promising market for Thai businesses to explore. These two markets currently account for only around 7 percent of our exports, and although exports to South Asia has been steadily increasing in recent years, there is much room to grow and we need to move fast.

2. Climate change

The second trend that will play a major role in the coming years is climate change.

Indeed, climate change is hardly anything new; scientists have been talking about it for decades. But the impact of climate change keeps coming closer. Perhaps it started with melting ice cap and changing bird migration pattern; now we started to really feel climate change in the forms of more frequent and severe draughts and floods, wildfires, and other natural disasters.

Climate change will impact businesses in many ways. Production line could be disrupted by flooding as we witnessed in 2011, natural disasters could affect logistics, and our popular beaches become more vulnerable to the rising sea level and changing weather patterns.

Impact on agricultural sector

Most concerning, perhaps, is the effect on the agricultural sector which is the source of employment for more than a third of our population. New types of plant and animal diseases could thrive in the warmer climate. Soil loss and land degradation through floods and land mismanagement could decrease crop yield. With only a fifth of our agricultural land having access to irrigation, severe draughts and floods pose serious risks to the Thai society. With most of the workforce earning low income, impacts on the agricultural sector is likely to affect those who are most vulnerable in the society.

While being net exporters of agricultural products provide us some sense of food security, the agricultural sector—one of the least productive sectors in the economy—needs a complete overhaul to stay competitive amidst these challenges ahead. Adoption of agricultural technologies including data collection, precision farming, and resource-sharing platforms; development of plant and animal varieties
that are resilient to climate change and diseases; along with usage of closed-environment production techniques would help raise productivity and resilience of the sector that many of us consider the backbone of our economy.

Sustainable businesses

The agricultural sector is not the only sector that needs to change. The more severe and tangible impact of climate change has raised awareness of people around the world, resulting in calls for new standards and regulations aimed at containing environmental externalities from businesses. Two good examples are the ban of fuel with high sulfur content for the shipping industry, and social calls for businesses to reduce the usage of single-use plastics. Naturally, adopting these higher standards comes with higher costs and it would serve businesses well to take this into account when designing new business models.

For businesses taking these regulations passively, this will only mean higher costs and lower profits. However, the sustainable movement presents an incredible opportunity for businesses that can meet this demand. Consumers are now demanding more environmentally friendly products and services. According to a survey done by Nielsen, 66 percent of global consumers are willing to pay premium for environmentally friendly products. The number is even higher for younger generations. The concept of first-mover advantage also applies here, since those who could first systematically identify new environmentally friendly practice will set standard for the entire industry.

3. Changes in value chain

The third trend I will highlight is the change in the global value chain.

In discussing value chains, it is almost impossible to avoid thinking about the ongoing trade tensions that are suppressing the global economic sentiment. While the trade tensions might prove to be short-lived, they have distorted value chains and engraved a long-lasting impact on global production through trade diversion and production relocation.

But even before all these trade tensions started, value chains around the world had begun to change in even more significant ways, thanks in part to the advancement in technology. To this point, I’d like to highlight a few observations by McKinsey Global Institute report earlier this year.
First, services are becoming a larger part of the global value chain. Cross border services are growing more than 60 percent faster than trade in goods. The value-added share of services is increasing as firms around the world today are spending more on brands and intellectual property. Manufacturing firms in many areas start providing leasing services, which add value to downstream processes and blur borders between products and services. In addition, as people’s standards of living increase, they shift their consumption towards services, which could range from tourism, medical services, financial services, and educational services. Unlike trade in goods, trade in services are not the focus of the ongoing trade tension, which makes service-related value chains less vulnerable.

The second observation is that global value chains are becoming more knowledge-intensive and are relying more on high-skill labor. This is partly attributed to the first observation, as service-related tasks generally require higher skills than manufacturing tasks. The introduction of technologies such as automation and the rising wages in developing countries diminish the importance of labor-cost differences. Contrary to the common perception that the global value chains are driven by cheap labor in developing countries, today less than 20 percent of global trade is driven by labor-cost arbitrage.

The last observation is that goods-producing value chains are becoming more regionally concentrated. Robotization and automation made cheap labor less relevant when companies decide where to place production. This pattern is obvious in certain sectors with closely integrated supply chain for just-in-time production such as automotive, electronics, and electrical appliances. Locating production line close to the end-market also helps businesses better customize the products based on each market’s preference. Trade protectionism is undeniably one other key factor that help accelerate value chain regionalization.

All these changes in value chains could be a threat to today’s businesses. Consumers are ready to switch to a competitor’s product if they find it suits their changing preferences better and quicker. A standalone service business might be disrupted by new service value chains that offers a more complete solution to the customer’s need. Rising wages in Thailand will draw production to emerging market countries with lower wages, while automation will help advanced economies draw production closer to home.

But then again, for those who are prepared, this could be an opportunity. Businesses will have to think about how they could incorporate service components into their
products. An example of this transition is Daimler and BMW, who joined hands earlier this year to explore service-focused business models such as taxi-hailing, car sharing, parking, and EV charging. This, of course, also means that we will need to continuously reskill and upskill our workforce.

4. Digital transformation

The fourth trend is digital transformation.

