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Thailand Economic Reform

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1. The State of the Thai Economy and its Challenges

Since 2005 Thailand’s real GDP growth descended on a permanently lower trend, making it the worst performer among major ASEAN countries as shown in graph 1.

Graph 1 GDP Growth in Major ASEAN countries 2000 - 2017

Source: The World Bank Data

This is because the country’s main economic engine, the export sector, is sputtering due to declining competitiveness and increasingly grim trade environment as a result of the on-going trade war between the United States and China. Goods export growth lagged behind GDP growth during 2012 – 2016 as shown in graph 2. However, services export surged. The prospect of a recur of pre-2005 stellar GDP growth rates in the near future is bleak as FDI inflows have also slowed down considerably. Graph 3 also reveals that Thailand is no longer the main destination for foreign investors looking for opportunities in ASEAN, rather, Vietnam and Indonesia. These economic indicators paint a rather gloomy scenario of the Thai economy going forward.
Graph 2  Growth rate of GDP, goods export and services export during 2010 – 2017

NESDB: Table 2.2  Growth rate of expenditure on gross domestic product chain volume measures (reference year = 2002)

Graph 3  FDI Flows into selected ASEAN countries (2010-2017)
The emerging growth engine of the Thai economy is tourism. Graph 4 illustrates that travel receipts contribute to the sharp improvement in the service account balance from a chronic deficit to a continuous and rising surplus since 2012.

**Graph 4: Thailand’s service Account balance and tourist receipts 2010 - 2018**

Although the dramatic surge in the number of international tourists arrival in Thailand from 16 million in 2010 to 38 million in 2018 has been a boon to the Thai economy, tourism income is extremely volatile especially when about a third of the visitors come from a single country, China. The economic slowdown in China will certainly undermine the prospects of continuing spectacular growth seen during the last few years. Therefore, Thailand is in dire need to find a new growth driver that can ensure long run economic expansion.

Unlike South Korea or the Chinese Taipei, Thailand has not be able to escape the “middle-income country” gap as it is unable to attain higher productivities through technological or skills upgrading. According to Sussangkarn and Jitsuchon (2009), past economic growth was generated by productivity gain resulting from the movement of workers from low-productivity agricultural sector to higher productivity manufacturing sector that is more capital intensive. But such gains from resource reallocation is hitting its limit as the agriculture sector now contributes to merely 8 per cent of the GDP and the manufacturing sector can barely absorb more labour given the lackluster export performance due in part to the erosion of competitiveness.
The latest competitiveness ranking by the International Institute for Management Development (IMD) revealed that Thailand’s ranking moved up 5 ranks from 30th to 25th due to improved macroeconomic performance, better infrastructure and friendlier business laws. However, the ranking for business productivity and efficiency fell from 40 to 43 and business attitudes and values towards globalization, digitization and competition also fell from 17 to 26. These figures reveal that a major reform is required to shake up the Thai private sector. The author believes that the key factor holding back productivity and efficiency in the Thai business sector are government policies, rules and regulations that restrict or distort competition in the market.

2. The level of competition in the Thai economy

There is a body of empirical studies that illustrate the link between competition and productivity. Competition can have a positive impact on the level of productivity in 3 ways. First, competitive pressures force firms to be more efficient in order to survive and prosper. For example, Bloom and Van Reenen (2010) find that market competition, measured by various measures such as market concentration and price, helps boost average management practices by both the elimination of badly managed firms and driving better management practices among those that survive. The result is based on a cross-country survey of management practices covering more than 6,000 firms.

Second, competition ensures that the more efficient firms’ market shares expand and those of less efficient ones decline. Exit of unproductive firms help lift the overall productivity of an industry. Several studies have attempted to quantify the importance of this market sorting effect. For example, Arnold et al (2011) suggest that productivity growth is largely driven by reallocation from less to more productive firms, rather than through within-firm improvements in productivity. Similarly, Harris and Li (2008) find that 79% of UK productivity growth arises from between-firm effects rather than within-firm effects.

Third, competition fosters innovation. A wide range of empirical studies have illustrated the link between competition, innovation and productivity. For instance, Correa and Ornaghi (2014) find a positive relationship between competition and innovation using US manufacturing data. Patent counts are found to increase with more competition. Similarly, TFP and labour productivity are found to continue to rise when a firm moves from a less to a more competitive industry. The authors suggest that when there are well-defined intellectual property rights in a market, increases in competition will generally lead to greater levels of innovation which in turn leads to higher levels of productivity.

Despite the ample empirical evidence of the positive contribution of competition to productivity, the belief that competition will drive productivity and growth is uncommon among both the Thai public and private sector. Most local businesses take for granted that the
government has the duty to protect them from foreign competition and thus advocate protectionist policies. Consumers, which includes small and medium businesses that may benefit from market competition that begets goods and services that are of better quality and variety at lower prices are too dispersed and unorganized such that their voices often go unheard. Also, most SMEs still operate underground and do not pay tax and so cannot engage in the official policy making process. Non-government consumer groups in Thailand, on the other hand, tend to be anti-business and anti-market and thus do not advocate competition. Large businesses that may be adversely affected by monopolies in their upstream of downstream supply chains are often hesitant to voice their concerns for fear of retaliation in the absence of an effective competition law. Also, large Thai businesses operate in a close-knitted community that does not foster open public criticism.

Competition not only threatens local private enterprises, but also state-owned ones. For example, back in 1999 when the government was advocating the promulgation of a competition law, many ministries expressed opposition to the law. Some were genuinely concerned about whether conventional competition rules can apply to state enterprises that carry social mandates, while others feared that competition rules would erode the lucrative rents that state enterprises were able to extract from consumers or business partners. As a result, the Trade Competition Act of 1999 contained a blanket carve-out for state enterprises. This was to appease various ministries that would like to retain full control over enterprises under their supervision.

