

Prasarn Trairatvorakul: Economic transformation for sustainable economic growth in the Greater Mekong Subregion

Speech by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the Euromoney Greater Mekong Subregion Investment Forum, Bangkok, 28 May 2015.

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Excellencies, Honorable speakers

Distinguished guests; Ladies and Gentlemen

1. It has always been a great pleasure to be part of the Euromoney Greater Mekong Subregion Investment Forum. Let me first thank the organizers for inviting me to share with you my views and vision on the prospects of GMS during the last three consecutive events. Today, it is my last remark as the Bank of Thailand governor at this forum to highlight the way forward of our region, and today's topic on "Economic Transformation for Sustainable Economic Growth in the Greater Mekong Subregion" seems to fit the current context and timing quite well.
2. My first talk here three years ago was on the Greater Mekong Subregion as the "rising star" of Asia. For its rich endowments and strategic locations, the GMS is now well recognized as a new gem that shines through the South East Asian economic frontiers. ***Over the past decades, I have witnessed the beautiful glory of the GMS. With its impressive economic growth and good prospect for trade and investment opportunities, the GMS has gained much interest from both regional and global investors.***
3. According to the ADB, the foreign direct investment inflow to the GMS has increased steadily at the annual average of 8–9 percent. While the nominal GDP has climbed up at a faster pace around 12 percent per annum despite the slowdown in global economies.
4. The fruits of our labors from past continuous development of the GMS have grown gracefully. The result of a more opened and transformed economy has led to a more interconnection that allows the GMS countries to realize what used to be the far-reaching prosperities. Our people can now commute across GMS's countries on the road network of over nine hundred thousand kilometers, 22 times of the equator's length.
5. However, it has been quite often said ***"what get you here won't get you there"***. Despite a bright future for the GMS, there are still clouds on the horizon. To weather through existing and imminent challenges from external turbulences as well as domestic structural bottlenecks, the GMS cannot stand still, but should keep upgrading itself in order to continue to make progress on its economic transformation and achieve sustainable growth in the long term.
6. At this juncture, let me first walk you through ***"the three critical elements"*** that I deem essential in laying a strong foundation for the GMS on their journey of transformation.
7. ***First***, we may already be aware that while regional integration brings about promising growth, it also entails greater external vulnerability which could dilute the effectiveness of the individual country's economic toolsets. ***As a result, transformation of macroeconomic framework*** has been a key to enhance the effectiveness of market mechanism and pave ways for the economies towards the desirable directions. Moreover, robust macroeconomic policy management, including well-tailored monetary and fiscal policy mix, concrete tax policies, transparent business laws and governances, would shore up public confidence and create

investment-friendly environment. Apart from that, it would also allow the country to better sustain its economic growth in the longer term despite the global headwinds.

8. ***The second element is an economic and social transformation to address inequality of income distribution***, which is considered a major cause of “development fatigues” in many emerging countries. In many cases, countries’ statistics reveal high concentration of wealth in import – export sector as well as in FDI enterprises. It is important to note that such distributional bias, if not taken seriously, could hinder economic growth potential. To promote better distribution of wealth, both public and private sectors will have pivotal roles. While tax and subsidy policies should be tailored, given country specific structure, to efficiently allocate fair share of wealth, supply-side and financial policy should also ensure equal spreading of economic opportunities in tandem with easily accessible financial system. In this context, financial institutions’ effort to provide a more efficient and easily accessible financial service is a necessary condition to ensure that the benefits of regional affluence will be shared equitably.
9. ***On the third elements***, rapid pace of globalization and change in global trade pattern have raised challenges to our economies and thus, shed lights on the necessity to improve the ***efficiency of regional production processes***. Thus far, many industries in the GMS have stepped up their efforts to move up the value chains of production as well as integrate into regional supply clusters to better utilize the abundant resources. Nowadays, the GMS has shifted its focus from primary products to intermediate and final goods through the employment of advanced technology and high-skilled labour. This allows the GMS to continually expand the production capacity and speed up innovations that would foster the long-term regional economic growth going forward.

Ladies and Gentlemen:

10. This journey of transformation is not a bed of roses and it could take some times to bear fruits. Yet, there are opportunities to be seized in pursuit of long-term sustainable development. With promising prospects await, what I expect to see in a very fast-approaching future is the interplay between different facets of development to strengthen the health of the economy and keep it well in balance. These recipes may sound familiar, if not already overheard. ***The key enablers that I view important to warrant the GMS’s smooth transformation towards strong growth foundation mentioned above include (1) infrastructure (2) in-house technological advancement and (3) sound financial system.***
11. ***Firstly***, in order to unlock the long-run potential growth, ***well-established infrastructure will be one of the crucial pillars that will sow a seed of a healthy investment climate conducive for growth.*** Such that, infrastructure upgrade requires time, yet necessary. Investment in logistic areas including increasing road density, better railway system, modernized airports and seaports will all lead to the enhancement of both production and distribution processes whereby strengthening connectivity among members. Preeminently, concrete long-term plans on infrastructure projects are vital in order to attract large pool of regional savings to meet investment needs. A set-up of Asian Infrastructure Investment Bank or AIIB comes at a right juncture to raise potential for infrastructure financing for the whole region. Also, governments’ clear focus on infrastructure upgrading will facilitate the growing cross-border trading activities. I am glad to see the continued cooperation between Thailand and other GMS members in linking our rail networks and roads in order to foster trade and investment interconnectedness among us.
12. ***Secondly***, despite physical infrastructures in place, lack of innovative ideas to leverage on existing knowledge and technology could undermine the potential of the region. With this bottleneck, the economies may face limitation in sustaining their competitive advantage, which currently rely heavily on the exploitation of natural

endowments and support from the government. In this regard, private sector's improvement in technology and innovations, in tandem with other infrastructure development, can become a tailwind to support the GMS to overcome technology stagnation and provide a competitive edge to the private sector. This should also enhance the intra- regional trade and investment capabilities.

13. ***Last but not least, financial system can act as a blood-vein that nurtures the economy.*** We might not realize the necessity of having a healthy blood- vein system in our body. But if there is a blockage, one could experience a detrimental malfunction of the brain, and stroke may occur. The same applies to our economy; ***efficient and accessible financial system will ensure smooth and solid transformation of the economy.*** At this juncture, financial institutions are a key in keeping the efficacy and health of the financial system in check. On one hand, financial prudence through enhanced risk supervision and management will provide a strong backdrop for improvement in financial system. On the other hand, the favorable financial system should also be underpinned by financial inclusion, which is analogous to having the blood-vein reaches all organs in our bodies. As I previously pointed out, increasing access to financial services will bolster economic dynamism where vast financial opportunities can be better tapped by private sectors.

Ladies and gentlemen,

14. To end my remarks today, allow me to reiterate that these key enablers will be necessary to support the areas of transformation for the GMS. And on the prospect of the GMS going forward, I would like to leave you with the vision of Mr. Lee Kuan Yew who viewed Singapore as computer hard drive, and the foreign talents being the megabytes of storage capacity added to the computer. The computer will thus never hang given its enormous storage capacity. Likewise, the increasing interconnection among the GMS countries can help expand production potential and economic opportunities by utilizing each other's spare capacity. I am therefore convinced that the conference today will also help generate more megabytes to our storage, which would help smooth our journey of transformation towards the sustainable growth of the region.

Thank you.