

Euromoney Conferences: The Greater Mekong Investment Forum

“Confidence in Connectivity of the GMS”

Speech by Dr. Veerathai Santiprabhob, Governor of the Bank of Thailand

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Excellencies, Distinguished Speakers,

Ladies and Gentlemen.

A very good morning to you all.

Let me first thank Mr. Tony Shale, the CEO of Euromoney Asia, for organizing this conference and inviting me to join you once again this year. It is always a great pleasure to speak at the GMS Investment Forum. Let me also extend a warm welcome to those of you who travelled from abroad.

Ladies and gentlemen,

Established way back in 1992, the GMS marks a quarter of a century milestone this year. To me, the GMS today is like a promising 25-year-old graduate from a prestigious university, full of energy and potential, on her way to making a mark in her career.

The GMS is a dynamic region, linked by the richness of the great Mekong river, with abundant endowments and opportunities awaiting to be further explored.

Last year, I expressed my confidence in the future of the GMS, as a result of synergy and connectivity that had been harnessed over the years. Today, I would like to once again reiterate the importance of regional connectivity, as prospects for trade and investment opportunities in the GMS have improved with a more positive global economic outlook.

I have three key messages on GMS connectivity to share with you today and would like to invite you to be a part of this exciting journey:

Let's think of the young vibrant graduate I mentioned, there is so much potential and opportunity she can explore. She can broaden her skills and horizon as she gains experience and professional networks over time. She will unavoidably face some challenges along the way. But with support from her peers, together with technological advancement, she will be able to stay on course for success. This is similar for our vibrant GMS.

First: The GMS is a region full of opportunities. This is owing to its geography, complementarity and connectivity among its members and with other regions;

Second: GMS's endowments and opportunities can be expanded through enhancing financial connectivity, technology and innovation; and

Third: Despite many challenges, policymakers and their private-sector partners can make a difference to the GMS region.

1. Why do I say that the GMS is a region of opportunities?

Over the past 25 years, integration within the GMS has deepened, integrating a diverse group of members through physical, trade, investment as well as people-to-people connectivity. Even more remarkable is the recent growth momentum of the GMS. Since 1992, the PPP-adjusted GDP of the GMS has expanded almost seven-fold from \$455 billion to around \$3 trillion, making it, in aggregate, the eighth largest economy in the world, or the size of the British economy.¹ Intra-regional trade also increased 90-fold since its inception.² Intra-regional investment growth has also been impressive. More specifically, last year, the GMS agreed to further prioritize over 100 infrastructure investments and technical assistance projects worth over \$32 billion for the next 3 years, including the Laem Chabang-Bangkok-Dawei corridor in Myanmar and Thailand, and the Vientiane-Boten railway project in Laos.³ These remarkable developments are the results of continued efforts, both from within and outside the region, on strengthening physical, trade, and investment connectivity.

While GMS's growth prospects are promising, the strength of the GMS will depend on its ability to remain competitive. Despite the GMS's young population, growing middle class, increased urbanization, and rich natural resources, we cannot only rest on our endowments and past achievements. Rather, we have to find new ways to unlock the potential of the GMS. While physical infrastructure connectivity has seen much progress, I believe that financial integration is needed to complement infrastructure, trade, and investment connectivity. This leads me to my second topic.

2. How can we harness these opportunities through greater financial connectivity?

Let me introduce three potential benefits of financial connectivity: (1) lower costs, (2) broader coverage, and (3) modern choices.

On Costs: Costs of cross-border financial transactions are still relatively high in the GMS. This is especially true for low value transactions and cross-border remittances, where fees can be as high as 13% of the value of funds transferred.⁴ These high costs impede not only remittances but also bilateral trade and investment. We therefore need to work on solutions that will promote competition and innovations, making these services more affordable.

While a complete solution for cross-border transfers is yet to emerge, significant progress has been made with respect to payment solutions within each GMS country.

In Vietnam, OnePay allows customers to make financial transactions on e-commerce websites, as well as deposit funds into their bank accounts without visiting a physical bank branch. Wing in Cambodia, BCEL in Laos and Wave Money in Myanmar all provide instant money payments and transfers through mobile phones to recipients who do not have bank accounts. In Thailand, PromptPay is a modern, faster payment system that provides free transfer services for transactions up to 5,000 baht (or about 150 US dollars), one of the cheapest rates in the world. PromptPay allows individuals and businesses to transfer money between banks and e-wallets using their mobile phone or citizen ID numbers. The Thai government also uses PromptPay to deliver electronic welfare payments to individuals, with a

¹ ADB and World Bank statistics, 2015

² ADB, 2015: from \$5 billion in 1992 to \$444 billion in 2015

³ Greater Mekong Subregion Regional Investment Framework Implementation Plan 2020, 2016

⁴ World Bank Remittance Prices, 2017

view to minimizing costs, risks of fraud as well as financial leakage. Given PromptPay's open architecture, we hope that the system will soon be integrated into the daily lives of the Thai public.