In short, Thailand seriously lacks effective competition advocacy, leaving government policies and measures easily captured by vested interest groups. As a result, the country’s trade and investment policies tend to be protectionist and rules and regulations tend to preserve rather than challenge incumbent players in the market. And, without due concern for competition, the government tends to pursue policies that distort competition in the domestic market such as subsidizing and providing privileges to state owned enterprises that compete directly with private ones in commercially driven businesses or implementing populist policies that undermine market mechanism such as price guarantees. Corruption also distorts or restricts competition as bribes are often offered in exchange for business privileges or monopolistic rents. In the absence of free and fair market competition, productivity and efficiency are compromised. The following sections will elaborate in greater details government policies, measures and rules that undermine market competition and market mechanism which have been holding back advancement in productivity and efficiency.

2.1 Protectionist Trade and Investment Policy

Despite of being a small open economy that relies on export as engine of growth, Thailand adopts a relatively protectionist stance when it comes to services trade and investment policies. A glaring example would be the Foreign Business Act 1999 that prohibits foreign investors from holding more than 49 per cent of direct equity share in any service business in Thailand, except
for large-scale investment projects that receive promotional privileges from the Board of Investment or those that reside in the state-owned industrial estate. Strict rules governing the employment of foreign professionals or skilled workers further discourages foreign investment in knowledge-based service businesses and undermine innovation and research and development. As a result, many large conglomerates in Thailand grew out of protection rather than superior productivity. Unsurprisingly, these companies are often engaged in non-tradable service sector where foreign competition is restricted. In 2018, 16 Thai publicly listed companies appeared in the Forbes 2000 list. All operate in non-traded sector as will be elaborated below.

Table 2 below shows that among the first 10 of the 16 mentioned companies, four are state-owned with a statutory or de facto monopoly or privileged market access. For example, all government departments and state-owned companies conduct their financial transactions through the state owned commercial bank, the Krungthai Bank, sometimes, exclusively. They also prefer to outsource work to the bank as procuring from state enterprises are exempted from procurement rule that requires an open bidding process. The bank thus grew from a captive market despite its old-fashioned service and bureaucratic administration. Similarly, the PTT Global Chemical, the state-owned petrochemical giant, has been able to secure high profit margin through privileged access to much-lower priced raw materials, the LPG (liquid petroleum gas) sold by gas separation plants owned by PTT, the state-owned petroleum company that holds a monopoly over natural gas trade and its largest shareholder. The vertically integrated monopoly holds formidable market power along the entire petroleum and gas supply chain, including natural gas trade, transmission, distribution and import.

For the remaining 6 private companies that made it to the top 10 list, many are commercial banks. The Thai banking sectors is well known to be one dominated by a few large banks without effective competition. Foreign-owned banks are restricted with the number of branches (includes ATMs) it can operate making retail business impossible.

<table>
<thead>
<tr>
<th>Forbes 2000 Ranking</th>
<th>Name of company</th>
<th>Sector</th>
<th>Market power</th>
</tr>
</thead>
<tbody>
<tr>
<td>156</td>
<td>PTT</td>
<td>Energy (state-owned)</td>
<td>Monopoly in petroleum trade and natural gas transmission and separation.</td>
</tr>
<tr>
<td>623</td>
<td>Siam Commercial Bank</td>
<td>Banking</td>
<td></td>
</tr>
<tr>
<td>654</td>
<td>Siam Cement Group</td>
<td>Cement, Construction materials</td>
<td></td>
</tr>
<tr>
<td>710</td>
<td>Kasikorn Bank</td>
<td>Banking</td>
<td></td>
</tr>
</tbody>
</table>
Protectionist stance in the services sector runs deep among Southeast Asian countries, bar Singapore. This is evident in the failure of the ASEAN Framework Agreement on Services (AFAS) where members submitted 10 packages of service liberalization schedule over 26 years from 1996-2019 to achieve any meaningful liberalization. While the negotiations are advertised to have achieved the targeted number of service subsectors to be liberalized, the subsectors offered for liberalization are mostly economically trivial. For example, in the last 3 liberalization packages, Thailand’s offer include the transportation of passengers in space, the delivery service by bicycle and the freight transport service by vehicles drawn by man or animal. It is thus no surprise that there has not been a single ASEAN investor that exploited the privileges offered under AFAS, rending the almost three decades of negotiations futile.¹

2. 2 **State-owned enterprises monopolies and special privileges**

As mentioned earlier that one of the reasons that the Ministries are averse to competition is the vested interest in the monopolistic proceeds from state monopolies. Thailand currently has 58 enterprises in which the state – i.e. the Ministry of Finance -- directly owns more than 50 per cent of the direct equity share. Out of that number, 33 are considered to be enterprises engaged in commercial activities and several hold a statutory or de facto monopoly; mostly in utilities as shown in the table 1 below. In 2018, the government received financial contribution of 4.9 billion USD from all SOEs. Most of the transfer came from monopolistic enterprises such as the Government Lottery Office, the PTT PCL, the Electricity Generating Authority of Thailand and the Provincial Electricity Authority. It is thus no surprise that the position of a Minister of the Ministry of Energy is much coveted by politicians.

