

**Privatising Infrastructure in a Developing Economy: Lessons from  
Stakeholder Perceptions in a Case Study of Thailand's Airport**

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lessons from stakeholder

## ABSTRACT

Thailand, a developing country in Asia, is undertaking sweeping reforms of its infrastructure sector. In September 1998, the Thai government unveiled its privatisation “Master Plan”, written with the assistance of the World Bank, which established its plan for the privatisation of 59 state-owned enterprises (SOEs). These enterprises are an integral part of the economic reform policy in key sectors of the economy. Privatisation policy has been advanced as a solution for governments to the problems of fiscal deficits and the need to rebuild infrastructure and expand service delivery throughout the world. Possible benefits include lower operating costs, more appropriate allocation and direction of resources, increased choice, increased quantity, decentralised decision making, increased speed of decision making and service delivery, and accessing creativity and expertise within the private sector. Yet many of the market failure lessons of the past are not discussed in any depth in recent privatisation literature, and few case studies are comprehensive. The market, cultural, legal, and institutional conditions necessary for successful privatisations are critical issues.

This thesis critically reviews existing world literature, theory, and evaluative frameworks in the context of a qualitative case study of Thailand’s new airport privatisation. Twenty-one structured interviews were conducted with key stakeholders in 2001 and 2002: they identify a range of factors relevant in considering this infrastructure privatisation initiative, including many not discussed in the literature. The result has been to identify a range of relevant privatisation evaluative criteria that are specific to the Thai situation. The thesis also identifies similarities and differences

of perception in stakeholder groups that should enable the process of privatisation to be improved, tests the applicability of the theories reviewed in the literature, and discloses the potentially unique elements of each privatisation. Last, it discusses a process by which the infrastructure privatisation decision-making processes can be customised to a particular government and set of suppliers at a particular time.

# Declaration Statement

I declare that this thesis entitled *Privatising Infrastructure in a Developing Economy: Lessons from Stakeholder Perceptions in a Case Study of Thailand's Airport* is my own work and has not been submitted previously, in whole or in part, in respect of any other academic award.



/ *Teeravut Suksaard*

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# 1. Introduction and Development of the Research

## 1.1 Problem Statement and Rationale

Privatisation of government services and infrastructure has been seen as a solution to the problems of big government, fiscal deficits and the need to rebuild infrastructure and expand service delivery throughout the world. While not all infrastructure projects are fully supported by some form of government subsidy, most of the high cost projects are. Private sector capital can be used in order to reduce the burden upon direct taxation and to shift some of the project related risk away from government. Thus, infrastructure is an attractive focus for privatisation projects.

The growth of privatisation in the advanced developed economies of Europe and the U.S. in 1970s and 1980s led to an academic discourse on privatisation, and discussion of the privatisation of infrastructure generally draws on these examples. Since then, the world has witnessed the growth of privatisation in different countries such as the previously Communist nations of Eastern Europe and the developing countries.

In a number of developing countries (e.g. Thailand), where large infrastructure enterprises have been privatised, divestiture has attracted significant inflows of foreign capital and ownership<sup>1</sup>. Little is mentioned, however, about how these

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<sup>1</sup> Privatisation in infrastructure, including transport and telecommunications account for 35 percent of the revenue generated from privatisation in developing countries during 1990 – 1992 (Sader 1993).

countries have constructed and implemented their infrastructure privatisation policy and how the policy has been perceived by stakeholders. So, many questions related to the development process that preceded privatisation have remained unanswered (Cook, Kirkpatrick & Nixon 1998; Gomez-Ibanez 1993; Hakim, Seidenstat & Bowman 1996; Smith 1999).

Thailand, a developing country in Asia, is undertaking sweeping reforms of its infrastructure sector. In September 1998, the Thai government unveiled its privatisation 'Master Plan', written with the assistance of the World Bank, which established its plan for the privatisation of 59 state-owned enterprises (SOEs). These enterprises are an integral part of the economic reform policy in key sectors of the economy and can be broadly categorised into five major sectors: transport, telecommunication, water, energy, and others (including industrial, social and technology, commercial and services, agriculture, and financial sectors)<sup>2</sup>.

Some examples from the developed economies of Europe or the U.S. point to privatisation as a good policy initiative because of the efficiency dividend it delivers (Gomez-Ibanez 1993; Smith 1999). However, there is a problem related to whether privatisation always guarantees good policy outcomes in the context of developing economies, such as Thailand. Also, privatisation is criticised for ambiguous

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<sup>2</sup> See ROYAL THAI GOVERNMENT (RTG), Master Plan for State Enterprise Sector Reform: Preface, I 1 (last modified Sep. 15, 1998) <http://www.mof.go.th/sepc/sepcfnmenu.htm>. Under the agreement with the International Monetary Fund (IMF), Thailand will receive a US\$ 17.2 billion standby credit in return for the Thai government's pledge to restructure its economy. This restructuring included an overhaul of SOEs – a plan designed to improve SOE efficiency through the increased participation of the private sector in their operations.

meanings, lack of transparency, leading to price increase and job losses, amongst other. (Poonsin 1989; Boramanand 2000; Vudthitornetirak 1996).

There are two primary motivations for this research, which lead to its overall goals. First, there is very little literature that discusses, in detail, case studies of privatisation initiatives in Thailand. Given that privatisation is accepted by the Thai government as a beneficial policy that should be pursued, it is perceived that there is also a need for a better understanding of privatisation at both the policy and the general public level. Second, much of the literature that currently exists on infrastructure privatisation appears to be narrowly focused on either a political or an economic point of view. Much of this literature does not deal with other types of issues that may arise, such as the cultural and the case-specific factors. These will be included in the stakeholder interviews (see Chapter 5), and so this study will generate broader data than is available in other studies and enhance the privatisation literature.

## **1.2 Potential Research Contributions**

The focus of this study, therefore, is to extend the literature on how Thailand has constructed and implemented its infrastructure privatisation policy and how the policy has affected stakeholders, to include the aspects of the development of privatisation in a developing economy. In this context, the thesis aims to make significant contributions to the body of knowledge and is organised consistent with the five elements as follows:

- Summarising experience in general and infrastructure privatisation reviewed in the world literature, and perceptions as relating to applicable theory from the fields of economic and political science;
- Exploring the background and current experiences of privatisation in Thailand
- Describing and analysing the Suvarnabhumi International Airport (SIA) case study in the context of the experience of airport related privatisation programs, and current selections of its privatisation methodologies;
- Comparing the perceptions and examining the impact in the SIA case of key stakeholders such as Government agencies, Private Sector, Financiers, Projects Consultants, and Public Representatives, and comparing these to both the existing theoretical frameworks and the recent history of infrastructure privatisation, and
- Integrating the results of all findings from the case study to develop a conceptual framework for studying privatisation and to make policy recommendations.

### **1.3 Research Objectives**

The main objective of this project is to provide a detailed analysis of the privatisation programs at the Suvarnabhumi International Airport (SIA), the second Bangkok international airport project, in the early 2000s, with an emphasis on the perception of stakeholders on the development of privatisation policy. The major facilities in SIA were assigned to be privatised under the supervision of the New Bangkok

International Airport Company Limited (NBIA) administration. These include air cargo terminals, catering facilities, ground service equipment (GSE) maintenance facilities, and aircraft fuelling systems. It is important to note that this study is done before those privatisation programs in the SIA case study are implemented.

This thesis is fundamentally based on qualitative research methodology. It seeks meanings, explanations and reasons for this privatisation, and aims to provide knowledge, insights and recommendations for enhance theoretical propositions on privatisation. The analysis, therefore, will highlight the development of privatisation policy in the Thai context, and stakeholder's perceptions of the policy. It will contribute towards practical policy development and implementation of future infrastructure privatisation. This will be relevant to policy makers and researchers in Thailand and other countries.

#### **1.4 Research Questions**

In order to achieve the above objective the following research questions have been investigated:

- What were the pressures on the Thai government that led to its intention to privatise state-owned enterprises (SOEs)?
- Who are the stakeholders and how important is each of them?
- How did the key stakeholders perceive the idea of privatisation and its implementation; what were their different criteria for issues leading to



privatisation, including success factors, failure factors, opportunities and risks associated with privatisation?

- In light of the case study, what conclusions can be drawn about the SIA case within the context of theoretical approaches to privatisation?

Although the findings from a single case study of the privatisation of Thai infrastructure could not be seen as representative of all developing countries, the SIA case has revealed some interesting insights that contribute to the literature on privatisation in the developing world. The results from this study may lead to new empirical inquiries allowing other organisations to examine aspects of this model. This will become the vehicle for studying these organisations, and it will stand as a significant contribution to the discussion of privatisation in developing countries, particularly concerning the interaction of politics and economic with social, cultural and institutional factors.

## **1.5 Case Study Research**

Although, there were many methodologies from which to select, given the purposes of the research questions above, exploratory research using the case study approach was considered the most appropriate and effective because of its suitability for studying events involving a range of people and varying changes to organisational policies and structures. Meaningful findings in this area require an understanding of the whole organisational structure within which the changes occur. Therefore, this research is comprised of three major components: (1) a detailed discussions of case

literature, both of privatisation generally and of airport privatisation in particular, (2) a discussion of development of privatisation policy in Thailand and some arguments of its effect, and (3) a detailed examination of SLA case study. Components (1) and (2) have been provided in Chapters 2 and 3. Component (3) is covered in Chapters 4 to 7.

## **1.6 Reasons for using the Case Study Method**

There are several ways of structuring social science research. These include experiments, surveys, histories, analysis of archival information, and case studies. Each one of them has particular advantages and disadvantages depending on three conditions identified by Yin (1994):

- the type of research question;
- the control an investigator has over actual variables/factors affecting the behaviour studied; and
- the focus on contemporary or historical phenomena (see Figure 1.1).

The objective of this research is to answer “how” and “why” questions. The essence of a case study is that it tries to illuminate a decision or set of decisions: why they were taken; how they were implemented; and with what result. In this study, the researcher cannot control events or manipulate an artificial setting within which to analyse events. The focus, therefore, is on a contemporary phenomenon within a real-life context. The case study, then, is the most appropriate method to assist the

researcher to develop an in-depth, detailed investigation of a single case (Yin 1981, 1988, 1994).

**Figure 1.1** Relevant Situations for Different Research Strategies

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/No
History	How, why	No	No
Case study	How, why	No	Yes

Source: COSMOS Corporation, in Yin 1983 and Yin 1994:6

According to Yin (1994), the single case study is appropriate in several circumstances where the case represents a critical test of existing theory, and where the specifics of case contribute to a revelatory purpose. Case studies also help us to gain a fuller understanding by using a combination of methods and by collecting data from numerous sources. By attempting to consider all the factors involved in a particular issue, rather than just a limited number of variables, the case study is “the most complete and detailed sort of presentation of the subject under investigation” (Hamel 1993).

## 1.7 Limitations of the Case Study Method

Because of the time available for this dissertation, the research is based on a single case study. Hence it loses the benefits that might come from a more extensive multiple-case approach. Multiple case studies (or comparative studies) may have advantages over the single case study, and so they are considered more compelling and more robust (Herriott & Firestone 1983). However, this is not an appropriate method for this study because it cannot address the specific factors of the particular case in the kind of detail deemed necessary. Moreover, conducting multiple case studies can require extensive resources and time beyond the means of a single student or independent research investigator.

Another concern of the case study approach is its validity. The case study allows “equivocal or biased views to influence the direction of findings and conclusion” (Yin 1994:9). Recognising this potential weakness, the research was designed to avoid it by using multiple sources of evidence namely interview and documentation. As will be explained in Chapter 5, the first draft report of the case study was sent to key informants (two senior executive of SIA and one project consultant) for their reviews. Comments and corrections made by these people potentially enhanced the accuracy of the present SIA case. Therefore, the use of multiple sources of evidence and having key informants review the draft reports are likely to increase “constructive validity” and reduce false reporting of the events (Yin 1994:146).

## 1.8 The Case Selected - Criteria of the Case Study

Given the lack of Thai literature on the topic of privatisation, a Thai case is targeted.

In order to reveal as wide as possible a range of issues relating to infrastructure privatisation and existing theoretical frameworks for privatisation discussed in Chapters 2 and 3, the case should have the following attributes:

1. deal with infrastructure or public service privatisation in Thailand;
2. have an element of subjectivity in stakeholder views about service delivery (i.e. quality of service needs to be an important consideration for the using public and stakeholders);
3. the case needs to expose the public to some risk, for example internal risks such as monitoring costs or requiring government regulation of some sort and external risks such as changing air traffic patterns; and
4. the infrastructure of public service needs to be in a traditional public service environment (i.e. perhaps comprising a monopoly).

The Suvarnabhumi International Airport or SIA case was chosen because it satisfies several critical criteria within the overall methodology:

1. The airport project is a vital infrastructure for transport network. It is also a classic natural monopoly.
2. There is a body of literature on airport privatisation in US, UK, Australia, and other European countries, which gives a useful historical context.

3. This airport has an importance in Thailand, given it will serve and support the expansion of air transport as well as develop the airport as a regional aviation hub.
4. The case was selected because it represents a unique case of privatisation, in that it is seen as an area of national-interest. In addition, the airport project is claimed to be today's most expensive infrastructure project in Thailand and one of the world's longest-drawn-out projects (first proposed in 1960).

## **1.9 Research Procedure**

Figure 1.2 illustrates the conceptual framework that I have developed for this study. This framework also ensures the validity and reliability of the data, by adjusting the elements of the study in the following ways: (1) multiple sources of evidences (that is interview, government and media reports, and other reliable documents); (2) establishing chain of evidence research design by constructing connections, whereby each stage of investigation leads to another; and (3) developing a protocol to carry out the case study (Kidder, Judd, & Smith 1991; Yin 1993).

### Stage 1: literature review

Based on the research questions, the literature review aims to identify the decisive political, economic and socio-cultural factors in the decision to privatise by analysing global literature of privatisation policies and case studies, and examining debates and decisions concerning this particular privatisation.

## Stage 2: identifying the key stakeholders

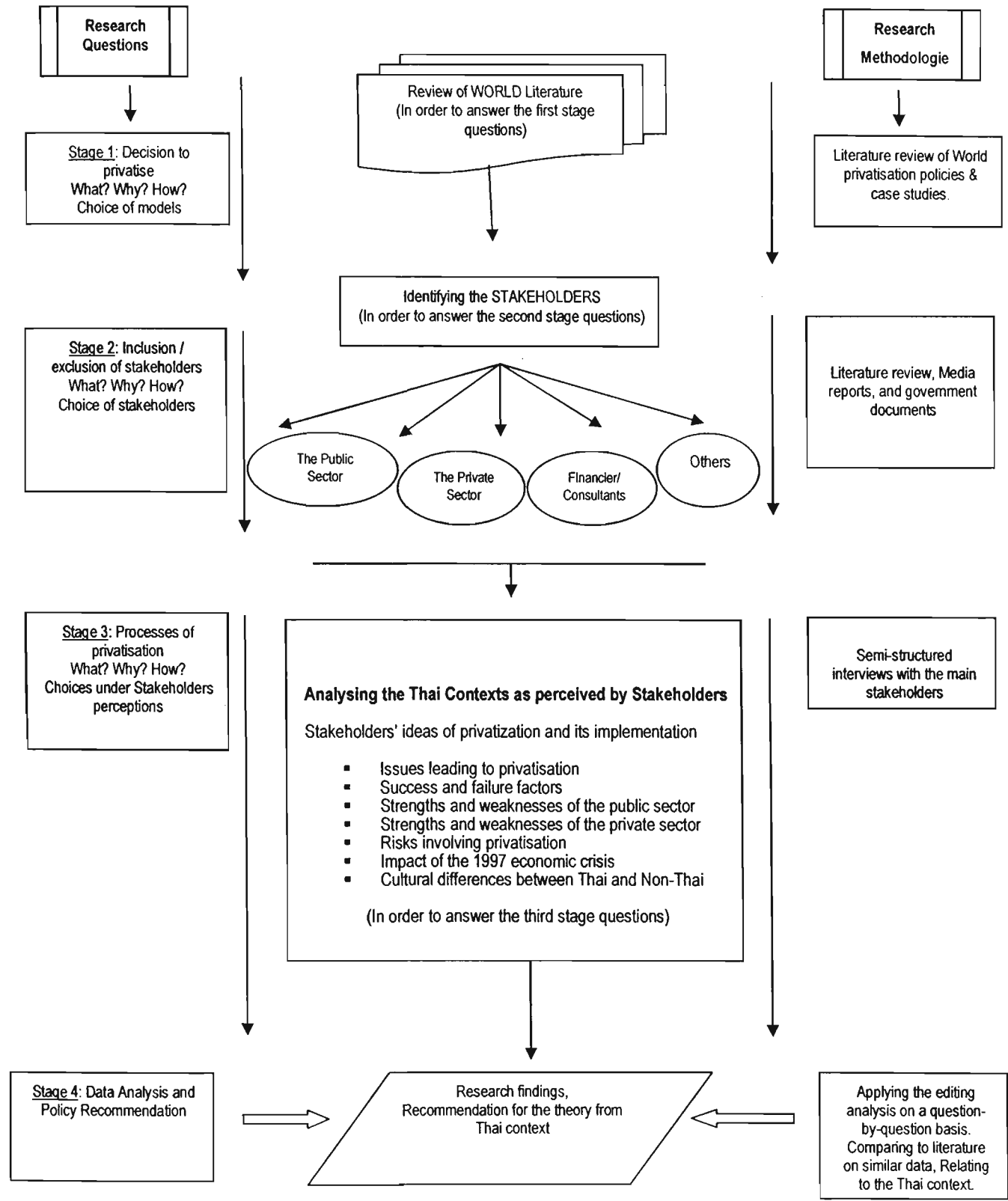
Identify stakeholders – based on their impact on the privatisation process – through a cascade or snowball technique (Bebbie 2001; Blaikie 2000; Dillon, Madden, & Firtle 1993) in which identified stakeholders have been asked to identify other stakeholders.

## Stage 3: testing the perception of the key stakeholders

Interview schedules based on the initial goals and objectives of the study, and targeted information on the processes and models of privatisation, modified for the specifics of the Thai context such as the 1997 economic downturn, and cultural difference.

Interview stakeholders to find out: (1) what they know about the planned privatisation of the airport-related programs; (2) what they understand to be the reasons for privatisation; and (3) their views of the privatisation policy.

Figure 1.2 Research Design





#### Stage 4: data analysis and policy recommendation

First, the analysis is based on Crabtree & Miller (1999)'s editing techniques.

Interpretations emerge from an analysis of a particular theme or category and then are repeatedly compared with the original textual data (King 1998). The technique is used to develop "grounded theory". Details will be discussed later in Chapter 5.

The final stage of this research concentrated on extrapolating to a wider range of relevant privatisation issues and criteria and discussing the weight to be afforded to relevant theory. Last this suggested new framework of analysis and evaluation can be used by policy makers and future researchers.

### **1.10 The Structure of the Thesis**

This study is divided into seven chapters. Chapter 2 describes the history of, and concepts of, privatisation. It gathers together recent trends in State Owned Enterprises (SOEs) privatisation and identifies the privatisation models used in both developed and developing countries. It provides an overview of arguments on perceived economic and political theories related to privatisation, and summarises experiences involving privatisation of airports in general. This chapter seeks to draw some conclusions as to the outcomes of the empirical evidence surrounding government service privatisation, and relate these to the theoretical and analytical frameworks with respect to this research.

Chapter 3 reviews experiences with privatisation policy and its implementation in Thailand. It describes the Thai context of the economic, political, and institutional issues related to privatisation policy. It also examines Thailand's privatisation policies during the Economic Boom period (prior 1997) and during the Economic Crisis (1997 and after). In addition, it attempts to describe current frameworks and models of Thailand privatisation from the 1998 Master Plan for State Enterprises Sector Reform, and summaries what could be regarded as the time frame of Thailand privatisation. Last, this chapter also gathers together an overview of opposing arguments in infrastructure and public services privatisation in Thailand. This chapter tries to seek some meaning and reasons for privatisation and aims to enable the reader to see both similarities and dissimilarities between privatisation policy in Thailand and elsewhere.

Chapter 4 describes in detail the SIA case study. This chapter describes the historical background to the government's planning process and the proposed privatisation model, and the government's expectations of the project. This chapter aims to explain the case itself and the reasons the Thai government used in preparing the privatisation of SIA. The case study provides an important Thai-based counterpoint to the literature and will assist in understanding Thai experience in the world context. From this review, the existing "privatisation theory" can be tested in a truly Thai context.

Chapter 5 illustrates in detail the methodological approach to the empirical research of stakeholder perceptions. This is qualitative research of stakeholder views on whether, when and how should Thai governments consider privatisation as a policy

initiative. The selection of key stakeholders in this study is discussed and the interview process is developed. Last, it presents techniques of data analyses used in this research.

Chapter 6 provides an analysis and synthesis of the SIA case study, including a comparison of that case study to the historical experience and the theoretical background described in Chapter 2. It also summarises in detail the results from the interviews of 21 key stakeholders involved in the case study, including senior executives from government agencies and private sector companies, financiers, project consultants, and representatives of public stakeholders with analysis on a question by questions and respondent-by-respondent basis. The purpose of these interviews was to determine stakeholders' perceptions of the strengths and weaknesses of government ownership of infrastructure, the strengths and weaknesses of private sector ownership of infrastructure, and the reason for, costs and benefits of, and risks involved in infrastructure privatisation. In this section, new issues are identified and new perspectives discussed arising out of the case study and interviews. Included in this chapter are variations between stakeholder perceptions, similarities between stakeholder perceptions, unexpected stakeholder perceptions, and stakeholder perceptions relating to privatisation theories.

Lastly, chapter 7 provides some research conclusions in light of the goals and objectives of the research, and suggests areas for further study.

## **2. Privatisation and Airport infrastructure privatisation**

### **2.1 Introduction**

Privatisation gained considerable momentum in the developing world from the 1980s. During that decade, however, privatisation was heavily concentrated in a few countries such as United Kingdom and USA, and in Europe and South America. As the success of privatisation in these pioneering countries became apparent, it was adopted in other countries. Currently, hundreds of businesses in Asia, Africa and Latin America are in the process of privatisation.

This chapter provides an understanding of the literature relating to privatisation and infrastructure privatisation, particularly in the airport sector. This will place current developments of privatisation in an historical context and will enable the reader to see both similarities and potentially dissimilarities with prior experience. In addition, history may provide some level of predictive utility, to the extent that one is able to see any tendencies for basic infrastructure to be successfully established as private enterprises or to ultimately revert back to public hands. The rest of this chapter is organised in the following way. Section 2.2 explains the concepts of privatisation and reviews privatisation trends in both developed and developing countries.

Privatisation's grounds or objectives are investigated in order to provide background information about why privatisation was so important in Section 2.3. To answer the question of how to privatise, Section 2.4 identifies a selection of privatisation models and associates each method with the fundamental objectives. Section 2.5 explains the various stakeholder groups and attempts to give examples that relate to the study. Section 2.6 provides an overview of arguments on perceived factors of privatisation both in economic and political theoretical perspectives, Section 2.7 surveys the empirical literature on airport infrastructure privatisation and finally, Section 2.8 presents a concluding remark on this chapter.

## **2.2 Privatisation: History and Trends**

### **2.2.1 History and Concept**

The term privatisation first appeared in the literature in Peter Drucker's (1969) book *The Age of Discontinuity* as "reprivatization", and a Rand study in 1972 discussed the private delivery of public services (Savas 1987). Different meanings are given to privatisation by various researchers in several diverse fields. Palumbo and Maupin (1989) conclude that, "*defining privatisation is not a simple matter. In fact, .... privatisation is a complex concept that has many meanings*"(p 24). Conceptually, the term "privatisation" has been used loosely in the past to convey a variety of ideas. Using the term can signify something as broad as reducing a government's

responsibilities, or something as narrow as replacing a team of public servants with a nearly identical team of private workers to carry out a particular task.

Generally, privatisation refers to the sale of all parts of a government's equity in a State Owned Enterprise (SOE) to the private sector. Privatisation is also defined as a range of different policy initiatives intended to change the balance between the public and private sectors and the services they provide. However, the word "privatisation" has been widely used by politicians and disseminated by political journalists. In this instance, privatisation has uncertain meanings and biases depending on the proponents or opponents that used this concept to support their own view (Dinavo 1995).

The term "privatisation" has been employed to describe a wide range of policy initiatives that shift the balance of the delivery of any asset, organisation, function, or activity from the public to the private sector (Hodge 1996). As such, in addition to the sale of publicly owned assets, privatisation may also refer to denationalisation (direct sale of assets), deregulation (introduction of competition in previously monopoly sectors such as power, natural gas, and water), and/or contracting out (Domberger 1998; Domberger & Fernandez 1999).

This study is concerned with privatisation in the infrastructure sector, particularly in the airport businesses with specific reference to Thailand's new international airport. Here privatisation means any transfer of ownership or control of specific functions or activities in the airport from the public to the private sector. In particular, attention

will be focused on key stakeholders' perceptions of success and failure factors, issues leading to privatisation, amongst others in the case study. This is because those perceptions would help us discover the understanding of each stakeholder in achieving the successful privatisation.

