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COUNTRY PRESENTATION SUBMITTED BY THAILAND

* The attached country presentation is circulated in the language and form in which it was received. The terminology employed is that of the submitting Authority.

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Design, implementation and results of privatization programs of Thailand

1. Objectives

In Thailand, the word "privatization" is used to describe a variety of ways in which private sector involvement in the activities of state enterprises can be increased, such as:

- the partial as well as full transfer of ownership;
- joint ventures;
- the granting of concessions to the private sector to manage an operation or to build and operate a specific project;
- the contracting out of specific activities to the private sector;
- the deregulation - or opening up - of a market to allow or increase competition between the public and private sectors.

The privatization of state enterprises have four primary objectives during the course of the Sixth National Economic and Social Development Plan (1987 - 1991):

- a) to reduce external borrowing by state enterprises;
- b) to reduce losses (or increase the profitability) of state enterprises;
- c) to increase the efficiency of state enterprises; and
- d) to strengthen capital markets

During the second half of the Sixth Plan to the Present, the emphasis of privatization programs is to increase the role of private sector participation in the provision of basic infrastructural services to keep pace with economic growth through investment, concessions and joint ventures.

/This...

This would help reduce the financial burdens of both state enterprises and the Government while ensuring a minimal level of operating efficiency. It would also help reducing the size of the public sector in the longer term.

II. Macroeconomic considerations

The privatization of state enterprises has not been pursued as an end in itself, but as a means of helping to achieve the macroeconomic objectives in the Sixth plan as follows:

Macroeconomic Objective

State Enterprise Privatization Proposals

a) maintain ceiling on
foreign loans

- reduce external borrowing by:
 - i) the sale of state enterprises
 - ii) increasing private sector participation in state enterprise investments
 - iii) reducing the debt-equity ratios of state enterprises by selling shares to the private sector

b) reduce government
deficit

- reduce losses, or increase the profitability, of state enterprises

c) increase economic
efficiency

- increase the efficiency of state enterprises by:
 - i) greater involvement of the private sector in the operation of state enterprises

/ii) partial...

ii) partial or total divestiture

where the private sector can carry

out activities more efficiently

d) improve mobilisation

of private savings

- strengthen capital markets through

the public flotation of appropriate

state enterprises.

III The role of the State

Share of the public sector

Thailand now has 65 state enterprises as shown in exhibit 1 which play an important role within the Thai Economy. They hold monopoly positions in such key sectors as transportation, communications, power and water. These include domestic and international telephone communications, electricity generation and distribution, rail transport, Bangkok to province inter-city bus routes, water distribution in certain regions, etc.

Thai SOEs have an 11.1 percent share of the gross domestic investment in the Thai Economy (1987 figures) or about 5.4 percent of the Gross Domestic Product. By the end of 1991, most of SOEs operated with profits totaling 68 billion baht or 2.7 billion U.S. dollars, and 10 SOEs had deficits of 1.6 billion baht or 0.06 billion U.S. dollars. Employment in this sector was about one-fifth of the total public sector workforce, equivalent to about 1 percent of the total labor force.

/Scale...

Scale and nature of privatization

In common with most countries around the world, many state enterprises were created in the two to three decades after the Second World War. The main purpose was to foster economic and social development, but the more detailed reasons were varied. For example:

- a) Basic utilities and services such as electricity, water, railways and telecommunications were developed by the public sector because they were natural monopolies;
- b) Other state enterprises were created to produce goods or services which at the time were not being adequately developed by the private sector (e.g. industries such as sugar and services such as housing for lower income groups);
- c) A further group of industrial state enterprises was established to produce goods which were essential during wartime (e.g. glass and batteries);
- d) Other reasons for creating state enterprises were to control production and raise revenue (e.g. from liquor, tobacco and lotteries), to control prices and standards (e.g. in agricultural marketing, medicines, insurance and pawn shops), or to promote particular industries (e.g. tourism and sports authorities, research institutions and development banks).

In some cases the reasons for creating the state enterprises have remained valid, but in other cases they have not. Some enterprises have fulfilled their original purpose in that the private sector has grown to meet the

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needs for which the enterprise was originally established. In the case of other enterprises particular activities or functions can now be performed more efficiently and effectively by the private sector than by state enterprises. As the economy develops, the appropriate role of the public sector must be continually reassessed and adjusted.

Past and future trend of privatization in Thailand

The development of the private sector and the withdrawal of the public sector from particular activities is reflected in a decline in the number of state enterprises - from more than 100 to the present figure of 65

Up to 1986, 31 small scale state enterprises unrelated to major economic activities had been liquidated, 25 had been sold, 7 have allowed private participation in the management, 3 contracting out and 16 rehabilitating.

Despite this decline in the number of state enterprises, some of the remaining enterprises are large and have been expanding rapidly to keep pace with the growth of the economy. The operating and investment expenses of all state enterprises have increased from 72 % of the government budget in 1977 to 109% in 1986. Their investment budget has been increasing by about 20% per year over the past decade, and the major part of the public sector's foreign debts (over 60%) has been incurred by state enterprises.