**Table 1: State-owned Enterprises in Thailand and their Revenue in 2015**

<table>
<thead>
<tr>
<th>Code</th>
<th>Company</th>
<th>Industry</th>
<th>Privileges</th>
</tr>
</thead>
<tbody>
<tr>
<td>819</td>
<td>PTT Global Chemical (subsidiary of PTT)</td>
<td>Energy (state-owned)</td>
<td>Privileged access to natural gas sold by PTT</td>
</tr>
<tr>
<td>829</td>
<td>Bangkok Bank</td>
<td>Banking</td>
<td></td>
</tr>
<tr>
<td>918</td>
<td>CP All</td>
<td>Retail</td>
<td></td>
</tr>
<tr>
<td>1078</td>
<td>Krungthai Bank</td>
<td>Banking (state-owned)</td>
<td>Privileged access to government market</td>
</tr>
<tr>
<td>1123</td>
<td>Thai Beverage</td>
<td>Beverage</td>
<td></td>
</tr>
<tr>
<td>1237</td>
<td>Airport of Thailand</td>
<td>Airport (State-owned)</td>
<td>Near monopoly in airport operation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name of SOE</th>
<th>Revenue (mil. baht)</th>
<th>Market Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metropolitan Electricity Authority</td>
<td>198,654.76</td>
<td>• Monopoly in electricity distribution</td>
</tr>
<tr>
<td>Provincial Electricity Authority</td>
<td>465,814.99</td>
<td>• Monopoly in electricity distribution</td>
</tr>
<tr>
<td>PTT Public Limited Company</td>
<td>2,063,727.44</td>
<td>• Monopoly in gas transmission • Monopoly in petroleum trade • Captive market in state procurement of petroleum</td>
</tr>
<tr>
<td>Electricity Generating Authority of Thailand</td>
<td>538,845.78</td>
<td>• Monopoly in high voltage electricity transmission • Monopoly in electricity trade</td>
</tr>
<tr>
<td>State Railway of Thailand</td>
<td>0.00</td>
<td>• Monopoly in rail transport</td>
</tr>
<tr>
<td>Airports of Thailand Public Limited Company</td>
<td>45,736.08</td>
<td>• Near monopoly in airport services</td>
</tr>
<tr>
<td>Thailand Post Company Limited</td>
<td>23,019.96</td>
<td>• Monopoly in the delivery of letters and post cards</td>
</tr>
<tr>
<td>Metropolitan Waterworks Authority</td>
<td>19,723.65</td>
<td>• Monopoly in water utility</td>
</tr>
<tr>
<td>Provincial Waterworks Authority</td>
<td>28,749.22</td>
<td>• Monopoly in water utility</td>
</tr>
</tbody>
</table>

Source: State Enterprise Policy Office (SEPO)

While inefficiencies of monopolistic state-owned enterprises are hidden behind stellar financial performance contributed by monopolistic rents, those that are not fortunate enough to be endowed with monopolistic power shows glaring inferior financial performance due to cumbersome bureaucratic regulations (rigid employment termination conditionality, burdensome procurement rules, and lengthy investment approval procedure) as well as corruption. Graph 5 below compares the rates of return on asset (RoA) of private sector service providers and those of state owned enterprises in the telecommunications and aviation markets. Clearly, state owned enterprises, TOT PCL, CAT Telecom and Thai Airways showed inferior performance. Given that these state owned enterprises hold major assets, their inefficiency contributes directly to the overall productivity level of the service sector. The privatization of these money-losing enterprises has faced stiff resistance from employees who enjoy work security under the law governing state-owned enterprises employees.

**Graph 5 – Return on Asset Figures for State-owned and Privately-owned Operators**
Another explicit example of state-owned enterprise’s relative inefficiency is in the delivery service market. The corporatized – but still wholly state owned -- Thailand Post is well endowed with the most expansive network of over 4,000 post offices nationwide, providing a clear advantage over new entrants. Although the Thai Post currently dominates the express delivery industry with a 67 market share, foreign private service providers, in particular, Kerry Express, are fast gaining ground with greater managerial and administrative flexibility and superior business experience. as shown in graph 6.


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Given that state-owned enterprises’ asset is roughly equivalent to the country’s GDP (14 trillion baht), their income roughly 40 per cent of the GDP and their combined employment 7 per cent of the labour force in 2017\(^3\), their inherent inefficiencies represent a non-trivial drag on the country’s productivity.

### 2.3 Lack of enforcement of competition law and absence of advocacy for competition policy

Thailand was the first nation in Southeast Asia to have an effective competition law back in 1999 when such a law was unfamiliar to most developing countries. But exactly two decades have passed and Thailand has not a single competition case to show. The lack of enforcement can be attributed mainly to political influence of big businesses and the lack of enthusiasm in implementing the law on the part of the government.

According to Poapongsakorn (2002)\(^4\), the Federation of Thai Industries (FTI) did much to prevent the cabinet from approving the proposed definition of market dominance in order for the abuse of dominance provision to become enforceable. As a result, the issuance of the dominance threshold was delayed until 2008, 6 years later under a military government.

Business influence in the enforcement of the competition law cannot be more blatant when big businesses were among competition commissioners. Under the former competition law, the commission was chaired by the Minister of Commerce and commissioners consist of government bureaucrats and representatives from the Federation of Thai Industry and the Thai

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Chamber of Commerce. Non-interested parties such as academics and smallish businesses were a minority.

The flawed composition of the competition commission was well recognized by every government, but effort to amend the act repeatedly failed until the military coup in 2014. A former Permanent Secretary of the Ministry of Commerce was appointed as Minister of Commerce. As an unelected politician with definite term, the Minister pushed through the long-standing amendment of the law.

The Competition Law 2017 made the competition office an independent body, much like other sectoral regulatory bodies the likes of the Energy Regulatory Commission and the Office of Insurance Commission. Its budget is allocated directly from the Budget Office rather than through the Ministry of Commerce as was the case in the past. The number of commissioners has been reduced to 7 and all are full-time. Politicians, bureaucrats and private sectors representatives are no longer allowed to be commissioners, unless they resign from their respective positions before taking office. Another very important amendment was the replacement of administrative sanctions in place or criminal penalties for violations of lesser gravity such as unfair trade practices. In the past, the Office of the Attorney General refused to file criminal charges against the alleged perpetrators on the basis of lack of sufficient evidence to “prove beyond reasonable doubt”. Administrative penalties require less demanding evidence and hence, easier to impose. In August 2018, the new Trade Competition Commission, for the very first time, levied administrative fines on two cases concerning exclusive dealings.

