

The Pan-ASEAN Vision: Driving the Integration of ASEAN Capital Markets

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I wish to start this address with a remark. If there is a good time for Mr. Korn to be the Finance Minister of Thailand, it is now – to be recognized by a world class media so early in his term as the Global Finance Minister of the Year. In his acceptance speech in London, Minister Korn said that the award was “premature”, indicating that he had drafted for himself a list of agenda yet to be fully accomplished. He was modest. But I wish to say this.

From the point of view of people in the capital market in Thailand, his achievement in formulating the Capital Market Development Master Plan, announced in November last year, by itself, is already worthy of the award. The Plan is the most comprehensive to date, and it will make Thai capital market a much more effective channel for mobilizing savings into productive investments – to be a real alternative to the banking channel.

The question that was often raised to me by visiting foreign brokers is - what could be the obstacles to the Plan?

I admit that for a plan as grand and as landscape changing as this one - - success is never a certainty. To succeed, one has to educate the press, inform the public, pass the necessary law through the parliament, and deal with quite a few government agencies at once. But I believe the Plan will succeed because it will be driven by a high level committee chaired by the Finance Minister himself. However, the Plan will not be without its challenges. There will be a few, and perhaps the biggest challenge is the need to overcome the opposition and objections from the business people who will lose out because of the Plan. Whenever the ground rules change, some will win and some will lose.

Nevertheless, the argument is quite straightforward. The Plan puts emphasis on the benefits that will accrue to the public at large. The public to benefit are the savers on the one hand, and the users of fund on the other. The emphasis is therefore on the country as a whole, as opposed to the interest of the business people in the securities business. It aims for the public to be better served by a more efficient capital market, even if it makes life difficult for some people. Fortunately, in Thailand people in the business have accepted this line of argument. They are now busy planning ahead - - how to adapt themselves to not only survive the change, but also to reap benefits by being the first mover in certain directions. However, if we go beyond the domestic issue and extend that line of argument to the pan-ASEAN vision, we shall find that the opposition and the objection are stronger and louder.

The pan-ASEAN vision

At this point, I have to take a few minutes to explain to you what this pan-ASEAN vision is. This is the Capital Market Implementation Plan. It was drafted by the ASEAN securities regulators, of which I am currently Chairman. It was approved by the ASEAN Finance Ministers last year. The meeting was chaired by Minister Korn himself. We regulators drafted this Plan with the help of the Asian Development Bank. It aims to integrate regional capital markets more closely, in steps. It sets out clearly what each party; each country has to do in each year up to 2015, the target date for ASEAN Economic Community.

The countries will consider relaxing exchange control in steps, and eradicate or minimize withholding taxes, in order to facilitate capital flow within the region.

The regulators will pave the way with harmonization of rules and procedures to international standard, or if the practice is already good, mutual recognition of each other's existing rules.

The stock markets will be linked up electronically to provide a single point of access. The markets will also be more open to each other. More competition and more common rules will drive efficiency.

The private sector will be encouraged to develop new products. They should make suggestions for change to restrictive rules both in order to take on more calculated risks, and to hedge away unwanted risks.

The Implementation Plan aims to establish, in the mind of the international financial community, ASEAN as an asset class – ASEAN that is world class. We regulators also tried to ensure that the pan-ASEAN vision serves the need of the **private sector**. We copied what Minister Korn did for the Thai domestic plan by setting up a Steering committee from the private sector. This committee comprises several prominent ASEAN businessmen. They are:

Mr. Jose Isidro Camacho, formerly Finance Secretary of the Philippines and currently Vice Chairman of Credit Suisse;

Mr. Piyush Gupta, currently CEO of DBS Bank in Singapore;

Dr. Thillainathan Ramasamy, Director of Bursa Malaysia Berhad and Genting Berhad;

Mr. Banyong Pongpanich, Chairman of Phatra Securities in Thailand.

How important is this pan-ASEAN vision?

Ladies and gentlemen,

It will not be an overstatement for me to say that this pan-ASEAN vision is going to be very important for the development of regional capital markets. For ASEAN to trade more goods and services among each other, these activities must be more conveniently financed. For ASEAN firms to be more competitive in the world stage, the cost of their

financial transactions must be comparable to other regions. The range of service to both savers and users of fund must become wider. The pan-ASEAN vision will increase our visibility in the global market, and help individual capital markets avoid being marginalized.