/It is...

It is against this background that a National State Enterprise Committee was formed and the privatisation policies were further incorporated in the Sixth National Economic and Social Development Plan (1987-1991).

Moreover, the important principles have been carried on in the Seventh Plan (1992-1996) with emphasis on infrastructure projects.

The National State Enterprise Committee was formed to review and set up comprehensive framework for reforming the state enterprise sector. The Committee had set out principles with approval from the Cabinet that reform programs such as liquidation, sales of state enterprises, management contracts and leasing were to be implemented for state enterprises not operating efficiently. In addition, the Government will not establish new state enterprises if private firms can do the job effectively, nor will it expand the existing enterprises that compete with the private business except for activities related to public interest and national security. For the state enterprises established with a special purpose, after the objective has been achieved or circumstances have changed, its operation must be liquidated or transferred to the private sector.

During this period, one state enterprise, the Thai Airways Co., Ltd., was liquidated and merged with the Thai Airways International Co., Ltd. Three major cases of selling shares through the Stock Exchange of Thailand had taken place, The North-East Jute Mill (Now Government holds less than 50 percent of the Company stocks), The Krung Thai Bank and the Thai Airways International Ltd. Moreover, the Electricity Generating

/Authority...

Authority of Thailand has set up a subsidiary with the intention of selling its shares in the stock market. Many concession projects were awarded such as the elevated commuter train and elevated expressway project of State Railway of Thailand, the 2nd Stage Express Way System of the Expressway and Rapid Transit Authority of Thailand, the three million telephone lines of the Telephone Organization of Thailand, Certain bus routes of the Bangkok Mass Transit Authority. Furthermore, the Duty Free Shop, the limousine Bus of the Airport Authority of Thailand, and the Laem Chabang Seaport of the Port Authority of Thailand were privatized by allowing their management to be taken up by private firms. Privatization through joint venturing schemes with the state retaining a major shareownership was implemented in the case of the Petroleum, Gas Exploration and Production Project, and the Industrial Estate Project. Projects in which the private firms now hold a majority shareownership include the Bang - Pa- In Papermill, the Syndicate of Thai Hotels and Tourist enterprise. Moreover, contracting out small projects were numerous among many state enterprises.

In 1991, the National Economic and Social Development Board submitted a privatization plan (the white paper) proposing different ways to privatize 41 state enterprises. The cabinet then sent the plan to the state enterprises involved and asked them to respond through their parent ministries and Ministry of Finance. Ministry of Finance reported back to the cabinet indicating that state enterprises in general were satisfactorily active in their private participation programs. The cabinet acknowledged the facts and set up a

/private...

private participation committee, chaired by the Permanent Secretary for Finance, comprising representatives from Ministry of Finance, The National Economic and Social Development Board, Bureau of the Budget, Office of the Auditor General and Office of the Juridical Council to consider and make recommendations on private participation/privatization plans of state enterprises.

When the new government took office in late 1992, it clearly stated that the government would try to increase state enterprise efficiency in general as well as promote more private participation in public services in order to reduce financial burdens. On January 5, 1993, the cabinet had a resolution to set up a committee (follow-up committee on state enterprises policies) chaired by the prime minister and composed of representatives from various agencies with the Permanent Secretary for Finance as a secretariat to formulate and monitor state enterprise policies including privatization. (The former committee chaired by the Permanent Secretary for Finance would become a sub-committee of this newly set up committee). The cabinet also set a clear guideline for the committee that state enterprises deemed inappropriate or unnecessary to be in the public sector, in terms of policy and performance, should be transferred into private hands.

For the purpose of private participation/privatization, state enterprises can be divided into 3 groups. The first group, consisting of about 17 enterprises, had been identified for early privatization, which would proceed on a case-by-case basis. The second group was the promotional, /non-profit...

non-profit seeking or special purpose type consisting of about 12 enterprises would be kept in the public sector. The third group was the remaining enterprises of which 15 large infrastructure related enterprises on the priority list were to be considered in details of ways and means to increase private participation.

IV. Technical, legal, Financial and other aspets

The main issues

- Firstly, the labour issue, there is considerable resistance from the management, employees, as well as the labour union. This arises from their concern over the effect of privatization on job security, payments, and welfare. Especially when the majority of the state enterprise employees have been paid higher (when wages and fringe benefits are combined) than their counterparts in the private sector.

- Secondly, the legal issue, some types of divestiture programs, for example sales of state enterprises' shares in the stock market, could not be implemented without amending the law governing the establishment of such state enterprises. The law amending process would take a considerable amount of time as it requires approval by the Parliament and because, on occasions, it becomes a political issue. Such a task is made worse by the fact that state enterprises are subject to various different governing laws such as the Civil and Commercial Code, Cabinet Resolution, the Announcement of Revolutionary Party, Royal Decree and other specific Acts.