Even though privatisation might be a relatively new term, the concepts surrounding it have a rich history in the literature. For example, delineating government responsibility can be traced back as far as Adam Smith's writings in the late 18<sup>th</sup> century. In his book *An Inquiry into the Nature and Causes of the Wealth of Nations*, Smith wrote:

*In every great monarchy in Europe the sale of the crown land would produce a very large sum of money which, if applied to the payments of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown... when the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated (Smith 1776, p 824).*

Adam Smith argued that private ownership had advantages over public ownership in terms of being inherently more efficient, as well as getting more revenue from sales of the crown land, according to the historical data in every great monarchy in Europe. In addition, he also argued that people tend not to be prudent with other peoples'

assets. This observation may apply particularly well to the state, where according to public choice theorists state civil servants will tend to spend public money unwisely.

Privatisation became prevalent during the mercantilist period of the 19th century, when European governments gradually allowed more international trade to fall into private hands. Consequently, government influence waned, while that of business rose (Megginson, Nash & Randenborgh 1994).

Socialism started to spread in Europe during the early 20th century with a concomitant decline in liberalisation in those countries. The result was rising state influence in providing welfare and seeking to promote equitable distribution of wealth. After World War I<sup>3</sup>, Social democratic parties, like the Labour Party in the United Kingdom and the Socialist Party in France, Spain, Italy and the Scandinavian countries had a major role in nationalising private assets (Jenkinson & Mayer 1988; Shirley & Nellis 1991; Haggarty & Shirley 1995).

State intervention was especially significant after World War II. The economic ruin of private businesses saw European governments faced with the responsibility of reviving and developing their countries, as the private sector was unable to provide products and services to consumers. Helped by the US government's Marshall Plan, this resulted in a long-term development plan that gave SOEs a role in creating the fundamentals to resuscitate these economies. SOEs were also granted special

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<sup>3</sup> The historical overview of postwar privatisation is based on a historical discussion in Megginson, Nash & Randenborgh (1994). Other discussions of the historical evolution of privatisation include Jenkinson & Mayer (1988); Shirley & Nellis (1991); Haggarty & Shirley (1995); Brada (1996); Bennell (1997); and Yergin & Stanislaw (1998).



privileges such as tax exemptions, monopolies and subsidies to boost their viability (Brada 1996).

The growth of western European social democracy over the following 25 years saw a major shift from a primarily capitalist society to a more mixed economy. Moreover, the economic expansion of the 1960s hid the inefficiencies of SOEs, further promoting the spread of the welfare state.

Bennell (1997) argued that the oil crises of 1973 and 1979 marked the turning point for privatisation. With the resulting high inflation, government revenues shrank while expenses and SOE debts jumped. State coffers were burdened by burgeoning budget deficits and debts. In response to the fiscal problems of the 1970s, privatisation grew substantially in the 1980s, continuing up to the present. The privatisation trend has been most conspicuous in post-communist countries where almost economic sectors have been transferred to private ownership. In Latin America privatisation has extended to major utility sectors, such as telecommunications, power, water, and railways (Young 1998).

Most researchers associate modern privatisation programs with the rise of Britain's Conservative Party led by Margaret Thatcher in 1979 and the US Republican Party headed by Ronald Reagan in 1981 (Jenkinson & Mayer 1988; Megginson, Nash & Randenborgh 1994; and Yergin & Stanislaw 1998). Margaret Thatcher adopted the label "privatisation" which replaced the name "denationalisation program" (Yergin & Stanislaw 1998). Its popularity spread worldwide. In Greece, Turkey, West Germany,

France, Italy and Spain, privatisation became official policy, even when the government was led by left-wing political parties, which had normally opposed it. The Australian government has, in the 1990s, tended to follow the lead of governments in a number of other western economies and implemented privatisation policies at the Federal, State and Local government levels (Fairbrother, Paddon & Teicher 2002). These have taken a number of forms, ranging from the direct sale of assets to the contracting out of functions to the private sector. The largest privatisation were the sale of 49.9 percent of Telstra, the nation's biggest telecom company, for over AUD\$ 30 billion, followed by the sale of the State of Victoria's electricity generators and distributors at AUD\$ 22.5 billion (Barton 2002; Walker & Walker 2000).

Privatisation was also embraced by many developing countries. In South America, Chile, Brazil, Mexico and Peru led the way (La-Porta & Lopez-de-Silanes 1997 and Macedo 2000). In Africa, it was Tanzania, Zaire, Kenya and Liberia (see Boubakri & Cosset 1999). The ASEAN countries are also moving toward privatising. The People's Republic of China launched a major economic reform and liberalisation program in the late 1970s that has transformed the productivity of the Chinese economy. Though the government recently (1999) reaffirmed its commitment to privatising most very large SOEs, the fact that they are burdened with so many social welfare responsibilities suggests that it will be difficult to implement a privatisation program large enough to seriously undermine the state's economic role (Lin 2000; Lin, CIA & Li 1998; and Bai, Li & Wang 1997). Another Asian case is India, which adopted a major economic reform and liberalisation program in 1991, after pursuing

state-directed economic development for the first 44 years of its independence (Majumdar 1996).

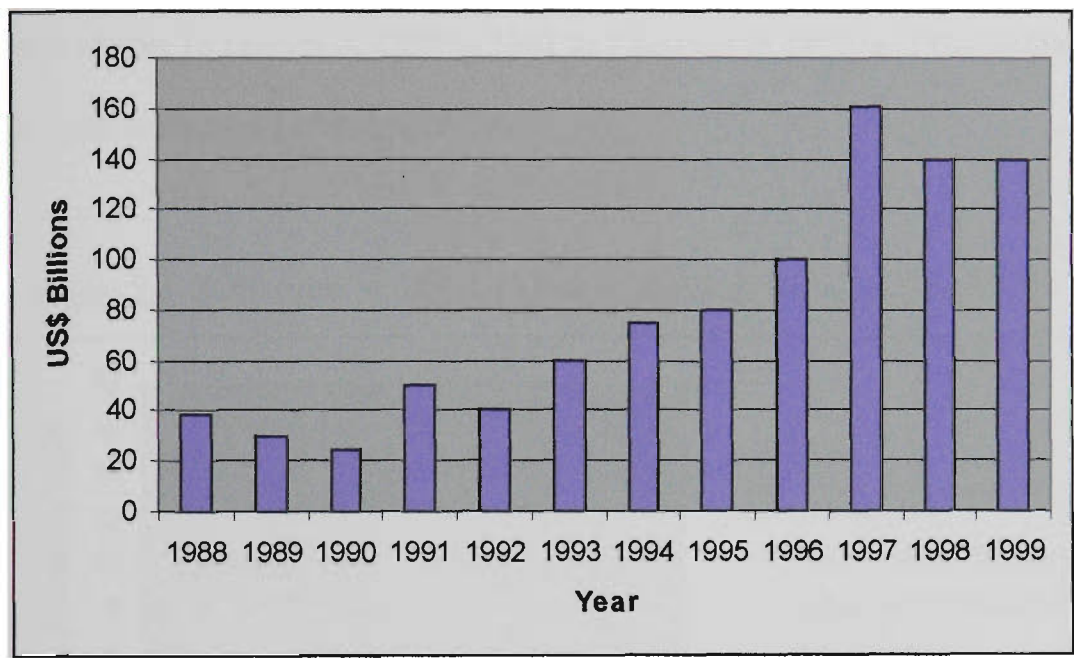
Rondinelli & Iacono (1996) argue that the establishment of SOEs and privatisation in developing countries occurred in a different context to the developed countries. They argued that the economic crisis after World War II caused many of these countries to accumulate large foreign loans from the International Bank for Reconstruction and Development, the World Bank or the IMF (see also Noll 2000). The loans were used for national development and carried with them conditions that required the creation of independent SOEs. For example, in Thailand, the World Bank in 1950 recommended the adjustments of the State Railway of Thailand (SRT) and the Port Authority of Thailand (PAT) to develop into independent entities, which were to be models for future of Thai SOEs (Rondinelli & Iacono 1996).

### **2.2.2 Privatisation Trends**

Although different regions have embraced privatisation at varying speeds, governments have found the lure of revenue from sales of SOEs to be attractive, which is one reason the policy has spread so rapidly. According to *Privatisation International* (Gibbon 2000), the cumulative value of proceeds raised by privatising governments exceeded US\$1 trillion sometime during the second half of 1996, and this revenue has come to governments without raising taxes or cutting other government services. Annual proceeds grew steadily before peaking at over US\$160 billion in 1997. Since then, proceeds seem to have levelled off at an annual rate of

about US\$140 billion. Figure 2.1 shows the annual revenues governments have received from privatisation from 1988 through 1999.

**Figure 2.1: Annual Privatisation Revenue for Divesting Governments, 1988 - 1999**

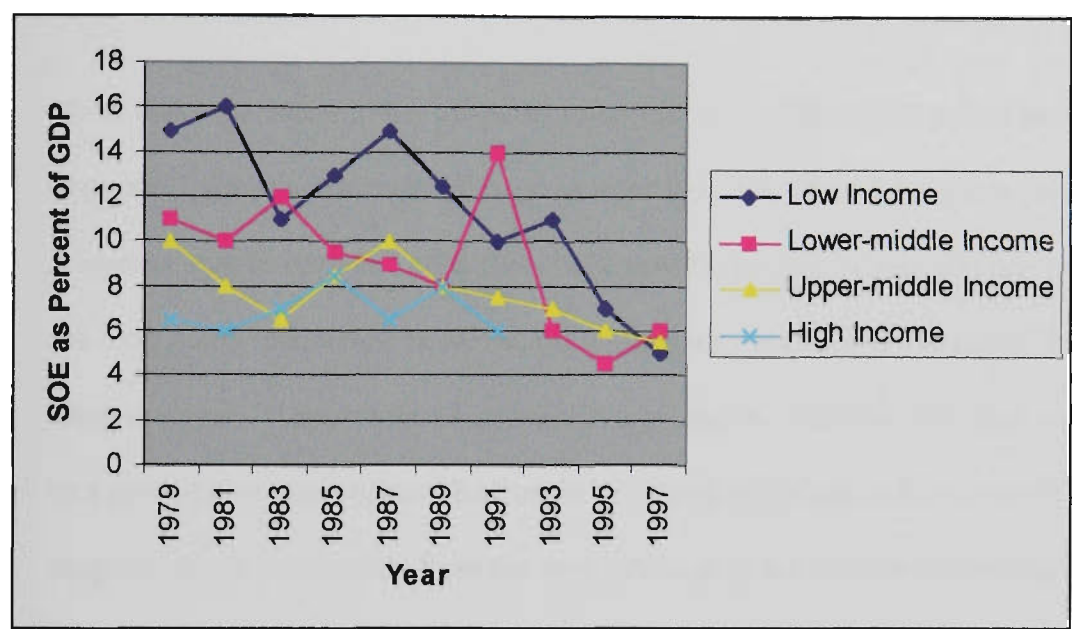


Source: Gibbon (2000)

Mahboobi (2000) reports similar figures classified by privatisations in OECD and non OECD countries. He reports that since 1990 privatisation in OECD countries has raised over US\$ 600 billion, which is approximately 2/3 of global privatisation activity. Western Europe has accounted for over half of these proceeds. Finally, Davis, Ossowski, Richardson & Barnett (2000) report for a sample of transition and non-transition countries that privatisation proceeds were an average of 1 percent of GDP.

The historical discussion in the previous sub-section suggests that state ownership has been substantially reduced since 1979, and in most countries this has in fact occurred. Using data from Sheshinski & Lopez-Calva (1999), Figure 2.2 demonstrates that the role of SOEs in the economies of low-income countries has declined significantly, from almost 16 percent of GDP in 1981 to 7 percent in 1995, and has probably dropped to about 5 percent since then.

Figure 2.2: SOE share of GDP by State of National Development, 1979 - 1997



Source: World Bank, as reported in Sheshinkski & Lopez-Calva (1999)

The middle-income countries also experienced significant reductions in state ownership during the 1990s. Since the upper- and lower-middle-income groups include the transition economies of Central and Eastern Europe, this decline was expected given their extremely high beginning levels of state ownership. For example, Shafik (1995) reports that the Czechoslovakian government owned 98 percent of all property in 1989. The high-income (industrialised) countries show a

slight reduction in state ownership, from a high point of 8.5 percent of GDP in 1985 to less than 6 percent in 1991. Data presented in Schmitz (1996); Mahboobi (2000); and Bortolotti, Fantini & Siniscalco (1999), as well as Megginson, Netter & Schwartz (2000) on share issue privatisations, suggests that the SOE share of industrialised-country GDP has continued to decline since 1991, and is now probably below 5 percent.

## **2.3 Privatisation Objectives**

Given that a government has accepted privatisation as a beneficial policy that should be pursued, the specific method the government should adopt for a given privatisation program depends upon the objective of the specific project. A privatisation program can have many objectives; however, all of them may not be achieved concurrently using one specific approach. Moreover, in any specific situation there can, or should, be a particular privatisation objective. Why should privatisation be pursued? The range of objectives extends from the very practical to the very philosophical as well as from the very economical to the very political.

The research literature<sup>4</sup> has developed an extensive list of privatisation's objectives. For the purpose of this study, a broad survey of the literature has identified various specific objectives that governments expect to achieve from privatisation, which I call

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<sup>4</sup> For more on these issues, see Kay & Thompson (1986); Vickers & Yarrow (1991); Kikeri, Nellis & Shirley (1992); Jones, et al. (1999); and McLindon (1996). The macroeconomics perspective is discussed in Servén, Solimano & Soto (1994).

the “Historical Privatisation Objectives” and which include the following (or combinations thereof):

1. To relieve the government from the fiscal burden (subsidies, debt service requirements), as well as from the administrative burden (management, control, or both) of SOEs;
2. To raise revenues through the sales of SOEs. Because of their budgetary deficits, many governments have adopted privatisation methods such as the sales of SOEs as an alternative to raising taxes or incurring further debt;
3. To generate new sources of cash revenue. Future tax revenues or creation of incremental employment can be justifiable even with giving away SOEs when they are otherwise unmarketable;
4. To develop the domestic capital market. Privatisation fuels increasingly sophisticated and broadened entrepreneurship while enabling the government to maintain some control over the rate of development;
5. To promote competition e.g., by selling production units or facilities singly or in small groups instead of as a whole;
6. To minimise government interference in the economy. It is recognised by Kay & Thompson (1986), and Vickers & Yarrow (1991) studies that an industry can benefit more from a free competitive market than a regulated one;
7. To increase productive and operating efficiency of the enterprises which is achievable even through partial privatisation;
8. To disperse business ownership. Public offering is the preferred method, particularly where wide distribution of share ownership is the intent;

9. To attract direct foreign investment and new technology. An investment in SOEs by foreign investors can provide both foreign exchange and transfer of technology; and
10. To respond to pressures from external agencies such as the International Bank of Reconstruction and Development, the International Monetary Fund (IMF), and the World Bank. Agreements with IMF, for example, have often included limitations on government expenditures and structural adjustment policies which included privatisation of SOEs in developing countries such as Sri Lanka and Philippines (Gouri et al. 1991; Mardjana 1992)

Based on the literature, I consider that the objectives of privatisation could be broken down into four broad headings: (1) Financial Gain, (2) Efficiency Improvement, (3) Wealth Redistribution, and (4) Political Response. Therefore, the above Historical Privatisation Objectives are given as examples of each core function, which assists in abstracting subjective information and permitting comparisons between historical experiences and results from interviewed the case study's stakeholders in chapter 6.

First, *financial gain* is driven by shortage of funds in the public sector. The objectives, such as to relieve the government's fiscal burden, to raise revenues through the sales of SOEs, to generate new sources of cash revenue, and to attract direct foreign investment, are included in this category. The need to cut public expenditure forced pragmatic governments to turn to the private sector for assistance in financing the operation of SOEs. It could achieve this by reducing or eliminating some SOEs through moving control from the state to private ownership. Such



requirements are found in many economies (Ernst & Young 1994; Vickers & Yarrow 1988).

Second, it has been a widespread belief that the private sector is inherently more efficient than the public sector. This argument will be discussed more detail in section 2.5. This is possible when inefficient SOEs under utilise their resources, resulting in limited benefits. Thus, *efficiency improvement* means reducing or eliminating inefficiencies in some SOEs through moving control from the state to private ownership and introducing competition, either through simulation or stimulation of the market to achieve efficiency (Gouri 1991). Examples of objectives in this category are developing the domestic capital market, promoting competition, and increasing productive and operating efficiency.

Third, privatisation to achieve *wealth redistribution* reflects an attempt to change the ownership structure of SOEs to make individual citizens rather than collective (public) owners of the firm, such as to disperse business ownership, to develop the domestic capital market, and amongst others. This choice of privatisation method involves the promotion of wider share ownership among the population. One example is when privatisation changed the number of shareholders in Great Britain from 4.5% of the population in 1979 to 21% in 1987 (Ernst & Young 1994) while the ownership of many businesses changed from state to private investors.

Last, *political response*<sup>5</sup> as an historical privatisation objective includes responding to the pressures from external agencies such as World Bank or IMF. The World Development Report 1991, as discussed in Piesse (2001), considers the interaction between governments and markets, stressing the fact that the two should not be considered to be substitutes. For although competitive markets are said to be the best way yet found for efficiently organising the production and distribution of goods and services, the state must provide an appropriate institutional framework and must step in where markets prove inadequate or fail altogether (Piesse 2001). Interventions by government may also be justified where resources are not fully employed, or the efficient market outcome is unacceptable on distributional grounds (Clarke & Pitelis 1993). Therefore, the various objectives of privatisation that are seen as costs and/or benefits of the intervention have been grouped in this broad heading.

## **2.4 Choice of General Privatisation Methods**

How should privatisation be pursued? While there is some disagreement about exactly how many methods of privatisation exist, for this study I have recognised ten different forms, which are commonly used in developed and developing countries. These ten basic methods are a compilation of the research and work of Butler (1991); Dhiratayakinant (1989 & 1991); Pirie (1988); Savas (1987); Vuylsteke (1988); and Yarrow (1986).

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<sup>5</sup> This thesis does also address internal political responses, because these were raised in the interviews.

The choice of a specific privatisation technique needs to be carefully examined and depends on the policies of the government, the country and characteristics of the methods. The appropriate method of privatisation, therefore, is the one that is relevant to the objectives of the reform initiative (Gouri 1991; Reddy 1991; Sankar 1991).

From the reviewed literature, the following explains the various strategies and gives some examples of each.

### 1. Liberalisation or Deregulation

Liberalisation as used in the literature about privatisation has a narrower meaning than that found in the literature of international trade. In its narrowest sense, liberalisation means the removal of all or some restrictions in entering a particular market in order to increase market competition (efficiency improvement). This form is used in many developing countries (Dhiratayakinant 1991). This narrow meaning of liberalisation brings the concept closer to the meaning of deregulation which is frequently mentioned along with liberalisation. The concept of deregulation is confined to decontrolling actions undertaken in areas of economic activity which have presently been under closer regulation, e.g., utilities, transportation, and communications. Deregulation suggests the relaxation of public control over these industries which tend to create or preserve monopolies (Okun 1986). It also includes allowing the private sector to provide a service now monopolised by government. To the extent that the market is shared by public operators and private entrepreneurs, the need for government provision of the service is reduced, hence saving government funds.

## 2. Lease and Concessions-based Contracts

Lease and concessions-based contracts are typical methods that can be used when the government cannot or is unwilling to give up SOEs. This form is commonly used in both developed and developing countries (Hartley & Parker 1991). In many instances, particularly those involving natural resources and infrastructure enterprises, a complete sale may be politically difficult, especially when foreign investors are involved (Reddy 1991). The arguments for this form are that it allows the entrepreneur to compete in the market place (efficiency improvement). It also creates income in the public sector in the form of fees and charges (Alford & O'Neill 1994a). Other forms of such arrangements include franchising and contracting out such as Build-Operate-Transfer (BOT), Build-Own-Operate-Transfer (BOOT), Build-Transfer-Operate (BTO), or Build-Own-Operate (BOO) where the government gives a special monopoly privilege to a private firm to produce and supply some part of a particular service. All in all, while ownership remains with the state under these contracts, a private operator is responsible for the management and carries out desired improvements.

## 3. Management Contract

In this case the private sector with its expertise and know-how is invited by the government to take over the management of a particular public enterprise. However, the government still retains complete ownership of the enterprise. This form is used in many developing countries. The advantage is that the private sector can bring in more expertise and minimise government interference (efficiency improvement) but it

may causes conflict between the new management and the staff (Hegstad & Newport 1987).

#### 4. Voucher and Grant

This form is designed to transfer income to the public in order to increase the individual's ability to purchase goods or services (wealth distribution). In using vouchers, the consumer has a choice of goods and services produced at lower cost. The consumer is authorised to buy ear-marked goods and services from the free market. Governments determine the providers and users of the services. This form is not commonly used in developing countries (Dhiratayakinant 1991). Voucher programs are limited primarily to emerging market economies where conditions for other methods of privatisation are poor (Savas 1987). Voucher privatisation is particularly attractive in a situation where a vast number of SOEs are being transferred into private ownership but where the population does not have access to investment financing. By distributing wealth to its population, the government can also overcome resistance to privatisation. The weakness of this method is that it guarantees diffuse ownership (Frydman, Rapaczynski & Earle 1993).

#### 5. Joint Public – Private Venture

This method is often used to assist an undercapitalised SOE to restructure while allowing it to remain, at least partially, in government hands. Normally, governments make use of this method of privatisation to provide public services and infrastructure through joint ventures between public agencies and private companies, joint investment by private investors and the government in public projects, or other forms

of cooperation (Butler 1991). With this method, the government can increase the SOE's capital (financial gain) without relinquishing any of its existing equity. The private investor provides the capital and the government provides the current assets of the enterprise. Taking part in this scheme is often an attractive way for foreign investors to become involved with a SOE, which is highly diversified and in financial or organisational difficulties (efficiency improvement). The outside investor can obtain control over a particular component of the enterprise without being forced to take on the entire company (Mithani & Watcharaphun 2000). In addition, the investor is not liable for old company debt because the cooperation agreement results in the creation of a new company. Finally, while governments more readily find interested investors for this kind of scheme than for complete take-overs, the drawback is that the public sector may be left with ownership of only the most unprofitable parts of the enterprise (Dhiratayakinant 1991).

#### 6. Management / Employee Buy-Out

Management/employee buy-out is another privatisation method in which a specific group is targeted. Issuing equity to management or the employees allows poorly performing SOEs, which might otherwise not find a buyer, to be sold (Berg & Shirley 1987). Politically, this method is often the easiest way for a country to divest itself of an SOE. The best-known program of this kind is the Employee Stock Ownership Program, where a new firm is put together by employees pooling their resources and borrowing new funds (Blackstone & Francks 1987). By employing this method, the government allows workers or managers to purchase SOEs (wealth distribution & financial gain) or a majority share of them (Wright & Coyne 1986). Moreover, the

government does not have to engage in adverse negotiations about future employment in the company, leaving those decisions to employees and managers. The main drawback of this management/employee buy-out method is that the bidding process is generally not competitive, since outside investors are excluded from the process. This lack of competition can result in underpricing the asset. There is also a potential lack of efficiency gains because there is no infusion of new capital, technology, and management skills that usually accompany a foreign direct investment.

### 7. Divestiture – Assets Sale

Divestiture refers to the sale of government assets to the private sector (financial gain). It is another useful privatisation technique, particularly in cases where restructuring does not seem viable. Government assets that may be sold include land, stockpiled commodities, and financial assets, as well as functioning economic enterprises (Vuylsteke 1988). The sale procedure can be open or closed, full or partial. The government can sell all the assets of an SOE, which has no hope of continuing as a going concern. When an enterprise has promising components, some nonessential assets can be sold as a preliminary to other forms of privatisation. However, as with public-private partnership the government runs the risk of being able to sell only the most attractive parts of the company (Dhiratayakinant 1991).

### 8. Divestiture - Direct Sale

By direct sale, the government privatises all or part of an SOE to a predetermined investor or group of investors (financial gain). This type of privatisation is quite common and can be done through either an open bidding procedure or direct

negotiations with potential investors. However, to allow the government to receive a fair price for its assets while keeping the process transparent from the perspective of potential buyers, direct sale has been seen to take place most often through a competitive manner in a tender or auction process (Savas 1987). The method can lead to rapid sales and immediate infusions of cash into the national treasury and/or the enterprise. From the investors' point of view, they take part in this process because they want to become the enterprise's dominant shareholder and thus to have control over its economic future (Pirie 1988).

#### 9. Divestiture - Public Offering

Public share offering on stock markets is the most common method of privatisation in developed countries. In countries with weak capital markets, however, practical use of this method seems to be more difficult and costly. Public share offering has often been used for large, profitable, relatively well-known SOEs. It offers maximum revenue by drawing from large investment pools that, if shares are offered globally, can include the entire world. Public offers may also aid capital market development by increasing the volume of available equity and attracting new investors (Vuylsteke 1988). Using this method, first, the government transforms the SOE into a public company. Subsequently, the government sells all or part of the shares it owns in the SOE to the general public (financial gain or loss). Specific types of investors, like foreigners and employees, can be excluded from or included in the offering. The offering can consist of either existing stock held by the government or new stock issued to raise the capital of the enterprise and dilute the share of the government. In addition, the listing of the company can be limited to the domestic market or extended



internationally. Typically, to generate investor confidence and to establish a basis for genuine restructuring of the company, a public offering is preceded by a partial direct sale, in which a strategic investor acquires a significant share of the company and receives a management contract for the company (D'Souza & Megginson 1999).

