Handling Fund Flows thru the Capital Account Liberalization Master Plan

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Over the past 5-6 years, fund flows have increased in their magnitude and are more volatile. Readers may have heard that the Bank of Thailand (BOT) is in the process of formulating a plan to mitigate the risks associated with increasingly volatile capital flows. A part of this plan is to strengthen our long-term international financial capability through the Capital Account Liberalization Master Plan.

This column will clarify a little bit more on the Master Plan. The rationale for this plan, in addition to handling the risks related to the impact of capital flow volatility on exchange rate and domestic asset prices, is to strengthen our International Investment Position (IIP). To date, Thailand's IIP is negative which means that foreigners have more claims on Thai assets than Thai people have claims on foreign assets. Although the IIP has improved when compared to the past, the majority of assets are still in the form of International Reserves held by the BOT. Private sectors' foreign portfolio and direct investment assets accounted for only 16 per cent of GDP in 2009 compared to around 25 per cent for countries with similar levels of development. Part of this problem is due to regulations that create obstacles for investors who seek higher returns and diversification benefits from investment abroad.

Another factor of necessity is the upcoming integration of ASEAN countries through the ASEAN Economic Community (AEC) which has made its target that by 2015, all member countries must allow freer flows of capital by relaxing capital flow regulations to help develop and integrate regional financial markets. Moreover, the Capital Market Development Plan requires greater liberalization of capital flows. After evaluating the readiness of our financial and economic fundamentals and the supervisory infrastructure that have greatly improved since its inception, we view that they are resilient enough to handle accelerated capital flow liberalization. Hence, a clear direction for the liberalization of the capital account will help Thai investors to effectively prepare themselves for the changes associated with future liberalization by developing the human resources and risk hedging practices.

Thus, the BOT has started working on the Capital Account Liberalization Master Plan with the **aim to make the liberalization process more transparent, more systematic, and coherent with the development of the Thai economy and the evolving international financial markets.** The plan will provide underlying justification for the regulations being liberalized, assess the vulnerability of the financial system in evaluating the proper level of liberalization, and take into account stakeholders' opinions both from the public and private sectors. The anticipated results from the plan include more balanced capital flows, increased effectiveness of capital and foreign exchange markets in the long term, and increased competitiveness in international trade and investments for Thai businesses on the back of good governance and risk management. Moreover, this Master Plan can be used as the country's policy stance in different negotiation tables regarding the liberalization of capital flows, especially the current one taking place in the AEC.

This Master Plan will be different from the way in which the BOT has liberalized capital flow in the past whereby the liberalization is done piece by piece with numerous complications in practice. Most importantly, the BOT will, for the first time, **publicly announce** the plan by the end of the year to help everyone understand the direction and benefits of liberalization. All of this will be useful for Thai businesses and ensure the resiliency of the domestic financial system in the long term.

(The views expressed in this column are the writer's own.)

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