

## Prasarn Trairatvorakul: Financing tomorrow – the Greater Mekong Subregion

Keynote address by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the Euromoney Greater Mekong Subregion Investment Forum, Bangkok, 13 June 2013.

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Excellencies, Honorable Speakers,

Distinguished Guests, Ladies and Gentlemen,

1. It is a great pleasure to be here at the Euromoney Greater Mekong Subregion (GMS) Investment Forum once again and an honour to give some remarks on the topic of 'Financing Tomorrow: The GMS'. A year ago, I had the opportunity to talk about this topic once. At that time, I shared my thoughts on the roles of Thai financial intermediaries as a 'connector' bridging between global financial players and small local institutions.

2. This year, we are gathered during a time when the GMS is undergoing tremendous economic reforms. Member countries are transitioning towards higher degrees of openness and are integrating with the global economic mainstreams. The GMS economies have grown at some of the fastest rates in the world since the early 1990s, averaging close to 8%, despite the gloom of the recent global financial crisis. This transformation has contributed to economic convergence and narrowed the development divide within the region. The gap of income differences between the GMS and the rest of Asian countries in their neighbourhood has been reduced continuously.

3. With the promising economic potentials ahead of us, I would like to reemphasize our shared vision of "What we shall expect to see for the future of the Greater Mekong Subregion" and "How we can achieve such prosperity."

4. ***I picture the Greater Mekong Subregion (GMS) in the next twenty years as a much more connected and integrated region:*** a region where we are not only connected solely by a river, but by various modes of transportation, where one can travel conveniently, where trade and investment can flow across efficiently, and where prosperity can be widely enjoyed even by those in the rural areas. Although we are not yet there, I strongly believe that this vision can come true.

5. We always hear the saying "Rome was not built in a day". Thus, we have to start working together towards our shared vision starting today. There is a great deal of preparatory work to be done; but in my view, some of the most crucial tasks are infrastructure development and businesses access to funds. The first task is channelling intraregional funds to infrastructure projects, followed by the second task of promoting economic growth and equality within the region through enhancing financial markets and supporting private financing.

Ladies and Gentlemen,

6. ***Let me highlight key issues on the first preparatory work, which is financing infrastructure development.*** The ADB has already committed at least 9 billion US dollars<sup>1</sup> to fund its GMS development projects in the pipeline. Besides, it has also estimated that roughly 8 trillion US dollars<sup>2</sup> will be required to meet the infrastructure needs of Asia over the next decade. Although this amount is daunting, I believe that it can be fulfilled, given the current global capital surge and the fact that Asian savers put away around 7 trillion of US

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<sup>1</sup> 2012, ADB website (<http://www.adb.org/countries/gms/news-releases>)

<sup>2</sup> <http://www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf> pp.181

dollars<sup>3</sup> each year. Like directing the flow of flood to the right river so that it can become benefit for those living in the area, this overflowing capital can be harnessed to benefit needed long-term projects.

7. To meet the region's financing requirements, we should look into new means to attract funding.

**Firstly, by promoting private sector participation in infrastructure development through public-private partnership (PPP).** The PPP model can improve the efficiency of long-term projects by adopting the private sector's expertise and reducing the burden on government budget. Although the PPP model has long been discussed, the implementation of this model is still a trial-and-error practice. Regardless, I believe that through clear governance and suitable regulatory framework, PPPs could promote private sector's participation and bring in the untapped resources.

**Secondly, by customizing innovative financial instruments.** This calls for inter-agency collaborative efforts to introduce innovative financial instruments which link specific funding requirements and market preferences. To name a few, Thailand has recently launched its first infrastructure fund to finance its sky train extension. On an international scale, financial cooperation initiatives, such as the ASEAN Infrastructure Fund (AIF) would also complement domestic endeavors in channelling intraregional savings to needed projects.

8. **This leads me to the second of the preparatory work, which is improving supportive framework for private financing.** The Mekong river is made up of small tributaries flowing towards the same end to form a large fertile river. The benefits we receive from the confluence of these small tributaries as opposed to one waterway are incomparable. Likewise, strengthening domestic capital markets would help allocating available savings to the most productive use, thus, facilitating real sector's economic activities and supporting economic growth.

9. A deep and liquid financial market could reduce business over-reliance on bank financing channel. On the other hand, it could also serve as a less-expensive alternative source of funds for local entities.

**The initial stepping stone towards a well-developed financial market is to improve the cross-country interconnectedness of local financial markets.** Financial connectivity could be enhanced by linking capital and bond markets, creating regional exchange trading system, as well as developing a network of payment and settlement system.

**Another important step is to streamline rules and regulations to facilitate cross-border movement of capital.** Such a process can be achieved through promoting flows of capital among member countries via reducing regulatory obstacles to stimulate foreign participation and outward investment. Currently, Thailand allows non-residents of ASEAN to issue both foreign currency-denominated and local currency bonds. The derivative market also serves investors to hedge against financial risks. In addition, regional financial cooperation such as the Credit Guarantee and Investment Facility (CGIF) and the Asian Bond Markets Initiative (ABMI) could also help support the development of local bond markets.

10. **To sum up my remarks, the process of strengthening financial markets and enhancing their capacity to absorb large long-term development projects is a long-drawn process in which the commitment of public sector alone cannot guarantee success.** Of course, the public sector must fulfill its integral role in creating a supportive regulatory framework and in distributing public goods so that economic benefits can be enjoyed and shared by social participants through the whole range of the income spectrum.

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<sup>3</sup> Gross national savings in 2012 of 32 Asian countries is approximately 7.14 USD trillion (Countries used in calculation include China, Japan, South Korea, Singapore, Thailand, Indonesia, Malaysia and others) from IMF Source; WEO

However, ***private entities must collaborate with the public sector and step in to bridge current financing gaps and take part in the structural reform process.***

Ladies and gentlemen,

11. In light of our historical background, we, as part of the GMS community, have shared long-lasting prosperity throughout the Mekong River areas. Looking ahead, it will be our future that needs more commitments and a more united aspiration from each of us to move forward together as a cohesive region. ***The opportunities ahead are apparent, if we can transform each member countries' strengths into regional competitiveness, these opportunities can be multiplied.*** By taking this conference today as a platform to share our common vision, I believe this is the initial important step that shall lead our region towards its sustainable and inclusive potentials.

Thank you.