/The role...

The role of multilateral and bilateral financial institutions

The ministry of finance has recently received a technical assistance from the World Bank. A team of several specialists on privatization, capital market, legal and the particular sectors targeted for privatization came to Thailand for about 2 weeks starting on February 8, 1993, to carry out a review of the fifteen large infrastructure related state enterprises. They are expected to make recommendations on privatization strategy for these fifteen enterprises taking into account the plans prepared by the enterprises themselves. Their objective is to have the report ready around mid April 1993.

V. Conclusion

Privatization in Thailand is a continuing and gradual process. While it is widely accepted that successful privatization program is an important element for the country's prospect of a sustainable economic growth, a few main obstacles remain to be tackled. However, with clear policy guidelines from the government and a high-level follow-up committee, it is expected that privatization plans and implementation will be pursued more vigorously in the near and foreseeable future.

State Enterprise Division
Comptroller-General's Dept.

EXHIBIT 1

STATE ENTERPRISES IN THAILAND

1. ELECTRICAL GENERATING AUTHORITY OF THAILAND
2. METROPOLITAN ELECTRICAL AUTHORITY
3. PROVINCIAL ELECTRICAL AUTHORITY
4. METROPOLITAN WATERWORKS AUTHORITY
5. PROVINCIAL WATERWORKS AUTHORITY
6. TELEPHONE ORGANIZATION OF THAILAND
7. COMMUNICATION AUTHORITY OF THAILAND
8. BANGKOK MASS TRANSIT AUTHORITY
9. STATE RAILWAYS OF THAILAND
10. PORT AUTHORITY OF THAILAND
11. AIRPORTS AUTHORITY OF THAILAND
12. THAI AIRWAYS INTERNATIONAL CO., LTD.

13. EXPRESSWAY AND RAPID TRANSIT AUTHORITY OF THAILAND

14. METROPOLITAN RAPID TRANSIT AUTHORITY

15. NATIONAL HOUSING AUTHORITY

16. THAILAND TOBACCO MONOPOLY

17. PETROLEUM AUTHORITY OF THAILAND

18. PTT EXPLORATION AND PRODUCTION CO., LTD.

19. INDUSTRIAL REAL ESTATE AUTHORITY OF THAILAND

20. MARKET ORGANIZATION FOR FARMERS

21. OFFICE OF RUBBER REPLANTING AID FUND

22. PUBLIC WAREHOUSE

23. FOREST INDUSTRY ORGANIZATION

24. GOVERNMENT LOTTERY BUREAU

25. GOVERNMENT PHARMACEUTICAL ORGANIZATION

26. BATTERY ORGANIZATION

27. TRANSPORT CO.,LTD.

28. THAI PLYWOOD CO.,LTD.

29. BANGCHAK PETROLEUM CO.,LTD.

30. CIVIL AVIATION TRAINING CENTER

31. BOTANICAL PARK ORGANIZATION

32. MASS COMMUNICATIONS ORGANIZATION OF THAILAND

33. LIQUOR DISTILLERY ORGANIZATION

34. SUGAR FACTORY INC.

35. TEXTILE ORGANIZATION

36. AERONAUTICAL RADIO OF THAILAND

37. EXPRESS TRANSPORTATION ORGANIZATION OF THAILAND

38. DAIRY FARM PROMOTION ORGANIZATION OF THAILAND

39. FISH MARKETING ORGANIZATION

40. TOURISM AUTHORITY OF THAILAND

41. RUBBER ESTATE ORGANIZATION

42. BANG-NA GLASS ORGANIZATION

43. COLD STORAGE ORGANIZATION

44. TANNING ORGANIZATION

45. SPORTS AUTHORITY OF THAILAND

46. OFFSHORE MINING ORGANIZATION

47. BANGKOK DOCK CO., LTD.

48. THAILAND INSTITUTE OF SCIENTIFIC & TECHNOLOGICAL RESEARCH

49. ZOOLOGICAL PARK ORGANIZATION

50. THAI MARITIME NAVIGATION CO., LTD.

51. POLICE PRINTING PRESS

52. MARKET ORGANIZATION

53. INSTITUTE FOR PROMOTION OF TEACHING SCIENCE

54. PLAYING CARDS FACTORY

55. LAMPOON PROVINCIAL CO., LTD.

56. PRAJINBURI PROVINCIAL CO., LTD.

57. SURINTR PROVINCIAL CO., LTD.

58. PRESERVED FOOD ORGANIZATION

59. SYNDICATE OF THAI HOTELS AND TOURIST ENTERPRISE

60. KRUNG THAI BANK CO., LTD.

61. GOVERNMENT SAVINGS BANK

62. GOVERNMENT HOUSING BANK

63. BANK OF AGRICULTURE AND AGRICULTURAL COOPERATIVES

64. DHIPAYA INSURANCE CO., LTD.

65. OFFICE OF PUBLIC PAWN SHOP