

## **Veerathai Santiprabhob: Financial connectivity in CLMVT (Cambodia, Lao PDR, Myanmar, Vietnam, Thailand)**

Keynote address by Dr Veerathai Santiprabhob, Governor of the Bank of Thailand, at the CLMVT Forum 2016 “Towards a Shared Prosperity”, Bangkok, 17 June 2016.

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Your Excellencies,

Honorable Speakers, Distinguished Guests,

Ladies and Gentlemen,

A very good morning to you all,

It is my great pleasure to be here with you this morning. I would like to start by thanking the Thai Ministry of Commerce for inviting me to give a keynote address at this important forum. Let me take this opportunity to once again welcome all our guests, especially friends from CLMV countries, to Thailand. I am very delighted to have this opportunity to meet with many ministers, senior government officials, and business leaders participating in the first CLMVT forum. This forum provides a meaningful platform for all of us to share perspectives on how to sustainably enhance regional connectivity and unlock great potentials of our region.

***Over the past decade, economic integration in our region has strengthened impressively.*** Driven by international trade, direct investment and production networks, the share of intra-regional trade within the CLMVT to total trade volumes has nearly doubled. Amid a slowdown in global trade due to gradual and fragile recovery of major industrial economies and China’s economic transformation, cross-border trade and investment activities within the region continue to grow at a fast pace. For Thailand, the share of exports to CLMV countries to total exports volumes has risen steadily to be over 10 percent surpassing our exports to 27 euro-zone countries combined. This reaffirms the shared benefits from trade and investment connectivity. Owing largely to complementarities in various dimensions among CLMVT economies, the integration should continue to further strengthen in the future.

***Expanding trade and investment has been accompanied and supported by development of domestic service industries and enhanced connectivity in the service sector.*** A case in point is the burgeoning growth of the airline industry, both low cost and full service. Over the past few years, any frequent traveler would easily notice a marked increase in a number of flights within the region, particularly those operated by low-cost airlines. Prices have been much more affordable, attracting travelers who otherwise would not travel by planes. The development does not only benefit the airline industry itself, but also unlocks potentials of many other industries and serves the citizens of CLMVT. More seamless travel promotes the tourism industry, reduces logistic costs, and overcomes obstacles to transportation, thus allowing closer people-to-people connectivity and opening up opportunities for people to realize their fullest potentials.

***Ladies and Gentlemen,***

Improved airline service and connectivity might only be one aspect of enhanced regional connectivity. Nevertheless, it serves us well as a model to develop other domestic service industries and to promote regional connectivity in the service sector. ***The questions I would like to focus on today is what could we learn from the success of the airline industry? And, how will we make this happen in other areas of the service sector that have potentials to serve the region?***

***For the first question, the fast development of the airline industry can be mainly attributed to two factors: the right business model for our market and the enabling infrastructure and eco-system.***

***On the private sector's part, the low-cost airlines know the region's untapped market and come to serve the large unmet demand with the right business model.*** Needless to say, they offer customers with simple products, including no-frills service with a single cabin class. Their business model is successful at minimizing operating costs by using a single aircraft model and by choosing the most fuel efficient plane type to reduce fuel and maintenance costs. The airlines also revolutionized the ticketing system by first offering internet booking, paperless tickets and mobile check-ins for greater convenience and lower costs.

***Apart from the right entrepreneurial spirit of the private sector, policymakers are to be credited with the creation of the airline network in our region.*** There are at least five factors policymakers have contributed to the success of the regional airline industry.

- ***First*** is the introduction of the “open sky” policy which has opened up opportunities for new potential players, at a scale large enough to create a strong viable network of airlines providing regular services with more competitive prices.
- ***Second***, investment in necessary infrastructure has been undertaken, such as airport facilities, landing slots, and aeronautical radio networks to facilitate flight communication.
- ***Third***, rules and regulations, especially on cross-border of services, were more harmonized to support the airlines' operation. Visa requirements and custom procedures were also streamlined to accommodate travelers.
- ***Fourth***, authorities lifted up standards for pilots, crews, and airlines' staff, driving the airlines to actively promote their human resource development to be on par with international standards.
- ***Lastly***, the airlines have been encouraged to leverage on investments in specialized facilities in other countries in the region to lower costs, for instance, by using common aircraft maintenance centers and pilot training facilities.

This combination of the right business model and appropriate policy supports has yielded tangible benefits to the region. A stronger regional airline network brings in higher competition, lower costs and better service quality, thus improving people's livelihood and paving way for other types of businesses to benefit and grow.

### ***Ladies and Gentlemen,***

The bigger question is how to replicate the low-cost airlines' success story in other service industries in the region, where large rooms for improvement have yet to be addressed and a lot of potentials to be unlocked. Among others, the finance industry is one with many untapped opportunities. Currently, a wide group of people in our countries still needs a better access to finance and there are still lots of demand for financial services to be met – be they savings, loans, insurance products, or payment services for both domestic and cross-border transactions.

***By applying the airline industry' experiences for policymakers, let me lay out five key conditions necessary to developing domestic financial systems and nurturing financial connectivity in the CLMVT in the periods ahead.***

Analogous to the “Open Sky Policy”, ***the first factor is to promote domestic financial liberalization policy and a well-integrated regional financial system.*** The financial liberalization policy should aim to lessen the degree of domestic financial repression, thereby strengthening financial institutions' performance, and broadening their offer of financial

products and services. This can be done along with the policy to enhance financial connectivity by promoting the presence of capable players with regional focus.