Unfortunately, the new competition act is silent about the policy advocacy role of the competition office. Generally, competition laws are designed only to regulate anti-competitive practices of businesses, not state policies or measures. Unfortunately, most monopolies, oligopolies or cartels result from state policies or regulations. For example, the Bank of Thailand unknowingly support price-fixing in the banking industry by setting maximum fees for most banking services. Public procurements are another usual suspect. The Airport of Thailand granted a monopoly concession for the operation of duty free shops at three main international airports despite much protest from both the academic, civil society and the business community. Mega-projects procurement such as those involving high-speed train and submarines were not open to competitive bidding, but rather catered to a designated supplier. Several business licenses carry unreasonable conditions that serve to entrench the incumbent market power. For example, to obtain a license to produce beer, the applicant must commit investment capital not less than roughly 3.3 million USD and have a capacity to produce not less than 100,000 litres of beer per year. This proscribes the production of craft beer which needs to start off on a small scale to test the market. Similar examples are endless.

In countries that hold competition as one of the main elements underpinning the competitiveness of the economy, the competition law often prescribes the competition authority a strong advocacy role. For example, in South Korea, the competition law requires any ministry or agency that intends to issue a new regulation notify the Korea Fair Trade Commission (KFTC) thereof. If the KFTC finds that such regulation restricts or distorts
competition in the relevant market, it will propose amendments to the draft regulation at the stage of consultations. An agreement between the KFTC and the relevant ministry or agency should be reached before the proposed rule or regulation can be forwarded to the legislative process. And, to ensure that the agreement is implemented the Chairperson or Vice Chairperson of the KFTC attends high-level meetings deliberating the bill including those of the Regulatory Reform Committee, the State Council and the Vice Ministers.’

Without a designated body mandated to scrutinize the impacts of government rules and policies on market competition, government anti-competitive practices will like remain unchallenged. However, there has been some positive development. Despite the absence of a statutory mandate, the new Trade Competition Commission, again, for the very first time, voiced opposition against the Bangkok Metropolitan Administration’s (BMA) decision to give a telecom operator a monopoly over the operation of the underground communications cable network, an essential infrastructure for all telecom operators. Its move, along with those of academics and the private sector, forced the BMA to scrap the idea. This marks a major step forward for Thailand’s competition policy.

2.4 Anti-competitive Government rules and regulations

The root cause of private monopolistic power often comes from artificial barriers to competition created by state regulations rather than naturally monopolistic market structure. Most common regulatory barriers are embedded in licenses and concessions. Several business licenses carry unreasonable conditions that serve to entrench the incumbent market power as elaborated in section 2.3. Another example is the permit to operate privately owned pawnshops, a lucrative business given a large proportion of the population are not bankable. According to TDRI (2011), the net profit of government owned pawnshops in 2010 was 58.33 per cent. This is a result of the relatively high maximum interest rate allowed to charge customers; 2 per cent per month or 26.82 per cent per annum, compare with 15 per cent for commercial bank loans. Moreover, pawnshops also make large profits from the resale of the collateral pledged for the loan. The profit margin of privately owned pawnshops are likely to be significantly higher because all charge the maximum interest rate for loans while state-owned counterparts tend to charge less. Despite the excessive margin, the pawnshop committee issued a policy to freeze new licenses in the Bangkok area.

Along the same vein, only one company is licensed to incinerate certain type of industrial toxic waste despite the fact that there are many potential operators, such as cement producers, that also operate incinerators.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Regulation</th>
<th>Consequence</th>
</tr>
</thead>
</table>

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<table>
<thead>
<tr>
<th>Beer</th>
<th>- Investment capital not less than 3.3 million USD and have a capacity to produce not less than 100000 liters of beer per year.</th>
<th>- Only two local beer companies exist in the market. Small craft beer producers are unable to set up shops in Thailand. Consumers have limited choice of imported craft beer.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pawnshops</td>
<td>- The numbers of license have been limited by the Bangkok and Provincial Administrative Authority.</td>
<td>- A few pawnshops have been established since 2004. Maximum interest rates are usually charged to customer. Pawnshops rarely been modernized.</td>
</tr>
<tr>
<td>Incineration</td>
<td>- Only one company is licensed to incinerate certain type of toxic waste</td>
<td>- Only one company can incinerate toxic waste. The fee for incineration is relative high. As a result, illegal incineration of toxic waste is commonplace.</td>
</tr>
</tbody>
</table>

As mentioned earlier, in the absence of an official body designated to scrutinize anti-competition government policies or measures, monopolies and oligopolies are likely to prevail and even expand their domain.

### 2.5 Corruption

Corruption remains a major challenge for Thailand. In 2019 Thailand was ranked the 38th out of 140 countries in terms of competitiveness by the World Economic Forum. However, the country’s ranking for corruption in the report was 99th, far lower than the overall ranking. Undoubtedly, corruption is holding the economy back. How is corruption linked to competition?

Corruption is often related to *rent-seeking* activities; activities whose objective is to capture excessive economic returns by manipulating the political and regulatory environment to artificially restrict competition. Hence, corruption can be closely associated with monopolies or oligopolies. A study by the World Bank (2013) showed that the incentives for policymakers to engage in rent-provision depends on the institutional incentives they face. Elected officials in stable high-income democracies are the least likely to indulge in such activities opposed to entrenched bureaucrats and/or their counterparts in young and quasi-democracies where check and balances are more limited.\(^5\)

\(^5\) Hamilton, Alexander (2013), Small is beautiful, at least in high-income democracies: the distribution of policy-making responsibility, electoral accountability, and incentives for rent extraction. World Bank publication.
Interestingly, in Thailand it is often the widespread corruption that brought down democratically elected governments. Regardless of the nature of the political regime, corruption remains endemic. To fight corruption, Thailand has installed and empowered many “watch dog” organizations such as the National Counter Corruption Commission, the State Audit Commission and the Ombudsman Office. However, the top-down approach has had limited impact on fighting corruption as these organizations continued to be plagued by cumbersome state bureaucracy and political interventions. Many of the artificial regulatory barriers described in section 2.3 may involve bribery of concerned public officials or politicians. A study by TDRI, revealed that most corruption cases handled by the National Counter Corruption Commission during the last 30 years involved bids-rigging in government procurement.

