

Opening Ceremony of Asian Financial Cooperation Association (AFCA)
Keynote Speech by Dr. Veerathai Santiprabhob, Governor of the Bank of Thailand
Beijing, July 24, 2017

Vice President Mr. Ma Kai, Vice Premier of China

Mr. Guo Shuqing, Chairman of the China Banking Regulatory Commission (CBRC)

Mr. Chen Yuan, Vice Chairman of the Chinese People's Political Consultative Conference

Mr. Jin Liqun, President of the Asian Infrastructure Investment Bank (AIIB)

Mr. Norman Chan, Chief Executive of the Hong Kong Monetary Authority (HKMA)

Mr. Tian Guoli, Chairman of AFCA

Excellencies,

Executives of financial institutions,

Ladies and Gentlemen.

A very good afternoon to you all,

Today's opening ceremony of the Asian Financial Cooperation Association (AFCA) is a very auspicious occasion, and I am honoured to be a part of this historical event. I would like to congratulate the Chinese government for successfully establishing AFCA – a new forum, which I am certain, will play a significant role in enhancing financial connectivity and cooperation within Asia. I would therefore like to take this opportunity to share with you my thoughts on how we can further enhance financial connectivity to ensure sustained shared benefits – as stated in AFCA's mission¹.

Ladies and gentlemen,

People have long been connected by trade along the ancient Silk Road dating back more than 2,000 years ago. Today in modern times, many trade and investment agreements between China and other Asian countries have promoted close economic ties in the region. Thanks to the Chinese leadership, the spirit of connectivity and cooperation is further enhanced through the One Belt One Road initiative. The Asian Infrastructure Investment Bank (AIIB) is an added funding impetus to ensure that there will be physical infrastructure connectivity, laying the strong foundation for shared economic prosperity.

China's growing economic ties with Thailand and ASEAN have become stronger in many aspects. China has been the largest trading partner of Thailand since 2013. Thanks to the China-ASEAN FTA, China has been ASEAN's largest trading partner since 2009², while ASEAN has been the third-largest trading partner of China since 2011³. China has been one of Thailand's top foreign investors for the past nine years⁴. And in terms of tourism, almost

¹ AFCA follows the philosophy of openness and inclusiveness as well as the mission of “connectivity, cooperation, joint governance, and shared benefits”

² ASEAN Secretariat: ASEAN Trade Balance (in US\$ Million) by Country.

³ World Bank: China Trade at a glance. <http://wits.worldbank.org/CountrySnapshot/en/CHN>

⁴ Foreign Direct Investment Position Classified by Country (US\$), Combining Hong Kong and China FDI values. BOT.

nine million Chinese tourists visited Thailand last year, the highest number from any country in the world. It is clear that trade and investment connectivity between China and ASEAN have been well established and have great potential to expand much further.

However, financial connectivity in our region has yet to catch up with trade and investment connectivity. Costs of cross-border financial transactions remain high, and there is limited usage of regional currencies for cross border transactions. There is also limited presence and penetration of regional banks in each country. In this regard, I see many opportunities for Asian banks to play increasing roles in connecting businesses within our region.

Enhanced regional financial connectivity will not only support trade and investment activities, but can also promote productivity, immunity, and financial inclusivity in Asia. I therefore welcome and fully support AFCA in its endeavor to promote greater financial cooperation. This forum will help ensure that our region can reap the full benefits of increased financial connectivity. Greater regional economic integration can then reach its full potential and harness the dynamism of this region for sustained shared benefits.

Currently, the Bank of Thailand has placed much emphasis on strengthening financial connectivity within the region, particularly with ASEAN-5 and our neighbouring CLMV.

Let me highlight our two projects that have strong potential to connect people and businesses in the region more efficiently by providing better access, wider choices, and lower costs of financial services.

- First, ASEAN central banks are working towards achieving the goals of the ASEAN Banking Integration Framework. For example, the opening of Qualified ASEAN Banks or QABs would establish important cross-border banking networks, which will help increase efficiency of financial services across the region. At present, the Bank of Thailand is in the process of negotiating QAB agreements with the authorities of Malaysia, Myanmar, Indonesia, and the Philippines.
- The second initiative is the promotion of regional currency usage for trade settlement and direct investment in our region. As we all know, regional currencies tend to move together and volatility of advanced countries' currencies will continue to be high. The Bank of Thailand and the PBOC have been promoting the use of Thai Baht and Renminbi for bilateral trade settlement between Thailand and China. We have a THB/CNY bilateral swap agreement in place since 2011 with a Chinese bank serving as the Clearing Bank for Renminbi in Thailand since 2015. Additionally, the Bank of Thailand has worked with several central banks in the region to relax relevant foreign exchange regulations with a view to promoting the use of regional currency. Our local currency framework with Malaysia became operational in 2016. Discussions with Cambodia, Laos, and Indonesia are underway.

Thus far, ASEAN countries have undertaken a number of initiatives to upgrade our financial infrastructure, but most of these initiatives are aimed for domestic usage. Much work remains to enhance closer financial connectivity at the regional level.

Allow me to propose three key areas to strengthen our regional financial connectivity. The intended outcomes of these initiatives are to raise productivity, build immunity, and increase financial inclusivity for sustained benefits.

First, we need to embrace innovative financial technology to raise productivity. The rapid pace of technological innovations has changed how we trade and how financial transactions are conducted.

Alipay and WeChat Pay have demonstrated the power of modern payment services in China. In Vietnam, consumers use OnePay to make financial transactions. Wing in Cambodia, BCEL in Laos and Wave Money in Myanmar provide instant payments and money transfers through mobile phones to those without bank accounts. Last but not least, Thailand's PromptPay provides consumers with one of the most efficient fund transfer services in the region, using mobile phone or citizen ID numbers as a proxy for bank account numbers.

The Bank of Thailand also set up a "regulatory sandbox" framework to support development of financial innovations. This framework allows innovators to test their products, and regulators to develop necessary regulatory requirements before innovative products are launched to the public.

Nevertheless, embracing financial technology at the domestic level is not enough. We need to create linkages among domestic payment platforms and innovative financial products to facilitate cross-border financial activities. Thailand has been active in enhancing inter-platform linkages. On a bilateral level, Thai banks and FinTech firms are developing cross-currency remittance services based on blockchain technology. At the regional level, Thailand's national interbank payment system has recently been selected to be the hub of the Asian Payment Network (APN).

Ladies and gentlemen,

As we all know, FinTech comes with new risks. Cyber threats, in recent years, have increased dramatically in frequency, sophistication and impacts. **This leads to my second area of cooperation. AFCA members may wish to cooperate to build immunity to lessen the impact of unwarranted risks.** Among others, AFCA could serve as a forum to ensure that cooperation on cyber security is brought to fruition. Regulators also need to strengthen their cooperation to minimize possible cross-border spillover risks. On this note, I am glad to report that tomorrow CBRC and the Bank of Thailand will enter into a MoU on Banking Supervision.

The third area of cooperation is to enhance financial inclusivity in our region. The financial sector must be aware of its social responsibility and take active roles in promoting financial access and inclusive growth. People at large need to have access to basic financial products at minimal prices, together with adequate financial literacy and financial planning skills.

In summary, financial connectivity can be and needs to be enhanced in Asia. AFCA, with its diverse membership, is in a unique position to deepen financial cooperation and promote connectivity among its members. AFCA can play significant roles to strengthen the Asian financial sector and Asian economies by improving productivity, building stronger immunity, and promoting more financial inclusivity.

In closing, I would like to congratulate once again the Chinese leadership, CBRC, and AFCA. I wish AFCA very fruitful years ahead.

Thank you.