In term of business opportunity, it will create the economy of scale for local players as they can expand their business horizon to other regional countries. In term of investment opportunity, it will also pave the way for ASEAN investors to make more portfolio investments into each other. All investors into ASEAN should be well protected to the same high standard across the region.

How does Capital Market Development Master Plan fit within this broader pan-ASEAN vision?

The domestic plan is actually an important component of the pan-ASEAN vision. The pan-ASEAN vision aims to more closely integrate the individual capital markets. And this can't be done unless there is, in each country, liberalization of products and services, and the convergence to international standards. The Master Plan does that for Thailand. The Master Plan calls for demutualization of the Thai Stock Exchange, which will open the way for it to more closely link up with other markets. The linkage can be in term of cross ownership, in term of cross listing, and it will pave the way for greater access to the Thai market by foreign players that will occur in steps.

The Master Plan also calls for liberalization of the brokerage business and the brokerage commission. This will enable transactions to be done across borders at lower costs. The Master Plan is therefore a key domestic milestone. And it is my hope that the pan-ASEAN vision will, over time, cascade into individual country's master plans for all countries. I am hoping that this objective will be driven by the ASEAN Secretariat.

What are the Challenges to the pan-ASEAN vision?

Unfortunately, compared to the domestic master plan, the pan-ASEAN vision will have more challenges, and the challenges will be more difficult to handle.

The **first challenge** is that some business people will lose out. Some firms will see the expanded opportunity and reap benefits. But some will fail to adapt and see only their own losses. The losers may say that it is alright for them to lose and for another domestic competitor to win, because the overall net effect may benefit the country. But why should a government tolerate a domestic operator to lose in favor of foreign competitors. We will have to work hard to explain that the interest of the general public will improve in all countries. And that has to be our main aim, even if it is adverse for some private businesses in some countries.

The **second challenge** lies in convincing the relevant government agencies of each country to change their rules to facilitate capital flow. This includes withholding tax as well as exchange control. Countries with fiscal problems may be reluctant to forego tax

deduction at source. We will have to work hard to convince them that the reduced tax revenue today will lead to more economic activities that generate more tax revenue tomorrow. And countries with vivid memory of capital flight that occurred in the 1997 Asian Crisis may be reluctant to lift exchange control too far. We will have to convince each other that managing the economy in accordance with market mechanism, working with the market or even using the market as a tool, will be better in the long run.

The **third challenge** lies in improving the professional standards across ASEAN. This involves accounting, auditing, valuation of real estate, standard of rating agencies, and many other activities that underpin financial transactions. We have to start the process that encourages the professions to improve, harmonize and enforce their standards.

The **final challenge** is the issue of cross border litigation, both the criminal enforcement and the resolution of commercial disputes between the private sectors. For criminal enforcement, regulators already have the process to share and exchange information through international agreements. However, past experiences have shown that some improvements are still needed. But the bigger challenge is how to make it more convenient for the private sector to resolve their commercial disputes. We must work on ways for individual investors to take legal actions across border at low cost, without having to shuttle back and forth between the two countries. This is going to be a big exercise, and will involve many other agencies outside the financial field.

Finally, will this pan-ASEAN vision succeed?

Well, I think it has a strong chance. There will be no lack of vision. The vision is already clear. There will be no lack of clear plans. The plans are already set as to who has to do what and by when. The regulators, together with the Steering committee, will regularly monitor its progress and report to the Finance Ministers at every meeting. And there will be no lack of technical ability. Between the public officials and the private sector, we have the most able mind working on this project.

But will there be a political will to carry it through?

Political will is the make or break ingredient. And because the regional capital markets have quite different levels of development, it will be a challenge to balance things such that all countries share the benefits without undue or unfair losses on certain countries. But I am optimistic, because Minister Korn himself will still be in the ASEAN Finance Ministerial process driving it through.

I shall close by going back to my first remark, but ask - - if there is going to be an even better time for Mr. Korn to be the Finance Minister of Thailand? There can be. In a few years' time, when the pan-ASEAN agenda makes a substantial progress! It will be the reason for the Banker to give him another - - bigger award. Perhaps the Global Finance Minister of the Decade!

Thank you.