

Prasarn Trairatvorakul: Thai economy – tapping the untapped opportunity

Speech by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the inauguration of the RMB Clearing Bank in Thailand and 5th year celebration of the ICBC (Thai), Bangkok, 22 April 2015.

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1. Your Excellency Ambassador Ning Fukui, Chairman Jiang, Chairman Hu, Dr. Zhigang Li, distinguished guests, ladies and gentlemen, thank you for the invitation to give a few remarks on the occasion of the inauguration of ICBC (Thai) as the official Renminbi clearing bank here in Thailand.

2. ***This development of the RMB Clearing Bank in Thailand and certainly also to celebrate the 5th Anniversary of ICBC (Thai) is in fact the result of the long and continued ties between China and Thailand.*** It has marked another important step in further development of our financial ties following the signing of the Renminbi – Thai Baht Bilateral Swap Agreement and the Memorandum of Understanding with the People's Bank of China on the establishment of the Renminbi Clearing Arrangements in December 2014.

3. Today, I was invited to talk about Thai economy. So I am pleased to have the opportunity to share with you some of my observations on the current state of the Thai economy. ***Let me humbly start from some of the challenges we are facing***, the economy is currently reeling from both internal and external headwinds. Internally, the stagnant technology and labour readiness has so far taken a toll on Thailand's economic expansion. Also, the improvement of domestic consumption and investment are slow due to a cautious private sector's confidence. Externally, Thai economy is affected by the current uneven recovery of global economy which hinders Thai export growth. However, Thai economy is expected to recover up to 3.8% GDP growth this year from a mere 0.8% last year. Private consumption and the government expenditures will play key roles for 2015 outlook.

4. ***On the bright side, Thailand has been riding on the back of China's economic prosperity.*** In other words, the regional prospect has pinned on improvement in intra-regional trades of goods and services. China's economic figures may be somewhat lower than its historical average, as a result of the sluggish recovery of the global demand and the continued structural reform in China. However, China growth rate is still at a satisfactorily high level. And China has yet remained an important engine in support of the growth of the Thai export sector. ***For the past few years, Thailand has become one of the most popular destinations among Chinese tourists***, thanks to popularity of the 'Lost in Thailand' movie. Each week, hundreds of flights between Thailand and China have been landed to accommodate the increasing interest of Chinese visitors. ***We value this considerably as it not only helps boost the tourism and services sector of the Thai economy, but also tightens our cultural connections.***

5. ***As we all know, Chinese economy has become a necessary ingredient for our secret recipe for the past decade.*** Since China has been an important economic partner of Thailand and the region. To further strengthen these flows of trades and investments, close financial cooperation is the key. The Renminbi / Baht Bilateral Swap Agreement (or BSA in short) and the establishment of the Renminbi Clearing Bank ***here in Bangkok are the great examples.***

6. ***The BSA is designed to be a backstop liquidity facility, which will help boost confidence of the private sector in using the local currency in trade and investment settlement.*** After the first signing of the BSA in 2010, the use of the Chinese Renminbi in trade and investment settlement between Thailand and China has grown remarkably. The share of trade settlement in Renminbi quadruples between 2010 and 2014. As for investment

settlement, the share climbs up dramatically from a mere 1% in 2010 to 14% in 2014. In spite of the rapid increases, the volumes are still small compared to other major currencies.

7. The Renminbi Clearing bank is the next important step from the BSA. Its Renminbi settlement mechanism is the sequencing plan of the Renminbi scalability. I could see its merit which fundamentally paves the way for further Renminbi internationalization as well as the role of Renminbi in global financial markets that will become increasingly prominent in the near future.

8. There is, however, some room for improvement in order to realize the full economic benefits between Thailand and China. With this regard, we need to further promote financial cooperation and more trade and investment facility arrangements such as today's initiative.

Ladies and gentlemen,

9. I would like to emphasize that there are still untapped opportunities abound along the whole spectrum of exchanges and cooperation between Thailand and China. As to give you food for thought, the followings, are a few examples. **Firstly, regional supply chain network.** Our region has already been regarded as high quality and cost-effective production bases. However, there is still gap to be filled and opportunity to be grasped. Since many economies in the region are not well integrated into the regional production networks. According to the latest *World Bank's Trading Cross Borders* indicator which measures the time and cost of trading across borders, the newer member of ASEAN all score well below the ASEAN average. This is mainly due to the huge gaps in infrastructure.

10. Here, we can narrow the gap by mobilizing our region's abundant financial resources into infrastructure investment. In this regard, China plays a strategic role in the progression of infrastructure development in our region. **The improved infrastructure will allow regional economies at various stages of development to participate in regional production networks in line with their evolving comparative advantage.** Infrastructure investment is costly but it is worth the expense.

11. **Secondly, research and technical development.** Although China has emerged into the world centre stage in just recent decades, China is now a world class technology lab who owns the broad range of advanced technologies. These range from the "Maglev" train in Shanghai to the supercomputer "Tianhe-2" which is ranked as the world's fastest computing system in 2014. Thailand, on the other hand, is currently facing technology bottleneck which has taken a toll on Thailand's competitiveness and growth. According to the UNESCO, Thailand's combined public and private investment in research and development (R&D) is around 0.25 percent of GDP which falls behind China's 1.7 percent.

12. Arrays of China development plans are coincided with Thailand's research interest. According to China's Medium to Long-Term Plan for Development of Science and Technology (2006 – 2020), China's topics of strategic research include (1) agriculture science (2) green technology and (3) public health. These topics are in line with the agendas of Thailand's National Science, Technology and Innovation (STI) Master Plan. This provides opportunities for joint scientific works based on common interests and medium-term visions. **Thailand could leverage on China experiences and knowhow through technology transfer. In this light, Thailand could step ahead at the faster pace to achieve her goals.** This is yet another great complement to tap.

13. **Lastly, Thailand as gateway to ASEAN.** Thailand is strategically positioned at the heart of the ASEAN region with relatively well-developed infrastructure as reflected in the World Bank's latest Logistics Performance Index. Thailand has, therefore, been a natural gateway that links extra-regional economies to ASEAN markets. Thailand has advantages to be a hub for regional headquarters of multinational companies; a hub for logistics and distribution activities; a sourcing hub for regional markets; and a financial hub for regional markets. However, to remain competitive as a regional hub is a challenging task.

14. ***To remain as the preferred hub and entry point of the region***, we perceive an opportunity for investment from China which has the advantage in capital, construction capacity and technology. As the advantage of low cost factor of productions is rapidly declining, China is facing an urgent need to re-orient supply chains through Thailand to enter ASEAN and the Greater Mekong Subregion (GMS) in particular. China and Thailand should therefore make every effort to grasp this opportunity and construct win-win solutions for both sides.

Ladies and gentlemen,

15. Let me conclude that China economic prosperity and advancement provides wide range of untapped opportunities for Thailand. They are right here where we are now, in our region. We should seize it and not miss it. And I am confident that so long as we work hand in hand with China, unite together, and embrace the merit of economic integration, the synergy of the two will surely give its fruit on the growing tree.

Thank you.