The term “policy corruption” is often used in Thailand to describe government policies designed specifically to serve a particular vested interest group or the financial interest of member(s) of the government itself. Policy corruption is commonplace as it is a means by which the government may cater to the interest of its supporters without having to break the law as it holds the statutory power to form policies it sees fit. For example, a former Prime Minister rushed through an amendment of the telecom law in order to increase the allowed foreign equity share from 25 to 49 per cent before the planned sale of his communications empire to investors overseas. Policy corruption may also take the form of a populist policy whereby the government forms policies to win votes rather than to increase the welfare of its people. If using administrative authority to garner personal benefits is considered a corrupt practice, then populist policies, too, can be considered a form of corruption. While populist policies often target a broader constituency such that the benefits are widely spread out, most do not support long term development goal and can be very costly. Section 3 will address the issues concerning populist policies and fiscal sustainability.

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3. Populist Policies and Fiscal Sustainability

The fact that the objective of a politician is to maximize votes rather than maximize efficiency or productivity is another major challenge. Candidates often pledge policies that would garner the most votes. Unfortunately, these policies are usually inconsistent with those required to build productivity and long term sustainability of the economy. Moreover, such policies can be very costly, leading to increasing risk of fiscal instability.

3.1 Rise of Populism

According to Siamwalla (2011), populist policies in Thailand before 1997 traditionally occurred only at the local level as governments at the time are usually made up of coalitions of rural “big men” with local constituencies. Thus, policies that are often pledged to capture local votes often include the construction of local infrastructure such as hospitals, airports and roads. This all changed when the Constitution of 1997 introduced a new election scheme that favored a strong single party government rather than a multi-party coalition government as in the past. The first-past-the-post system in a single-member constituency allows a strong party to capture the majority of the seats in the Parliament.

The self-exiled former Prime Minister Thaksin Shinawatra was the first to introduce populist policies at the national level. Some of his campaign promises included universal service care for 30 baht per visit, debt moratorium for farmers, one-million-baht loans for every village and the promotion of one-commune one product scheme. Except for the universal health care scheme, most of these policies do not achieve the objective of increasing income and reducing poverty.

The most damaging populist policy in the history of Thailand is the “rice-pledging scheme”. The first rice-pledging scheme was initiated in 1981 by the state-owned Bank of Agriculture and Agricultural Cooperatives (BAAC) with good intentions. It was meant to help farmers game the rice market by allowing farmers to pledge rice in exchange for low interest loans so that they may sell their crops when prices are high. However, the scheme was exploited for political gains when former Prime Minister Thaksin Shinawatra set the pledging price well above market price so that the scheme became in practice a cash handout policy in disguise during 2001-2006. Such policy was reintroduced during Yingluck Shinawatra’s government from 2011 to 2013. This time the pledging price was in excess of the market price by 29–40%. Without a cap on the volume of rice that can be pledged, farmers were incentivized to produce highest-yield rather than high-quality rice as shown in graph 7 below.


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found that the scheme which generated additional income for farmers had a very slight positive contribution to the probability to invest in rice farm modernization, but could not detect any actual additional expenditure in farm modernization among farms that participated in the pledging scheme.

Graph 7: Rice yield during the rice pledging scheme.

The pledging scheme also caused collateral damage. As the government became the sole purchaser of rice at such high guaranteed prices, the private rice trading business was destroyed. The scheme ended up with public spending 1.1 trillion baht and a net loss of 682 billion baht and equivalent to 3.8% of the GDP in 2013 without any long-run productivity improvement.

Another notorious populist policy is the first-car-buyer tax rebate scheme. During 2011-2013, the government introduced an excise tax rebate of 50,000 – 100,000 baht per car depending on the model -- for first-car buyers. This scheme aimed to pump-prime the economy by stimulating the demand for automobiles as Thailand is a major car-assembly hub. Although the scheme duly delivered a jump in car sales as indicated by the number of car

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registration during 2011-2013 shown in graph 8 below, car sales returned to its former trend thereafter. Muthitacharoen (2019)\textsuperscript{10} prompted unwarranted purchase of unproductive asset that worsened the already heavy traffic condition in Bangkok and major cities and led to excessive debt burden for those who participated in the scheme. The study found that the scheme resulted in higher loan delinquency and crowded out other loan originations. This cost the government $2.8 US billion.

**Graph 8: Passenger car registration**

The two cases demonstrate that populist policies aimed at boosting income of political constituency not only impose an adverse effect on productivity, but also incurred large public expenses. Such policies, if pursued continuously, can threaten the country’s fiscal sustainability.

**3.2 Continuation of Populist Policies**

It was the rice pledging scheme that triggered the military coup that brought down the elected government of Yingluck Shinawatra. The scheme became increasingly expensive such that the government at the time could not secure sufficient budget to finance it. Farmers that have pledged rice before the fall of the government were not paid for more than 4 months. Widespread discontent among farmers opened up the opportunity for a military coup. Although the new government at the time pledged to fight against populist policies by

legislating fiscal discipline rules, the recent democratic election that took place in March 2019 revealed that populist policies are very much alive and well. Political parties were competing in advocating the following policies:

- Free cash handout for various targeted groups from child support, elderly living allowance, homeless allowance and even monetary support for adolescents aged 18-20.
- Improved universal healthcare benefits such as subsidies for pregnancy and birth-giving expenses and increased budget allocation for the universal healthcare service scheme.
- Farm support that comprises cash handout for small farms, rice pledging scheme, debt moratorium for farmers.
- Free education for 15 years or until vocational certificate level and free breakfast and lunch at schools
- Income support schemes such as minimum wage hike, fund for job-switching, guaranteed minimum salary, one-day per week of working at home.
- Alleviation of tax burden such as lower personal income tax, lower corporate income tax, tax exemption for on-line merchants, two-year tax exemption for start-ups and five-year tax cut for new graduates.

Indeed, these policies aim to “put cash in the hands” of targeted electorate such as households with children, elderlies, farmers, etc. They do not involve any measures that could help boost long term competitiveness of the country. Some of these commitments can be very costly. If populist policies continue, Thailand’s fiscal sustainability will certainly be compromised while the country’s competitiveness will stall. The following section describes the rules and regulations in place to prevent fiscal imprudence that arises from populist policies.

