

Prasarn Trairatvorakul: Unleash prosperity through regional connectivity

Address by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the “AEC+3 Summit and Expo”, jointly sponsored by Kasikornbank, the International Trade Promotion Department, the Board of Investment and The Economist magazine, Bangkok, 2 November 2014.

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Chairman Banthoon,

Distinguished Guests,

Ladies and Gentlemen,

1. First of all, I would like to thank Kasikornbank for inviting me to speak here at the AEC+3 Summit. This event comes at an opportune time in light of the excitement surrounding the ASEAN Economic Community.
2. As single entities, the countries of ASEAN are characterized by their diverse size and development. As a unified bloc, however, the picture changes dramatically: ASEAN is the world’s third in terms of population and the world’s fifth in terms of trade and investment flows. Being the world’s most diverse economic region is also a key strength which has hurled ASEAN into an important player in the global supply chain.
3. Much has been achieved already, yet much more is still within our reaches. But to reach our potentials, we need to enhance on connectivity, not only within ASEAN but also with our Plus Three partner countries. It is on this theme of connectivity that I will focus this evening: I will first provide a snapshot of what has been achieved under ASEAN financial connectivity. I will then use this as a platform to link with the Plus Three partners and will conclude with ways to unleash mutual prosperity from these connectivity initiatives.

Key areas in ASEAN financial connectivity

Ladies and Gentlemen,

4. Integration under the AEC, be it in trade or investment flows, has naturally called for a robust financial integration framework to support such flows. We central bankers in ASEAN have begun working on our **ASEAN Financial Integration Framework** since 2011, which aims to create a semi-integrated financial market by 2020. Work on this initiative is driven by various areas that currently define ASEAN financial connectivity. Let me highlight two prominent ones:
5. The **first** is our work on banking integration through the establishment of “**Qualified ASEAN Banks” or QABs**. While there are ASEAN banks currently operating in other ASEAN countries, this has been the result of unilateral liberalization. The increasing trade and investment flows in the region call for a more transparent and open system. Our ASEAN banking integration will have a multilateral framework as a broad basis. This will underpin bilateral agreements between home and host countries as to which banks will become QABs. We have had a long discussion among central banks of all ten countries on this framework, and I am glad to inform you that the framework of the QAB is being finalized and bilateral discussions should start once this is done.
6. The **second** one is on the **linking of ASEAN capital markets**: We have linked up stock markets of Bangkok, Kuala Lumpur and Singapore since 2012, and more exchanges are joining up. Right now, an investor in Bangkok can buy shares in

listed companies in these two bourses and vice versa. While a front-office platform has been established, we still need to integrate their back offices to create seamless trading, clearing, custody and settlement of shares. We are currently developing this framework under the “ASEAN Capital Market Infrastructure Blueprint”, which has already received approval from our Finance Ministers earlier this year.

ASEAN as a platform to ASEAN+3 connectivity

Ladies and Gentlemen,

7. ASEAN does not see itself as an exclusive club but rather as a platform to increase ties with our Plus Three partners in the region: China, Japan and Korea, which also represent important global economic powerhouses. Let me now draw attention to two key developments in this front.
8. **First** is the development under the ASEAN+3’s **Asian Bond Market Initiative or ABMI**. Recently, the ABMI has created a Credit Guarantee and Investment Facility or CGIF which has supported the issuance of corporate bonds in ASEAN+3 by providing credit enhancement to allow eligible issuers to access local currency bond markets. Since its inception in 2010, the CGIF has guaranteed bond issuances including a recent one that allowed a Singapore-listed and Hong Kong- based firm to issue Thai baht bonds in the Thai market.
9. Work under ABMI has also focused on establishing the **Asian Bond Online** to provide comprehensive information on sovereign and corporate bonds to both regional and international investors.
10. **Second**, is on infrastructure financing: We have recently created the **ASEAN Infrastructure Fund** or AIF with an initial endowment of almost half a billion dollars and will be issuing bonds to finance its operations. It has already begun lending with a \$ 25 million loan to finance power links in Indonesia last year and is expected to carry out about six projects each year throughout 2015 totaling \$ 1 billion.
11. The AIF should be complementary to the **Asian Infrastructure Investment Bank**. With initial groundwork laid in Beijing two weeks ago, it aims to give project loans for infrastructure development. Thailand and 20 other countries in the region are founding members of this bank, which will have an initial capital of \$ 100 billion. Once it begins operations in 2015, we hope to see a new wave of infrastructure financing that will enhance connectivity in the whole region.

How can we unleash prosperity from regional connectivity?

Ladies and Gentlemen,

12. What I have just highlighted are some examples of region-wide initiatives by ASEAN governments and central banks along with those of the Plus Three to spur connectivity. Opportunities are already in store for ASEAN as the world’s seventh largest economy. Combined with the Plus Three countries will turn the whole region to be the world’s largest economy and market. However, trade flows among the 13 countries, only amount to 10% of global trade, hence there’s much room for further growth especially as our countries are increasingly inter-connected.
13. We from the public sector have **created financial highways** to link up our vibrant economies and have found **ways to finance physical roads and highways**. To recapitulate my message:
 - **Financial integration** within ASEAN is targeted to support the large markets of goods, services and financial products in the region. Financing economic activities of ASEAN needs not only strong but also interlinked banks and

financial institutions. Financing opportunities grow significantly when expanding these linkages to the Plus Three countries. Firms can tap on to various modes of financing in equities and bond markets to expand their businesses to match the growing trade and investment flows.

- The other area is on **infrastructure development**: While the barriers of tariffs have fallen, trade among us cannot flourish if we are constantly facing infrastructural bottlenecks. The ADB has estimated that Asia has a demand for infrastructure to the tune of \$ 8 trillion over ten years. This is where the Asian Infrastructure Fund and the Asian Infrastructure Investment Bank come into play to address these bottlenecks and open up vast potentials for development and trade beyond the AEC to Plus Three. Through this, a new regional logistics-based sector is about to take shape.

14. But, in the end, **our region's economic dynamism is essentially driven by the private sector**, and this is why the key to unleashing mutual prosperity is in your hands.

15. Whether you are a banker, an investor, or an entrepreneur, it is you who will be using these financial and infrastructure linkages. I would therefore urge you all to tap onto this tremendous opportunity that is arising by, for example,

- Venturing abroad to invest in new markets in ASEAN;
- Expanding your businesses through our linked capital markets; and
- Taking part in the new regional logistics based sector.

Ladies and gentlemen,

16. I am very pleased to learn that tomorrow you as representatives of 36 banks from ASEAN+3 countries will be signing the "Bangkok Declaration" to bolster your mutual cooperation. This demonstrates that the private sector has already taken the cue from us in the public sector to tap on opportunities in the region. I congratulate you all in advance and hope that other industries would follow suit.

Thank you very much for your attention.