#### 10. Government withdrawal from services

This is the process when the government withdraws from providing specific public services. This withdrawal may happen for many reasons such as when a government is short of funds to supply services, from political persuasion or pressure for termination, eliminating inefficiencies in some SOEs (efficiency improvement), absence of articulated needs for the services, and / or the existence of similar services in the private sector (Dhiratayakinant 1991). However, in the context of privatisation, if these services are still deemed valuable, there will be voluntary action on the part of the private sector to provide them or replace the government as the service provider (wealth distribution). Customers then pay full price to receive the services.

### **2.5 Stakeholders in Privatisation**

According to Michell, Agle & Wood (1997:854), there is a “maddening list of signals” on how to identify stakeholders. These include stakeholders identified as primary or secondary; as owners and non-owners of the firm; as owners of capital or owners of less tangible assets; as actors or those acted upon; as those existing in a voluntary or an involuntary relationship with the firm; as rights holders, contractors or moral claimants; as risk-takers or influences; etc.

The study of stakeholders in the privatisation process is now crucial. The International Labour Organisation (ILO) has identified stakeholder support as a key factor to enhance successful privatisation (Piesse 2001) while the World Bank's International Finance Corporation called it one of the commandments from the Mountain of Privatization (World Paper 2000). Thus, it is important to understand the definition of stakeholders, their importance, and their effects on privatisation.

Since publication of Edward Freeman's *Strategic Management: A Stakeholder Approach* (1984), stakeholder management, stakeholder theory, and other variants of stakeholder analysis have occupied a great deal of managerial research. Freeman argued that business relationships should include all those who may "affect or be affected by" a corporation (Clarkson 1995; Freeman 1984; Freeman & Reed 1983). Much of the research in stakeholder theory has sought to systematically address the question of which stakeholders deserve or require management attention (Mitchell, Agle & Wood 1997). Approaches to this question have focused on relationships between organisations and stakeholders based on exchange transactions, power dependencies, legitimacy claims, or other claims (Cummings & Doh 2000; Donaldson & Preston 1995; Mitchell, Agle & Wood 1997). Hill & Jones (1995) also stated stakeholders are individuals or groups that have some claim on the company. They can be divided into internal claimants and external claimants. Internal claimants are shareholders and employees, including executive officers and board members. External claimants are all other individual and groups affected by the company's actions. Typically, they comprise customers, suppliers, governments, unions, competitors, local communities, and the general public. Yet, no one can seem to agree

on a definition for the term "stakeholder." According to Jennings (1999:5), sample list of definitions of "stakeholders" includes:

- groups or individuals who affect or are affected by organisational performance;
- groups without whose support the organisation would cease to exist (shareowners, employees, customers, suppliers, lenders, and society);
- any identifiable group or individual who can affect the achievement of an organisation's objectives or who is affected by the achievement of an organisation's objectives;
- public interest groups, protest groups, government agencies, trade associations, competitors, and unions, as well as employees, customer segments, and shareowners;
- any identifiable group or individual on which the organisation dependent for its continued survival, including employees, customers, suppliers, key governmental agencies, shareowners, and certain financial institutions;
- an individual or group claiming to have one or more stakes in a business;
- any party who thinks it has a stake in the consequences of management's decisions, and who has the power to influence current or future decisions;
- an individual, a coalition of people, or an organisation whose support is essential or whose opposition must be negated if major strategic change is to be successfully implemented;
- any party who has or claims ownership, rights, or interests in a corporation and its activities;
- any person or group with legitimate interests in procedural and/or substantive aspects of corporate activity.

As there is no blueprint for identifying stakeholders, the universe of stakeholders is potentially boundless. We can set parameters by deciding that only key stakeholders should be examined. In this study key stakeholders are considered to be those who can significantly influence the privatisation program, or are most important if privatisation's objectives are to be met. The following section has established to justify the chosen definitions of stakeholders for this research.

First, the public sector, including government executives and politicians, is a key stakeholder and in most cases is the major stakeholder and the principal agent in the privatisation. The public sector is concerned about the fiscal impact, and the reduction of the public sector borrowing requirement. But it is also concerned about the social and political impacts. Prior to privatisation, politicians are responsible for devising any necessary regulation and for developing labour strategies that secure the support of employee and provide adequate social provision (Piesse 2001). Government executives have the ability to start the process of privatising a selected SOE. This role has putting them as an important part in the privatisation process (Schilwa 2000).

The public sector's commitment to the privatisation process has been related to both political considerations and the degree of market failure. For examples, in the U.K., despite success in energy, water, rail and telecommunications industries, the popularity of the National Health Care system has led to relatively little activity (Megginson & Netter 2001). Also Poland's commitment to the process was strong, primarily as a reaction to domination of the country's economy by the Soviet Union until 1990, but also to preclude re-emergence of a Communist government. In Poland,

more than 5,300 state-owned enterprises (SOEs) were involved in the process over the 1980s, not counting retail businesses that have totalled 100,000 companies in some estimates (Vinton 1993).

The ability to influence decisions about privatisation is a good indicator of the power of the public sector. The ability to influence decisions could be measured by the impact that each stakeholder has on the terms and conditions of privatisation. The public sector has many avenues of influence. It arranges all of the pre-conditions, from enabling legislation to putting the enterprise in order. But then the public sector also has to act to put together a deal, one which all participants in the privatisation process note is "a political process" involving all of the other stakeholders. Right down to the end, the public sector has the power to adjust many of terms of the deal, including subsidies, what property gets transferred, and pricing. Still, there are limits to what can be accomplished, as seen in both the Egyptian and Polish experiences (Carana 2000; MOT 2002a). In Poland, though more than 3,000 SOEs have been privatised but 1,751 SOEs have been liquidated (MOT 2002a).

The next key stakeholder is the private sector, including both local and foreign investors. The influence of the private sector on privatisation obviously varies by country and process. Poland actively sought international investment and participation, even while discouraging participation in investment from neighbouring Germany (Vinton 1993). At another extreme, China is trying to encourage private investment while the government retains overall control (Megginson & Netter 2001).

In order to answer the question of how is the influence of the private sector reflected in privatisation, we can look at the level of interest. The 2001 privatisation programs dropped to \$20 billion in the countries of the Organization for Economic Co-Operation and Development (OECD), partly because of poor economic performance at the end of 2001, "resulting in cancellation and/or postponements of planned privatisations" (OECD 2002). In the case of U.K. water privatisation, share prices were clearly lowered to make disposal of the assets possible (Howe 2000). In some cases, private investors withdrew from projects because the returns were not as expected. In 1999, British firm Bowater withdrew from a Zimbabwe project and in Argentina a dispute over a privatisation contract ended up in a lawsuit involving the investor and the government (PSIRU 2000).

Carana Corporation studied privatisation efforts in Egypt, which yields interesting information on why offerings fail. The study covered 34 enterprises. Each of the unsuccessful offerings had multiple problems, in Carana's opinion including price, packaging, prolonged negotiations, disclosure issues, technical complications, and uncertainties over land/labour/government issues. They maintain that proper due diligence by the seller is critical, as is the necessity to negotiate professionally and quickly (Carana 2000).

Therefore, the private sector is counted as a key stakeholder because it carries a strong ability to set the terms and conditions of any privatisation and even has no ability to start the process or set legal conditions on which they occur. In Poland for

example, legal restrictions still exist on foreign ownership of real estate, leaving restrictions on foreign investors in farm and residential estate ventures (MOT 2002b).

Other stakeholders include the financiers (as creditors to the government), the project consultants, the media, academics, and communities that are likely to be affected. In most cases, these stakeholders would have different objectives, perceptions, and influences on the privatisation process. For examples, financiers are likely to have similar objectives to the private sector in terms of looking at return of investment. Academics and the media are not so much concerned in the pre-privatisation process but are significantly involved as commentators and in overseeing the process. Participation and involvement of stakeholders in the process of privatisation is a key factor to enhance successful privatisation (Piesse 2001). In Chapter 5, I have included these stakeholder groups in my investigation.

## **2.6 Perceived Theoretical Frameworks in Privatisation**

The motivation for privatisation usually involves a mixture of factors. While many theoretical frameworks are possible when approaching a broadly defined topic with wide implications such as privatisation, this thesis focuses on prevailing political and economic theories, since these theories are most often discussed in the privatisation literature and provide relevant insights. Although there are many traditional approaches to the privatisation issue, this broad survey of the literature has recognised three most mentioned economic theories; *Firm Transaction Costs theory*, *Principal*

*Agent theory*, and *Property Right theory*, and two main political theories; *Re-invention of Government theory* and *Public Choice theory*.

Thus it is important to understand the economic and political frameworks used both in theory and in empirical studies either in support of or against privatisation, because this will enable this research to suggest which theories appear to be of greater applicability given the SLA case study.

### **2.6.1 Economic frameworks**

#### **1. Theory of the Firm - Transaction Costs**

The theory of the firm literature, also known as transaction costs literature, focuses on decisions by economic units to either make a product itself or buy it from outside sources. There are situations in which it is better to source products from outside rather than tool up to make it internally, since unless the good or service is critical or strategic, co-ordination costs would be too high, or outside supply is limited and exposes the firm to shortages of supply (Coase 1991; Knudsen 1999). In government, contracting out and the recent public-private partnership literature reflects the decision that outside suppliers are plentiful and more efficient than government could be in undertaking certain activities. Transaction costs, however, are rarely disclosed in the empirical literature.



## 2. Theory of Principal - Agent

Principal-agent literature analyses incentives and information in organisations (notionally, “agents” of shareholders), and suggests that the profit motive of private sector firms translates within the firm to efficiency-seeking and profit-seeking incentives (Shapiro & Willing 1990). These in turn ensure that the internal structure of the firm maximises efficiency and profit. There is no concern about the relative importance of other objectives. On the other hand, government agencies have many purposes, including social welfare, maximising votes, minimising the potential for political embarrassment and so the motivation of the agent are mixed. Performance bonuses are rare in the public sector: public bureaucrats have little incentive to minimise costs or increase the value of the “service”, since the asset is not transferable (Sappington & Stiglitz 1987). Vickers & Yarrow (1991) see regulation as a principal-agent manifestation, since it substitutes written command for ownership command, but nevertheless is aimed at control and incentive.

Shleifer & Vishny (1994) have presented a model of bargaining between politicians and managers. They argue that privatisation, if defined as the governments’ loss of cash rights, does not serve its purpose. Privatisation can prove to be efficiency-enhancing only if control rights over employment decisions are shifted to plant managers, and government subsidies are targeted at inefficient public plants. Another theoretical study by Boycho, Shleifer & Vishny (1996) concludes that privatisation will lead to improved performance by SOEs only if the cash flow rights and control rights pass from the government to the private owner. They further argue that the

existence of 'hard budget constraint' is crucial for better performance. Therefore, their model focuses on the environment in which the enterprises operate.

### 3. Theory of Property Rights

Property rights are often used or recommended by economists as possible solutions to the "free rider" and "negative externality" problems. Property rights cannot be provided in some cases, such as air, but property rights in, say, the right to emissions from factory smokestacks has been used in the U.S. Regulation. Contractual arrangements may also control free riders and negative externalities, but may be of little use if transaction costs to establish, distribute and monitor them are high. It is perhaps through the economic literature on property rights that some economists can envisage a positive theory of public enterprise and, through it, a normative concept of good government (although that is not yet clearly articulated -Vickers & Yarrow 1991). The key is in the residual rights. Individuals who have property rights try to perpetuate and enhance the value of the property for themselves, their heirs or those they may sell the property rights to. This is said to ensure careful management of the asset. Given the non-transferability of ownership claims in the public sector, according to this theory bureaucrats have no particular, personal stake in the longevity of the asset (DeAlessi 1980; Hardin 1993). According to DeAlessi, public firms tend to fail to price properly, favour voters, have higher operating costs and use more capital-intensive production techniques. Indeed, on the issue of pricing, Hayek (1988) and others suggest that market pricing is necessary to counter dispersed knowledge: efficient acquisition of knowledge comes through price "signals" provided by markets. On the other hand, Boardman & Vining (1989); and

Borcherding (1983) have shown that public firms do not necessarily have higher operating costs in certain circumstances.

The property rights literature would suggest that private sector owners/operators maximise the value of an asset. In the context of the then-privatised Pearson International Airport, Canada, this may have been manifested by better retail sales to airport users, better pricing of parking lots, concessions and licensees, and the development of surplus density for hotel and office purposes (Kapur 1995). On the other hand, underpricing may be perceived as an express or implied subsidy, offered for political or other reasons.

### **2.6.2 Political frameworks**

#### **1. Theory of Re - invention of Government**

The re-invention of government approach, under various names including “new public management” (Hood 1991; Walsh 1995), constitutes a set of theoretical approaches that compete with privatisation theories, to the extent it suggests that it is not public vs. private, or even competitive vs. non-competitive that matters so much as good public sector management. This set of theories tries to minimise the “pay, power, and prestige” bias of bureaucrats discussed by Niskanen (1971).

Clarke suggests that a sea change in focus is at the core of the movement:

1. from a focus on internal process to a focus on outcomes;
  2. delegation and personal responsibility replace hierarchical decision making;
  3. quality joins quantity as a government focus; and
  4. innovation and diversity are valued and rewarded over stability and uniformity
- (Clarke 1994:401).

In Hood's (1991) model, privatisation is but one of several tools to achieve good government from time to time, as well as benchmarking, results-based incentives, private sector management practices, desegregating units, and competitive tendering for services. Osborne & Gaebler (1992) offer a menu of prescriptions for more efficient and representative government including community involvement, competitive tendering, results-oriented programming, service standards and decentralisation. What is not known is: whether the need for honesty in government may be sacrificed in the process to entrepreneurial government (see Jacobs 1992); whether the re-examination of a bureaucratic model almost 200 years old ignores the reasons for its design in the first place (see Moe 1994); whether the public really sees government services as qualitatively inferior to private ones (Poister & Henry 1994); or, in the privatisation context, whether the public really wants the government to sell SOE's and enter public-private partnerships for its roads, airports, waterworks and mass transit (see Savoie 1994).

Osborne & Gaebler (1992) present another ideological alternative to privatisation: reforming government to make it more efficient. The basis of this movement is a shift in organisational culture from an inward looking, supplier focused structure to a customer-focused, results-oriented structure and culture. A key element of this change is the increasing marketisation of public services by establishing pricing and market based mechanisms for public services and public services organisation, and increasing user pay approaches. Within this philosophy, privatisation is regarded as a tool, with ownership being replaced by regulation as the form of control. Yet even with this approach, success is not guaranteed.

## 2. Theory of Public Choice and Political Science Theories

Can government do things right? Two theories bear on this issue, although both can be seen as neo-liberal approaches. Buchanan's work in public choice theory (Buchanan & Tullock 1962) offers one theoretical, and doubtful, insight. Public choice theory applies assumptions about self-interested behaviour in the marketplace to governments; to bureaucrats, to special interest groups and to politicians. Interest group government interaction is likely to produce, according to public choice theory, economically irrational decisions (Buchanan & Tullock 1962). These start from stated government policy and compare skewed results or implementations. Examples include the use of environmental legislation to curb competition (Shaw 1993:152). Public choice has libertarian roots, but is broad in its applicability and explanatory, although not particularly predictive. It shows the loose control provided to governments through the ballot box, and the dynamic of decision-making within it (Shaw, 1993; see also Hartley & Parker 1991; Sproule-Jones 1983).

The emergence of the non-market failure literature suggests government ought to have efficiency dimensions to its actions that apply regardless of the policy course sought. Wolf (1993) argues that aspects of non-market failure includes the dispersed majority-interested minority problem, the high time-discount of political actors (similar to Marsh's "political short-termism"), the political find-a-problem, legislate-a-solution ethic, group enfranchisement, reduced tolerance of market shortcomings, the decoupling of benefits and burdens, and internalities of government.

Gillette also reviews the classical externalities of government intervention in markets, particularly their inability to understand the price system so prized by Hayek and others. Prices are signals; they signal scarcity and value. Scarce resources are said to end up in the hands of those who can use them most productively (Gillette 1994:97).

### **2.6.3 Criticisms of the theoretical frameworks**

Given this ideological and theoretical background, it is useful to revisit the empirical literature to compare the evaluative approaches and frameworks used against the theoretical background. Many economists have analysed privatisations from the point of view of classic economic efficiency: static, dynamic and allocative. These approaches focus on the efficiency of the organisation (typically, an SOE) before and after privatisation, using a number of indicators, including profit, annual revenue, costs and other objective input and output indicators.

Few books on privatisation analyse opportunities on the basis of any rigorous economic theoretical analysis at the level suggested by Vickers & Yarrow (1988) or Wolf (1993), although most deal with the problems of monopolies or refer to negative externalities. Roth (1987), writing on behalf of the World Bank, develops a framework including natural monopolies, decreasing marginal cost, negative externalities, public goods problems (non excludability or difficulty in collecting), and merit goods, and applies this to a discussion of the potential privatisation of education, electricity, health care, telecommunications, urban transport, and water and sewerage services in developing countries. Donohue's approach (1989) is that a review of economic theories and, indeed, philosophical theories of government, offers no clear guidance on the privatisation issue, or on the likelihood of success. He suggests that reviewing the evidence on the basis of competitive vs. non-competitive markets is more important, an approach that Vickers & Yarrow (1988) also take. Vickers & Yarrow (1988); and Gomez-Ibanez (1993) take a particularistic approach to privatisation success, and for them the availability of competitive markets is the primary success factor. Where competitive markets cannot be structured, privatisation gains may be minimal or non-existent.

Some social researchers look at privatisations from the case study point of view and look at qualitative outcomes such as societal benefits, access to services, social externalities and distributional equity. This approach offers few necessarily transportable generalisations, but it still does provide experience that may be usefully applied in other situations.

For example, Ross (1988) asks a very general question: what would be the appropriate way to redivide responsibilities among government and the private sector (termed by him, the “assignment” problem)? The result, Ross summarised, could then be used to guide thinking in undertaking the analysis of the question posed, in the context of any activity, including the provision of services and infrastructure. Ross’ work suggests another well known but even more general evaluative tool, that of the healthy cities movement, which uses efficiency, equity and the environment as three evaluative criteria in overlapping circles. Unlike Ross’ approach of trying to find and weigh published studies as support, the healthy cities movement tries to deal with subjectivity and trade-off in rankings, but prefers the opinion of “citizens’ groups” as the ultimate judge, over Ross’ preference for published studies. The issue, to me, is quite clearly brought into focus by Ross: having raised the issue of subjectivity, how is it resolved, weighed and decided, and who decides?

I agree that the issue is the effective management of a public good, but from a variety of perspectives. Privatisation is merely a tool. Policy makers need a more comprehensive framework for analysis and a better ability to articulate and characterise risks. The gains evaluation methodology should not be merely economic, should not be merely positivist, and should not necessarily attempt reductionist, simple conclusions. The theoretical tools currently available are incomplete, and, given some outcomes in the Thatcher privatisations, may be poor predictors of success as subsequently defined by a public. The issues in each of privatisations are often different, and the literature reviewed shows that success and failure occurs in



different situations for different reasons. The attribution of success or failure to any particular case may be impossible, given the difficulty of isolating dependant and independent variables in each real life example.

With so many culture- and context-dependant issues involved, the multiplicity of dependant and independent variables involved (often with little feel for which is which), and the choice of several competing models, the likelihood of ever developing cross-contextual predictive theories regarding infrastructure and public service privatisations seem remote. Alternative approaches that seek to minimise risk or maintain adaptability and flexibility may have more promise than those that seek to maximise efficiency in return for a long term or permanent commitment, particularly when the asset or service involved is public infrastructure or an essential public service.

As a result, the current empirical and theoretical evidence in favour of infrastructure privatisation is suspect. Decision makers need new understandings of the capabilities and attributes of different methods of achieving public policy objectives regarding public infrastructure and services, and new definitions of and evidences of success. Once a clearer understanding of experience and the linkages between public policy objectives, methods and outcomes exist, better policymaking should result. This is why in this thesis I have emphasised the perceptions of decision makers and stakeholders, rather than economic theory, in explaining the policy choices that are being made concerning the SIA privatisation.

## 2.7 Infrastructure Privatisation – Airport Sector

### 2.7.1 Trends in Infrastructure privatisation

Infrastructure<sup>6</sup> is a capital intensive but strategic area of investment. As Smith pointed out

*A sustainable or growth economy will depend upon a sustained or growing infrastructure. Realising an adequate infrastructure will depend upon a relatively high level of investment by government or by the private sector (Smith 1999, p1).*

Governments around the world are heavily involved in infrastructure. The trend of privatisation in infrastructure began in a few countries in the 1970s and 1980s turned into a wave that has swept the world in the 1990s.

Developing countries have encouraged to follow this trend, developing better approaches to providing infrastructure services, increasing competition and customer focus, which have led to higher efficiency and reduced fiscal constraints.

Infrastructure privatisation in developing countries has increased dramatically during the last decade. Privatisation proceeds as a measure of peak revenues of US\$ 12

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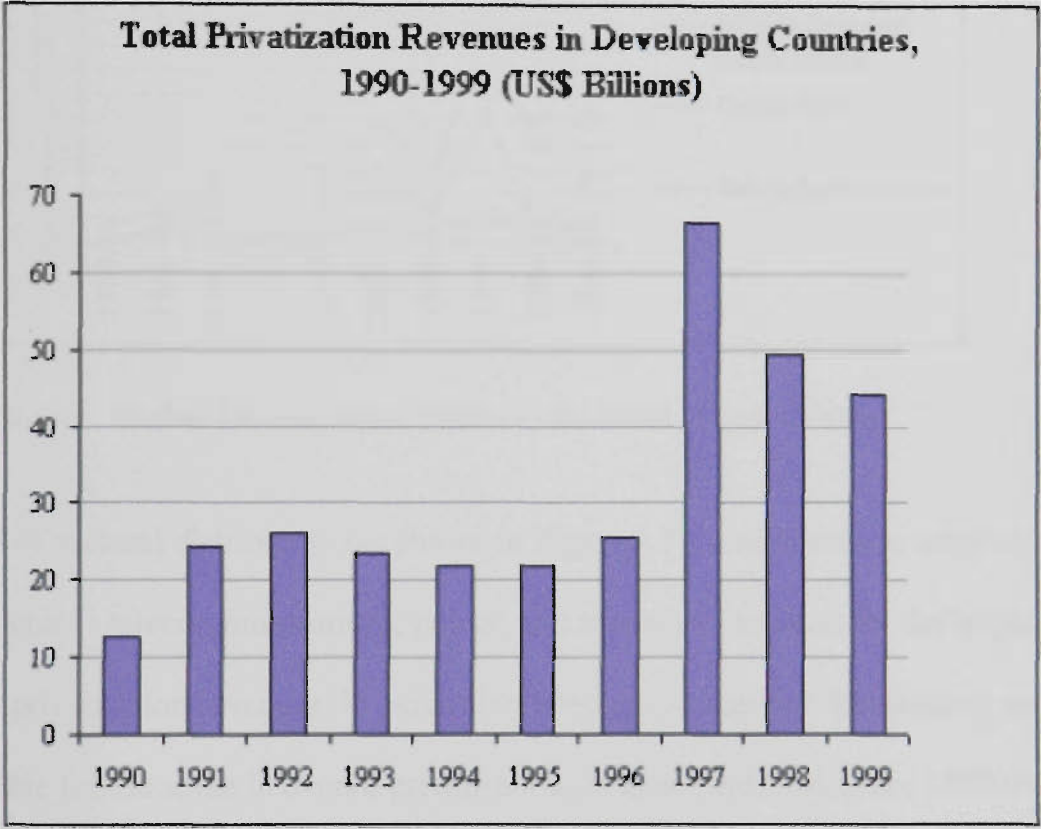
<sup>6</sup> The infrastructure sector includes, for example: electricity; telecom, airports, ports, water distribution, natural gas distribution, and toll roads.

An infrastructure project (Macquarie 2000) is a general description for essential services and facilities required by the community upon which economic activity is built. This includes:

- Telecommunication networks such as telephone lines and fibre optic cabling;
- Utilities and power distribution systems, such as electricity grids, gas pipelines, water supply and treatments; and
- Reliable transport corridors for road, rail links and airports.

billion in 1990 to US\$ 44.1 billion in 1999. After reaching peak revenues of US\$ 66.6 billion in 1997, privatisation transactions slowed down considerably in 1998 and 1999 (see Figure 2.3). This trend was in part caused by the Asian Crisis in 1997 as well as the completion of major elements of the Brazilian privatisation program (World Bank 2000a).