### 3.3 Fiscal sustainability

The first framework for fiscal sustainability in Thailand was introduced after the 1997 Asian Financial Crisis by the Thai Ministry of Finance in 2001. Although the crisis originated from private financial institutions’ excessive foreign-currency denominated debt, in the process of saving the sector to avoid a systematic collapse of the country’s financial sector, such debt was fiscalized. Thus, public debt ballooned. The heavy fiscal burden called for a set of rules that can ensure future policy discipline as follows:

- Public debt to GDP ratio shall be less than 50 percent
- Debt service to total budget ratio shall be less than 15 percent
- Public investment expenditure to total budget ratio shall not be less than 25 percent
- Balanced budget shall be attained within the year 2005

As the global economy remained healthy at the time, Thailand was able to export itself out of the crisis. The quick recovery led to a sharp fall in the ratio of public debt to GDP from 57.11 to
37.37 in 2008 as shown in table 2 below, well below the threshold level prescribed by the fiscal stability framework. The same applied to the debt service to budget ratio which was also well below the threshold level of 15 per cent. However, public investment expenditure to budget ratio failed to meet the minimum target of 25% during the latter years and the balanced budget target proved elusive except in 2005. In sum, despite the chronic fiscal deficits, the fiscal situation in Thailand seemed to have moved towards a sustainable path before the Global Financial Crisis broke out in September 2008.

Table 2: Assessment of Compliance to Fiscal Sustainability Criteria

<table>
<thead>
<tr>
<th>Fiscal sustainability criteria</th>
<th>2001</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public debt to GDP ratio less than 50 percent</td>
<td>57.11 %</td>
<td>45.89 %</td>
<td>41.29 %</td>
<td>37.12 %</td>
<td>37.37 %</td>
</tr>
<tr>
<td>Debt service to budget ratio less than 15 percent</td>
<td>10.87 %</td>
<td>11.54 %</td>
<td>10.72 %</td>
<td>11.26 %</td>
<td>10.45 %</td>
</tr>
<tr>
<td>Public investment expenditure to budget ratio at least 25 percent</td>
<td>24 %</td>
<td>25.5 %</td>
<td>26.3 %</td>
<td>23.9 %</td>
<td>24.1 %</td>
</tr>
<tr>
<td>Balanced budget within the year 2005</td>
<td>-132,081 Million baht</td>
<td>19,747 Million baht</td>
<td>-54,881 Million baht</td>
<td>-130,248 Million baht</td>
<td>-87,567 Million baht</td>
</tr>
</tbody>
</table>


Unfortunately, the Global Financial Crisis that originated from the subprime-mortgage in the United States in 2008 led to a steep fall in demand for Asian exports. As export was valued at 76 percent of Thailand’s GDP at the time, the Thai economy was severely affected. Unemployment rate increased from roughly 1 - 1.5 percent to 5 - 6 percent in 2009 and GDP
growth dipped from 2 per cent to -2.3 per cent. According to Basri and Sangsubhan (2012)\textsuperscript{11}, without any fiscal stimulus policy, the economy would have contracted by 3.9 percent.

To counter the economic downturn, the Thai government implemented two fiscal stimulus packages (SP1 and SP2) along with tax reduction measures worth 507 billion baht in total, or roughly a third of the budget expenditure in 2008 of 1.66 trillion baht in 2008. As a result, the debt to GDP jumped from 37.37 in 2008 to 44.26 in 2009. Although the figure has not yet exceeded the set threshold, to allow the government to pursue further fiscal expansion, the fiscal sustainability rule was relaxed. The debt to GDP ratio limit was raised from 50 to 60 percent in 2009.

Although these policy packages helped propped up the economy at the time, fiscal stimulus policies became a long-term rather than short-term policies as originally intended. This is because the government faced political challenges when trying to implement a practical exit strategy. Thailand became “addicted” to fiscal expansionary policies and fiscal profligacy became the ‘new normal’ since then. As shown in graph 8 below, the government never achieved fiscal balance as planned and the size of the deficit has been on a permanently increasing trend. Since 2009 Thailand’s fiscal situation appeared to be diverging from a sustainable path.

Most stimulus policies implemented by the government at the time focused on boosting consumption rather than investment that would help build long term productivity and hence, long-term economic growth. The campaign included, for example, the introduction of monthly allowance for senior citizens, the first-car/house buyer tax rebate scheme, the crop price insurance, the energy subsidy and again, the rice-pledging scheme. The latter scheme cost the government around 1.1 trillion baht with a net loss of 682 billion baht, roughly 4 per cent of the GDP in 2013.

According to the graphs above, Thailand’s began to face problems concerning fiscal sustainability after the Global Financial Crisis in 2009. Although the public debt to GDP ratio and the debt service to government budget ratio remained below their respective ceiling rates, the balanced budget target was never met. Moreover, the ratio of investment expenditure never reached the minimum target of 25%, indicating that the government had overspent on non-productive populist policies such as raising civil servants and teachers’ salaries. Both are important electorates. Insufficient investment means lower future economic capacity in the future. Rising debt against sluggish future income growth does not bode well for Thailand’s prospect for fiscal sustainability.
With a concern of fiscal position in Thailand due to excessive populist policies, the Constitution of the Kingdom of Thailand 2017 drafted under the military government contains a provision prescribing fiscal discipline. Article 62 specified that the state strictly maintain fiscal discipline and that a law shall be promulgated to ensure that the discipline will be observed. Accordingly, in 2018 the State Financial and Fiscal Discipline Act was duly promulgated. The law stipulated that the fiscal discipline ratios shall be set by the Financial and Fiscal Committee. In 2018, the committee announced the following fiscal rules according to section 20 of the Act:

- Contingency Fund reserved for expenses in case of emergencies shall constitute between 2-3.5 percent of the total budget. This is because past governments used the fund to finance non-emergency populist policies that have not been approved by the parliament.
- Budget allocated for principle payment of public debt shall constitute between 2.5-3.5 percent of the total annual budget. This is to ensure that the government will allocate sufficient budget for the principle repayment in order to avoid excessive debt service burden that threatens future fiscal sustainability.
- Budget allocated for debt service shall be consistent with the expected debt service of outstanding government debt. Again, this rule aims to prevent the government from under-budgeting debt service in order to maximize its fiscal space.
- The size of budget commitment to multi-year projects shall not exceed 10 percent of the total budget stipulated in the budget law. This is to prevent a government from initiating too many mega-projects that would tie up future financial resources.
- The size of the budget allocated to multi-year projects not prescribed in the budget act shall not exceed 5 per cent of the total budget stipulated in the budget act. This is to limit government spending on unplanned projects with multi-year financial commitments

The Financial and fiscal committee also announced the guideline for debt management as prescribed by section 50 of the Act as follows:

- Public debt to GDP ratio shall be less than 60 percent
- Debt service to expected budget ratio shall be less than 35 percent
- Public debt in foreign currency to public debt ratio shall be less than 10 percent
- Public debt in foreign currency to export revenue ratio shall be less than 5 percent

Failure to comply with the rule and guideline above, if proved to be intentional and cause damage to the state, is subject to administrative penalty imposed by the State Audit Office which includes a parole, public condemnation and fines not exceeding the annual salary of the perpetrator, depending on the gravity of the violation.

Although the law has been promulgated with good intentions but critics have pointed out some of its shortcomings with the most important being that the Financial and fiscal
committee is chaired by the Prime Minister, the head of the executive branch. If a government wants to pursue populist policies that require mobilization of large fiscal resources, it can manipulate the fiscal rule and the debt management guideline by simply relaxing the quantitative thresholds. In fact, critics have already pointed out the shortcomings of the established thresholds as follows.

First, the ceiling rate for the debt to GDP ratio at 60 percent is deemed too high as the figure was crafted back 25 years ago when the government had limited financial resources other than debt. The size of government revenue and the bonds market was too small to finance the development of much needed public infrastructure at the time. Today, government revenue equals roughly 18-19 per cent of the GDP and the bond market, 80 percent of the GDP. Given the access to alternative sources of financing, the debt ceiling should thus be markedly lower.

Second, the cap on the size of the contingency fund at 3.5 per cent is non-trivial. What would be more important would be to develop a due procedure for the disbursement of the fund which, at present, spent at the whim of the cabinet.

Third, the rule that the size of the budget allocated for public debt service shall constitute between 2.5-3.5 percent of the total annual budget is non-binding. For the last 20 years the actual budget allocated for debt service had fallen within the established range. Moreover, without a restriction on debt-roll over, the government can always incur new debt to pay for old debt in order to maximize its fiscal space.

To conclude, Thailand has made a clear attempt to ensure fiscal sustainability by having fiscal discipline enshrined in the Constitution. However, the organic law on the subject has a few shortcomings including lax rules and guidelines and lack of hard sanctions to ensure compliance. Hence, the risk of the country being mired in yet another series of populist policies that would challenge the country’s fiscal integrity will likely remain.

3. Evaluation of Main Reforms in Past Five years and Key Reform Area

The military government led by General Prayut Chanocha which seized power in May 2014 had had full power in running the country in the absence of opposition parties until a newly elected government was installed in July 2019. It was also equipped with the authority to issue orders than can override all laws and regulations under section 44 of the interim constitution that would accommodate quick economic reforms.

The notable achievement of the administration during the past five years was the development of much needed infrastructure such as the double -track rails, high-speed trains, urban mass transportation system, sea ports and facilities in the newly established industrial zone, the Easter Economic Corridor (EEC). Political instability that had taken hold of the country
since the previous military coup in 2006 delayed major construction projects for almost a decade. The new infrastructure will help boost the competitiveness of the Thai economy.

In terms of regulatory and institutional reform, the government was able to solve the country’s pressing problems concerning aviation safety standard and illegal. Thailand was red-flagged by the International Civil Aviation Organization (ICAO), in June 2015 for failing to adequately deal with "significant safety concerns [SSCs]" of its registered carriers. This resulted in many countries restricting any Thai carriers from flying into their countries such as the United States, Japan, South Korea and China. The government promptly set up an independent civil aviation regulatory body, the Civil Aviation Authority of Thailand (CAAT) and appointed CAA International (CAAi), a UK based consultant, to help strengthen CAAT’s aviation safety oversight and compliance with ICAO. In September 2017, the ICAO removed the red flag. Besides, the CAAT, the government is also set up a regulatory body for rail transport within the Ministry of Transport in preparation for the implementation of the draft Rail Transportation Act that will establish a proper regulatory system and institution.

A major regulatory and institutional reform that was driven by the government itself rather than by outside pressure was the establishment of an independent competition authority and the promulgation of a new competition law that is easier to implement by introducing administrative fines for certain violations in place of a criminal penalty. As a result, the competition commission, for the very first time, imposed fines on two cases concerning exclusive dealings. Another notable reform concerned rules and regulation pertaining to “ease of doing business”. In 2018, Thailand’s Ease of Doing Business ranking moved from 48th to 26th, making it one of top 10 economies that have improved most in the ease of doing business in that year. The government also initiated a project to review 1000 procedures pertaining to permits and licensing in collaboration with the private sector in order to further improve the ranking.

On the contrary, the government has done little to ensure that both the government offices and enterprises embrace competition in procuring or granting concessions. State organizations continue to rent seek rather than promote competition. The granting of a monopoly in the duty free business and the decision to hand over an exclusive right to manage access to the underground cable duct to a single telecom operator as mentioned earlier are cases in point.

