



SPREAD THE WEALTH WISELY

The new government should look away from populist policies and to strengthening core industries in rural areas to spur growth throughout the country *By Antony Picon*

As the new government takes shape following last Sunday's resounding Pheu Thai victory at the polls, it has a real opportunity to make significant improvements to the lives of those who form the bedrock of its electoral base, people in the North and Northeast — but not in the way the party has expressed.

Promises of populist handouts make good soundbites in the heat of an electoral campaign but they do not make good economics. In general they are quite wasteful and could put public finances in a precarious position that will negatively affect the prosperity of all Thais. While some measures can be adopted to provide initial momentum, the new government should consider more deep-seated and radical reforms that can provide sustainable economic growth to the regions, which in turn will help address the issues that divide the nation.

The "industrial revolution" that began in Thailand in the 1970s was the result of not only an influx of Japanese investment following the strengthening of the yen but also the creation of Board of Investment (BoI) incentives that included 100% foreign ownership and generous tax incentives. This successful industrial investment policy continues to the present day but is largely focused on the Eastern Seaboard and the provinces around Bangkok.

In fact, the poorest 22 provinces (part of

the 58 provinces in Zone 3 classified by the BoI in terms of level of development) have received just 2% of total investment over the past few years and on a per capita basis. BoI Zone 2 provinces (including Chon Buri and now Rayong) account for more than 100 times more investment than to the 22 poorest provinces.

It would be wrong to kill the goose that lays the golden eggs in trying to move manufacturing outside the current industrial areas

as they offer significant advantages, including locations near seaports and Bangkok, good infrastructure and a robust clustering of various supporting industries. However, the BoI should look at particular industries that could be developed in the peripheral provinces, such as agricultural processing and industries that target nearby trading partners such as Malaysia and China, as well as supporting craft products.

Another key area for development is that of tourism. While Bangkok and the resorts of Phuket, Pattaya, Hua Hin and Samui will be the main drivers, the lesser-known provinces can still provide that "wow" factor of a frontier destination — something that is now the domain of Cambodia, Vietnam and Burma.

As well as the various tourism bodies focusing on the peripheral regions, the BoI could alter its incentives for the hospitality industry. At present hotels with at least 100 rooms can receive BoI approval, but the ques-

tion arises as to how many hotels in the lesser known provinces have such a high number of rooms. The vast majority are much smaller. Therefore the BoI should reduce the number of rooms required to around 20-30 for Zone 3 provinces and broaden the incentives to encourage development of the tourism and hospitality industry throughout Thailand.

The office market strongly reflects overall economic sentiment. As businesses become more confident of the future, they will look to expand and thus create future demand for office space. For the past four years the market has failed to make significant headway due to ongoing political and economic uncertainties. If over the course of the next few months there is an extended period of stability, companies will begin to make longer-term choices.

The interesting aspect about Thailand is that compared to every other medium or large Asian country almost all office space is located in one city, Bangkok. While office space in Malaysia is concentrated in Kuala Lumpur, there is also considerable space in Penang; Indonesia has a secondary market in Surabaya while the Philippines can count Cebu. The growth of secondary office locations is greater in more developed economies such as Japan, Korea and Taiwan. The situation in Bangkok reflects the enormous concentration of commercial activity in the city.

The service sector is the main driver for new economic growth, but is restricted by the Foreign Business Act and a lack of significant BoI incentives compared to manufacturing. Also in contrast to manufacturing and hospitality, the service sector is less location driven, which would favour the poorer, remoter provinces.

Many analysts now feel that in certain industries, especially where creativity is at a premium, Thai companies can successfully operate in other countries as well as in their own market. Conversely, the new government should consider the opening of certain sectors to foreign entry based on an independent analysis of whether Thai companies can compete and a road map for those deemed unable after years of protectionism. In terms of the less developed provinces such activities as Business Process Outsourcing (BPO) could be given special incentives such as foreign ownership and tax breaks. One large foreign outsourcing company contacted would in theory consider entering Zone 3 provinces if provided with generous incentives to locate there.

BPO has often been dismissed as simply call centres, but this is far from the complete truth. The catch-all phrase encompasses a wide variety of functions in all types of industries such as health care, engineering and finance and requires often highly educated staff with an ongoing commitment to training. It often involves companies requiring large floorplates for its many staff but can

also be a small office with a couple of computers. It is not only English proficient countries that are gaining ground; countries such as Vietnam are making significant inroads in this lucrative market.

The growth in the service sector throughout the country would mean more jobs in the regions and therefore less family dislocation

as educated Thais would have the option of working much closer to home rather than living in Bangkok. Service companies would also provide ongoing training for their employees leading to the development of often highly skilled workers who will be valuable in the job market. This could make up for the shortfalls in the current education system in coping with the new knowledge based economy.

The great benefit of opening up the economy in the regions is that it would be very affordable to implement compared with populist handouts. It would generate greater economic growth that would lead to more tax revenue that can be used to support those in most need. The property market would then be ignited in the regions with demand for retail centres and housing to cater for the growing prosperity of the population.

It requires a strong commitment to the real sustainable growth of the whole country with bold action to ensure this is allowed to happen; with wide consultation involving local people, Thai and foreign business leaders as well as other experts. It is time to plug the whole of Thailand fully into the national and global economic grid rather than just provide handouts which can be gone in a matter of days. The long-term economic transformation of the regions will go a long way to ensure the future stability of the country. ■

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