Up to now, these payment platforms are mostly used for domestic transactions. What we need is to connect these platforms to facilitate larger cross-border financial activities in the GMS. Having an efficient cross-border payment platform in the GMS will yield tremendous benefits for economic activities in the region, especially for border trade. I believe that it will not take long before solutions for cross-border payments become widespread. As of now, a partnership between a Thai telecommunication company and Myanmar businesses offers a cross-border remittance solution that allows sending money directly to recipients, including those in rural areas of Myanmar. In Thailand, cooperation between a Thai bank and a Chinese FinTech firm will soon launch a low-cost baht-yuan cross-currency remittance platform based on blockchain technology. These initiatives are promising projects that will lower costs of financial transaction, and enhance closer financial connectivity and economic integration in the GMS region.

On coverage of financial services: At present, financial services in the GMS are mainly provided by local players. The increasing cross-border trade and investment call for broadening cross-border players. As a result, the Bank of Thailand, together with other central banks in the region are working towards establishing a cross-border banking network through the so-called **Qualified ASEAN Bank or QAB** framework, which will facilitate qualified banks in ASEAN to increase their presence in another country. The expansion of banking presence through this framework will help increase coverage and service efficiency that are needed for economic integration. The Bank of Thailand is in the process of negotiating bilateral QAB frameworks with Myanmar, Indonesia, Malaysia and the Philippines.

Turning to the capital market, Thailand is also playing a proactive role to connect capital markets in the GMS by allowing foreign entities – government and private – to raise funds in Thailand. Last year, the Lao PDR launched 11-billion-baht issue (or about \$300 million) of baht-denominated bonds, which were well-received by the investors. In addition, Thailand has allowed firms from the GMS to be listed on the Thai Stock Exchange with a view to providing global investors with a wider coverage of investment products. Therefore, this will offer firms from the GMS with wider coverage of fund raising.

On the choice of financial services: In June 2014, the World Bank's Global Findex estimates that over three-quarters of adults in CLMV countries still do not have access to financial services⁵. There is room for improvement and we are fortunate to live in an era where technological advancement can do wonders to mankind. Financial service providers, both old and new, can capitalize on modern technology to provide new – and perhaps once unimaginable – products and services. These technologies will allow business to by-pass the traditional stages of financial market developments, especially those that are paper-based or those that rely on brick-and-mortar infrastructure.

Let me cite a few examples which I find very encouraging. In Thailand, an offshoot of the TMB Bank, called ME by TMB, is a bank that does not rely on physical

⁵ World Bank Global Findex 2014, measured by numbers of those not having bank accounts

branches. Vietnam has a similar model called Timo Bank. Businesses are conducted online, making full use of digital payment technology. These banks pass on reduced costs to consumers in the form of better offers, such as higher deposit interest rates or better services.

As technology provides more choices, there is room to provide more alternatives by easing some of our regulations. Take, for example, **local currency usage** for trade settlement and direct investment in our subregion. The Bank of Thailand is currently working with central banks in the region to relax regulations on the use of local currency for cross-border trade and investment. Amid volatile global financial markets, this will offer businesses more options in choosing currencies for trade settlements. Exporters and importers are able to reduce their foreign exchange conversion costs and better manage foreign exchange risks by using their local currency for settlement. The local currency framework that Thailand concluded with Malaysia has been operational since 2016. We are now discussing a similar framework with Indonesia, which will be implemented by the end of this year. We also have a bilateral swap agreement in local currencies with China to facilitate the use of renminbi and Thai baht bilateral trade and investment. We hope that similar frameworks can soon be expanded to other GMS countries.

Ladies and Gentlemen,

3. Let me now turn to my third message – the challenges and the role of policymakers to support businesses.

While the GMS was first initiated by policymakers, it is now driven mostly by businesses. In order to further support business development, policymakers need to set proper incentives, governance structures and regulatory frameworks to foster closer market linkage. I see two ways we can address this.

First, each individual country must ensure that its rules and regulations are sufficiently flexible to support innovative regional connectivity and technologies. To provide regulatory flexibility and to support FinTech in Thailand, we have allowed innovative FinTech products to be offered and pre-tested under the so-called “regulatory sandbox”, which is designed to be a safe space where businesses can test innovative products, services business models and delivery mechanisms. This arrangement will make it easier for firms to test their products, and for regulators to develop necessary regulatory requirements before these products are launched to the public.

Second, in light of the diverse financial systems in the GMS, domestic regulations and policies need to converge to create a more integrated market. Take the payment systems, for instance. Currently, different systems among our countries mean that payment connectivity is not seamless. In other words, “PromptPay” does not speak “Wave” and “Wave” does not speak “Wings”. Adhering to harmonized standards and ensuring that each system is more able to link within an interoperable environment can help overcome this challenge. As a result, I encourage GMS policymakers to cooperate on diverse aspects of banking businesses. At the end of the day, this will make financial transactions within the subregion much easier.

Ladies and gentlemen,

In the current VUCA world, with rapid technological changes, we, as policymakers or central bankers, would need to adapt ourselves and ensure smooth transition into this new business-driven paradigm. We therefore welcome those who want to seize these opportunities in the GMS.

A solid platform of road, ports, power grids, and tourism infrastructures already exist in the GMS. Going forward, it is time to envision the GMS that is integrated in other dimensions too, particularly finance. This is why I view that financial connectivity is an important element in the next chapter of the GMS.

As I mentioned, I see the GMS as a fresh graduate. At 25 years old, a great future is awaiting. Let us walk with her, help her unlock her potential, and lend her necessary supports to ensure her success and prosperity.

I thank Euromoney once again for organizing this conference. I wish you productive and engaging sessions today. Thank you.