Technology is now engrained in all aspects of our everyday lives and it keeps getting better. More importantly, those who benefit from modern technology are not limited to the riches or large corporations any longer. More than 40 percent of the world’s population now have access to smartphones, and this number is projected to keep growing.

The trend of devices that can store data, process it, and communicate with each other will not be only limited to devices such as personal computer and smartphones. Made possible by technologies such as 5G, devices ranging from electrical appliances in our home, traffic lights, cars, robots, and sensors in farms and factories will all be smart and connected. According to Gartner, the number of IoT-connected devices is projected to triple within the next five years. This will change how we live, how we consume, and will completely change how businesses operate.

The IoT movement also highlights the important role of data. With billions of devices connecting with each other, huge amount of data will be created and utilized to improve business operations. Data will be one of the most valuable resources. Technologies will not only improve efficiency and help mitigate the effects of shrinking labor force, but, through AI and data analytics, they will also help us make smart business decisions.

In addition to the important role technology will play in factories and supply chains, technology will also change consumers’ behaviors.

In the past few years, “platform economy” has revolutionized the way businesses and consumers interact. A platform creates value by connecting users—who could be consumers or suppliers—reduce search cost and make economic transactions that would have not happened otherwise possible. Businesses left and right are being disrupted by the platform movement: hotels by Airbnb, transportation services by the likes of Uber or Grab, and retail shops by e-commerce platforms.
Thais are especially keen on social media platforms, e-commerce, and social commerce. We are ranked among the top five countries with the highest share of e-commerce purchases, and this share is expected to keep increasing. For traditional businesses who do not adapt, this means more competition in a shrinking market. On the other hand, there are plenty of opportunities to be taken. By enabling their users to share assets, sharing platforms help eliminate the need for individual business to take on huge investment cost upfront. The direct connection and platform-based trust between buyers and sellers across the globe also provide opportunities for firms—especially SMEs—to design their own product flows, get direct customer feedbacks, and quickly expand their customer base like never before.

5. Excess global liquidity with historically high leverage

The last trend I want to highlight this evening is excess global liquidity which has led to a historically high degree of leverage, along with the vulnerabilities that come with it.

We have been living in the low-for-long interest rate environment since the Global Financial Crisis. The monetary policy “normalization” period was proved to be short-lived as major central banks decided to delay or reverse their normalization paths in response to the global slowdown resulting from trade conflicts. Excess liquidity created in this low-for-long environment has led to at least two areas of vulnerabilities.

Overleveraging of businesses

The first area of vulnerability is the overleveraging of businesses. According to the recent IMF’s Global Financial Stability Report, corporate debt has spurred in recent years. In the event of a global economic downturn that is half as severe as the one spurred by the Global Financial Crisis, the IMF estimated that almost 40 percent of corporate debt—approximately 19 trillion USD—could be at risk of defaulting, exceeding the levels seen during the last crisis.

In Thailand, we could observe high leverage in many business segments. Some firms even take on debts to buy back their equities from shareholders, thereby reducing their equity base. Moreover, some large corporations have increasingly engaged in new investment outside their core businesses, making risk assessments challenging.
In this rapidly changing world, the path ahead is filled with risks and uncertainties that may affect businesses’ revenue and cash flows. Businesses need to ensure appropriate capital structure. Having too much debt will heighten financial vulnerability and could amplify the effects of adverse shocks. Importantly, while debt is necessary for investment and financing through debt is especially enticing in this low interest rate environment, an appropriate level of equity must be preserved to ensure sufficient cushion for adverse events.

Financial stability risks remain sources of concern in periods ahead, and this is an opportune time for businesses to review and restructure their capital and financing structure to enhance their resilience to the world that will become more volatile, uncertain, complex, and ambiguous.

More volatile financial flows

The second area of vulnerability comes from international fund flows, which have become more volatile especially for small open economies.

Following a decade of unconventional monetary policies, there has been a shift in the structure of foreign exchange markets as well as the nature of capital flows into emerging markets. These flows could lead to two-way volatility in exchange rate and asset prices.

With the prospect that low interest rates and excess liquidity will not be over soon, the volatile nature of exchange rate and asset prices will only keep increasing. While we might be able to influence some domestic factors, exchange rate movements in the world with excess liquidity are often driven by external factors that are beyond our control. It is therefore important that we all do our parts to increase our resilience against exchange rate volatility and reduce its impact on the Thai economy. Let me remind everyone that foreign exchange hedging needs to be a regular business practice.

Concluding remarks

Ladies and gentlemen,

The Thai economy is facing significant adjustments: demographic change, climate change, changes in value chain, digital transformation, and global excess liquidity with high leverage. We were more or less aware of these trends since the Global
Financial Crisis. Now it becomes more and more clear that these trends will be the major forces that will shape the landscape and structure of our economy, and the pace and degree of changes will be faster and larger than before.

On one hand, these changes could become big threats to your businesses and the economy as a whole if we don’t adapt. On the other hand, if we embrace these changes and recognize the many opportunities that come with them, we could ride this wave of changes forward. In doing this, business model transformation and large structural reform policies are needed in order to increase both the productivity and resiliency of the Thai economy.

Let me end my talk by saying once again that we will not know with certainty what the Thai economy will look like in 2025. The structure, competitiveness, and resilience of our economy five years from now will depend critically on how we address the five major trends.

Thank you very much for your kind attention.