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Application of the SEP to Macro-Economic Management and Business Practices

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Your Excellency the Prime Minister,
Excellency, Minister of Foreign Affairs
Excellencies,
Distinguished guests, Ladies and Gentlemen,
Good morning and welcome to Bangkok

I am truly honored to be here today in the presence of such distinguished guests to speak about the application of the Sufficiency Economy Philosophy (SEP) to macro-economic management and business practices.

My talk will be divided into 3 parts:

(1) By way of introduction, I will begin with a recollection of some past monumental events, drawing upon some of the lessons learned and showing how the SEP could be applied by everyone at all levels of our society

(2) I will then move on to discuss the application of the SEP to macro-economic management

and

(3) I will conclude this talk with some thoughts and reflections on how the SEP could be extended to business practices

1. Introduction: Recollection of some thought-provoking events

Ladies and Gentlemen

Throughout the history of mankind, there have been numerous events, incidents and crises that have prompted us to reflect, re-evaluate and re-think the way we live our lives, the way we operate our business, or the way our countries should be developed.

Please allow me a few minutes to show you this short but thought-provoking clip¹, which may make us question how the world has pursued growth and development.

¹ <http://youtu.be/ZablJecd9Fc>

This was the trailer of a movie called *“The Big Short”*. It is based on a supposedly true story of 4 men, who in 2005 believed that the US housing market was based on a bubble. Believing that the bubble would burst within the next few years, they decided to take on the big banks for their greed and lack of foresight. The US credit and housing market did collapse and led to a global financial crisis sending shockwaves to countries around the globe.

I am not sure what you will make of this story?

But here is what President Obama had to say to US citizens in 2008.

“Parts of the reason this crisis occurred is that everyone was living beyond their means – from Wall Street to Washington to even some on Main Street.

CEOs got greedy.

Politicians spent money they didn't have.

Lenders tricked people into buying home they couldn't afford and some folks knew they couldn't afford them and bought them anyway.

We've lived through an era of easy money, in which we were allowed and even encouraged to spend without limits, to borrow instead of save

We'll have to set priorities as never before, and stick to them. This also means promoting a new ethic of responsibility.

Ladies and Gentlemen

Back here in Thailand in 1997, after decades of economic prosperity and after being hailed as an economic success story, we were hit hard by a full blown financial crisis. Exacerbated by speculative attacks, the Thai Baht was forced to devalue. The impact was severe and unprecedented. Tens of banks and financial institutions were forced into closure, hundreds of companies went bankrupt and our people and communities suffered, especially those lacking social protection.

His Majesty King Bhumiphol addressed the nation later that year on his birthday as follows:

“Being an economic tiger is not important.

The important thing is for us to have a sufficiency economy.

A sufficiency economy means to have enough to support ourselves...

We have to take a careful step backward”

Despite his earlier, similar warnings, it was not until 1997 that His Majesty's words and warnings were truly heard, and that the SEP formally caught public attention.

This was a wake-up call for all of us in Thailand and marked a paradigm shift in our economic development thinking: a beginning of Thailand's journey to a more balanced pursuit of growth.

2. Application of the SEP to Macro-economic Management in Thailand

We now turn to the second part of my talk.

Ladies and Gentlemen. Since 1997, the SEP has attracted nationwide attention and has been included in various development areas. Today I will share with you how the SEP has been applied to Macro-economic management here in Thailand.

As you may know, the SEP comprises 3 major components:

- (1) **Moderation** (ความพอประมาณ)
- (2) **Reasonableness** (ความมีเหตุมีผล)
- (3) **Prudence** (ความมีภูมิคุ้มกันในตัว)

Guided by the SEP, over the past 2 decades, macro-economic management in Thailand has been focused on 4 main areas.

First Area: Strengthening Resilience of Domestic Real Sectors

Before the crisis in 1997, Thailand was living well beyond her means, with extremes and excesses. Recklessly optimistic, companies were overly invested and leveraged with foreign debt.

In the post crisis period, the Thai banking and corporate sectors underwent dramatic reforms to keep their leverages in check. Thanks to painful adjustments, all key sectors now have a fairly healthy financial structure. Banks' NPLs have dropped from 43% in 1997 to over 2% in 2015, while debt-to-equity ratio in the corporate sector has declined from 5.1 in 1997 to a mere 1.3 in 2015.

