

## **Veerathai Santiprabhob: Enhancing Greater Mekong Subregion (GMS) connectivity**

Keynote address by Dr Veerathai Santiprabhob, Governor of the Bank of Thailand, at the Euromoney Conferences “The Greater Mekong Investment Forum”, Bangkok, 26 May 2016.

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Excellencies, Honorable speakers,

Distinguished guests, Ladies and gentlemen,

A very good morning to you all!

Let me start by thanking the Euromoney for organizing this important conference, and inviting me to share my views on the role of connectivity in the Greater Mekong Subregion (GMS).

A few years back, my predecessor, Governor Prasarn, said in this forum that he pictured the GMS in the next twenty years as “a much more connected and integrated subregion”. Driven by international trade, foreign direct investment, and global and regional production networks, economic integration in the GMS has been strengthened at a pace faster than we had expected. Over the past decade, the share of intra-regional trade within the GMS to total trade volumes has doubled to stand at around 8 percent. This is why I truly believe that the GMS will continue to be an ideal choice for regional and global investors, and Thailand stands ready to connect businesses wishing to benefit from this vibrant subregion.

While trade and investment are definitely major aspects of regional connectivity, the integration that has shaped the GMS takes more diverse forms, which profoundly influence each other, including, physical infrastructure, people-to-people, and financial connectivity. To promote regional connectivity on a sustained basis, it is vital that we strive to strengthen all these key aspects by joining forces of both the government and the private sector. Let me now address each of them one by one.

***The first and most fundamental is the physical infrastructure connectivity, for instance, through transportation channels, power lines and digital channels.***

The work to connect physical infrastructure will always be a work in progress. The past two decades have seen the fruits of various projects to close “missing links” in road, rail, waterway, and energy networks in the GMS. 19 permanent border crossing points have been established to connect Thailand with Laos, Myanmar and Cambodia. Energy connection within the subregion has been strengthened. Thailand, for example, bought 314 million USD worth of electricity from Laos each year, increasing about 8 times over the past ten years. A frequency of flights within the GMS, especially by low-cost airlines, has also risen markedly.

Nevertheless, we still need to do a lot more to be better connected with each other. Many roads remain not fully operationalized or underutilized. Road transportation in the GMS is not seamless as it should be. In some routes, large trucks carrying containers still have to offload their goods to smaller vehicles to navigate the roads. Also, cross-border procedures remain obstacles to easy access of goods and people. Apart from building new infrastructure, it is therefore equally important to ensure that the existing ones are fully utilized to their potentials.

In addition, sufficient digital infrastructure should be put in place as it will considerably strengthen other modes of connectivity. The internet and mobile communication connectivity will radically change the ways in which businesses operate and people interact, as they drive productivity and efficiency of all sectors. It will also facilitate financial, transport and logistics services, as well as open door to knowledge sharing for people across the subregion. While digital technology is rapidly improving in some GMS countries, there remains large “digital divide” both within and between countries that should be narrowed.

***The second aspect is trade and investment connectivity.***

Intra-regional trade and investment activities have continued to flourish, mainly thanks to complementarities among GMS economies. Many GMS countries have varied and abundant natural resources, young population and low labor costs, while the others can offer technological know-how and financing. With varying industry specializations, the diversity among GMS members has contributed to stronger regional supply chain network, and in the future should magnify national strengths towards a higher competitiveness of the whole subregion.

Amid thriving trade and investment, Thailand is well-positioned to serve the whole subregion, owing to our established legal framework, financing facility, infrastructure, logistics and IT capability. This can be seen by prospering business activities along the Thai border with other GMS countries. Last year, Thailand's 25 border customs checkpoints with Myanmar, Laos and Cambodia registered impressive trade flows of more than 500 billion baht. This accounts for around 80% of total trade volumes between Thailand and these three countries. In this respect, it is important that GMS governments harmonize rules and regulations for trade and investment transactions, both within each country and between countries, with a view to improving ease of doing business and lowering trade and investment transaction costs.

Ladies and gentlemen,

***Connections in physical infrastructure and thriving trade bring people together and that comes to the third aspect, people-to-people connectivity.***

Close proximity, improved infrastructure, and economic connection in the subregion have brought people to connect, either through labor movements or tourism. At present, it is estimated that above 2 million foreign workers in Thailand are from CLMV countries, contributing in various sectors. Each year, based on official records, they remit over 10 billion baht back to their home countries. With regard to tourism, around 2 million visitors from CLMV have made Thailand their destination every year.

In the future, people connectivity should not be confined only to labor movement and tourism, but should develop into strengthened knowledge-sharing networks. GMS economies are in need to move up and integrate our value chains, and it is the people with skills, knowledge and innovative spirit who can make this happen. Strengthening knowledge networks for tertiary education, knowledge creation and knowledge sharing among industries will be a bedrock for building the subregion's capacity, and help harmonize different rules and regulations.

