

## **Keynote Address**

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Distinguished guests,

First, let me thank Siam Cement for inviting me to give a talk here at this session. I understand this is the fifteenth year that you have organized this, so I think it is a testament to the far-sightedness of SCG in approaching this issue and also perseverance in recognizing the importance of this topic.

However, I also have to apologize for my apologies, because I am speaking on a topic different from what was put in the program. The program said I would talk about Thailand moving from vulnerability to resiliency, but I will not be addressing that. Instead, I have chosen a topic that relates more closely to the overall theme of today's event: Navigating Transition for ASEAN Sustainability Amidst the New Global Landscape.

I chose this topic since there are many other speakers and experts in different fields, most of whom are far more knowledgeable than I am on this particular topic. I decided to approach this topic by offering some perspectives from a central bank.

### **Part I: The New Global Landscape**

First, the new global landscape does not need much elaboration. Everybody recognizes the kinds of things that we are seeing that are changing very rapidly.

The rise of geopolitics is triumphing over economic considerations. We see the weaponization of practices that were previously accepted, such as in trade. We see multilateralism on the wane. We see a lesser role, a diminished role for multilateral institutions. A clear manifestation of that is probably on the trade front, which dominates the news today. However, these challenges extend beyond trade and affect other areas as well.

And the concern is that, while many challenges that we are facing are global in nature and require a global solution and multilateral approach, those institutions and mechanisms are now on the wane.

Aside from the trade front, another obvious challenge lies in the regulation and oversight over artificial intelligence. But to relate it more closely to today's topic, climate change is also something that clearly requires a global fix.

## Part II: ASEAN's Path to Resiliency

With that environment, with those challenges on the global front, *what is ASEAN's path to resiliency in this area?*

So, I will start off with things that we should not be doing in terms of the response. I think it would be wrong for us to turn inwards to adopt a more mercantilist approach, become more protectionist. It would also be wrong for us to try to look for quick fixes to mitigate the impacts by resorting to populist measures.

But what we need to do is pursue deeper forms of integration within ASEAN. I emphasize that this integration needs to be market-driven with facilitating infrastructure. The kind of integration we are looking for is not necessarily driven by policymakers, like when we see the policymakers get together in ASEAN, wearing the nice ASEAN outfits, holding hands and taking photos, that is not the kind of stuff that works. But the kind of stuff I am talking about is, instead, a coalition of the willing; this may not include all the ASEAN countries, but rather a subset of the countries that get together to address challenges and provide solutions.

An example of that, from the area that I work in, is the payment that we have done, Thailand and Singapore were the first two countries to connect our fast payment system, our PromptPay system with Singapore's PayNow system. And that has experienced pretty good success in terms of making payments much more easier, transferring funds across countries much easier. So what we are doing now is trying to scale that onto a more multilateral basis by connecting four ASEAN countries plus India under the project called Nexus. This is an example of facilitating infrastructure to help the kind of regionalism that we need. Obviously, there is also a premium on making sure that whatever regional integration we do is open to connecting with other countries outside the region as well.

## The Need for Structural Reform

It highlights the importance of trying to undertake structural reform, trying to find new growth drivers that are different from the traditional growth drivers that we relied on, and trying to ensure that the growth that we get is more inclusive and more sustainable. Part of the reason that we are seeing the adverse reaction against globalization is that, in the past, growth has not been as inclusive as we would have liked. And obviously, it is very important for that growth to be sustainable, which brings me again to the topic of today, which is trying to address climate change.

## Part III: The Transition in ASEAN to Sustainability

In the context of ESG, I will be focusing mostly on the “E” part of the ESG. And my main message today is, not terribly profound, it is important to keep in mind in terms of our approach, which is that **the transition in ASEAN to sustainability should and will be different from that we see in the advanced economies.**

This may sound fairly obvious, but it has a lot of implications for how we go about trying to achieve this transition, which I would like to spend some time talking about.

### Different Initial Conditions

The rationale for this should be fairly clear and obvious, which is that we are starting from very different initial conditions. ASEAN is not a very green place. We are in a situation where we are much more carbon-intensive, and we are much browner than the developed economies. And here are the statistics about fossil reliance.

The structure of the economy is also very different. We have a very large number of SMEs, and a much higher proportion of self-employed. There is a much higher degree of informality in the economy. Incomes are much lower, and the social safety nets are weaker. That will have implications for the kind of transition that we are likely to see in ASEAN and has implications for how we design that transition as well.

Despite events like today, generally, there is much lower awareness among consumers and investors, and less demand for taking action on climate change in countries within ASEAN, compared certainly to countries in Europe and in the advanced economies. I should say Europe - I think it is changing in some of the advanced economies these days.