What I would like to stress here is that

- (1) *The SEP does not imply that one must constantly be frugal.* You can buy luxury items that you like once in a while, provided that it is within your spending capacity to do so. *To put it another way, moderation does not equate with deprivation. It is about not living lives beyond our means.*
- (2) *Despite its origins in the agricultural and rural sectors, the SEP can be applied to all other areas,* such as the financial sector, the real estate sector and to international trade.

Second Area: Financial System Development for Sustainable Growth

Thailand has come a long way in the development of its financial systems and progress has been made in these 5 dimensions: *Efficiency, Governance, Diversification, Access, and Connectivity*.

To this last point of connectivity, I would like to add that *the SEP does not promote isolation*. The benefits of being part of an integrated global system are immense and should be embraced. Financial integration is a choice. We chose to do so because *the perceived benefits of doing so outweigh the perceived costs*. Globalization is a fact of life. *We have to learn to live with it, not fight it*.

Third Area: Building up Strong Institutions

Another painful lesson we learned is that it all happened because of a failure to fulfill necessary *“pre-conditions”*. We liberalized our financial system without sufficient tools and without a proper policy framework.

Ladies and Gentlemen. This reminds me of one of the key SEP principles, which His Majesty the King once elucidated:

“Economic development must be done step by step. It should begin with the strengthening of our economic foundation”

Over the past years, considerable efforts have been devoted to the development of *“institutions”*, laying a strong foundation for a resilient financial system. Chief among these is the adoption of *“Flexible Inflation Targeting”* in 2000, which has helped restore *credibility* and has brought *transparency* to the monetary policy deliberation process. An amendment to our legislation in 2008 also helped enhance the central bank’s *“operational independence”* with proper *“checks and balances mechanism”*.

Alongside all this, *the central bank has strengthened its supervisory role* to ensure that banks are compliant with sound and prudent practices. *The regulatory oversight of the state-owned Financial Institutions (SFIs)* was recently transferred to The Bank of Thailand to ensure that all banks will conform to best practices.

Fourth Area: Pursuing Growth with Macro-stability, Equity and Sustainability

Ladies and Gentlemen

Economic development has raised Thailand from being one of the poorest countries in the region to become an upper middle-income country. The overall impact has been impressive. It is estimated that over the past 50 years the Thai Economy grew about 14-fold. Poverty has declined substantially and the overall standard of living of people in the Kingdom has improved markedly.

Unfortunately, this development has not come without cost.

The World Wildlife Fund has estimated that between 1973 and 2009, Thailand's forests declined by 43 percent. Meanwhile, in 2013, Credit Suisse ranked Thailand the sixth most inequitable country in the world, estimating that its richest 10% controlled nearly 75% of the wealth. This is unsatisfactory. *As history repeatedly shows us, societies with such stark differences find it harder to maintain internal stability* and hence this is something we need to address.

I would like to end this part of the talk by stressing that, *the SEP is not opposed to “growth”, nor does it support “limitless growth”*. Looking forward, *stable growth, equity and sustainability* are three necessary and complementary factors for Thailand to achieve *long-term progress*.

3. Some Reflections: The SEP in the Workplace in the Era of a New Normal

We now move to the last part of this talk.

Ladies and Gentlemen. Exactly a week ago I was invited to be a keynote speaker at an event held by a Thai business newspaper on the occasion of its 40th anniversary. The topic for this event was *“Thai Business in the Era of a New Normal”*. The organizer also invited 4 CEOs of large Thai companies to share their views.

This is what I have learned from them.

The 1st CEO: The European Union (EU) gave Thailand a yellow card because we have not yet managed to improve our standards with regard to human trafficking in the fishing industry in a timely manner. This has repercussions on all Thai sea-food businesses, even those with perfect practices, because customers cannot be expected to distinguish between providers from half way across the globe.

What does this story tell us or imply?

Doing business is more complex these days. Previously these CEOs needed to care about fiduciary duties primarily to *“shareholders”* and maximizing profits for them. However, in this era of a new normal, CEOs need to consider *‘all related stakeholders’*, which could mean employees, customers, communities, citizens of other countries, or simply anyone.