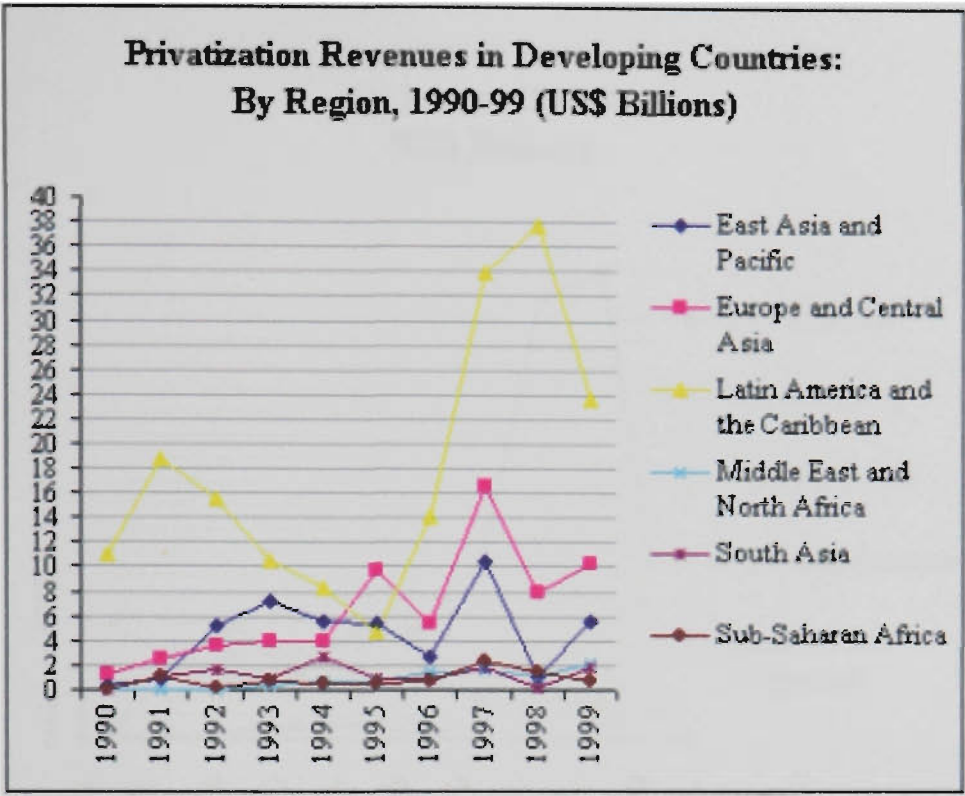
**Figure 2.3** Total Privatisation Revenues in Developing Countries



Source: Global Development Finance, the World Bank (2000a)

From Figure 2.4, it can be seen that in terms of regional distribution, most activity was taking place in Latin America and the Caribbean, hovering around 50 percent of total activity. The share of activity in East Asia and Pacific region constitutes a quarter to a third of total activity. Due to the Asian financial crisis, privatisation activity slowed down considerably and proceeds for 1998 dropped substantially.

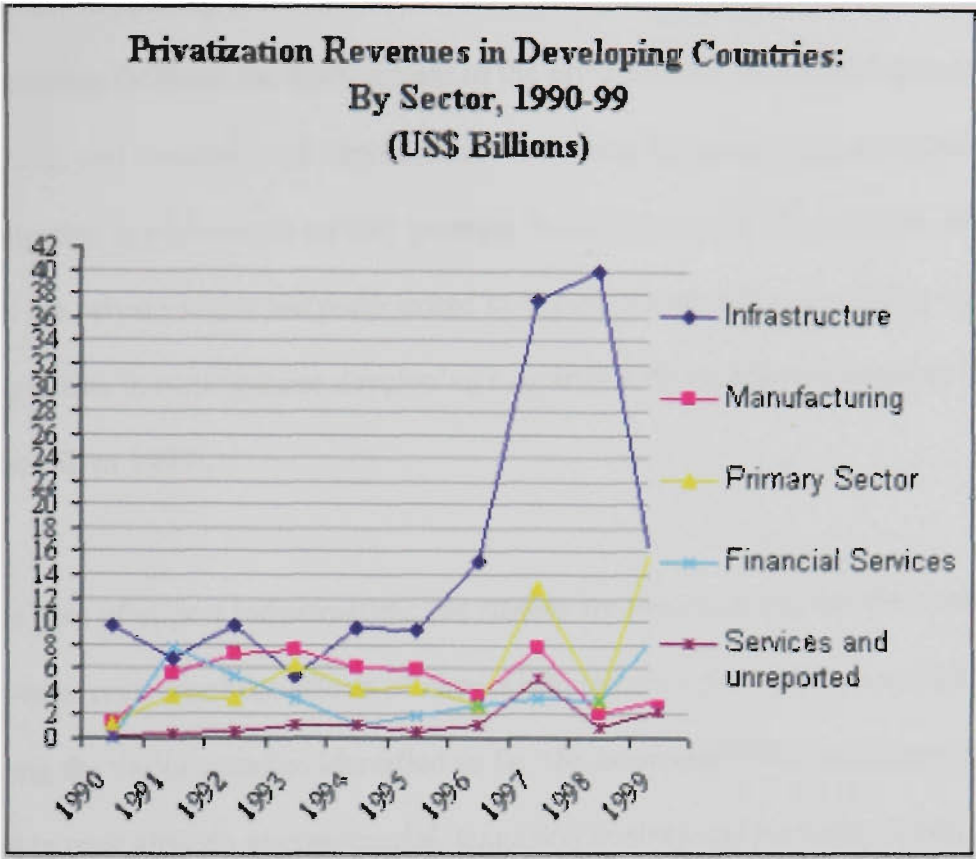
**Figure 2.4** Privatisation Revenues in Developing Countries – By Region



Source: Global Development Finance, the World Bank (2000a)

In terms of sectoral distribution (as shown in Figure 2.5), divestitures in large-scale infrastructure - telecommunications, power, and transport - account for the largest share of privatisation revenues. In particular, telecommunications transactions were responsible for the spike in overall privatisation revenue peak during the 1997-98 period. In 1999 privatisation in the primary sector - which includes petroleum, mining, agriculture and forestry - overtook infrastructure privatisation. The share of divestitures in financial services and manufacturing (steel, chemicals, construction and other manufacturing) vary considerably for each year.

**Figure 2.5** Privatisation Revenues in Developing Countries – By Sector



Source<sup>7</sup>: Global Development Finance, the World Bank (2000a)

**2.7.2 Recent Privatisation Experiences in Airports and Airport Infrastructure**

Traditionally, airports are an essential and expensive component of the infrastructure needs for air transport system and they are also inherently natural monopolies (Juan 1995). Like many other infrastructure developments, airports in the past were almost exclusively under government ownership and management, and capital investment funding was solely a government responsibility. As demands for government spending outpace revenues, competition for funds among the various needs of society

<sup>7</sup> It is important to note that these privatisation data include proceeds from domestic and foreign investors as well as direct and portfolio investments.

is becoming more intense. Governments are increasingly calling for a larger private sector role in meeting these needs. Economic reforms undertaken by these governments facilitate the involvement of the private sector in the management, financing, and ownership of airport related activities. Consequently, private sector participation has become a rapidly growing worldwide trend. For example, during the 1990s the private sector has participated in airport privatisations involving eighty-nine projects in twenty-three developing countries with investment totalling US\$ 5.4 billion (Silva 1999).

In the case of airport infrastructure, the studies are more current, but there are few long-term reviews of the effects of airport infrastructure privatisation available.

Among the various studies identified so far, the most significant are the worldwide trend to treat airports as commercial, taxpaying businesses (Anderson 1999;

Anonymous 1998b; Fiorino 2000; Gomez-Ibanez & Meyer 1993; Hakim, Seidenstat & Bowman 1996; Taverna 1997). Muska (2000) stated in his report that there is plentiful evidence showing that Airport infrastructure privatisation can be successful.

An example of such evidence comes from Advani (in Muska 2000), which reveals that privatised airports are substantially more passenger-friendly than government-run airports. This is because the profit motive drives an organisation's strategy to design services around the needs of customers.

### 2.7.3 Choice of Privatisation Methods for Airport Infrastructure

Airport infrastructure privatisation, like other privatisation programs, can occur in many different forms (see section 2.4 - Choice of General Privatisation Methods) but three methods<sup>8</sup> are most common for airport infrastructure privatisation taking place around the world: the sale of an existing government owned airport through divestiture; outsourcing through management contracts; and use of private financing and management rather than public funding for new infrastructure development through concession based contracts. The following explains the three strategies and attempts to give examples that relate to this study.

#### 1. Divestiture

This refers to the sale of government assets – completely or in part – to the private sector. It combines assets sale, direct sale, and public offering methods as discussed in section 2.4. Thus it represents the transfer of ownership from the government to the private sector or involves a partial share ownership by the private sector– either trade sales; public floats or the public issue of equity (Anderson 1999; Gomez-Ibanez & Meyer 1993; Walker & Walker 2000; Yu 1997). This method is commonly used in developed countries with strong capital markets. The best example in this category is airports operated by the British Airports Authority<sup>9</sup> (BAA). BAA was a public corporation until 1987, when the government, applying the Airports Act, decided to take 500 million shares under full flotation at a subscription price of 2.40-pound sterling each. Nevertheless, the government kept a single share (*golden share*), and

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<sup>8</sup> Example of cases relies on Kapur (1995)

<sup>9</sup> BAA manages the following seven airports: Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Aberdeen, and Southampton

25% of equity was reserved for employees. The Airports Act also provided for the regulation of BAA in order to avoid any monopoly power exploitation. The government appointed the UK Civil Aviation Authority as regulator, although the Monopolies and Mergers Commission and the Office of Fair Trading could review BAA activities as well (Kapur 1995).

Another example of full divestiture is Belfast International Airport, although the mechanism selected by the government was a public tender. The winning bid was presented by a group of managers and employees, and in contrast to BAA, it was not subject to Civil Aviation Authority scrutiny.

Outside UK the most far-reaching privatisation program has taken place in Australia, where long term leases (50 years with an option to extend for a further 49 years) were offered for sale over eighteen of the twenty-two airports operated by the Australian Federal Airports Corporation (FAC) in a two phase sales program (Hooper, Cain & White 2000). The first phase covered the sale of leases of three major international gateway airports at Brisbane, Melbourne, and Perth. The second phase the sale of leases of a further fifteen airports. Recently (2002), the Macquarie Bank Southern Cross consortium has emerged as the new owner of the Sydney International Airport, the nation's busiest airport, at the final price tag of \$AUD 5.58 billion. This is a record and eclipses the \$AUD 4.1 billion total raised by all other airport sales in Australia (Anonymous 2002a).



## 2. Management contract

This form of arrangement refers to the situation when the private sector takes over responsibilities for the operation and maintenance of some existing facility, which has previously been operated by the government. This form is used in many developing countries when the private sector can bring in more expertise and/or when the government has a facility which is in need of upgrading or renovation. Under the management contract model, a private sector contractor is retained to manage airport assets, usually passenger terminal facilities or retailing activities, within passenger terminals. Other airport operational activities, such as maintenance and the operation of runways and Air Traffic Control facilities, continue to be undertaken by the airport owner or other state sector agencies. This model enables the private sector contractor to transfer best practice across a range of airport activities, thereby reducing costs, enhancing revenues and improving standards of services. Responsibility for funding investment in airport assets is retained by the airport owner but the prospects for more wide-ranging types of privatisation may be greatly improved by the increased profitability of the business under the management contract.

The concessionaire either receives a management fee, linked to revenues generated in the activities for which it was responsible, or receives a share of airport revenues, but pays a lease or rental charge to the airport owner. With responsibility for financing major investments remaining with the airport owner, the length of a management contract tends to be significantly shorter than the term of a concession based contract (Anderson 1999; Fiorino 2000; and Gomez-Ibanez 1993).

To date, management contracts also mean an improving service quality and the financial performance of the airport applied by public airport authorities in developed countries. In developing countries, the stimulus to engage the private sector is more frequently related to securing additional funding for investment projects and for gaining the benefit of private sector skills in project management. For instance, Aeroports du Cameroon is a company created by the government of Cameroon to operate 7 of the 14 airports in the country for a 15-year period. This company is part-owned by Aeroports de Paris, with 34% of shares, followed by the Cameroon Government with 24%. The remaining shares are distributed among carriers and a major bank. Aeroports du Cameroon is required to re-invest part of its profits, although it can establish airport charges after consulting the government and airport users (Kapur 1995).

### 3. Concession based methods

The last common form of airport privatisation, using private rather than public financing and management for new infrastructure development, is generally utilised in a capital-intensive project. In this model, the government airport owners issue a request for proposals or seek bids for a concession to operate an airport for a designated period. While the government retains ownership, the concession holder has control of airport assets. (Hakim; Seidenstat & Bowman.1996; Taverna 1997).

The terminology and acronyms used to describe concession-based projects have been developed on the concept of a fixed term concession, using various combinations of private sector resources to design, construct, finance and operate facilities. However, they are not always used consistently and different projects which apparently use the

same terms may vary significantly in the actual contractual agreements. On the other hand, a number of terms are virtually synonymous. The principal variants in most common use in Airport infrastructure privatisation are as follows.

A BOT<sup>10</sup> (*Build Operate Transfer*) scheme *and its variants* occurs when the government grants a concession or franchise to a private firm in order to finance and build or modernise a facility that will also be operated by the firm for a certain period of time (20 to 50 years is a common period for airports). The private operator receives corresponding revenues and in turn assumes all commercial risk. When the concession period expires, the facility returns to the government. The concession contract may include some regulatory provisions regarding the prices charged or the quality provided. This scheme and all its variants have been widely used for infrastructure development. For example, a BOT scheme was utilised by the Colombian Government in 1995 for the construction and maintenance of a second runway, as well as for the maintenance of an existing runway at El Dorado Airport in Bogota. The US\$100 million will be recovered by the landing fee revenues collected during the 20-year concession period (Betancor & Rendeiro 1999).

Slightly different is a BOOT (*Build Own Operate Transfer*) scheme. Under this system, the private operator also retains ownership of the facility during the concession period, usually in order to guarantee bank loans. Toronto's Lester B. Pearson Airport's third terminal, with a capacity for 10 to 12 million passengers, was developed under this type of arrangement. The deal included a 40 year land lease,

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<sup>10</sup> For a detail review of BOT schemes and its advantages and disadvantages see Klein (1998). The basic contracting issues are discussed in Lopez-Calva (1998).

with an option to renew for a further 20 year period, a lump sum payment to the government of Cdn\$ 30million, and an annual lease payment based on developers gross revenues. Toronto's airport represents a rare combination of public and private ownership and operations. Terminals one and two are owned and operated by the governmental body, Transport Canada. Terminal three, however, is privately owned, although it is operated under a management contract by Lockheed Air terminal of Canada Inc. Transport Canada coordinates activities and provides air traffic control. It is also the proprietor of runways and taxiways. Since charges at terminal three are twice as high as those at other terminals, the market seems to be segmented, with the more prestigious international carriers tending to utilise terminal three, while the other terminals are mainly used by low-cost and regional carriers. However, the Canadian Government is reconsidering the position of this airport and trying to re-nationalise it again (Anonymous 1996a).

The LDO (*Lease Develop Operate*) scheme constitutes another alternative for introducing private participation at airports. It consists of a long-term concession on an existing facility. A private firm operates and upgrades or expands the facility, obtaining revenues from operations, and pays rents back to the government, which retains the property throughout the concession period. This type of arrangement was planned for La Chinita Airport in Maracaibo (Venezuela) in 1993, although it was unsuccessful due to a consortium breach of contract and changes in the political situation (Kapur 1995).

Having reviewed the three common used methods in airport privatisation, I now relate these back to the four core objectives discussed in section 2.3. The choice of a specific privatisation technique depends on the policies of the government, the country, and characteristic of the methods (see detail in section 2.4). Thus the three basic types of airport infrastructure privatisation usually arise from different motives. For the sale of existing airports, a main driving force has generally been some type of financial pressures (Estache 2001), which in this study regard as a financial gain objective. A primary motivation for using management contracts has been emphasised that the private sector is inherently more efficient than the public sector and the concession-based methods is driven by shortage of funds for new infrastructure development (Gomez-Ibanez & Meyer 1993), which regard as an efficiency improvement and a financial factor respectively.

#### **2.7.4 Issues from Airport Infrastructure Privatisation**

As we have seen, the range of possibilities for private sector involvement in airports is quite wide, and no one best practice model has emerged. The BAA case provides enough evidence to support full divestiture allowing for an improvement in market efficiency. Poole (1990) reports that the number of passengers handled per employee increased after privatisation, while at the same time operating expenses declined. Nevertheless, the procedure used to privatise BAA may not always be applicable. First of all, it requires developed capital markets, which is quite rare in developing economies. It also needs a new regulatory (institutional) framework, which is costly

and not easy to implement. Furthermore, when governments wish for political reasons to retain property, such an option is not feasible.

While there is now ample empirical evidence that airport infrastructure privatisation improves the performance of divested firms (Kapur 1995; Poole 1990), to date there has been very little study of how best to structure airport infrastructure privatisation and how to maximise benefits for various groups of airport stakeholders. Most research has emanated from the economics and finance disciplines and has focused on governmental privatisation transactions and the subsequent success and failure of these privatisations in achieving economic goals.

Therefore, it is important to understand that a priori understanding by policy makers and project stakeholders of the potential impacts of privatisation may fundamentally alter their selection of methods. In other words, if policy makers and stakeholders had a better understanding of worldwide experience in privatisation, not only from the point of view of efficiency gains but from the point of view of other factors such as political, cultural, and institutional factors, perhaps privatisations would be structured differently and accompanied by specific measures aimed at addressing these potential impacts in advance.

## 2.8 Closing Remarks

This chapter introduced the recent studies of privatisation both in general and in Airport infrastructure privatisation. It reviewed the objectives, the methods, and the economic and politic theoretical perspectives affecting privatisation and stakeholders' understood the relevance of these factors.

I aimed to add to the growing empirical evidence documenting pre-privatisation decision criteria, and to investigate how stakeholders perceived the idea of privatisation and its implementation. This included their criteria for satisfaction, how stakeholders tried to impact on the decision and with what effects. In the following chapter, privatisation development in Thailand is examined and recent cases of the country's privatisation are reviewed.

### **3. Thailand and the Privatisation Policy**

#### **3.1 Introduction**

Currently (2002), the notion of “privatisation” in Thailand is perceived as a government tool for obtaining funding to relieve the country’s budgetary burdens. In fact, privatisation was first used in Thailand in a minor way more than 40 years ago but only began to receive attention in the early 1980s. The 1997 economic crisis, therefore, acted as an accelerator in the privatisation process.

The present primary objective of Thailand’s privatisation program is to free up public resources as agreed in the third Letter of Intent to the International Monetary Fund (MOF 1998a). The expected results are reduction of public debt and budget deficits, reallocation of resources from unimportant areas of expenditure to more important sectors such as health and the provision of education, and improved goods and services to customers through increased competition (Lauridsen 1998; Panyarachun 1999; Pasuk & Baker 1998). In addition, proponents of privatisation argue that it will benefit Thailand because the private sector is more efficient than the public sector. It will also help the country to compete better in the global economy. Other benefits will include more transparency in government activities and the development of Thailand’s financial market (Pasuk & Baker 2000).



However, the concept of privatisation is not widely accepted by the public at large. One reason may be that in the Thai language the word “การแปรรูปรัฐวิสาหกิจ (Karn Pare Roop Rachvisahakij)” implies “Selling State Owned Enterprises (SOEs)”. Therefore, it does arouse some opposition from SOEs employees and the public in general. Existing laws also present obstacles to privatisation. This chapter examines in the Thai context the economic, political, cultural and institutional issues related to privatisation policy. It describes current frameworks and gathers an overview of opposing arguments in Thailand’s privatisation. This chapter attempts to show the meaning and reasons for privatisation and aims to show the similarities and dissimilarities between privatisation policy in Thailand and elsewhere.

## **3.2 Thailand Characteristics**

Thus, to understand how Thailand has constructed and implemented its privatisation policy and how stakeholders’ view point on the policy, it is necessary to know and understand the broad characteristics of Thailand’s culture, economy, politics and institutional characteristics.

### **3.2.1 Socio – Cultural Characteristics**

Siam is the original name of Thailand. In an official proclamation dated May, 11, 1949, the name of the country was changed to Thailand (Office of the Prime Minister 1995). The Kingdom of Thailand is located in the heart of Southeast Asia, with

Bangkok as the capital city. Thais always call the capital “Krung Thep”, which means “city of angles”.

Since, the word “Thai” means “free” and therefore Thailand has often been described as the “land of free”. In addition, it is the only country in Southeast Asia that has never been colonised, even maintaining neutrality during Japan’s occupation during World War II. This particular characteristic has been an important and pervasive value for Thais (O’Sullivan & Tajaroensuk 1997; ). The official language over the whole of Thailand is Thai. However, Thai has many distinct regional dialects that are a bit different from the official Thai language. English is often used and widely understood in Bangkok; major cities; and business circles. It is taught in primary and secondary schools. Chinese is also widely spoken (O’Sullivan & Tajaroensuk 1997).

According to Siengthai (1991), nearly 95 percent of Thais believe in Buddhism, the national religion. It has served as a basic ideational map for Thai people. It teaches people not only to think rationally but also to test whether an idea or guideline is true or false; good or bad; proper to pursue or not. The major principle of Buddhism is moderation that is following the “middle path” in whatever one is doing. This means that when Thais do business, they prefer to do it in the moderate path that balances career and family life (Keyes 1987; Lawler & Atmiyanandana 1995; Lawler, Siengthai & Atmiyanandana 1998; Siengthai 1991).

As Keyes (1987) noted, the rational belief of Buddhism is different from Western rationality. It does not serve the development of capitalism, rather it reminds people to live in a moderate way.

In relation to the national culture, it is characterised by low individualism (Hofstede 1980; Sorod 1991). In such a collectivist culture, Thai people more strongly identify and bond with various groupings. Thais believe that inner freedom is best preserved by maintaining an emotionally and physically stable environment. Therefore, they believe that social harmony is very important and, in general, people will do their utmost to avoid any personal conflict in their contacts with others. Accordingly, the Thai people believe in “kreng jai”. Generally, “kreng jai” can translate as “respectfully considerate”. Thais are very reluctant to impose on anyone or disturb another’s personal equilibrium by refusing requests; accepting assistance; showing disagreement; giving direct criticism; challenging knowledge or authority; or confronting in a conflict situation (Blanchard 1970; Komin 1991, 2000; Siengthai 1991).

Thai culture is also characterised by high power distance (Hofstede 1980; Sorod 1991) and thus status differences among citizens are often very large. Komin (1991, 2000) described the Thai social system as hierarchical. Class distinction and social differences in Thai society are broadly defined by such personal characteristics as family background; age; gender; and level of education. Class and social differences in the Thai culture have also a lot to do with gender differences (Office of Prime Minister 1995). Moreover, as

Keyes (1987) noted, in Thailand, educational attainment serves as an indication of position within the national society. The people who do go on to tertiary education assume a quite different class-linked status depending on which Thai educational institution they attend and whether they obtain college and university degrees abroad.

According to Hofstede (1980) and Sorod (1991), Thai culture is also characterised by high uncertainty avoidance. Uncertainty is reduced in communication relationships through the internalisation of context related rules and norms about appropriate communication. For example, when meeting others for the first time, Thais automatically employ the correct pronouns and postures of respect; deference; and intimacy. Politeness and tact dominate acquaintance level relationships.

Finally, Thai culture is characterised by what Hofstede calls 'low masculinity'. Therefore, non-dominant interpersonal styles (e.g. non-assertive and non-competitive) are major characteristics of Thai culture. A successful, modest Thai person often expresses a lower opinion than is probably deserved of his or her own ability, knowledge, success, etc. Older Thai people are not happy when younger people argue with them or give more critical opinions than requested. Many Thais would prefer not to say anything if their comments tend to lead to conflict or interpersonal resentment. In addition, Thais seek to avoid face-to-face confrontation, strong criticism and outspoken negative performance feedback. Even what might seem as a frank exchange of ideas to some non-

Thais could be viewed by most Thais as an impolite and aggressive manner. In Thai culture, social and professional rewards come largely not as a result of assertiveness, aggressiveness, frankness or argumentativeness but rather because of proper and appropriate behaviour, obedience, politeness, respect and allegiance (Hofstede 1980; Sorod 1991).

In line with Komin's (1990, 1991, 2000) nation wide surveys of Thai values, Thai cultural characteristics can be described by nine value orientations. Results from the surveys indicated that Thais place strong values on "face-saving" (sensitivity to ego); "grateful" relationships (focus on "gratitude reciprocity" and maintenance of long term relationships); "smooth" (harmonious) interpersonal relationships; flexible adjustment to situations (ideological adaptability); supernatural and spiritual belief (e.g. good and bad "krama"); education and competence as a means to achieve higher social status; interdependence (mutual helpfulness and collaboration) among different people and groups; working and interacting in a "light", fun-oriented atmosphere; and task achievement but not at the expense of maintaining harmonious relationships. In addition, Komin also suggested that these nine value orientations are characterised as the mental programming of the Thais and represent the cognitive system that is embedded in Thai culture. These features of Thai Culture show up in the stakeholder interviews, see Section 6.4.1.3.