For Thailand, I am glad to see that we have increasingly offered educational training to citizens of the GMS. Recently, Thai universities have offered international courses, aiming to attract students from GMS countries, who express greater interest to study in Thailand.

Health is another important dimension of people connectivity. An increasing number of citizens from the GMS have chosen to receive medical services from Thai hospitals. I am certain that this trend will continue to rise in the future.

Ladies and gentlemen,

***Let me now turn to the fourth aspect of regional integration, financial connectivity, which is a principle area of policy that the Bank of Thailand, in collaboration with other agencies, will continue to drive going forward.***

Better connected financial systems support and underpin all other aspects of connectivity. Infrastructure development, trade and investment activities, and people mobility need well-functioned financial infrastructure and proper eco-system in order to thrive. In the past decade, financial regulators of GMS countries have made noticeable progress to promote financial connectivity. Examples include introducing a more accommodative regulatory regime to allow Lao entities to raise funds from the Thai capital market. As a result, since 2013, the Lao government and firms have issued baht-denominated bonds, worth 28 billion baht in total, to

support infrastructure projects in Laos. For the banking sector, the Bank of Thailand has encouraged banks to expand their regional presence to support growing trade and investment. As of now, there are 30 branches and subsidiaries of Thai commercial banks, set up in GMS countries. ATM connectivity has also been established between Thailand and Myanmar and between Thailand and Laos to facilitate cross-border money transfer.

Like other areas of regional connectivity, there is a need to upgrade financial connectedness to support closer economic relations among the GMS. For today, let me highlight three key areas that Thailand will pursue in this endeavor.

**The first one is to strengthen cross-border banking networks.**

With regard to the banking sector, the Bank of Thailand aims to further liberalize banking activities by broadening cross-border banking networks. We encourage Thai commercial banks to further expand their regional presence to support businesses operating in the GMS. In addition, we fully support foreign banks to use Thailand as a springboard to expand their businesses into the subregion. Recently, Bank of Tokyo-Mitsubishi acquired a microfinance bank in Cambodia, using Bank of Ayudhya as such a springboard; and in 2014, CIMBThai bank set up its first branch in Vientiane.

Moreover, the Bank of Thailand has been relaxing regulations to further accommodate investors in the GMS. We will allow them to take loans from Thai banks for direct investment in the GMS without a cap. We also lifted the cap on outflows of transporting baht in cash to GMS countries from half a million to two million baht per trip.

In this connection, we have now started to see the results of the increased flexibility, which helps multinational corporations to establish Treasury Centers and International Headquarters in Thailand. As of now, there are 13 companies holding Treasury Center licenses, of which 4 have been granted in the past 3 months, with one more awaiting approval from the Ministry of Finance. Many more have also made inquiries, which I am pleased to see.

**The second area is to foster the growth of regional capital markets.**

Apart from the banking sector, well-developed capital markets are critical to nurture sustainable development of financial interconnections. In this light, Thailand is playing a proactive role to enhance our capital market capacity, aiming to link up GMS capital markets with global investors. Firms from the GMS 7 can raise funds through the Thai capital market to facilitate their businesses, while global investors can invest in products with GMS exposure. As I mentioned earlier, we have seen successful and fast-selling baht bonds, issued in Thailand by the Lao government and corporates. A few years ago, we allowed companies operating in the GMS to be listed on the Thai stock exchange using the holding company structure. In addition, Thailand offers a more opened platform for GMS investors and global players looking for opportunities in the GMS. A new rule has allowed foreign firms, including those from the GMS, to launch IPOs in Thailand and become listed in the Thai stock exchange. This is aimed to provide global investors with wider choices of investment, and to provide an ideal financing destination for both GMS members and global players.

**The last area of policy to promote GMS financial connectivity is the better-connected payment networks.**

Under the Bank of Thailand's Payment Systems Roadmap, we will continue to work with regional regulators to advance payment systems connectivity to support trades, labor movements and tourisms. At present, we are building new electronic payment infrastructure under the National e-Payment Plan. GMS countries can leverage on this infrastructure to improve system capability and connectivity.

Ladies and gentlemen,

The GMS is a subregion of opportunities. The ASEAN Economic community is now in full swing, and CLMV members have now eliminated the last set of tariffs since the beginning of this year. Economic transitions following the liberalization in GMS countries have unlocked opportunity for foreign investors. Higher purchasing power from growing and young middle-class translates into higher demand for goods, services and more sophisticated financial services to be met.

Enhanced regional connectivity is a key to shared prosperity of the GMS. The Bank of Thailand is committed to promoting financial system connectivity to facilitate closer economic integration, and is ready to move forward with our partners both in Thailand and the GMS.

Finally, I thank Euromoney once again for organizing this important conference. I wish you productive and engaging sessions throughout the conference.

Kob Khun Krub.