Under our mandate, the Bank of Thailand aims to promote financial connectivity through more connected banking networks and more integrated payment systems. Under the ASEAN Banking Integration Framework, countries in the CLMVT should gear up efforts to strengthen regional banking networks, which will serve a diverse range of businesses and local people to gain more access to high quality banking services at fair prices. I am glad to see that several banks in our region have already spread their wings to establish representative offices, branches and subsidiaries in neighboring countries. Last month, the Thai financial system had an opportunity to welcome a new representative office of Kanbawza bank from Myanmar.

***The second factor is for our countries to make enough investment in necessary financial infrastructure.*** Having adequate infrastructure, including a backbone payment system, a digital network and a credit bureau, will provide a sound basis to develop domestic financial systems and facilitate closer financial connectivity. Technological innovation, notably Fintech, also allows us to bypass many phases of traditional financial sector development. It is therefore crucial that we build necessary infrastructure corresponding to the changing financial landscape.

In addition, as investment in these infrastructures, be it ATM pool or clearing and depository services, typically requires a large amount of investment costs and technical expertise, countries should cooperate to build shared infrastructures in order to minimize investment burdens. At present, under the National E-Payment Plan, Thailand is building the new retail electronic payment infrastructure, which can be used to promote payment systems connectivity for the AEC in general and for the CLMVT region in particular going forward.

Under the ASEAN Payment Roadmap, our shared vision is to promote secure and efficient electronic payment channels, which will significantly lower business costs, reduce payment uncertainty, pave ways for growing e-commerce and promote financial inclusion. In this light, the Bank of Thailand is keen to collaborate with our regional counterparts to promote payment systems connectivity within the region.

***The third foundation is the work towards standardized rules and regulations.*** Given our countries' diverse financial systems, the harmonization of rules and standards should be given a priority so as to strengthen financial interconnectedness on a sustained basis. In the same way that the airline industry harmonizes the regulation on cross-border supply of services, the finance industry should aim at employing internationally accepted principles on finance, which already exist, to help drive harmonization of rules and regulations.

Take the payment systems for instance. Currently, different legacy systems among our countries mean that we are not able to "talk" with each other as seamlessly as we wish. Adhering to the same standards, such as the one on financial messaging schemes, can help overcome this challenge. At this stage, the work to achieve harmonization on diverse aspects of banking businesses is underway, and if completed, will make financial transactions within the region much easier.

***The fourth factor is human capital development.*** Financial professionals both working in the finance industry and regulators must be well equipped with a set of skills required to serve people of the region. The fast pace of technological and financial innovation indeed urges us to upgrade our capabilities in order to understand more complex financial activities and to cope with growing risks including those related to cyber security. At the same time, the long-standing challenges to promote access to basic financial services and improve financial literacy of the people at large remain our priorities. For this reason, we need to redouble our efforts to enhance our banking, finance and technological know-how. We also need to make sure that a wealth of knowledge and experiences is effectively shared among members of the CLMVT.

***The last one is to leverage on specialized financial services that some of our members are ready to offer.*** For Thailand, progress has been made to create financial ecosystem to meet growing regional demand for specialized financial services. In the capital market, Thailand allows entities from CLMV countries to raise funds from the Thai capital market with the introduction of more accommodative rules on capital account and taxation. Since 2013, the Lao government and firms from Lao PDR have issued baht-denominated bonds, worth 28 billion baht in total, to support large-scale infrastructure projects. In addition, the Bank of Thailand supports multinational corporations operating in the region to establish regional treasury centers in Thailand. As of now, there are 13 companies holding Treasury Center licenses, of which 4 have been granted in the past 3 months.

***Ladies and Gentlemen,***

***The work to develop domestic financial sectors and strengthen financial connectivity will always be a work in progress. The Bank of Thailand is committed to working with our counterparts in CLMV countries to develop the financial industry and enhance regional financial integration.*** Much progress has been accomplished, but there remain many more things that we can and should do to further promote more connected financial system. As we have done in the past decade, the Bank of Thailand will stand ready to work with our CLMV partners in various ways from development of human capital and regulatory frameworks to infrastructure building.

If we can build strong domestic financial systems and regional financial connectivity, we will be able to reduce costs and create positive spillovers to several other industries. Livelihoods of our people will improve. Workers and investors can more easily and cheaply remit funds across countries. Merchants will find it easier to trade cross-border. The tourism sector will gain even more momentum. SMEs will be able to utilize e-commerce and e-payment in selling their products regionally and globally. Financing of infrastructure projects can also be supported by long-term financial products with proper risk management features. Furthermore, financial inclusion and financial literacy will equip households and small businesses with the needed resilience to go through the increasingly volatile world.

***Ladies and Gentlemen,***

Just ten years ago, the low-cost airlines were still at their infancy. The airlines were not household brands, and it would be difficult for most of us to imagine how fast they would grow only in one decade, not to mention the positive impacts they would create to other industries and the wider public. The success of the airline industry, in turn, urges us to take action to tap the untapped opportunities of several other service industries abound in our promising region. ***While it is natural to give emphasis to trade and investment connectivity, we must not forget the great potentials that the service sector have to offer to our region, especially financial services' role to support trade and investment.***

***Developing domestic financial sectors and enhancing financial connectivity are vital as sound infrastructure and conducive financial eco-system will enable us to ride on the growth potential while ensuring macro-financial stability.***

Building regional connectivity is like planting a tree. In the very same way that a root network helps the tree grow strong and branch out, financial connectivity is a necessary foundation which nurtures all aspects of regional economic integration – be it trade, investment or tourism. Without a strong root system, it will certainly be difficult for our tree to withstand economic storms in the increasingly volatile world. Like the planters who grow the tree with continued and delicate care, our concerted efforts from both public and private sectors are required to strengthen regional financial connectivity for the better livelihood of our people.

Kob Khun Krub.