With respect to economic liberalization, the government did not make any progress in opening up the service sector. However, it relaxed many restrictive rules and regulations governing foreign investment and the hiring of foreign workers for businesses to be established within the Eastern Economic Corridor (EEC). For example, the foreign equity restriction can be waved for all businesses that will be set up in the EEC as the entire area is designated to be a “promoted area” which allows businesses to receive investment promotions and exemptions from certain regulations. Also, skilled workers, investors, executives and startups entrepreneurs in the EEC will be eligible for “Smart Visa” that will grant a maximum 4-year permission to stay, exemption from the work permit requirement, exemption from various regulations restricting
the employment of foreign workers and entitled to additional privileges such as visas and work opportunities for spouses and family members. Foreign education institutions are also allowed to operate in the area.

Although the government resisted opening up its service sector unilaterally, it has made clear intention to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the third-largest free trade area in the world. This would require Thailand to allow investors from member countries to establish service businesses and compete with local companies in the domestic market. But the CPTPP faces opposition from civil society groups that are concerned that the agreement on intellectual property rights will make patented medicines and agricultural seeds more expensive. At the same time, it continues to actively participate in the on-going negotiation of the Regional Comprehensive Economic Partnership (RCEP) and has started an informal negotiation with the European Union. With dire global trade condition and falling competitiveness, large Thai businesses have put their full support behind all trade agreements, in particular the CPTPP.

On the anti-corruption front, the government, at the beginning, showed intention to subscribe to many international governance standards. It declared its intention to join the Cost (Construction Sector Transparency Initiatives), the EITI (Extractive Industry Transparency Initiative) and the Open Government Partnership (OGP). The CoST prescribes certain standard for the disclosure of government procurement data and information, while the EITI (Extractive Industry Transparency Initiative) which requires disclosure of information along the extractive industry value chain, from how extraction rights are awarded, to how revenues make their way through the government and how they benefit the public. The report that contains such information must be endorsed by a multi-stakeholder party consisting of representatives of the government, the private sector involved with the extraction and the civil society. The OGP requires that member countries identify a lead ministry and commit to creating action plans, containing concrete reforms on open data – in consultation with civil society. In the end, Thailand failed to become member of any of these three international governance initiatives. However, the Department of Comptroller implemented the CoST on a major infrastructure project involving the expansion of the Suvarnabhumi Airport.

Although the government did not succeed in enhancing greater transparency in its administration through information disclosure and public participation prescribed by international governance initiatives, it adopted a very effective tool to prevent corruption in government procurement, “the integrity pact”, a scheme promoted by the International Transparency. Under the Integrity Pact, a third party or "independent observer" from the civil sector will be able to attend the procurement process starting from the drafting of the terms of reference (ToR) until the very end of the project implementation. Although according to the procurement law, the decision whether or not a government project will be subject to the scheme is at the discretion of the government itself, a deal was made with the Anti-corruption Thailand (ACT), a prominent private sector-led anti-corruption outfit, to apply the integrity pact
to all projects whose value exceed a billion baht (roughly 32 million USD). According to the ACT, from the year 2015 until the beginning of the year 2019, a total of 109 projects worth 2.2 trillion baht have signed the pact. The scheme was estimated to have saved 70 billion baht (2.2 billion USD) since its initial implementation in 2015 based on the calculation of the difference between the allocated budget and the actual procurement cost.

Finally, in terms of fiscal sustainability, the government towards the end of its regime, initiated several populist policies in order to ensure its return to the political arena. This includes subsidies of 1000 baht (33 USD) to those aged over 65 for expenses required to obtain health services such as the transportation cost, rental subsidies for those aged over 60 with monthly income less than 400 baht (13 USD) and subsidies for electricity and water utilities bills for 10 months. Undoubtedly, this type of handouts has become the norm that any government will have to embrace.

4. Conclusion and Recommendations

Thailand is in need of a major economic reform to be able to sustain future economic growth that is likely to be driven by the service sector rather than the manufacturing sector as in the past. The major challenge would be how to boost the level of productivity in the service sector which, unlike the export-oriented manufacturing sector, has been shielded from foreign competition through restrictive foreign investment rules. Moreover, most network-based services such as utilities and energy continue to be monopolized by state-owned enterprises that own and operate critical infrastructure such as gas pipelines and electricity grid. Rules and regulations have failed to inject competition into these service sectors. Worse still, many state rules and regulations serve to entrench the incumbents’ market power by imposing overly restrictive condition for the issuance of permits or licenses.

It is most urgent that the government undertake policies to inject competition into the service sector as follows:

1) Open up the service sector by joining major trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). Relaxed foreign investment rules and movement of foreign skilled labor rules will also help boost investment in the sector.

2) End subsidies and special privileges granted to state-owned enterprises that provide commercial services in direct competition with the private sector in order to foster fair competition and efficient resource allocation in the market. This includes measures to proscribe monopolistic power of vertically integrated state enterprises in the energy sector such as third party access to monopolistic facilities such as gas
pipelines, high-voltage electricity grid and LNG (liquid natural gas) receiving terminals or even divestiture to separate monopolistic services from competitive ones.

3) Amend the competition law to provide the competition authority with an advocacy mandate and authority in order to check anti-competition policies, laws and measures.

4) Revise licenses and permits that create artificial barriers to entry in order to foster new entrants into the market.

5) Revise government procurement rules that are more transparent by imposing higher standards regarding disclosure of procurement details (such as the terms of reference, the selection criteria, the justification for the selection and the concession or contract) and regarding participation of third parties such as making the integrity pact scheme more systematic with allocated budget.

Populist policies are another factor that may distort competition in the market which leads to inefficiencies. Since the year 2000, the Thai government and its people have grown addicted to such policies such that sensible policies that would help boost the country’s long term competitiveness are pushed aside. Moreover, past experiences show that such policies may impose heavy financial burden on the state that threatens the country’s fiscal sustainability. Attempts to limit fiscal profligacy by prescribing fiscal discipline in the constitution and relevant laws appear to be futile as the details governing the implementation is left to the executive power which shows little interest in reigning in their spending power. How to ensure fiscal prudence will remain a challenge for not only Thailand but many other countries that are going through a similar experience.
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