### 3.2.2 Economic Characteristics

According to Warr (1993), Thailand was one of the poorest countries in the world in 1950 when the country's GDP (Gross Domestic Product) at constant prices and population for 1870 and 1950 implied virtually zero growth of output per capita. However, the Thai economy improved and performed well during the mid 1980s through the early 1990s (Mills 1994; Warr 1993).

Thailand's economic development began around the mid 1950s. The dictatorial government, with assistance from the World Bank established the National Economic Development Board (which was subsequently renamed "National Economic and Social Development Board – NESDB), began in 1959 to make the first five year national economic development plan that was commenced in 1961 (Warr 1993). Through advice of the World Bank's experts, Thailand adopted western theories of modernising its economy which, at the time, was largely agriculture-based and self-sufficient with around 80 percent of its population living in the agricultural sector. Strictly following these theories, the plan put as an ultimate aim the rapid growth of the economy. To implement this particular model of economic development, Thailand needed a shift in its economic base from agriculture to industry (Siamwalla, Setboonsarng & Patamasiriwat 1993; Warr 1993). Moreover, priority was given to developing infrastructure such as airports, highways, power plants and hydroelectric dams, irrigation system, etc. A number of state enterprises were set up to take up some of these responsibilities such as the Electricity Generating Authority of Thailand (EGAT) established as a state-run, monopolistic power utility to

guarantee that the country would have sufficient energy to sustain development (Dhiratayakinant 1993).

Thailand's economy during 1960s – 1980s transformed from an agriculturally dominant structure to an industrially dominant one. As summarised in table 3.1, the share of the industrial sector, which includes the manufacturing, mining, electricity and power and construction, in GDP stood at 18.2 percent in the 1960s and up to 25.3 percent in the 1970s. In addition, as the economy has become more industrialised, the service sector, which provides general basic support such as banking, finance and insurance, transportation and trade has grown from 42.0 percent in the 1960s to 46.4 percent in the 1970s. On the other hand, the share of the agricultural sector in GDP in the 1960s was at 39.8 percent compared with 18.2 percent and 42.0 percent, respectively of the industrial and service sectors. Agriculture's share reduced to 28.3 percent in the 1970s. The rate of growth of the agricultural sector was estimated at 5.5 percent a year in the 1960s and dropped to 4.3 percent in the 1970s.

**Table 3.1 Sectoral Distribution of Production and Employment, 1960 – 1990.**

	1960	1970	1980	1986	1987	1988	1989	1990
<b>GDP (% share) :</b>								
Agriculture	39.8	28.3	25.4	16.3	16.4	16.6	15.0	12.4
Industry	18.2	25.3	28.4	34.4	34.8	35.9	37.5	39.2
(manufacturing)	(12.5)	(16.0)	(19.6)	(23.6)	(23.9)	(24.8)	(25.5)	(26.1)
Services	42.0	46.4	46.4	49.3	48.8	47.5	47.5	48.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>GDP (% growth) :</b>								
Agriculture	5.5	4.3	4.7	0.3	-0.2	10.2	6.6	1.8
Industry	10.9	9.3	4.4	7.9	12.8	17.4	8.4	-4.4
(manufacturing)	(10.5)	(10.1)	(4.9)	(10.8)	(13.3)	(16.8)	(14.9)	(13.7)
Services	8.4	7.3	6.4	10.0	12.8	17.4	11.1	10.0
GDP	7.9	6.9	5.4	4.9	9.5	13.2	12.0	10.0
<b>Employment (% share) :</b>								
Agriculture	82.4	79.3	72.5	63.7	59.8	60.4	61.9	66.5
Industry	4.2	5.8	7.7	12.5	14.3	13.7	13.3	11.2
(manufacturing)	(3.4)	(4.1)	(5.6)	(9.1)	(10.5)	(10.3)	(9.7)	(8.7)
Services	13.4	14.9	19.8	23.8	25.9	25.9	24.8	22.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Notes:** The growth rates in 1960, 1970 and 1980 columns are average annual growth rates for the 1960s, 1970s and 1980s, respectively. Percentages may not add to 100 because of rounding errors.

Source: Krongkeaw (1995).

Although the transformation has been achieved largely through relatively successful economic policies and management, some serious structural weaknesses in the Thai economy developed as a result of the rapid growth (Phongpaichit & Baker 1998; Tourret 1989; Warr 1993). Evidence of the weaknesses first became apparent after the first oil shock of 1973–1974. Increase in oil prices by four times between 1973 and 1974 caused inflation to rise (Tourret 1989; Warr 1993). In addition, stagnant economies in many



developed countries brought down demand for Thai agricultural products in the world market, resulting in the fall of agricultural prices. Rural poverty became widespread and Thailand began to be confronted with a number of development questions, especially the distribution of wealth. Therefore, the fourth and the fifth national economic and social development plans which continued to follow the western economic growth model had put the spotlight on the issue of poverty (Warr 1993). Krongkeaw (1993) noted that the income of the rural population was only one-fifth of the income of those in industrial and commercial sectors. Public investment tended to benefit a minority of the rich rather than the poor majority. Moreover, the country's demand for energy, which depended 75 percent on foreign sources, caused a negative trade balance and huge losses from its currency reserve (Tourret 1989; Warr 1993).

Thus, to deal with this circumstance, in 1980 the government of General Prem Tinasulanonda unilaterally undertook a World Bank-style Structural Adjustment Programme and agreed to a series of structural adjustment loans two years later. The programme was embodied in the fifth plan that ran from 1982. Therefore, the fifth plan (1982 – 1986) had two aims : restoration of the country's economic and financial health, and structural readjustment to improve economic efficiency. 'Stability', 'equity' and 'security' became the key words of the plan, whereas growth per se was to be a derived as a secondary objective (Dixon 1999; Tourret 1989; Warr 1993).

However, the plan failed to address the rich-poor gap which was further widened. Moreover, the fifth plan also failed to resolve other fundamental economic questions such as the negative trade balance, the government's over-spending, the current account deficit, and its growing inability to service the foreign debt accumulated throughout the previous twenty year period for public service investment and mega infrastructure projects (Dixon 1999; Tourret 1989; Warr 1993).

The influence of the World Bank declined only a few years after their intervention in Thai economy due to the massive inflow of Japanese direct investment into Thailand as a result of the Plaza Accord, a key financial agreement between Japan and the US made in 1985 (Hassarungsee 1998; Tourret 1989). The Accord resulted in a drastic appreciation of the yen relative to the US dollar, sending Japanese firms into a decade long mass migration to cheap labour sites in Southeast Asia and China to retain their competitiveness in export markets. The amount of Japanese capital inflow in 1987 alone was even more than the total amount of Japanese investment during the previous 25 years period (Islam & Chowdhury 1997).

Among other foreign investors included those from the Asian tigers i.e. South Korea, Taiwan, Singapore and Hong Kong, leading to an upsurge of the Thailand's economy (Hassarungsee 1998; Tourret 1989). This very strong dynamism combined with the discovery of major potential supply of natural gas in the gulf of Thailand prompted the Thai policy makers and technocrats

to fully endorse the “NIC (Newly Industrialised Country) policy”, a giant policy leap towards rapid industrialisation. According to Warr (1993), the Thailand’s sixth and seventh development plans, thus, were in many ways a result of subscribing to the experiences that underlined development successes of the Asian tigers i.e. South Korea, Taiwan, Singapore and Hong Kong.

According to Akrasenee (1998) and Warr (1993), a number of factors, including Thailand’s prudent macroeconomic policies, attractive investment environment, and a changing global situation contributed to Thailand achieving high economic growth. Thus, between the late 1980s and early 1990s, Thailand enjoyed fast track development with the annual growth rate surpassing 10 percent throughout this period (see table 3.2), more commonly referred to as the great economic boom (Krongkeaw 1995; Warr 1993).

Table 3.2 Selected Macroeconomic Indicators

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Real GDP Growth (%per annum)	8.4	11.0	12.2	11.6	8.1	8.2	8.5	8.9	8.7	6.4	-0.4	-8.0
Inflation				6.0	5.7	4.1	3.4	5.1	5.8	5.9	5.6	-
Domestic Saving (a)				32.6	35.2	34.3	34.9	34.9	34.3	33.1	-	-
Government Budget Balance (a)				4.5	4.7	2.8	2.1	1.9	2.9	2.3	-	-
Export Growth (b)				14.9	21.0	16.1	14.5	17.5	24.2	3.3	25.7	-
Current Account Balance (a)	-0.4	-1.8		-8.3	-7.8	-5.7	-5.1	-5.7	-8.1	-8.0	-2.2	-

Sources: ADB 1995-1996; IMF 1997; IMF 1998; Lee 1998; Radelet & Sachs 1998; Tourre, 1989.

(a) In percent of GDP (b) Based on nominal US dollar

Although the economy continued to grow strongly during the late 1980s and early 1990s, there were warnings about the frailty of the Asian miracle identified three years before the crisis happened. First, Krugman (1994), an

American economist, warned that “Asian miracle” was unimpressive because it was based on investment spending and mobilisation of resources rather than efficient productivity growth.

The second warning came from Lee Smith in *Fortune* magazine (1995). As he said, following the meltdown of Mexican Peso, Indonesia, the Philippines, Malaysia, Thailand, Brazil, Argentina, and Chile predicted capital flight as economic turmoil in Mexico. Regarding these two signs, one group of Thai economists (Siamwalla 1997) began to realise that the value of the Thai currency, the baht, was subject to pressure due to sharp-rising US dollar as a result of the speculative foreign money beginning to flow out of the Thai economy. Foreseeing potential catastrophe of the economy in the wake of massively increasing pressure on the baht, they warned against the country’s long-standing fixed-baht policy. However, these warning were not heeded.

In late 1996, newspapers began to report economic problems such as the decline in exports, increasing number of units, houses and condominium being left unsold and huge private foreign debt (Bangkok Post 1997). Then, in early 1997, there were rumours about a number of finance companies and a number of small commercial banks getting into trouble with huge non performing loans. In addition, there was news about the attack on the baht in currency exchange markets leading to the situation whereby the baht was under enormous speculative pressure (Bangkok Post 1997). The first great shock came out on June 27, 1997, when the government ordered the suspension of the operation

of 16 cash-strapped financial companies (Hassarungsee 1998; Leightner 1999; Ruchupan 1999).

The baht was attacked fiercely in mid 1997. The Bank of Thailand spent vast amounts of foreign reserves defending the currency. On July 2, 1997, the government announced the replacement of the country's long-standing fixed currency exchange regime (known as basket currency system) with a floating system (which was de facto a devaluation). After devaluation of the Thai baht, Thai society felt great shock again on August 5, 1997, when the government suspended the operation of an additional 42 finance companies (Hassarungsee 1998; Leightner 1999; Ruchupan 1999).

Then foreign investors lost confidence in the economy and started to delay, reduce and pull out their investments in Thailand. Eventually, the Thai government applied for a U.S. \$16.7 billion (becoming U.S. \$17.2 billion later) loan from the IMF (Hassarungsee 1998; Leightner 1999; Ruchupan 1999). In exchange for a rescue package, Thailand was forced to (Asia Point Network 1998; Richardson 1998); use a new exchange rate regime based on the floating of the baht, reduce the current account deficit to about 5 per cent of GDP in 1997 and 3 per cent of GDP in 1998, restructure the financial sector, maintain gross reserves at the equivalent of 4.2 months of import in 1997 and 4.4 months in 1998, limit the end – period rate of inflation to 9.5 per cent in 1997 and 5 percent in 1998, end the support for insolvent financial institutions, strengthen

financial regulations and supervision, increase emphasis on secondary education and training, and accelerate privatisation.

These economic circumstances led to privatisation being imposed from outside, and Thailand found itself having to accommodate an external policy imperative that did not emerge from its own political system. This is examined later in this chapter (Section 3.3).

### **3.2.3 Political Characteristics**

The political system in Thailand began in the Kingdom of Sukhothai (1257 – 1378 A.D.), which adopted the paternalistic system of government. The King, while enjoying absolute sovereign power, would, like a father, look after all his subjects and personally pay close attention to their well-being. Then the Ayutthaya Kingdom inherited extensive Khmer traditions and customs, including their system of government with the Kings as demigods. A major indigenous development in the governing system during the reign of King Barommatrailokanat (1448 – 1488) left behind a clear division between the civilian and military administration and a strong centralised government. The succeeding Ratanakosin Kingdom established in 1767 in Bangkok also adopted the Ayutthaya system and government structure. Therefore, for over three centuries, the basic pattern of the administration of the country was carried out without drastic changes in terms of reorganisation (Office of the Prime Minister 1995).

In face of the threatening advance of colonialism, His Majesty King Chulalongkorn (King Rama V : 1868 – 1910) carried out major reorganisation of the central, regional and local administration, which formed the basis of the present system. His administrative reform and rapid drive for the country's modernisation proved successful both in maintaining the country's independence throughout the turbulent years of the Western colonial threat and in providing a foundation for the modern system of government (Office of the Prime Minister 1995).

However, the politics of Thailand took some significant turn on June 24, 1932 when the group of young intellectuals educated abroad and imbued with the concept of Western democracy, staged a bloodless coup, demanding a change from absolute to a constitutional monarchy. Determined to avoid any bloodshed, His Majesty King Prajadhipok (King Rama VII) agreed to the abolition of absolute monarchy and the transfer of power to the constitution based system of government as demanded. On December 10, 1932, King Rama VII signed Thailand's first constitution and thus ended 700 years of Thailand's absolute monarchy (Blanchard 1970; Keyes 1987).

For most of the time, since the 1932 revolution, Thai politics was ruled by a succession of military governments, with strong leaders acting very much as autocrats and deriving their legitimacy from the monarchy. The intervening civilian governments were characterised by factionalism among competing

interest groups, precipitating further army takeovers designed to restore stability. Changes of government by coup d'état were numerous, although were usually bloodless. Throughout the period the civilian bureaucracy lent an element of stability to the system (Blanchard 1970; Keyes 1987; Warr 1993). In 1973, the last of the true military strongmen was removed in an uprising largely engineered by university students. Although the military regained power by a bloody coup in 1976, military leaders since that time have realised the need to obtain wider civilian support for their government. General Prem Tinasulanonda accepted the post of Prime Minister from 1980 to 1988 at the request of civilian politicians to serve as a respected figure who could hold the ring between the various competing factions (Edwards, Edwards & Muthaly 1995; Keyes 1987; Tourret 1989; Warr 1993).

Nevertheless, although the monarchy has played little direct role in the government since 1932, in a practical feature of Thailand, the monarchy has continued to play an important role in the country's affairs, acting as a stabilising influence at times of political instability. Even in the last decade, the royal family has used its influence in support of the incumbent government to foil at least one attempted coup by General Suchinda Kraprayoon in 1992 (Edwards, Edwards & Muthaly 1995; Office of the Prime Minister 1995).



According to the Office of the Prime Minister (1995), Thailand's governmental structure has undergone gradual and practical evolution in response to the changing environment. The bicameral parliament is composed of elected representatives and appointed senators. The Prime Minister is selected from among members of the House of Representatives. The country is divided into 76 provinces and each province administered by an appointed governor. Only the Bangkok Metropolis Administration is administered by an elected governor. However, at the end of September 1997, the present constitution (the 16<sup>th</sup> constitution) was amended and passed with a charter to prevent the government from meddling with their rights of Thai citizens. It created a two part electoral system, in which each voter votes for one candidate in the district and another from a party list of candidates who are nationally elected. Voters elect one or more candidates in their local districts. This produces Members of Parliament who theoretically, focus on providing benefits to their districts, not to their party (Ruchupan 1999).

In sum, during almost seven decades of constitutional democracy, the concept, initially alien to the majority of the people and remaining so even today decades later, has undergone a long process of refinement and re-conceptualisation in order to adapt the democratic system to the specific needs of the Thai nation. With the present civilian administration providing a unifying element for the country, Thailand's democratic system is being set on the right course of development stipulating a foundation for the political system of in which pre-eminent power is held and exercised by the people.

Despite current moves to strengthen democratic processes in Thailand, the country does not have a firmly established democratic history. This leads to the doubts and scepticism that interviewees expressed about political involvement in the SLA privatisation (see Section 6.3).

### **3.2.4 Institutional Characteristics**

The designs of today's Thai institutions have their roots in bureaucratic and feudalistic systems (Reynolds 1987). Generally, native Thai organisations can be classified into two main categories; public sector organisations (Government Agencies and State Owned Enterprises), and private sector organisations (Local Thai Firms and Multi National Corporations). Studying organisations among public sector and private sector are both similar and different depend upon perspectives and definition of terms (Golembiewski 1984; Martin 1989; Milgrom & Roberts 1992). Gulick (1937) argued that all formal organisations share similar characteristics of management functions including planning, organising, directing, coordinating, reporting and budgeting. Another theorist argued that any organisations, government, private firms, non-profit organisations, have a degree of "publicness" in that they are affected by public authority (Boseman 1987).

The structure of private Thai companies mainly began as family owned enterprises (Dixon 1998; Lawler & Atmiyanandana 1995; and Phipatseritham & Yoshihara 1983). This type of organisation is owned and managed by the members of a

single family or small group of families. As noted by Komin (2000), small scale (up to 20 employees) and medium scale enterprises (20 – 300 employees) are family owned businesses accounting for over 90 percent of the country's total registered enterprises. Even large scale enterprises still operate in the same manner as the small and medium scale (Komin 2000; and Lawler & Atmiyanandana 1995).

Local Thai owned firms also concentrate on family connections and interfamily networks, not only for internal coordination of the enterprise, but also for developing and maintaining external relationships (Lawler & Atmiyanandana 1995). As Chen (1995) and Whitley (1990) noted, such networks are based on personal contacts and reputations. A strong connection between ownership and government or persons who control economic activities is often found in Thai owned enterprises.

In contrast to traditional family based firms, the privatised businesses that are being established as a result of the SIA privatisation have formal institutional arrangements that are independent of family links (see Section 3.3.3). However, it remains to be seen whether or not family links end up becoming important in the operation of these businesses.

Organisations in the Thai public sector can be classified into three parts: the central government, the local governments and the state owned enterprises – SOEs (Warr 1993). As Warr (1993) noted, the central government is the largest public sector body whereas the local governments are the administrative arms of the central government in the provinces. SOEs began as special projects under central government departments with their own staff and financial accounts, then slowly graduated to the status of public enterprises when their activities enlarged. The activities of SOEs in Thailand stretch into many areas of business (i.e. infrastructure, transport, services, trade and finance).

Dhiratayakinant (1993); Siengthai & Vadhanasindhu (1991) stated that the SOEs play an important role in the Thai economy. Thus, when studying organisations in the public sector, it is usually focused on the SOEs. According to the National Economic and Social Development Board Act (Dhiratayakinant 1993), a SOE refers to a company which entirely owned by a government or a company of which more than 50 per cent of the total capital funds is contributed by the government. Each of SOE has a board of control and is under the supervision of a government ministry.

However, Dhiratayakinant (1993) stated that such degree of supervision generates unnecessary red tape and delay. In addition, he argued that the operations and performance of SOEs are inefficient because of the public enterprise relationship, particularly the appointment of executive management staff in a board of control. An appointment is often determined not by the

competence and relevant experience of the appointee but by his affiliation with powerful politicians or a certain political party. This appointment is usually regarded as a reward for loyalty or an extension of close control. Most appointees are former bureaucrats and this is reflected in their management practices.

Moreover, the SOEs also lack relevant operational guidelines. Regarding labour costs; pay structures are similar to all public enterprises. the bonus system does not differentiate between sources of profit. Inefficient but monopolistic SOEs generate bonuses for their employees whereas efficient but highly competitive SOEs do not. Dhiratayakinant (1993) noted, these may be the main reasons behind the failure of government supervision of the SOEs system. Therefore, the privatisation strategy is proposed in order to increase the efficiency and profitability of SOEs (Vudthitornetirak 1996). However, Siengthai & Vadhanasindhu (1991) noted that the successful implementation of this strategy will require the professional management and the political will of the public sector. This is part of the context for the choices being made in the privatisation master plan, as discussed in Section 3.3.4.

### **3.3 The Background of Thailand's privatisation**

#### **3.3.1 History**

Originally, privatisation was introduced into Thailand as a means of increasing competitiveness, investment, technology transfer, and increasing work efficiency from the private sector into government activities. Recently (1998), though, privatisation in Thailand and elsewhere in the region is being driven by the deepening financial crisis. The government has to sell off its assets to reduce debt and ease the country's financial situation (RTG 1998).

As early as the 1950s, Thai policy development was directed by Field Marshall Plaek Pibul Songkram. The main sector for development was agriculture, and development in the industrial and service sectors remained limited. The private sector was limited in scope while the government and State Owned Enterprises (SOEs) played a major role in Thailand's economy (Pasuk et al 1998).

After Field Marshall Sarit Thanarat took power and became Prime Minister in 1958, there were many changes in the country's economic and other policies, which continue to have an influence today. Sarit received recommendations from the World Bank and set up the National Economic and Social Development Board (NESDB) to prepare the National Economic and Social Development Plans (NESDPs), which are the five-year development plans for the economy. The successive NESDPs led to

increasing concentration on developing the private sector and reducing the government's role. Table 3.1 shows a summary of privatisation programs which related in NESDP from the first plan until the eighth plan (1962 – 2001). Sarit also set up the Board of Investment (BOI) and the Fiscal Policy Office of the Ministry of Finance (MOF) in order to promote economic policies and control various businesses (Mithani & Watcharaphun 2000).

By the 1980s, most economists suggested privatisation was a policy that could reduce government liability by allowing the private sector to take over some SOEs' businesses. They believed that the private sector was more efficient than the government. However, the SOEs' executives did not agree because they were not yet experiencing financial difficulties (Poonsin 1989). Thus, there was no need for such drastic changes. In addition, labour unions and bureaucrats were often opposed to this policy. Faced with such resistance, most privatisation proposals were shelved.

By the 1990s, many SOEs reported losses and their customers complained about their services (Laothamatas, Presertkun, Kanchanaphun, & Pathamasiriwat 1995; Pasuk et.al 2000). Therefore, privatisation was again reviewed and proposed as a way to boost efficiency. Several new government projects were handed over to private firms, such as the installation and operation of 4.1 million new telephone lines and the second-stage expressway (SEGS 2000). However, there were delays and alterations to the privatisation plans due to repeated changes of government during that period (Pasuk et al. 1998).

Three factors helped to increase the pace of privatisation. First, the commitments Thailand made under the Uruguay Round of the General Agreement on Trade and Tariffs (GATT), required liberalising various sectors, such as energy and transportation (SEGS 2000). Second, Thailand faced a shortage of funds to repay foreign debt. Finally, the Thai government wrote a series of Letters of Intent to the International Monetary Fund (IMF) under the 1997 rescue package. This included specific commitments to privatise key SOEs within a specified time frame (MOF 1998b; Pouaree 1997).

By early 1997, the budget deficit became a more serious problem for the Thai government. Prime Minister General Chavarit Yongchaiyudt tried the usual methods of cutting spending, increasing revenue by raising various taxes and import duties, and even floating the Thai baht in July 1997. However, all those methods were inadequate (Pasuk et al. 1998). It was from that point that the Thai government started to take privatisation more seriously.