The institutional setup to drive this is also weaker. If you look, for example, at the government effectiveness index in the advanced economies, it ranks much higher. Even within ASEAN itself, we see very big differences in government effectiveness. I put up here, for example, Singapore ranks number one in the world. Thailand ranks eighty-nine.

### Higher Vulnerability

Despite all those challenges that make it difficult to address the sustainability challenges, the need is higher. And it is partly because we have a much higher vulnerability in ASEAN towards climate change. As other speakers have already touched upon this, we have over three-quarters of the population living in coastal zones. We have a very high dependence of the population and the labor force in agriculture, which is obviously highly affected by climate change. We depend a lot on tourism, which is also affected by climate change.

**These different initial conditions make it harder for us to address these challenges, but there is also a greater need for us to be able to address those challenges in ASEAN.**

### Implications for Transition Path

Those different initial conditions— and this is the key point of what I'm trying to make, not terribly profound, I apologize—it implies a very different transition path.

#### 1. Less Disruptive

It implies, first and foremost, that the path needs to be less disruptive. There is a need for urgent action. At the same time, a balance needs to be struck to minimize the disruption. *And why is that?*

It gets back to the fact that incomes here are much lower. It gets back to the fact that we have much weaker social safety nets. So, when people lose their jobs, they don't have that cushion. We need to be very sensitive to managing that transition. It gets to the fact that a lot of firms in our economy are SMEs. They have lower buffers and are less able to manage that transition. A lot of them are facing the changes in the global landscape, big challenges in trying to survive with, particularly in tariffs. So, for them, having the resources and the ability to address these longer-term issues like climate change is not easy.

Trying to find a path which gets us there while managing and minimizing that disruption is all the more pressing in a situation like the one we find here in ASEAN.

## 2. Focus on Becoming Less Brown

Given where we are starting, the economy here is not very green. The emphasis should be on becoming less brown, not just becoming green, because much of our industry is in the traditional sectors with large carbon footprints. A lot of firms are SMEs. So, trying to allow ourselves to become less brown is an important challenge.

## 3. Greater Weight on Adaptation

There probably needs to be a greater weight placed on adaptation. What we are witnessing already reflects the vulnerabilities that we are talking about – we are already seeing the impacts today. Yes, mitigation is very important, but the effects of climate change are happening today. So there needs to be a greater weight on adaptation.

## 4. Government-Led Approach

As we have seen, there is less demand and less awareness coming from the market, whether from investors or consumers. This would tend to argue that we still need an approach that is significantly government-led, despite all the weaknesses regarding the government's ability to execute.

While it needs to be government-led and ultimately it obviously needs to be a whole-of-country approach, we cannot just rely solely on the normal mechanism, such as disclosure, to try to create the impetus for change on their own.

## Part IV: Central Bank's Role

The question of who takes the lead in this effort is very important and relevant. Obviously, as a regulator in the financial sector, we are tasked with doing our part on this as I will discuss next. There are initiatives that we are pushing ahead in this area.

However, given all the challenges that are in place, a lot of the stuff needs to come from the market, from the real sector. The financial sector can act as a facilitator to make that happen. This implies that there are a lot of other pieces in the puzzle that need to be in place for the financial sector to be able to fully play its role in supporting the transition.

In other countries, for example, there are clearer and thought-out plans for managing the transition in each sector and spell out targets with instruments that come

along with that, such as carbon taxes. With such frameworks in place, you can say, "Okay, well, given that this transition needs to happen, how can the financial sector help facilitate that?"

In Thailand, however, the initial picture is sometimes missing. This makes it harder for the financial sector to step in and effectively play its facilitating role.

In some countries, the central bank's role is more explicit and relates to their mandate. The clearest example is the Bank of England, which has made supporting the country's transition toward meeting its climate goals an explicit part of the central bank's mandate. The European Union does not have this explicitly in its mandate, but there is a spirit of helping the EU achieve its goals. However, in many other countries, it is not included in the central bank mandate, and some central banks have explicitly stated that it is not part of their role.

In Thailand, we take a pragmatic approach. Legally, it is not part of our mandate. Our mandate is to look after stability, including financial stability and monetary policy. There is no clear or explicit sustainability or climate change mandate. But if we interpret the mandate—as we have been implicitly doing in motivating our work in this area—we can see that climate change obviously has financial stability implications. It is with that in mind that we undertake our work in this area and try to play our part.

### Being Pragmatic: Don't Let Perfect Be the Enemy of Good

The last point is about the importance of being pragmatic, especially in the context of a country like Thailand or within ASEAN, and not letting the perfect be the enemy of the good. That is a trite statement, but there is a reason for it. It gets back to some of the other things that I was mentioning here, and I will illustrate it with an example of the work that we are doing.