The 2nd CEO: In a competitive and fast business sphere, there are hundreds and hundreds of *“ideas”* being floated around. But what matters more is *“implementation”* or *“complete execution”*.

The 3rd CEO: Technology breakthroughs, demographic changes, economic power moving toward Asia and growing awareness about sustainability will be the main drivers

underpinning global changes in the future. Given these, it is important that CEOs must be *'dynamic'* and *'forward-looking'*.

The 4th CEO: *"Leadership"* is absolutely crucial for successful business, particularly in a world where *'change'* is not *"a choice"* but *"an essential fact of life"*.

Ladies and Gentlemen: In the world of the new normal, as we have just learned from those 4 CEOs, the SEP clearly has something useful to offer for the workplace. The beauty and strengths of the SEP lie in the fact that it is a *"holistic approach"*, indeed some of us call it *"a way of life"*.

On Coverage: Despite its name, the coverage of the SEP transcends beyond economic issues and touches on society, the environment, and to culture. The SEP also encourages stakeholder consultation at all levels of society.

On Time Dimension: The SEP stresses the importance of the *dynamic nature of things* and *a forward-looking approach*. In connection to this, *sustainability* is deemed a crucial factor.

On Human Capital: The Focus of the SEP is on *'human capital'* and *'mindsets'*. Aside from the 3 main SEP components of moderation, reasonableness and prudence other mindsets valued by the SEP are knowledge, virtue and perseverance, integrity, trustworthiness and honesty, and mindfulness. These mindsets are the ingredients of any successful and sustainable business.

And particularly important is *"mindfulness"* (สติ). A successful leader needs to be able to focus, to be creative, and to keep calm and collected while under pressure.

Ladies and Gentlemen

At the very core of the SEP is the concept of *'sustainability'*, which has gained some attention from businesses worldwide. Business should focus on going beyond a conventional boardroom model and make the effort to reach out to other stakeholders in society. The ability to deliver public benefits, rather than just shareholder benefits, is deemed one of the strategies for businesses to attain positive public recognition. To quote *Niall FitzGerald*, a former CEO of Unilever:

"Corporate Social Responsibility (CSR) is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it, but because it is good for our business"

Another example of a global trend addressing this issue is the introduction of *the Dow Jones Sustainable Index (DJSI)*, which ranks the world's top-notch companies that adopt sustainable best practices. *Siam Cement Group (SCG)*, a Thai company which has long and

officially adopted the SEP, has been ranked No.1 in the construction material category of the DJSI for the last 5 years.

Ladies and Gentlemen

It would be an exaggeration to say that the SEP has been fully embraced without any comments or reservations. The challenges remain as how to effectively and humbly communicate some of the concepts underpinning the SEP, concepts such as the “*Middle Path*”.

The Middle Path implies not “*too little*”, not “*too much*” or not “*too extreme*”.

The Critic will ask where exactly “*the middle*” is we are talking about.

Let me try to explain. *Imagine driving a car.* We know that beyond a certain speed, we will not be able to control the car and we therefore do not exceed the speed limit. At the same time, we know that if we drive too slowly, we may get hit by a car behind us and even cause a chain collision. For this reason, many countries have both “*a maximum and minimum speed limit*” for traffic on highways.

For most of us, this comes intuitively and we therefore choose “*the middle*”, *not too fast* or *not too slow*, as we know it can be dangerous to stray far from it.

To conclude, ladies and gentlemen, this is a takeaway from this talk

Contrary to a common misconception that the SEP can only be applied to the agricultural or rural sectors, I hope to have shown you how the SEP may be extended to include other areas.

In Macro-economic management, the SEP is not opposed to “growth” nor does it promote “isolation”. But in order to move a country forward in the long-term, a policy maker needs to take into account stable growth, equity and sustainability.

In Business practices, the SEP is not opposed to “competition”, nor does it support “divestment”. But in order to help a company grow in the long-term, the CEO needs to think about sustainable development, and pay attention to related wider stakeholders.

And finally, borrowing again from Niall FitzGerald, let me end today's talk with this:

Applying the SEP to macro-economic management and business practices is a hard-edged decision.

Not because it is a nice thing to do, or people are forcing us to do.

But it is good for our country and good for our business.

Thank you very much.