**Table 3.3 Summary of privatisation in the National Economic and Social Development Plan (NESDP) from 1962 – 2001**

<b>First Plan</b> (1962 – 1966)	<ul style="list-style-type: none"> <li>• Barred SOEs from specific sectors to avoid competition with the private sector</li> <li>• Dissolved nine state businesses created to promote Thai employment including a shoe polish formula factory and a pin and clip industry</li> <li>• Introduced private sector participation in oil refining with the establishment of Bangchak Petroleum Plc (BCP)</li> </ul>
<b>Second Plan</b> (1967 – 1971)	<ul style="list-style-type: none"> <li>• Barred government from fields where private sector was competitive and did not adversely affect the public</li> <li>• Promoted industries and businesses beneficial to the economy through tax breaks or joint ventures with the private sector, followed by divestiture of government stake once viable</li> <li>• Six government enterprises dissolved, mainly by selling stakes to private sector.</li> </ul>
<b>Third Plan</b> (1972 – 1976)	<ul style="list-style-type: none"> <li>• Promoted SOEs in infrastructure projects or other big capital intensive projects or projects with national security implications</li> <li>• Seven SOEs dissolved outright</li> <li>• Private sector took stakes in provincial level SOEs</li> </ul>

	like Narathiwat Provincial Commerce Ltd and Tak Provincial Commerce Ltd.
<b>Fourth Plan</b> (1977 – 1981)	<ul style="list-style-type: none"> <li>• Four SOEs dissolved and another four sold off.</li> </ul>
<b>Fifth Plan</b> (1982 – 1986)	<ul style="list-style-type: none"> <li>• Sharp rise in world oil prices and resulting budget shortfall and SOE debt forced greater emphasis on privatisation</li> <li>• Inefficient SOEs targeted for dissolution, sell-off or joint ventures with private partners</li> <li>• State's role to be limited to that of policy maker to protect and create the highest benefit for the public</li> <li>• The period also saw several Cabinet resolutions set out privatisation policy more clearly. A June 1985 resolution allowed each SOE to propose its own privatisation policy to be screened by a State Enterprise Policy Committee before being proposed to Cabinet During the period, five SOEs were dissolved, two sold-off, two restructured and two put under private management</li> <li>• From the end of World War II to the Fifth NESDP, 85 SOEs were privatised. The breakdown is as follows: <ul style="list-style-type: none"> <li>○ 33 dissolved</li> <li>○ 26 sold off to private sector</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ 16 restructured</li> <li>○ 7 private sector management</li> <li>○ 3 concession or leased to private sector</li> </ul>
<b>Sixth Plan</b> (1987 – 1991)	<ul style="list-style-type: none"> <li>• State-owned Erawan Hotel rented to private sector</li> <li>• North eastern Packaging sells shares and later lists on the Stock Exchange of Thailand (SET), the first by a SOE</li> <li>• Merger of Thai Airways International Plc (THAI) and domestic carrier Thai Airways paving way for THAI's IPO and listing</li> <li>• Targeted IPO and listing of Krung Thai Bank Plc (KTB)</li> </ul>
<b>Seventh Plan</b> (1992 – 1996)	<ul style="list-style-type: none"> <li>• New laws boosting flexibility, transparency and private participation in SOE activities</li> <li>• Prime Minister's Office committee established to monitor SOE policy and Joint Venture Act B E 2535 (1992) facilitated privatisation</li> <li>• Partial privatisation of the telecommunications industry and associated listing of Telecom Asia Corporation Plc (TA) United Communication Industry Plc (UCOM) and Shinawatra Computer and Communication Plc (SHIN)</li> </ul>

<p><b>Eighth Plan</b> (1997 – 2001)</p>	<ul style="list-style-type: none"> <li>• The Eighth Plan has more public input compared to the earlier plans written by technocrats. It stresses quality of life issues like human resources and social development. The plan encourages private sector support for rural and social development through tax privileges</li> <li>• Preparing the series of Letters of Intent to IMF</li> <li>• Developing the Master Plan for State Enterprises Reform</li> <li>• Listing of Bangkok Expressway (BECL), the Electricity Generating Plc (EGCOMP) and PTT Exploration and Production Plc (PTTEP)</li> <li>• One Innovation is a focus on good governance by boosting bureaucratic efficiency through everything from new laws and regulations right down to the thinking processes of the individual bureaucrats. Privatisation policy is also made more transparent through guarantees of competition and equality and explicit checks and balances to allow monitoring of power by the various government agencies, the private sector and the public</li> </ul>
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### 3.3.2 The IMF Program

As mentioned above, the 1997 collapse of the Thai economy and other economies in the region forced the country into the hands of the IMF. In those countries relying on IMF structural adjustment loans, the most common externally imposed requirement is that the public sector plays a reduced role. These requirements include: trade liberalisation (moving away from licenses and quantitative restrictions on imports, to reducing the scope and size of tariffs); getting domestic prices in line with world market prices, improving revenues by widening tax bases and reforming the administration of taxes; diminishing government deficit by lowering public expenditure, especially subsidies (Bienen & Waterbury 1989). Based on those standard settings, the IMF pushes the Thai government to prioritise expenditures and to restructure its SOEs. This program is carried out as part of strategy for reduction of government deficit and reduction of government intervention in the economy. The series of Letters of Intent written to the IMF included a directive to privatise particularly the energy, telecommunication, and transport sectors. The first major privatisations since the country entered the IMF program were the sell-off of the government's stake in PTTEP, a petroleum exploration company, and EGCOMP, an electricity generation company (Gearing 1998). Therefore, the word "privatisation" became an everyday word that impacted widely on the government, private sector, and Thai society at large (Boramanand 2000).

The sale of SOEs through the privatisation program could raise a significant amount of money for the government reserves. Proceeds from the sales, according to the policy, will be used in areas such as investment in remaining SOEs, repayment of foreign debt, an additional fund for Thailand's foreign exchange reserves, and seed money for an employees' assistance fund after privatisation (RTG 1998).

Given the serious budget constraints and the commitments to the IMF, the Council of Economic Ministers has fully endorsed the NESDB's privatisation plan to ease government spending. The proponents of privatisation say that opening more sectors to private participation will help increase investment by domestic and international capital markets. Moreover, the business decisions of the private sector will take less time than those of the bureaucratic process (Dhiratayakinant 1991; Mithani et al. 2000). Although, it is not self evident that there would be less red tape associated with the private sector. This was indirectly helped upgrade Thailand's own capital market for the raising of new equity capital. The SOEs would benefit from improved access to knowledge, training, and new technology from private sector participation. The privatised SOEs would become more flexible in adapting to changing business conditions as more internationally accepted management practices are adopted. Furthermore, there is a belief that political interference will be reduced. Once privatised, the SOEs would need to consider the benefits to shareholders over the demands from politicians (Mithani et al. 2000).

Meanwhile, SOE employees may benefit from the formation of stock ownership plans, allowing them to become part owners and earn dividends. The public at large will enjoy improved quality of services and products resulting from a higher degree of SOE transparency and accountability (Mithani et al. 2000; SEGS 2000).

### **3.3.3 Institutional arrangements and Pertinent Laws**

To implement the privatisation program, the Thai government appointed the State Enterprise Reform Commission (SERC). The creation of a single overseeing body SERC has been a logical move to coordinate the entire policy. The SERC is equipped with powers to review SOE reform plans and to ensure that they are in line with the national privatisation objectives, to approve or request amendments to plans, to forward plans to cabinet for approval, and to oversee program implementation.

The SERC<sup>11</sup> has 25 members, including 11 ministers, 6 private sector representatives, and members from other organisations. The SERC has its secretariat, the Office of State Enterprises (OSE), at the Ministry of Finance. The main role of the secretariat is to undertake technical and financial reviews of the enterprises under consideration for privatisation, coordinate the SERC efforts, and oversee program implementation. It also intends to create a public information system to increase public awareness of the privatisation process using the SERC website, a bi-monthly newsletter, and public seminars (SEGS 2000; SEPC 1998).

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<sup>11</sup> It is important to note that none of interviewees mentioned about this commission during the cascade process in section 6.3.11. A possible explanation is that SERC is not well known by public and/or SIA is still in the early stage of privatisation (Researcher's comment).

Thailand has recently undertaken a number of amendments to laws and regulations to facilitate the privatisation process. The Corporatisation Act B.E. 2542 (1999) has been enacted to improve the private sector participation in government businesses (Yoonaidharma 2002). The law requires privatised SOEs to have registered share capital under the commercial and civil code, or public company law. As a result, the SOEs will have more business-like accounting standards, with their financial statements subject to greater public screening.

There are some other regulations that apply to the privatisation process. They are the Regulation of Office of Prime Minister on Disposing of Businesses or Shares held by Government Department or State Enterprises B.E. 2504 (1961), and the Joint Venture Act B.E. 2535 (1992). They are known as OPM Regulation 2504 and the JV Act 2535, respectively (Suteerapornchai & Malanon 2001; Yoonaidharma 2002).

OPM regulation 2504 concerns the sale of existing shares and/or assets held by SOEs. The JV Act 2535 is associated with joint ventures between the state and the private sector in government businesses. Both are thought to prolong the privatisation process but they can be waived if the process proves to be transparent (Yoonaidharma 2002).

Privatisation in Thailand can now proceed in several ways such as through management contract, leasing, concessions, asset sales, etc. A management contract provides the only method that is not subject to existing laws. All the other methods require more time consuming resolution of legal issues of each SOE before entering



the process. The interpretation of laws affecting each SOE when faced with grey areas or unclear issues often lead to protracted legal and political disputes (Boramanand 2000). In these situations, the Juridical Council intervenes. If there is a precedent an interpretation is not as time consuming as in cases where none exists.

### **3.3.4 The Current Privatisation Program: The Master Plan for State Enterprises Sector Reform 1998**

Previously, privatisation was implemented primarily through a top-down approach that saw very little coordination among state agencies. Therefore, the Thai government has developed a Master Plan for State Enterprises Reform that includes privatisation of 59 SOEs. Cabinet approved a Master Plan on September 1, 1998 that set an overall strategy using a bottom-up approach. The plan included a privatisation schedule for the various SOEs, corporate governance standards and performance monitoring. This is what the Thai government currently uses to describe its latest privatisation efforts (SEPC 1998).

The Master Plan comprises an action plan for the reform including privatisation of all SOEs. These enterprises are defined as an integral part of economic activity in fundamental sectors of the economy and can be broadly categorised into five major subdivisions: telecommunication, water, energy, transport, and others (including industrial, social and technology, commercial and services, agricultural, and financial sectors). A summary of the Master Plan's contents is presented in Appendix I.

## 1. Objectives

The Master Plan for State Enterprise Sector Reform's purpose is to provide the framework and guidelines to effectively increase private sector participation in the economy. The Master Plan is laid out to serve as a reference document for the government, ministries, enterprises, investors, employees, and the general public as SOE privatisation plans, and legal, regulatory, and institutional reforms are prepared, approved, and implemented in the years ahead. It is viewed as a strategic document, giving the government flexibility in implementation but setting clear objectives and goals. Above all, the availability of the Master Plan signals firmly and clearly the government's commitment to improve the efficiency of the economy and increase the welfare of all Thai citizens i.e. "political response" as well as "financial gain", "efficiency improvement", and "wealth redistribution" objectives.

The goal of the program is to increase the efficiency of the economy, to provide a sound basis from which Thai companies can compete internationally, and to ensure that quality goods and services are available to the Thai public at the least cost. The privatisation program is specified as the means by which necessary reforms will be undertaken to achieve this goal.

In addition, the government has also set out specific objectives for the privatisation program. These objectives were consistent with the series of Letters of Intent to IMF. The program's ultimate success will be measured by its ability to meet these diverse objectives. These objectives include Structural reform, financial, and social objectives as characterised below:

- Structural Reform Objectives or “efficiency improvement objective” in this study:  
To facilitate structural reform of SOEs, to improve economic efficiencies of all sectors of the economy, and to improve the quality and availability of services for Thai people at reasonable prices.
- Financial Objectives or “financial gain objective”: To reduce financial burdens on government resources (e.g.. subsidies, loan guarantees), to provide capital for needed infrastructure investment, and to stimulate, broaden and deepen Thai capital markets.
- Social Objectives or “wealth redistribution objective”: To provide resources for needed social services, to facilitate the creation of new and better job opportunities, and to ensure expanded provision of quality services at reasonable prices to the public.

## 2. Modes of Privatisation

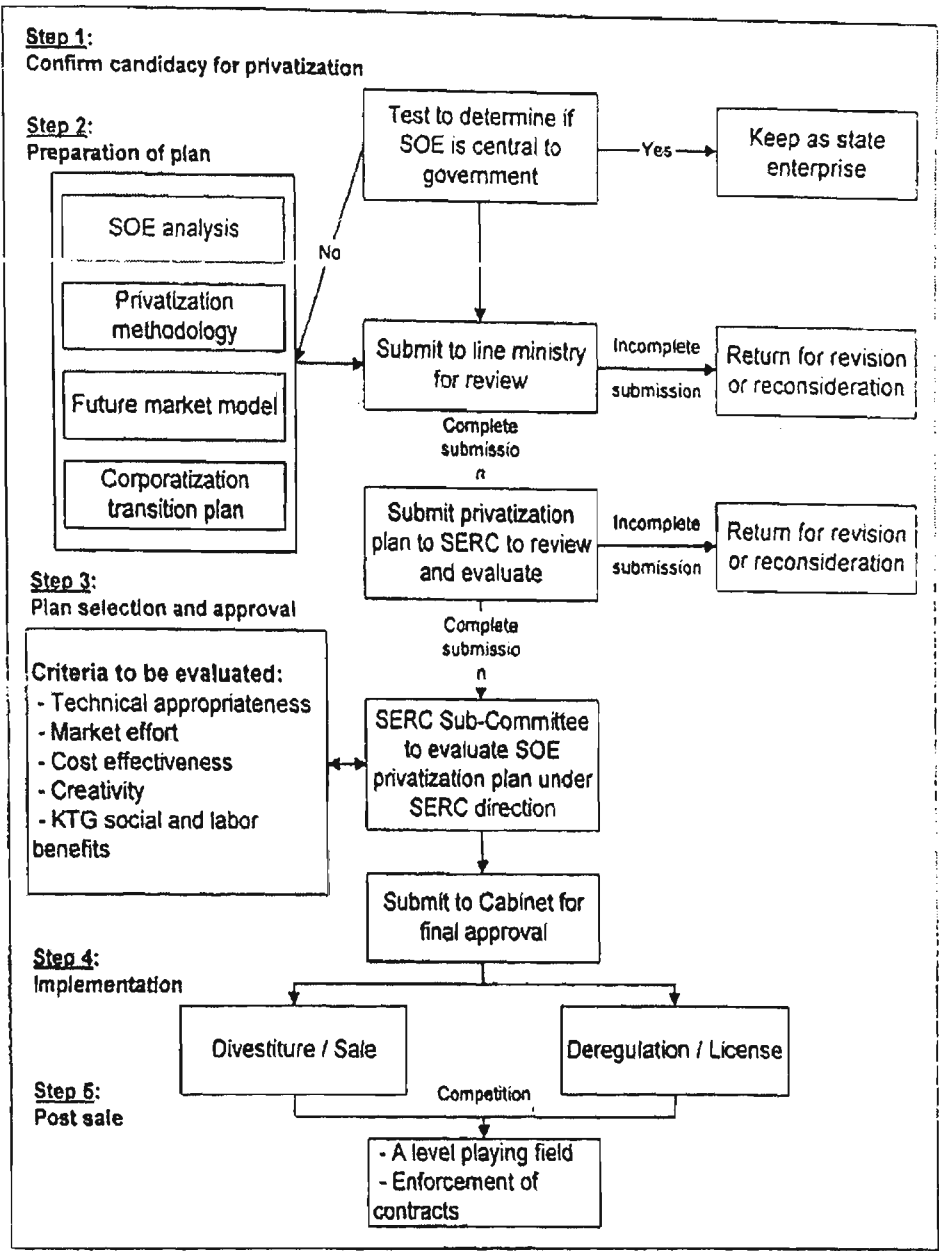
As discussed in section 2.4, a wide variety of methods of privatisation may be used by private enterprises and the state to accomplish the reform objectives. These include divestiture, deregulation, and licensing of private sector participants, amongst others. Privatisation plans may be submitted by both state enterprises and private entities. They are to be considered and selected according to stated criteria, their appropriateness to a given SOE, and the sector reform objectives. Under the Master Plan, the primary forms and methods of privatisation are as follows (SEPC 1998):

- Public Offerings
- Private Placements and Joint Ventures with Strategic Partners (trade sales)
- Management Buy Outs (MBOs)

- Asset Liquidation
- Debt for Equity Swaps and Debt Buy Backs
- Convertible Bond Offerings
- Coupons/Options
- Competition, Regulation, Deregulation
- Management Contracts
- Leasing
- Concession Contracts
  - Build, Operate, Transfer (BOT)
  - Build, Own, Operate, Transfer (BOOT)
  - Build, Own, Operate (BOO)
  - Build, Transfer, Operate (BTO).

The following Figure 3.1 shows a typical path that a privatisation under Thailand's current plan is expected to follow. According to the Master Plan, the newly created commission - the State Enterprise Reform Commission (SERC) - is given all the responsibility to approve plans as well as to oversee their transparent and expeditious implementation.

Figure 3.1 Thailand's current (1998) Privatisation Process



Source: Master Plan for State Enterprise Sector Reform for the Royal Thai Government, 9/15/98, p. 13.

### 3. Use of proceeds from Privatisation

Privatisation proceeds will be used by the government for reinvestment in the economy and for social, health and welfare benefits for the Thai people. Where proceeds are earned directly by the government they will be used in accordance with the cabinet resolution of May 19, 1998 which stipulates that 50% will be used to fund needed social services such as education, public health, labour welfare and agriculture, and another 50% will be allocated to the Financial Institutions Development Fund (FIDF). This information will be used in association with the perceptions of stakeholders in Chapter 6.

In the case where an SOE sells shares, assets or an operational unit in one of its subsidiaries, the proceeds derived from the sale of these shares or assets will be used in the following manner:

- establishing a reserve fund for the expansion of the SOE's services or an employee assistance fund for SOE employees affected by this divestiture
- of the remaining proceeds, 50% will be allocated to the government and used to fund needed social services such as education, public health, labour welfare and agriculture, and the other 50% will be allocated to the FIDF
- if the SOE in question awards a concession in any form to the private sector, with a concessionaire fee being provided, these proceeds will be distributed according to the above criteria.

4. The Time Frame for Thailand Privatisation

Thailand’s fast-track privatisation may have come at a bad time, given the economic slowdown after the 1997 economic crisis that has put an estimated 2.4 million workers out of work. Ideally, privatisation should have been pushed ahead during the economic boom. Nevertheless, the very healthy state and earnings of SOEs at that time along with the swollen government coffers meant that there was little incentive to do so then. The Fifth Letter of Intent to IMF submitted in August 1998, however, has included a more concrete time frame.

Table 3.4 the Time Frame of Thailand Privatisation

Description	Date
<b>1. State Enterprise Office</b> <ul style="list-style-type: none"><li>Establish Office of State Enterprise and Government Securities (SEGS) in Ministry of Finance to support and coordinate privatisation, develop private participation in infrastructure, and monitor SOEs</li><li>Streamline the privatisation and corporatisation committee structure to ensure an efficient privatisation plan approval process, including by unifying their secretariats if necessary.</li></ul>	Approved by Cabinet  September 30, 1998
<b>2. Privatisation Strategy and Action Program</b> <ul style="list-style-type: none"><li>Cabinet approval of Master Plan for State Enterprise Reform, establishing overall strategy, principles of regulatory bodies, and sequencing of divestiture.</li><li>Cabinet approval of use of privatisation proceeds</li></ul>	September 1, 1998  Done
<b>3. Legal Framework to enable Privatisation of SOEs</b> <ul style="list-style-type: none"><li>Corporatisation Law aimed at facilitating the incorporation of SOEs</li><li>Cabinet approval of regulatory legislation for:<ul style="list-style-type: none"><li>Telecommunication and Energy</li><li>Transport and Water</li></ul></li><li>Identify the need for other legislation, including for an omnibus Enterprise Reform Law, to allow private sector participation in key sectors</li></ul>	1999  First half 1999  September 30, 1998

<b>4. Sectoral Plans (Telecom, Energy, Transport, Water)</b> <ul style="list-style-type: none"> <li>• Prepare in coordination with stage agencies and appointed consulting firms comprehensive Sectoral Plans setting out timetables for establishing regulatory frameworks for private sector operators, for corporatisation and privatisation of selected SOEs, and proposed privatisation strategies for each of the selected SOE.</li> <li>• Approval by State Enterprise Policy Committee (SEPC) and public announcement of plans in: <ul style="list-style-type: none"> <li>○ Telecom and Energy</li> <li>○ Transport</li> <li>○ Water</li> </ul> </li> </ul>	November 30, 1998 First quarter 1999 Second half 1999
<b>5. Privatisation of selected SOEs</b> <ul style="list-style-type: none"> <li>• Energy Sector <ul style="list-style-type: none"> <li>○ Sale of Electricity Generating Authority of Thailand (EGAT)'s stake in Electricity Generating Public Company Limited</li> <li>○ Sale of Petroleum Authority of Thailand (PTT) of a significant stake in PTT Exploration and Production</li> <li>○ Issue bidding documentation for the sale of government share in Esso (Thailand) Plc</li> <li>○ Issue bidding documentation for the sale of government share in Bangchak Petroleum Plc</li> <li>○ Privatisation of Ratchaburi Power Plant</li> <li>○ Corporatisation and conversion of EGAT, preparatory to privatisation</li> </ul> </li> <li>• Telecommunication Sector <ul style="list-style-type: none"> <li>○ Telephone Organisation of Thailand (TOT) and Communications Authority of Thailand (CAT):</li> <li>○ Corporatise and begin reorganisation</li> <li>○ Issue bidding prospectus for the sale of a significant government's stake</li> </ul> </li> </ul>	Done  Done  Fourth quarter 1998 Second quarter 1999 Fourth quarter 1999 Under study  Second quarter 1999
<ul style="list-style-type: none"> <li>• Transport Sector <ul style="list-style-type: none"> <li>○ Issue bidding prospectus for the sale of a government's stake in Thai Airways Plc</li> <li>○ Commence financial and restructuring plans of State Railways</li> <li>○ New Bangkok International Airport (NBIA) registered as a company under commercial law</li> <li>○ Corporatise and reorganise Airport Authority of Thailand</li> <li>○ Begin privatisation process for the Regional Airport Company</li> </ul> </li> </ul>	First quarter 1999 Fourth quarter 1998 July 28, 1995 First quarter 1999 Third quarter 1999



<ul style="list-style-type: none"> <li>• Water Sector             <ul style="list-style-type: none"> <li>○ Government approval of detailed modalities for private sector participation in Metropolitan Water Authority and Provincial Water Authority</li> </ul> </li> </ul>	Second half 1999
<ul style="list-style-type: none"> <li>• Other             <ul style="list-style-type: none"> <li>○ Cabinet resolution to sell/liquidate Textile Organisation, Battery Organisation, Preserved Food Organisation, and the Cold Storage Organisation</li> <li>○ Complete study outlining strategic options for Tobacco Monopoly</li> </ul> </li> </ul>	Done  First quarter 1999

Source: MOF 1998b, the Fifth Letter of Intent: Privatization Strategy

### 3.4 Constraints to privatisation in Thailand

Although the potential economic benefits of privatisation are apparently sound, the policy is indeed not as easy as it has been presented and interpreted in the Letters of Intent and the 1998 Master Plan. The nature of implementation problems varies from country to country and depends on the specific direction in which the policy is adopted. Further, privatisation constraints can be political as well as economic.

One common argument among those opposed to Thailand's privatisation is that the policy can be used as a tool by investors to take over Thai national assets. This is especially true of foreign funds (Nontharit 1998). Ownership laws limit foreign participation in the Thai economy to specific sectors and to specific percentages of equity that may be obtained (Anonymous 1999a). However, after signing the Letters of Intent with the IMF, the Thai government proposed eleven economy-related bills aimed at increasing the role of foreigners in Thai businesses (Bangprapa 1999; Theparat 1999). These included proposals aimed at lifting restrictions on immigration to facilitate the establishment of more foreign businesses in Thailand and to amend legislation to allow foreign ownership in land. Certain labour, academic, and political groups censured the government for agreeing too readily to the stringent IMF conditions. They accused the IMF of using its superior bargaining power to extract unnecessary concessions from the Thai government (Anonymous 1998a; Shutikul 1998).

The second constraint is legal impediments. The competition laws, alien business law, taxation law, intellectual property laws, land law, employment law, private sector participation law, constitution, company law, securities law need to be amended to facilitate privatisation. In addition, until recently, the SOEs did not have the status of limited companies, so it was not possible to sell equity capital. It is only after the corporatisation act that SOEs were transformed into corporations, which also allowed them to raise capital from the market (Laothamatas et al. 1995; Yoonaidharma 2002).

Fear of job losses and price increases are major constraints in the implementation of the privatisation program (Ramanadham 1987 & 1993). Thai labour unions have traditionally been a strong group, and the SOE workers form the largest faction. In fact, the efforts to ban the unions during military rule after 1991 did not prove to be effective as they maintained labour associations. The 309,000 strong SOE workers (in 1998, constituting 0.95% of total employment) are the main opponents of privatisation (Anonymous 1999c). The government is unable to win over the labour unions; a problem specially encountered in the Electricity Generating Authority of Thailand (EGAT) when the government had to postpone any privatisation activity in EGAT by one year and constituted a board that did not meet the approval of the labour unions (Charoensuthipan & Tunyasiri 1999; Crispin 2000). The present labour law protects the Thai worker from job losses. Recently, the Thai parliament passed the State Enterprise Relations act that restores their right to bargain collectively and form unions. Previously, labour unions had resisted privatisation of electricity generation and ports, initiated by the Chatichai government during 1988-91

(Suteerapornchai et al. 2001). The experiences of 30-50% job losses in other developing countries and in industrialised countries during SOE privatisation were arguments that the labour unions have used to oppose privatisation (Anonymous 1999b; Crispin 2000).

There are also fears relating to possible price increases of essential services as a result of privatisation (Boramanand 2000). For example, the first proposed sale after the privatisation plan in 1997 was a share in the Bangchak oil refinery, but this enterprise was involved in a number of community based projects, so the opposition to its privatisation came not only from labour, but also from academics and social activists. As a result, the government has been much more circumspect and has concentrated to developing a legal and regulatory framework to reduce the pains from privatisation. There are no public information campaigns to educate the public about the expected benefits of privatisation (Anonymous 1999c; Srimalee 1999).

Another factor that delayed privatisation in Thailand is the multitude of privatisation agencies. The SOEs should be primarily responsible for policy-making and regulatory supervision with a limited, strictly defined role in operating activities. Mainly, the government's role will be to ensure open competition and a level playing field through effective regulation. In fact, the separation between policy makers, regulators, and operating agencies in Thailand is still not clear. Moreover, the ministry bureaucrats and politicians guide over the SOEs in their purview, a fact that leads to conflicting interests (Suteerapornchai et al. 2001).