There is a tendency, particularly among regulators, that when we want to do something, it has to be very precise, measurable, and verifiable. But given many of the challenges we face—such as making the economy less brown or placing greater weight towards adaptation—the way that you measure that, the way that you define that, is much less precise.

However, we should not fall into the trap of not trying to do something because there is no very clear, generally accepted, internationally accepted methodology or practice to underlie it. If it is something that will take us in the right direction...

I remember from a conversation I had a few years ago with a green finance institution in the UK, doing some excellent work. They did work on green mortgages in the UK. I still remember the expression that one of the staff made to me, which is that their approach, their philosophy is *they ask themselves, "What can we do today to make things better?"*. Which I thought was a refreshing approach. Because it is such a thorny problem, it is difficult to solve. And if you try to think about getting everything, all the pieces together, and it has to be excellently well-designed, you might never take that first step to put yourself on the right path. **So, trying to stay pragmatic is very**

**important, which underlies the approach that we have been trying to do here at the Bank of Thailand.**

### Bank of Thailand's Approach

We do the usual work that every central bank is doing, the building blocks, standard practice, industry handbook, and taxonomies. Everybody is working on taxonomies, and we have developed them for these six sectors in two phases: energy and transport, which we completed a couple of years ago, and this year, we are releasing the taxonomy for agriculture, construction, real estate, manufacturing, and waste management. We are also conducting pilot climate stress testing, all the standard work. And don't get me wrong, that stuff is important, it needs to be done. But we can't stop there. In a sense, it is a lot of paper; it is a lot of work. But if we ask whether all that work, in and of itself, or by itself, makes things better? — The short answer is not quite, right? These may be building blocks that you need to do, and other countries are doing the same, and we will continue to move in that area. But it's not enough.

### "Financing the Transition" Program

A good example of practical efforts is the program that we put together with eight banks last year, called *"Financing the Transition."* The idea is to come up with product programs to support the transition and to make our economy, which is very brown, toward becoming less brown.

This also ties back to the idea of not letting the perfect be the enemy of the good. Even as a regulator, I got a lot of pushback from my team on this. The questions were: *"What do you mean by less brown? How do we measure it? There is no methodology on this."* But if the direction is right, then it is worth exploring.

Many thanks again to the financial institutions — eight banks participated in this and tried to support this program, and tried to make the economy less brown. We initially set a target of 100 billion baht for this program together. I am happy to say that today, 96 billion has already been gone out. In terms of the numbers, it did reasonably well.

Just to give an idea of the kind of initiatives that came up in that program, I will be terribly diplomatic about this. Eight banks participated, and I see several of them seated here today. I will not be able to go through all eight banks to refer to them equally, but I would like to cite a couple of examples to give a sense of the kinds of activities involved.

One thing I believe that was helpful in this program was that, rather than the central bank or the regulator saying what you want to see, we sat with the banks and said: *"We understand that your portfolios are different, your client bases are different. Ask yourselves: what can you do with your clients to make them less brown?"*

There was no top-down direction saying *"This is the sectors that we want to focus on, this is the kind of things that we want to see."* Instead, it was a much more collaborative approach, which contributed to the success of the program.

*But what kinds of things came out? Just an example.*

#### Example 1: Real Estate Developers

One bank was working with developers. For them, if the developers could show that they were able to reduce the carbon footprint by ten percent, they would get a one-star rating, and if they reduced it by ten to twenty percent, they would get two stars, and so on. The more stars and ratings they received, the greater the discount in terms of the lending rate that they would pay, so there is an incentive built into that stuff. I mention this one in particular because with developers, one way to reduce the carbon footprint is by using lower-carbon footprint cement.

So just before I came here, SCG kindly offered me this very nice token of a cement elephant, which they mentioned that using this cement could reduce the carbon footprint by thirty percent. So, I think it is very appropriate if they use that kind of cement in these kinds of projects, it will be a way to reduce the carbon footprint of the firms that are participating in this program.

#### Example 2: SME Sector

Another example, another bank focused on the SME sector, four sectors. To the degree that these businesses adopted different activities that helped to lower their carbon footprint, they would get a lower lending rate. For instance, if they installed solar roofs or improved waste management practices, they would benefit from more favorable loan terms.

This is the example of us working together to implement something practical—not necessarily as one might see—but taking us in the direction that delivers concrete impact, coming up with product programs that help take us along this path towards making the economy less brown and placing us on a more sustainable path.

And this is the kind of spirit that we at the Bank of Thailand will continue to encourage. We are now pretty close to reaching this target, and we will be looking to continue to pursue this program in another phase.

Thank you very much for your attention.