

Prasarn Trairatvorakul: The ASEAN Economic Community's impact on the Greater Mekong Subregion's economies

Keynote address by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the Euromoney Conference "The Greater Mekong Investment Forum", Bangkok, 12 June 2014.

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Excellencies, Honorable Speakers,

Distinguished Guests, Ladies and Gentlemen,

1. It is an honor for me to be back here at the Euromoney Greater Mekong Subregion Investment Forum. Let me thank the organizers for inviting me to speak at such a distinguished forum once again. This conference takes place at an important juncture as we are on the eve of the ASEAN Economic Community which will be launched at the end of next year. ***My remarks today will focus on how the AEC will have meaningful impacts on the GMS economies. Also, I will share with you some thoughts on how we can overcome challenges to capitalize on the region's growth and prosperity.***

2. ***The GMS has become one of the most vibrant regions in the world, transforming itself into a new investment frontier.*** The global attention on this region is reflected in the large inflows of foreign direct investment, which have increased dramatically in the past two decades. According to World Bank statistics, the FDI inflows to the CLMV countries over this period increased forty-fold to around 13 billion dollars in 2012.¹ This wealth of investment opportunity has been underpinned by the smooth transition to market-based economies, the rich and diverse resources as well as the improvement of intra-regional logistics.

3. ***Most importantly, we are in an exciting time for the GMS when the AEC draws closer.*** As most GMS countries are members of the AEC, the GMS will significantly benefit from the growth opportunities of the AEC in the coming years.

4. With integrated markets being forged under the AEC, this will greatly benefit the GMS through a more interconnected production base. Let me give you three key examples where I see this will materialize:

5. ***First, on the tariff reductions.*** Much has already been completed here, with the group of ASEAN-6 countries,² including Thailand, having already removed tariffs for almost all of our products since 2010. The plan according to the AEC Blueprint, will see CLMV countries' tariffs being removed by 2015. The benefits will of course multiply throughout production and distribution chains of the region. The increase in trade and related investments will naturally spill over to peripheral areas such as southern China, which has strong trade ties with the region as part of the GMS.

6. ***Second, on trade logistics facilitation.*** This is another crucial element to complement tariff reductions to reduce costs and time in order to facilitate cross-border trade. One of the key initiatives under this area is the "ASEAN Single Window", which will streamline customs procedures and expedite cargo clearance. Owing to this, cross-border traders can save both costs and time for customs clearance region-wide.

7. ***Third, on payment systems linkages.*** What ASEAN central banks are aiming for is to enable businesses and individuals to make and receive electronic payments more conveniently yet less costly. A prominent example here is the "Asian Payment Network" which translates to full regional ATM interoperability. Through this initiative, an ASEAN

¹ World Bank website (2014) (<http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>)

² ASEAN-6 includes Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand.

resident, for instance, can use his or her local ATM card to withdraw cash from a machine in another ASEAN country without having to pay the fees charged by third-party payment providers.

8. We can see that the upcoming realization of the AEC is a springboard for a more vibrant GMS region. However, the benefits for the region go beyond the AEC. I can see some points where tangible outcomes will take place in the near future.

9. **The first one is the more integrated production networks of the main industries which dominate the GMS.** We all know that the region has a comparative advantage in primary industries which are demanded by other ASEAN countries. This is why we have observed the large inflows of investment into agro-industry, garment and mining sectors. Realizing the high potentials of these sectors, we have also seen contract farming practices in Laos, where key commodities such as corn and sugarcane are produced using advanced technology and practices.

10. **The other point concerns the development of infrastructure. This is particularly important given the lack of well-developed road and rail networks of the region.** Countries in the GMS are addressing this through various projects, the main one being the road corridors. The North-South Corridor which connects Yunnan in China, with Myanmar, Laos and Thailand has been completed. Also, the East-West Corridor which links Vietnam, Laos, Thailand and Myanmar is near completion. This will make the whole region more closely interconnected, hence investments in any of the GMS country stand to benefit the rest.

11. The final point is on the demand side. **The GMS will enjoy a larger consumer market base with distinct needs and increased purchasing power.** The AEC is home to over 600 million people. In tandem with this is the significant rise of the middle class population. The Asian Development Bank estimates that the share of ASEAN's middle class is expected to increase to 65% by 2030.³ Moreover, ASEAN continues to pursue closer integration into the global economy through various Free Trade Agreements. This includes China and India, both superpowers at the crossroads of the GMS. Therefore, the AEC will also be an important gateway, connecting the GMS to major markets of the Asia-Pacific region.

12. **The bright future is ours for the making.** The GMS economies are blessed with abundant resources and promising growth prospects. With the realization of the AEC, the region's opportunities will be multiplied. Yet there remain important challenges. The bright future is ours **only** if we work to overcome the challenges together. I will list two important challenges: First is how we can share our resources and expertise to capitalize on the region's growth. Second is how we can match regional demand with regional supply of savings and investment for the much-needed infrastructure development.

13. **On the first challenge.** Our resources will be better utilized if we regard our neighbors not as competitors but rather as partners in the regional production network. **Here, we need to explore new opportunities to create industry clusters in the region by taking on our diverse comparative advantages and specialization.** An existing example here is the cluster of industries relating to the garment industry, where one GMS country imports textile yarn from another country, manufactures it into apparels and then exports it to countries outside the region.

14. **The second challenge concerns infrastructure financing.** The projects that I mentioned earlier cannot be efficiently realized without proper funding mechanisms. What we need is to match the huge amounts of regional savings with the much-needed investment in infrastructure, which is as high as 8 trillion dollars over the next decade as estimated by the

³ ADB website (2012) (<http://www.adb.org/features/fast-facts-asean-prc-and-india-great-transformation>)

ADB.⁴ To match this huge demand for funds, ASEAN along with China, Japan and Korea have put in place several initiatives: two key projects include the ASEAN Infrastructure Fund, which pools regional saving into funds for investment in infrastructure projects and the Asian Bond Markets Initiative, which develops and deepens regional bond markets so as to tap regional savings.

15. ***To conclude, there are great opportunities in store ahead.*** At the end of the day, the benefits of trade liberalization and infrastructure development will extend to all of us if we work collectively to overcome the challenges. The AEC will be a springboard to benefit the whole region, particularly for the GMS. This is because the whole region will be more closely knitted, not only in terms of physical connectivity but also in terms of shared production networks. I believe that this conference today will be an excellent platform for us to come together and share our ideas towards realizing long-lasting prosperity in the GMS region.

Thank you.

⁴ ADB website (2009) (<http://www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf>)