# Privatization Policy and Market Issues: An Example From Thailand

By

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**Summary Of The Paper**

In a survey conducted by F.W. Swerczek in 1988, the opinions of top executives of Thailand Financial System were examined on privatization policy as well as its alternative options for improving the efficiency of the State Owned Enterprises (SOEs). His main findings, through the mailed questionnaire could be grouped into four sections, namely:

a) Policy options for the State Enterprises Sector;

b) investment preferences and barrier to business managers;

c) Alternative strategies for privatization; and

d) Main conclusions and recommendations

Section I of the report classified SOEs into five major groups: income- generating monopolies; public utility, like telephone and electricity; special purpose, like airlines and tourism; defence related manufacturing companies and others. When the issue of policy options in dealing with the ailing situation of SOEs was raised, about 54.8, 43.5, 33.8 and 31.0 per cent of the respondents supported divestiture of income-generating, special purpose, defence related and public utility enterprises respectively. In the case of private sector participation option, 43.6, 43.5 and 37.1 per cent of the respondents supported public utility, special purpose and income- generating public enterprises respectively. All the respondents equally supported outright sale of the public enterprises. However, the option of buying part of government stock in these enterprises was not embraced, since such a process would amount to partial privatization.

Section II of the report further revealed the behaviour of the business community by stating that any privatization policy which emphasises money-making enterprises as investment candidates would be attractive to the buyers. The report added that for privatisation to succeed the investment climate of the country embarking on privatization must be transparent, while the financial performance as well as debt-related issues of the affected public enterprises must not be discouraging.

In Section III of the report, the question was raised whether in lieu of privatization there are alternative strategies that could be employed to shore up the ailing position of the SOEs for better performance. In response, most of the business managers recommended that greater attention need to be paid to certain issues. Among these are the operational management of the SOEs in terms of human resources development, internal audit and control, the pursuit of effective marketing strategies as well as the motivation of the public enterprise employees.

The author concluded in Section IV that government privatization strategy, particularly in developing economies, is usually focussed on dispensing with the 'loser', that is those state enterprises that are sapping the national budget and credit resources while the money-making ones are to be kept. The business sector manager would obviously prefer the candidature of money-making enterprises for privatization. However, in cases where future profitability can be guaranteed, the private sector is likely to become interested in existing, less mone-making public enterprises that are scheduled for privatization.

**Remarks**

The findings of the author about the impression of the top financial executives towards privatization policy of the Thai government are quite commendable. However, recent happenings all over the world tend to suggest, contrary to the author's claim, tbat it is not only the reduction of national deficit that privatization is meant to achieve. Many governments are embracing privatization as a way of swapping debt for equit. Such an approacb allows a government to simultaneously reduce its debt burden while pursuing privatization. Under this strategy, investors typically purchase foreign debt at a discount and then exchange it for its face value in local currency which can be invested in, among other things, the purchase of equity in privatized enterprises. For instance, both Entel and Aerolineas which are Argentina's state-owned elecommunication and national airlines respectively are scheduled to be privatized by October 8, 1990. Already, a debt-equity conversion fund, specifically targeted at Argentinian privatization of these enterprises, has been established, with total commitments of approximately US $1.0 billion of debt at face value.

The cost-benefit analysis of the privatization strategy was not well addressed by the author. It is pertinent to note that whether tbe candidate for privatization is a money-making enterprise or not, once the proceeds from its sale can maintain social services as well as finance faster enconomic growth in the economy concerned, the cost-benefit considerations could favour sale of even profitable public enterprises. In addition, if the private managers that manage the privatized enterprise can improve its efficiency and profit margin, the government is likely to gain through higher tax revenue while the consumer will be better served as a result of improve goods and services which are likely to be at lower prices.

A major error in the paper is tha fact that the author did not see any justification in outright liquidation of economically unviable public enterprises; rather he was of the opinion that the ailing public institutions should be privatized. Privatization program cannot make unsaleable assets saleable since such money-losing enterprises would rarely find buyers. This argument becomes valid when it is proved that certain public enterprises are so bad that their 'salvation' lies beyond the privatization option because, regardless of ownership structure, it is unlikely that they could be revived.

To conclude that privatization program would be popular once the candidates listed for the exercise satisfy the demand of the financial executives is not only an erroneous generalization but rather naive in outlook. Evidence abound to prove that there are formidable opponents to privatization in any country, Thailand not excluded. Such pressure groups include the employed labour force, for fear of compression of the work force; nationalists, for fear of recolonisation, particularly when sales to foreigners are permitted; and affected government officials, because of the consequent reduction in their area of authority as well as erosion of opportunities for patronage and corruption. The survey would have produced a more realistic result if the scope of the respondents was widened to reflect a cross section of the country. Governments embarking on privatization should educate the people as a whole, clarifying the policy objectives and priorities of the scheme. Thus, possible opposition would be minimal particularly when the reasons behind the divestiture exercise are well understood and the process in made transparent and impartially implemented.

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