Lastly, previous failures in privatisation experiences also affect public support for privatisation. For example, running microbus services and developing elevated rail and road projects in Bangkok are listed as prominent failures (Dhiratayakinant 1991; Shutikul 1998). The “successful” privatisation models in other developing countries are criticised for lack of transparency and job losses (Poonsin 1989). Previous accusations of corruption and favouritism in the telecom concessions in the early 1990s and the political confrontations arising from them were also factors that affected the public perception of the privatisation process. The “insider advantage” of the politicians and the bureaucrats during the Initial Public Offering (IPO) of Thai Airways also strengthened arguments against privatisation that benefited only a select group of individuals at the expense of the vast majority of taxpayers (Chanjindamanee & Thongrung 1999; Muangarkas 1998).

### **3.5 Closing Remarks**

In spite of many obstacles posed by workers, staff of SOEs, politicians, and some public groups, the privatisation of SOEs in Thailand is likely to proceed. However, the question of what methods will be used in each SOE remains open. As outlined in the Master Plan, the government has set a timeframe with strict deadlines and varying procedures for privatising each of the SOEs in the five main sectors.

The selection of privatisation methods is very important and must suit the conditions of each SOE. The private sector may prefer the full divestiture of government assets while they can control the SOE’s operation policies. Some government activities may

not be appropriate with that method because of the existence of natural monopolies, such as the energy-generating sector. The government often plays a supervisory role in some form of concessional arrangement with the private firms. Partial forms of privatisation such as concessions or joint ventures would help the government to raise funds in monopolistic infrastructure projects in Thailand. These arrangements would provide a balance between private investors' preferences and governments' obligations.

Despite the soundness of economic arguments, the political factors are very important. Unlike other countries that have undergone privatisation, such as those in Eastern Europe, Thailand's political situation remains a large obstacle to the effective privatisation of Thailand's SOEs. Corruption in Thai politics leads many to distrust the motives of politicians or business leaders who support privatisation. Such mistrust divides the country and keeps the issue of privatising the SOEs at the forefront of Thai politics (Chanjindamanee & Thongrungs 1999; Muangarkas 1998).

Finally, there are still questions of whether the Thai government is committed, not only to the Master Plan, but also to passing the necessary legislation to implement the privatisation policy. Moreover, the Thai government has to put clear procedures in place to deal with worker lay-offs and issues of potential social instability. In order to maximise the success of its Master Plan, the government must seriously address all of these issues.

The remaining chapters of this thesis describe and analyse the privatisation of a Thai airport, the SIA case, and the extent to which the problems discussed above are being dealt with in planning the policy. Chapter 4 explains methodology, Chapter 5 details the SIA case study, Chapter 6 examines the perceptions of key stakeholders in the case and Chapter 7 analyse the case and conclude the thesis.

## **4. Description of Suvarnabhumi International Airport Case Study**

### **4.1 Introduction**

This chapter aims to explain the Suvarnabhumi International Airport (SIA) privatisation case and the reasons used by the Thai government in preparing the privatisation of SIA. It first covers an overview of relevant history, and then describes the proposed privatisation model, and the government's expectations of the SIA project. It uses various sources such as company profiles and annual reports, list of Concession Agreements, government documents, reports from the project manager, feasibility study reports from the consultant, media reports, and newspapers reviewed.

### **4.2 Background Information**

#### **4.2.1 History of the SIA**

Suvarnabhumi International Airport Project also known as the Second Bangkok International Airport Project has been set up for 40 years. Initially, Litchfield Whitingbourne and Associates investigated the Bangkok landscape in 1960. They reported that it was essential for Thailand to provide a second international airport for the rapid growth of air transportation that could not be handled within the limited area of Bangkok International Airport at Don Muang. The study also suggested that the



growth of Bangkok was limited in the east. Thus, the second international airport would be located some distance east of Bangkok. Later on, several studies were done on this project, and it was found that the area of Nong Ngoo Ngaw, which is located in Bangphi District, Samut Prakran Province, was the most appropriate site and an area of 3,200 hectares was prepared (NBIA 1998). This project was considered by many Thai government cabinets. However, those cabinets concluded that there was no urgent need to build a new international airport. Consequently, this project was delayed, and the former owners of this area continued to earn their living on this land, which had been legally returned to them after being taken over as state land by the Thai government from 1963 to 1991. After 1991 the public believed that this area would not be acquired by the Thai government again (Chanapai 1998).

Nonetheless, during 1987-1991 the amount of air traffic (i.e. flights, passengers, and cargo) at the Bangkok International Airport dramatically increased. Accordingly, the Airport Authority of Thailand (AAT) had developed and extended the Bangkok International Airport infrastructure and buildings during 1987-1991. However, this renewed international airport could handle air transportation only until the year of 2000. Further, it was predicted that there would be 35 million and 55 million commuters in 2000 and 2010, respectively. The amount of cargo would be 1.3 and 2.46 millions of ton in 2000 and 2010 (TAMS 1998). As a result, the second international airport project was reviewed by the Thai government. The cabinet of Prime Minister Mr. Anan Panyarachun approved the second airport project on May 7, 1991. The major aims of this project were to establish the second international airport to be Thailand's main international airport, and to set up this international

infrastructure project to facilitate the national policy that enabled Thailand to be the economic centre of Southeast Asia in the future (NBIA 2002b). As stated in the sixth and seventh National Economic and Social Development Plans (i.e. during 1987-1991 and 1992-1996, respectively), such developments of basis infrastructure, energy, and national transportation increased the effects of national production, market, and export systems that will need to be managed to promote the national competition and economy. The cabinet of Anan Punyarachun had appointed a committee to manage the second international airport from August 25, 1992 whilst AAT employed the General Engineering Consultant (GEC) as a consultant from May 1, 1992. This is the effective start point of the second international airport (Chanapai 1998).

To meet the initial stated goals (i.e. opening this new international airport in 2000), the cabinet of Prime Minister Mr. Chuan Leekpai strictly and clearly followed this policy. In 1993 the Department of National Housing surveyed the area and negotiated with local people to stay there or move out whilst AAT speedily designed and built accommodation facilities at the new international airport. Then, the cabinet of Prime Minister Mr. Banharn Silpa-achar legally established the new company 'New Bangkok International Airport Company Limited' or NBIA to construct and administrate the second international airport to support the Bangkok International Airport at Don Muang. This new company was founded on February 27, 1996, and took over from AAT on April 11, 1996 (NBIA 2002b).

According to the eighth National Economic and Social Development Plan (1997-2001) it was presumed Thailand would be the centre of air transportation in South East Asia, and expected that the new international airport would operate whilst this national policy was active (NBIA 2000). Later on the cabinet of Prime Minister General Chawalit Yongchaiyuth directed the Ministry of Transportation to review the second international airport project on February 11, 1997 to improve: a) investment system; b) NBIA administrative system; c) construction system and its size (Suanprasert 1999). To save the national budget, the NBIA committee had a meeting on March 16, 1997 to adjust the constructing plan of this new international airport. Eventually, this cabinet delayed the construction of the new airport, and allowed an extension of the Bangkok International Airport at Don Muang instead. Further, it was agreed that at the first phase this new international airport would facilitate 30 million passengers per annum, and finished in 2004 whilst the former plan, as directed by Prime Minister Panyarachun on May 1991, expected the new airport to be ready in 2000 (Chanapai 1998, Suanprasert 1999).

Later on Prime Minister Mr. Chaun Leekpai took over the administration and speed up the policy to construct the second international airport, and expected it to be the centre of airport in Southeast Asia. Mr. Leekpai's cabinet allowed the private sector to join in this project. Then, on July 21, 1998 this cabinet agreed with the Ministry of Transportation's study on increasing private sector roles. In doing this it put the Bangkok International Airport at Don Muang, the second international airport at Nong Ngoo Ngaw or SIA, Chiang Mai Domestic Airport, Phuket Domestic Airport, Hadyai Domestic Airport under the same administration, and agreed on establishment

of the Airport of Thailand Company Limited (AOT. Co.Ltd ) to supervise them (i.e. private sectors could own 30% of all stock, whilst the rest is for the government). Further, it also set up: BIA Co.Ltd to supervise the Bangkok International Airport at Don Muang; NBIA. Co.Ltd to supervise the new international airport at Nong Ngoo Ngaw or SIA; and REG. Co. Ltd to supervise Chaing Mai, Phuket, and Hadyai Domestic Airports. AOT. Co.Ltd. would own some stocks in these three companies (AAT 2000).

In October 2000 His Majesty King Bhumipol kindly named this new international airport “Suvarnabhumi International Airport” (NBIA 2000).

In short, SIA is a big infrastructure project run by the Thai government, and has a number of budgets. Further, this project is significant to the economic and social development of Thailand. It is notable that this project has been delayed, and to date has not been finished. Hence, there is ongoing interest by the public, domestic and foreign investors and the media, and all are giving their views on this issue.

#### 4.2.2 Location of the SIA

SIA is located in Bangphi district, Samut Prakran province, i.e. about 30 kilometres east of Bangkok (see Figure 4.1). It is approximately 3,200 hectares, and four kilometres wide and eight kilometres long. This site is located in a low-lying and flood prone area with an average elevation of less than one metre above a sea level. Land was previously used primarily for agriculture and fish – farming. Thus, there are limitations on constructing such height buildings.

**Figure 4.1** Location of Suvarnabhumi Airport (SIA)



#### **4.2.3 Need for the Development of the SIA**

SIA development was impacted by recent changes of the aviation market.

Traditionally, airport revenue was a direct function of air traffic forecasting. Further, airports were monopolies and subjected to international, regional, and local economic conditions. However, two factors significantly affected those traditions, namely: deregulation in the air transport business and acceleration of airline alliances, both of which disrupted passenger flows.

Some international airlines were withdrawing from several international airports, such as Kuala Lumpur and Denver international airports, causing unexpected demand and revenue shortfalls. These moves were in response to change airline alliances. SIA revenue and hub status, therefore, were impacted by alliance development. These impacts involved with other regional airports and relationships between Thai Airways, Thai national flag carrier, and the Star Alliance Group. Significantly, it affected air traffic flow through Bangkok (ATAG 2000).

Apart from these two major factors, there are other elements which influenced the SIA development. Initially, the general Thailand economy continued to grow since the economic crisis in 1997. The annual economic growth rate increased from a minus 10.2 percent in 1998 to a surplus of 4.4 percent in 1999 and to 4.6 percent in 2000. The forecast growth for 2002 was 3 percent (BOI 2001, 2002). Second, the aviation forecasts of Thailand and its future regional projection of growth rates was higher than the rest of the world. Unless there are wars, political instability, disasters,

or similar unpredictable events, the aviation market will push Thailand airport system to be at full capacity. According to a study of the Air Transport Action Group (ATAG), an independent coalition of organisations and companies throughout the air transport industry based in Geneva, the general demand of air transport is expected to grow at 6 per cent per annum in the next decade. Thailand and its Asia/Pacific region are developing faster than any others. It is expected that this growth rate is over double to the rest of the world (ATAG 2000). Third, a number of passengers using the Asia/Pacific airports increased from 16.5 to 29.9 percent during 1985-1995. It is forecasted that it will be 42.9 percent by 2010. The ATAG study (2000) predicted that there will be 55.6 million passengers annually by 2010. Therefore, Asian hubs including Bangkok are expected to experience significant growth rates.

Additionally, traffic on medium – haul (means traveling routes in the same region) is expected to grow more rapidly than traffic on other international routes. A strong traffic growth in this region can be expected from Northern Asia and Southeast Asia particularly on the China – Thailand, Hong Kong – Thailand, and Japan – Singapore. However, growth in short – haul routes (means traveling routes in the same sub-region), included high density services, such as those linking Singapore, Kuala Lumpur, and Bangkok, will be moderated because they relatively represent mature markets (ACI 2001). To meet these traffic demands, airline capacity growth will be from the increasing numbers of flight, flight frequency, and aircraft size.

The trend in the aviation business, then, seems to be towards under capacity rather than overcapacity. Congestion is a serious and increasing problem for the growth of air transport. Inadequate aviation infrastructure, such as airports, costs the world economy billions of dollars. According to the data of the US Air Transport Association (ATA) cited in ATAG (2000)'s study, air traffic control delays involving inefficient infrastructure in 1998 were estimated to cost US airlines and their passengers more than US\$ 4.5 billion. Therefore, similar sums will be lost in the Asia/Pacific region if there is no concerted aviation infrastructure planning.

A modern and efficient airport in Bangkok will offer a strong inducement for new companies and industries to locate in Thailand. If current and predicted congestion problems at the current Bangkok airport are solved, air transport will be one of the fastest growing sectors of the Thai economy, locally, regionally, and internationally. According to ATAG, aviation's economic impact in the world could reach more than US\$ 1.8 trillion by the year 2010. The number of jobs created by the industry may increase to more than 31 million.

One of the main objectives of any government is to increase economic activity. According to a research of the Co-financing and Financial Advisory Services (CFS) undertaken by Ellis Juan (Juan 1995), privatisation may contribute to maximising the value of aviation infrastructure resources. For example, the privatisation of the Bolivia airport, Columbia airport, and Hong Kong's Kai Tak International airport, have brought extensive investments in airport facilities and have contributed to increased local economic activity. These investments would not have been possible



without private participation because of the financial circumstances of the governments concerned.

Similarly, when the British Airport Authority (BAA) was privatised, its investment levels increased dramatically. In the first three years after privatisation, BAA's capital investment rate roughly doubled and ultimately created more jobs in the local economy (Juan 1995).

In summary, according to economic development literature if the proposed development of SIA is not realised, the resulting inaction will significantly damage economic progress in Thailand, and the region.

#### **4.2.4 Stages of the SIA Development**

The master plan for SIA prepared by General Engineering Consultants (GEC) divides the development of SIA into two stages. The first phase, shown in Figure 4.2A, aims to handle at least 30 Million Annual Passengers (MAP) and to open by 2004. The developments are mainly in the northern portion of the site in order to facilitate ground access connections from the north and to minimise aircraft ground operating costs. Because the SIA flight operations, like those at the current Bangkok International Airport, will be predominately in a north – south direction, aircraft taxiing is minimised when the passenger terminal is located near the northern runway thresholds.

The ultimate development, shown in Figure 4.2B, aims to service up to 100 MAP, which will be the biggest airport in the world. Currently (2002) the world's biggest airport is Atlanta International Airport, which capable for 80 MAP (ACI 2002). The SIA features a single, centrally – located passenger terminal area. Air cargo facilities and other operational and support facilities located both north and south of the passenger terminal area.

Figure 4.2b : The Ultimate Development Plan

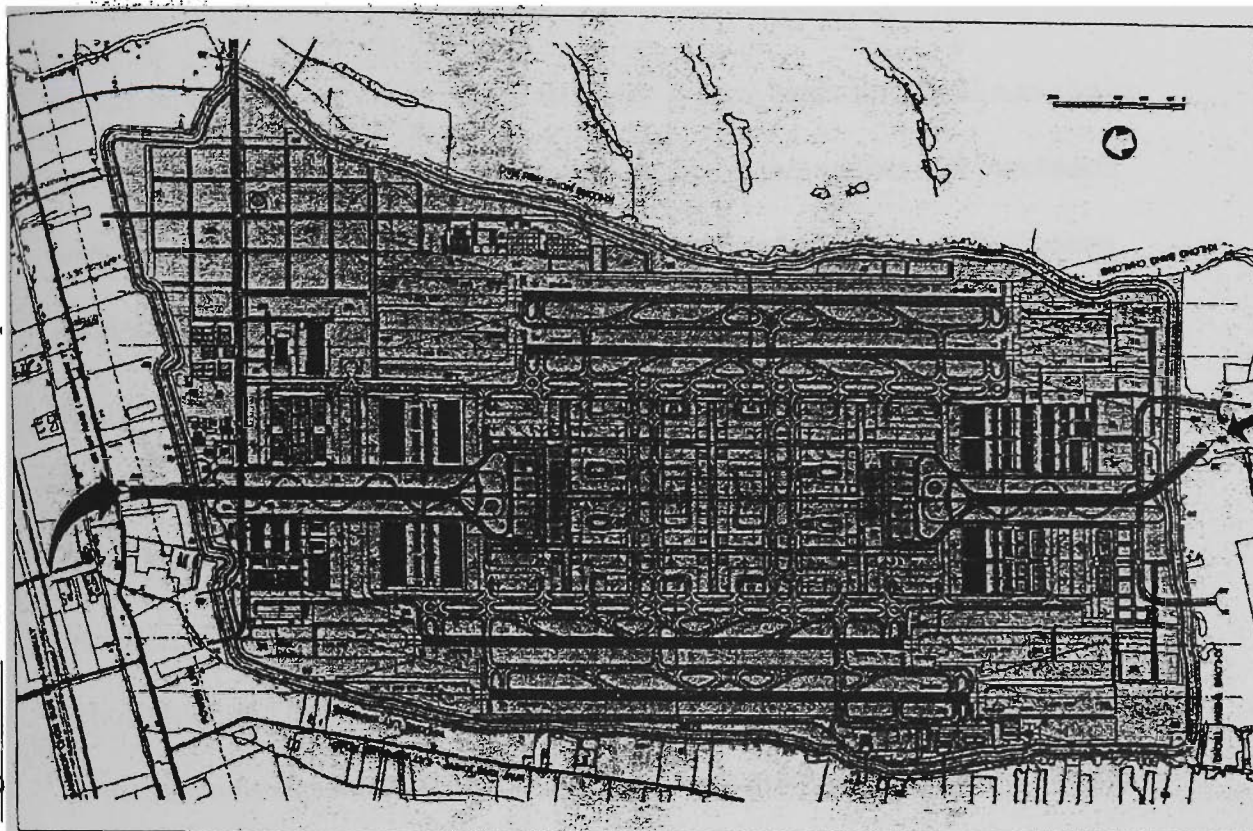
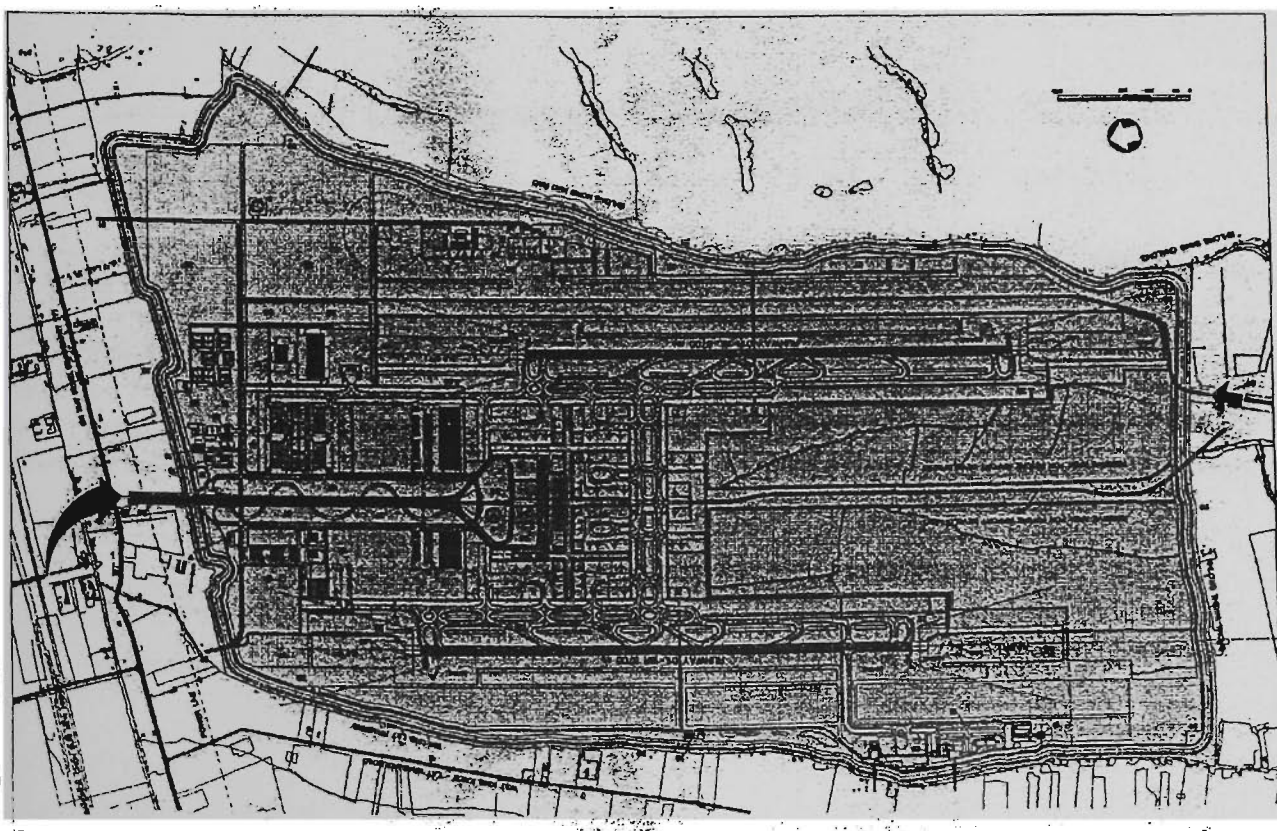


Figure 4.2a : The First Phase Development Plan



### **4.3 A Proposed Privatisation Model for SIA**

Airport services do not exhibit the classic public good characteristic of non-rivalry, non-excludability and asymmetric information between suppliers and purchasers which make provision of the services by profit-seeking private sector businesses problematic. They are, however, characterised by pervasive external effects, in the form of noise, visual intrusion, and air pollution, and by spill over effects and complementarities with other surface transport infrastructures, which mean that public authorities will necessarily continue to play a significant role in project initiation and planning. In this section, background of selected airport services privatisation at SIA are discussed, debates on privatisation process and available privatisation modes are reviewed, and the chosen privatisation modes for the airport services are examined.

#### **4.3.1 Background and Objectives**

As discussed earlier, SIA is under the supervision of the New Bangkok International Airport (NBIA) Company Limited. NBIA is a SOE under the jurisdiction of the Ministry of Transport and Communications (MOTC). It is required to follow the legislative procedures governed by the Royal Act on Private Participation in State Undertaking (B.E. 2535) for the private investment and participation in the government's business and activities (privatisation).

According to the Cabinet resolution dated 21 July 1998, four facilities in SIA were assigned to be privatised under NBIA administration including (NBIA 2002a):

1. Air cargo terminals
2. Catering facilities
3. Ground service equipment (GSE) maintenance facilities
4. Aircraft fuelling systems.

#### 1. Air cargo terminals

The air cargo facilities will be built to prepare cargo for air transport and for delivery to land transport. The air cargo facilities will be divided into 1) a warehouse section containing storage and handling facilities and 2) acceptance/delivery sections with the necessary administrative and auxiliary functions. The customs' control boundary will be located between the storage/handling and the delivery/acceptance areas.

Presently, there are two cargo operators providing services in BIA. Table 5.1 shows the historical data of air cargo activities at BIA. The Airports Authority of Thailand (AAT) constructed the cargo terminals for Thai Airways International (THAI), the first operator and Thai Airport Ground Services (TAGS), the second operator. The cargo operators are responsible for providing systems and equipment for serving customers. The contracts are in the form of leases, which require the operators to pay fixed rent and entail revenue sharing with the Authority. The contracts are short-term and valid until the opening of the SIA.



**Table 4.1 Historical Data of Air Cargo Terminal Operators at BIA**

Bangkok International Airport (BIA)				
		1997	1998	1999
Passengers ( ' 000)	Total	23,456,684	23,066,426	25,257,747
Freight (Tonnes)	Total	753,754	727,726	775,931
<i>1. Thai Airways International Public Company Limited (THAI)</i>				
		1997	1998	1999
Freight (Tonnes)	Total	593,191	581,360	609,455
Revenue ( ' 000 Baht)	Total	N/A	1,077,280	1,136,210
<i>2. Thai Airport Ground Services Co.,Ltd (TAGS)</i>				
		1997	1998	1999
Freight (Tonnes)	Total	160,563	146,366	166,476
Revenue ( ' 000 Baht)	Total	443,000	407,000	476,000

Source: Slightly Adapted from the Feasibility Study Report for NBIA, CUIPI

## 2. Catering facilities

The Catering Business Unit follows stringent International Hygiene Standards. All food materials are thoroughly checked before purchase, during storage and preparation, during production, and again before release to the airlines. Samples of different meals are retained and stored for inspection and tests. All onboard water is chlorinated, and prepared food is stored in chillers and freezers before transfer to the aircraft in one of refrigerated high loader catering trucks.

There are 3 caterers providing services within the BIA, namely, THAI, Gate Gourmet Co. Ltd., and Siam Flight Services Ltd. The historical data of catering operating at BIA is shown in Table 5.2. The catering department of THAI is responsible for the preparation of 37,000 in-flight meals on a daily basis. Gate Gourmet Co. Ltd. produces 10,000 airline meals per day using many imported products such as pasta, cheese, meat, seafood, and noodles. Siam Flight Services Ltd., a subsidiary of Lufthansa, produces 6000 meals per day for airlines. THAI is the only operator having facilities on the airport site. The other two operators have been contracted on a BOO (Build-Own-Operate) basis, since their production is undertaken off site.

**Table 4.2 Historical Data of Catering Operators at BIA**

<b>1. Thai Airways International Public Company Limited</b>			
<b>(Operational Performance - Catering Service)</b>			
	1997	1998	1999
Unit: Million Baht			
Income from Sales	3065	3068	3205
Operating Expenses	2174	2317	2332
Gross Profit	891	751	873
Average Airline Meal per Day	37,000	Meal	
Average Airline Meal per Year	13,320,000	Meal	
<b>2. Gate Gourmet (Thailand) Company Limited</b>			
	1997	1998	1999
Unit: Million Baht			
Income from Sales	602	683	731
Operating Expenses	405	430	419
Gross Profit	197	253	312
Average Airline Meal per Day	10,000	Meal	
Average Airline Meal per Year	3,600,000	Meal	

3. Siam Flight Services Company Limited			
Unit: Million Baht	1997	1998	1999
Income from Sales	303	350	320
Operating Expenses	118	125	117
Gross Profit	185	225	203
Average Airline Meal per Day	6,000	Meal	
Average Airline Meal per Year	2,160,000	Meal	

Sources: AAT, CUIPI, NBIA

### 3. Ground service equipment (GSE) maintenance facilities

GSE maintenance facilities will include the operation of ramp service and facilities built to provide maintenance and servicing for the airport's mobile apron equipment, or ramp service equipment. GSE is now being seen as an opportunity to reduce costs while increasing and maintaining higher levels of aircraft utilisation.

At Bangkok International Airport, there are 2 GSE maintenance operators; Thai Airways International Public Company (THAI) and Thai Airport Ground Services Co., Ltd. (TAGS). Historical data for these operators are shown in Table 5.3. THAI revenues were increased from 7,024 million baht in 1997 to 9,050 million baht in 1999. While TAGS' revenues increased from 247 million baht in 1997 to 343 million baht in 1999.



**Table 4.3 Historical Data of GSES Operators at BIA**

<b>1. Thai Airways International Public Company Limited (GSES Service)</b>			
Unit: Million Baht	1997	1998	1999
Revenue from Ground Handling and Service	7,024.83	7,525.89	9,050.27

<b>2. Thai Airport Ground Services Company Limited</b>			
Unit: Million Baht	1997	1998	1999
Revenue			
- Ramp Handling	200	238	269
- Passenger and Contracted Service	47	60	74
Total	247	298	343

Sources: AAT, CUIPI, NBIA

#### 4. Aircraft fuelling systems

Three aircraft refuelling systems will be built to provide services for aircrafts at SIA.

There are; Fuel Depot System; Into-plane Services; and Hydrant System. At the existing Bangkok international airport (BIA), these facilities are mostly provided by Bangkok Aviation Fuel Services (BAFS) which contracts were made on a BOO basis, except for the Hydrant system. Concession of Hydrant system is granted to TARGO Co.Ltd, which is in the form of a lease because the tank farms were built on private property. The historical data for Aircraft fuelling operating at BIA is shown in Table 5.4. The number of operations declined during 1998 to 1999 as shown in total fuel receipts, and total income reduced from 884 million baht in 1998 to 778 million baht in 1999. However, the demand is expected to grow in the operation at SIA.

**Table 4.4 Historical Data of Aircraft fuelling Operator at BIA**

<b>Bangkok Aviation Fuel Services Co., Ltd.</b>			
	1997	1998	1999
<b>The Depot Operations (Unit: Million litres)</b>			
Total fuel receipt	N/A	3128.10	3076.60
Average daily fuel receipt	N/A	8.60	8.40
<b>Number of Flight and Fuel Uplift</b>			
Domestic flight (Unit: Flights)	28,435.00	27,228.00	26,940.00
Throughput (Unit: Million litres)	267.00	261.00	262.00
International flight (Unit: Flights)	57,751.00	55,435.00	58,150.00
Throughput (Unit: Million litres)	3,032.00	2,861.00	2,821.00
<b>Operational Performance (Unit: Million Baht)</b>			
Income from Service Charges	630.91	758.06	692.02
Other Income	85.24	126.14	86.05
Total Income	716.15	884.20	778.07
Net Profit	251.41	60.56	215.98
Assets	1,088.19	1,117.39	1,217.40

Sources: AAT, CUIPI, NBIA

In conclusion, the market for the above four privatised facilities supports its need.

The aviation market is growing robustly and is forecast to continue to do so into the foreseeable future, especially in the Asia/Pacific region and Thailand. Table 5.5 shows the forecast for passenger flow at Bangkok airport as projected by different institutes. The greater risk for Thailand is under capacity, rather than overcapacity.

The first phase of the original SIA master plan which was designed for a capacity of 30 million annual passengers (MAP) might be insufficient for the demand expected by its scheduled opening (34 MAP).

However, there is flexibility in the privatisation project for the four privatised facilities to meet the actual demand of SLA at opening and thereafter. One of the requirements made by Thai government was that the concessionaires would be to plan, design, construct, and operate their facility to the anticipated and actual demands for such a facility.

Table 4.5 Passenger Forecast at Bangkok International Airport

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Unit: Million Annual Passengers, or MAP											
NAPA	29.70	31.30	33.10	34.90	36.80	38.90	41.10	43.40	45.90	48.50	51
ICAO	28.30	30.40	32.60	35.00	37.40	39.90	42.60	45.40	48.50	51.50	54
OECF	27.40	28.90	30.50	32.60	34.80	37.20	39.60	42.20	44.80	47.70	49
TAMS - Best Case	25.90	27.00	28.60	30.20	32.00	33.90	35.90	38.00	40.20	42.50	45
TAMS - Worst Case	25.70	26.80	27.50	28.30	29.20	30.00	30.90	31.80	32.70	33.70	35.0
Average	27.4	28.88	30.46	32.2	34.04	35.98	38.02	40.16	42.42	44.78	47.1

Sources: NAPA 1997, ICAO 1997, OECF 1998, and TAMS 1998



Open Airport

### 4.3.2 Privatisation Process

This section presents a conceptual guideline for conducting privatisation programs for four facilities at SIA. This section also elaborates the criteria used by the government in creating privatisation scenarios and factors affecting the selection of the proper privatisation program. The preferred privatisation approach should benefit the project cash flow and financial performance for both the government and the concessionaire

Privatisation is defined by the government as the transfer or sale of any asset, business, organisation, function, or activity from public to private sector. It is also applied to joint public-private ventures, concessions, lease, and management contracts as well as to some special instruments, such as Build-Operate-Transfer (BOT) and Build-Transfer-Operate (BTO) agreement. The following Table 5.6 shows the definition and key concerns of each privatisation mode as described by the project consultant of SIA.

The details differ by country and by transaction, but the process for privatising a typical SOE is conducted in three phases as follow (CUIPI 2001):

#### Phase I: Preparation Stage

The scope of enterprise or business is clearly identified. In this study, NBIA has already determined four facilities to be privatised, as described in the previous section.

## Phase II: Privatising Stage

The government and its consultant have undertaken a study to assess the feasibility of privatised activities and mechanisms available for achieving the activities' objectives. Projection of future revenues and costs are also an important element in determining the government's asking price and privatisation schemes.

In addition, the local regulatory framework will be a major consideration to be complied with by the selected privatisation model. During the privatising stage, a number of legal processes shall be involved to get approval from concerned authorities including the Cabinet, NESDB, and Ministry of Finance, NBIA, and Privatisation Committee.

The privatisation, or concession and agreements are professionally prepared in negotiations between the government and the concessionaire in order to clearly define business matters, controlling mechanisms, and legal concerns with appropriate risk allocation for each party.

## Phase III: Post-Privatisation Stage

In this final stage, the investor takes over the operation of the enterprise. Most investors undertake further restructuring, with an emphasis on improving the quality and reducing the cost of services and goods provided. The government's role in this phase may vary, from arm's length regulation and continuing involvement in the running of the enterprise to having seats on the board of directors for the government

or its proxies. In some cases, the government retains the golden share in the enterprise to veto on important issues affecting the public interest and services.

#### **4.3.3 Discussion of the Possible Privatisation Models**

The Thai government has a variety of privatisation mechanisms available to transfer public assets or services to private investors. The differing privatisation alternatives have differing advantages and disadvantages depending on the:

- Government's interest and capability in managing the assets or services
- Degree of reduction in the government's burden in terms of capital, personnel, and operation
- Purpose in allocating appropriate risk and benefit for different parties
- Degree of control and ownership in such business and assets, and
- Government's interest in encouraging public participation and ownership in the state-owned business.

The range of privatisation models and assessment of their relative strengths and weaknesses are set forth by the NBIA's consultant in Table 4.6 and 4.7, respectively, on the following pages.



Name (Acronym)	Definition	Key Concern
1. Contract Out	<ul style="list-style-type: none"> <li>The government contracts with independent private contractors to accomplish a service rather than using government employees.</li> <li>The private party is paid to provide such services.</li> </ul>	<ul style="list-style-type: none"> <li>To increase the operation and service efficiency.</li> <li>To reduce government burden in personnel employment.</li> </ul>
2. Management Contract	<ul style="list-style-type: none"> <li>The government contracts with professional private management entity to manage state- enterprise's services or assets.</li> <li>The government still controls the business and takes responsibility for any risk, working capital, profit-loss for the business.</li> <li>The government pays the private entity a fee and perhaps encourages profit sharing in terms of a success fee.</li> </ul>	<ul style="list-style-type: none"> <li>The government takes all risks and responsibilities for profit, loss and working capital for the business.</li> <li>To increase the operation and service efficiency</li> <li>To reduce government burden in personnel management</li> </ul>
3. Lease Contract	<ul style="list-style-type: none"> <li>The government leases assets or businesses to a private entity with a desirable fixed fee in return.</li> <li>The private entity has to be responsible for working capital, risk, and profit and loss in the business.</li> </ul>	<ul style="list-style-type: none"> <li>Normally applied to under-utilised government assets or state-enterprise businesses in trouble.</li> <li>The private entity will take all risks and responsibilities for profit and loss of the business.</li> <li>Government has ownership after the contract period.</li> </ul>



Table 4.6 Privatisation Models – continued

Name (Acronym)	Definition	Key Concern
4. Build-Own-Operate (BOO)	<ul style="list-style-type: none"> <li>A private entity constructs and operates a facility without transferring ownership to the government.</li> <li>The private entity is eligible to sell or provide services and goods to the government exclusively.</li> </ul>	<ul style="list-style-type: none"> <li>Normally, the facility is built on privately- owned property.</li> <li>The government has no burden for capital, business risk, operation, personnel and employment.</li> </ul>
5. Build-Operate-Transfer (BOT)	<ul style="list-style-type: none"> <li>A private entity constructs and operates, then transfers the facility's ownership to the government.</li> <li>The private provides services during the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>Normally, the facility is built on government-owned property.</li> <li>The government has no burden for capital, business risk, operation, personnel and employment.</li> <li>This model is popular throughout the world especially for infrastructure.</li> </ul>
6. Build-Transfer-Operate (BTO)	<ul style="list-style-type: none"> <li>A private entity constructs and transfers facilities to the government prior to operations, taking back a lease and long-term operation contract.</li> <li>The private entity will provide services during the concession period.</li> </ul>	<ul style="list-style-type: none"> <li>Normally, the facility is built on government- owned property.</li> <li>Normally, the law covering the specific facilities requires this approach.</li> <li>This approach is selected when state ownership becomes a critical factor to ensure the standard of services.</li> <li>This model has less attractive cash flow and financial performance for the private sector.</li> <li>The government has no burden for capital, business risk, operation, personnel and employment.</li> </ul>

Table 4.6 Privatisation Models – continued

Name (Acronym)	Definition	Key Concern
7. Public Offering	<ul style="list-style-type: none"> <li>▪ The government retains its own interest in operating the facilities, but wants to enhance part public ownership in the business by selling shares to private investors.</li> <li>▪ The government raises capital in the financial market.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sell shares in the stock market</li> <li>▪ The government still controls the business.</li> </ul>
8. Joint Venture	<ul style="list-style-type: none"> <li>▪ The government jointly invests in the business.</li> <li>▪ The risk and financial responsibility is allocated proportionally to both parties.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The government and private entity jointly operate the business.</li> <li>▪ The government retains some state-ownership and control over the business operation.</li> <li>▪ In some cases, the state-enterprise brings in new technology and management skill from the private sector.</li> </ul>

Source: CUIPI (2001:107)

**Table 4.7 - Assessment of Possible Privatisation Models by NBIA**

<b>Privatisation Models</b>	<b>Strengths and Weaknesses of privatisation of Air cargo, Catering, GSE, and Aircraft fuelling facilities, as identified by NBIA's consultant</b>
<i>1. Contract Out</i>	NBIA has no intention to further invest in the facilities. No capital injection.
<i>2. Management Contract</i>	Same as Contract Out
<i>3. Lease Contract</i>	There is no existing asset to be leased to private sector
<i>4. Build Own Operate (BOO)</i>	Since all facilities have to be constructed on government property, and overall airport operations are a uniquely governmental responsibility, the ownership of the assets and facilities have to be ultimately transferred back to the government.
<i>5. Build Operate Transfer (BOT)</i>	<b>Possible and widely used in other international airports.</b>
<i>6. Build Transfer Operate (BTO)</i>	Legally possible, but less attractive, to the private sector, since this option might create negative financial performance. This option normally is used due to legal requirement, such as found in the telecommunications sector. In conclusion, this approach should not be selected for the airport facility privatisation.
<i>7 Public Offering</i>	This option will not be technically possible for this stage.
<i>8. Joint Venture</i>	According to the government's capital constraints and investment policies, it will not invest in those facilities.

Source: CUIPI (2001:110)

#### **4.3.4 Readiness of SIA for Privatisation**

In 1999, NBIA has 153 staff in various fields, including engineering, accounting, finance, legal matters, etc (NBIA 1999). NBIA's business development officers, posing strong engineering background and skills in financial analysis, were assigned to take charge in the four privatised facilities projects. Furthermore, NBIA also has a "Project Management Consultant (PMC)" as its prime project management consultant to assist in planning, project management, and engineering through relevant processes until the airport opening. Since NBIA has been established to handle construction and management of the SBIA, its people are valued as keys to organisational success and are being trained continuously through a number of relevant courses, typically airport management, construction, and engineering. NBIA appears competent and is vigorously preparing itself for this responsibility.

#### **4.3.5 The Selected Privatisation Mode for SIA**

According to the Thai government's policy and regulations, most infrastructure projects should be based on Built-Transfer-Operate (BTO) with the government having ownership to maintain and control the assets constructed on the public property. Since those projects have a significant impact on public use and welfare, disruption and default of those concessions may have a great impact on public use and related business. In addition, BTO is still acceptable from public's point of view.

However, according to the Final Feasibility Study Report for NBIA (CUIPI 2001), the *Build Operate Transfer (BOT)* has been selected among other privatisation models.

The study argued that most international airports in the world take the BOT privatisation approach, which enhances the benefits to airport authorities, private operators, related businesses, and users. From other airports' experience, this model should give positive financial performance and operation efficiency to the concessionaires (CUIPI 2001). Also, all the four facilities comprising cargo, catering, aircraft maintenance facilities, and refuelling service will be operated on closed state property. In the other words, there will be little public access to those properties and overall airport operations are a uniquely governmental responsibility.

#### **4.4 Government Expectations from the SIA's Privatisation**

The major framework of the Government's objectives and missions in privatising transport sector was laid down in the "Master Plan for State Enterprise Reform" (Master Plan), discussed in section 3.2.4. For the purpose of this study, I investigated various governmental documents and consultants' documents<sup>12</sup> and found that the objectives and expectations of SIA privatisation from the government's view, which will be called the "Specific Privatisation Objectives", are identified as follows:

##### **1. Promotion of Lower Cost & More Efficient Services to the Users**

The lower costs and more efficient services in all aspects of airport management is the major objective of the Thai government in SIA privatisation. This is based on

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<sup>12</sup> Various issues of NBIA Operation Performance (1999, 2000, 2001); Monthly Progress Reports: AAT 1999, 2000, 2001); Monthly Project Progress Report: PMC (2000, 2001, 2002) and Final Feasibility Study (CUIPI 2001);

the World Bank studies of 12 privatisations in 4 countries which found that privatisation benefited the whole country's economies, and led to higher productivity and faster growth in all but one case. As an example, the Bank pointed to the Chilean telephone company which doubled its capacity within 4 years. A Mexican privatised telephone company reduced its per unit labour costs sharply. The Bank added that many countries around the world resemble the 4 cases studied, and similar gains from privatisation can be reasonably expected.

Another World Bank study found that 41 privatised firms in 15 countries, including Singapore, increased returns on sales, assets, and equity, raised internal efficiency, improved capital structure, and provided increased capital expenditures for additional infrastructure. Work forces also surprisingly increased somewhat.

Everyone benefits from efficient, and therefore, less costly services. As the cost of services decreases, the demand increases. For example, if the air cargo operations at SIA are more efficient and less costly than air cargo operations at Hong Kong or Singapore international airports, other factors being equal, then more air cargo will be routed through SIA, resulting in greater income to SIA and the Thai economy. This also meets the objectives of promoting SIA as a major regional and international hub and promoting international exports from Thailand, as discussed elsewhere in this section.

## 2. Promotion of Higher Quality Services to the Users

This objective is closely related to the first in that more efficient and less costly services are perceived by their users as of higher quality, but it also relates to

qualitative factors. Higher quality services reinforce another major objective: promoting SIA as a major hub airport. For example, if the catering facilities provide airline food that is superior in taste and appearance than similar facilities at Hong Kong or Singapore international airports, the quality of service at all airlines serving SIA will be enhanced in the airlines' and their passengers' opinions.

Empirical studies demonstrate that privatised airports rate high on quality of service. For example, privatised airports at Melbourne, Brisbane and Perth in Australia have rated strongly on quality of service in the first Australian Competition and Consumer Commission (ACCC) annual regulatory report. ACCC stated that airlines and passengers were asked to rate airport performance on certain service indicators. The results indicate strong quality performance at all three privatised airports. ACCC also noted that service fees were reduced consistent with the concession-pricing cap.

### 3. Promotion of Competition

One of the major goals of privatisation is to enhance competition. This is especially necessary in the rapidly evolving international airline industry, where competition is getting stronger. Competition can be enhanced among providers of airline services at SIA. Increased competition among local providers enhances SIA's competitive position as against other international airports.

Thai consumers are not different from other international clients. They expect a range and quality of services similar to those available internationally, and they

expect competitive prices. User requirements are best met where they have a choice of service suppliers. Where competition is not indicated for any reason, the aviation authority has a responsibility to ensure that customers are provided with high quality services, at competitive prices.

One of the largest concerns in airport privatisation is that concessionaires will use monopoly pricing to exploit the users. While airports have many of the characteristics of a natural monopoly, the principles for regulating private monopolies are well established, and the necessary provisions can be incorporated into the concession agreements.

#### 4. Reduction of Government Debt & Interest Burden

One major financial objective of State Enterprise reform, as specified in the Master Plan, is to reduce the financial burden on government resources (debt, interest, expenditures and loan guarantees). The Plan also includes two anticipated financial benefits from the program:

- Reduction in subsidies to enterprises
- Reduction in loan guarantees to enterprises

The privatisation of the four privatised facilities will relieve the public debt and interest burden that the Government has borrowed from abroad. It was recommended that 75 percent of the construction cost be financed by a loan from the Japan Bank for International Cooperation (JBIC).



No stakeholders are opposed to the reduction of government debt and interest reduction. The impact of privatisation on government debt and interest reduction is a complex, but potentially rewarding exercise. There are interrelationships among capital expenditures, operational expenditures, and various revenues, such as concession fees, user fee-sharing, lease payments, profits from participating as a shareholder in the privatisation entity, and others, accruing under the various privatisation scenarios, which relate to government debt and interest reduction.

##### 5. Reduction of Government Business & Management Burdens

The encouragement of private participation in State Enterprises, as specified in the Master Plan, will reduce the business and management burdens of the Government significantly. In the future, the role of the Government will primarily be as policy maker and regulator, while providing a level playing field for active competition between private sector entities. Airport operations should be more efficiently and effectively performed by technical and managerial expertise from the private sector.

Privatisation of airport operations requires serious study of the various responsibilities that may be transferred to privatisation parties, consistent with other airport objectives, such as security and safety. Certainly many of the responsibilities, and their attendant management burdens and risks, can be safely passed to the privatisation parties, such as cost overruns of finance, design, construction, and operations.

## 6. To Ensure Safety & Security Standards at Airports

Safety and security are critical to SIA's operations, its users, its environment, and the surrounding community. Some opponents of privatisation in airports state that private operators focus solely on profits to the detriment of airport safety.

However, the government considered that there are several reasons why this is not true. These conditions were summarised from the draft term of reference for proposals: TOR 035 (GEC 1997) and the project consultant report: GEC Final report in October 1999 (GEC 1999).

- Any airport operator must comply with the Thai laws and regulations on safety or face possible action by law enforcement officials.
- Private airport concessionaires may have reduced protection from legal liability, versus a public authority, and face a greater liability from negligence. Private operators have strong incentives to pay close attention to safety.
- The appearance of an unsafe airport would reduce the demand for airport services and any profit there from; and
- The concession agreement will include provisions requiring the concessionaire to pay proper attention to safety and specify penalties or termination in the event of default.

The Term of References (TORs) and Concession Agreements must be written so as to provide sufficient management mechanisms, technical provisions, contractual terms and conditions, and financial incentives and penalties to meet the high safety and security requirements of world-class, international airports, such as SIA. Any such provisions will require coordination with, and ultimate control by, SIA.

## 7. Optimisation of Revenue to the Government

Last, optimising revenue, together with debt and interest reduction, discussed above, is of paramount importance to the government. Maximizing financial inflows and minimizing financial outflows is a two-prong method of increasing the value of the government's facilities and operations. The proper privatisation scenario should do both.

Airport revenues can come not only from user fees, concession income and rental income, but also from the profits of a percentage ownership of the privatisation entities. Such ownership in the privatisation entity will align the government's interests with the other privatisation parties in order to produce more efficient, cheaper, and quality services to airport users, as discussed previously. This may result in SIA being more competitive in a regional and international context, increasing its market share, and therefore increasing revenue to SIA from Thai and international sources.

In Chapter 6, these objectives are used in comparing with “the Historical Privatisation Objectives” from literature review (see section 2.3) and results from interviews with the case study's stakeholders.

## 4.5 Closing Remarks

From the analysis of government and consultant documents discussed in this chapter, the government believes that privatisation of the four facilities in SIA will yield substantial and lasting benefits to all affected parties. No factor was considered to be negatively impacted by privatisation with the possible exception of existing worker job security.

However, we cannot deny the fact that there is no guarantee of success in every privatisation. In Chapter 6, similarities and differences of perception in stakeholder groups regarding SIA privatisation are discovered and analysed. These concerns include how the key stakeholders perceived the idea of privatisation and its implementation; their criteria for satisfaction; and whether their expectations would be met before and during the process of privatisation.

## **5. Stakeholder Research: Methodology**

### **5.1 Introduction**

This chapter describes the selection of key stakeholders in this study, the research instruments, the data collection methodology, and presents techniques of data analyses for this research.

### **5.2 The Key Stakeholders involved in the Study**

The range of definitions of stakeholders has been discussed in Section 2.5. According to Greenwood (2000), there are two types of definitions of stakeholders. The narrow definition included groups who are vital to the survival and success of the organisation. The wider definition included any group or individual that could affect or is affected by the organisation.

In this research, I acknowledged stakeholders based on their impact on the privatisation process. The definite stakeholders have been identified using Greenwood's narrow definition, whilst anticipated stakeholders identified through a cascade process and included in subsequent interviews (see Figure 5.1). Therefore, the definite stakeholders are persons who have been directly involved or in charge in the SIA's privatisation; but the anticipated stakeholders are typically persons who have indirectly been involved in the SIA's privatisation.

Within these key stakeholder groups, individuals were selected for interviews on the basis that they: (1) understand the reasons for the process and outcomes observed in the case; (2) know that the SIA airport is going to be privatised; and (3) can assess the affects of the privatisation. Table 5.1 illustrates a cross-section of key decision making or key influencing stakeholders who have been directly or indirectly involved in the launching of this privatisation program.

**Table 5.1** List of the Key Stakeholders in this study

<i>Stakeholder group</i>	<i>reason(s) of selection</i>
<b><u>Definite Stakeholders</u></b>	
<b>Government Agencies</b>	
- Politicians	persons who have been directly involved / responsible in the case
- Executive	person who have been directly involved / responsible in the case
<b>Private Sectors (selected from prospect investors in 4 privatisation programs)</b>	
- Cargo terminals	the operator at the present Bangkok International Airport
- Catering	the operator at the present Bangkok International Airport
- GSE Maintenance	the operator at the present Bangkok International Airport
- Aircraft Refuelling	the operator at the present Bangkok International Airport
<b>Financiers</b>	
- Executive	lending for 60 % of total investment budget
<b><u>Anticipated Stakeholders (identified through cascade process)</u></b>	
<b>Consultants</b>	
- Project Consultants' Executive	persons who have been indirectly involved / support roles in the case
- Management and Financial Consultants' Executive	persons who have been indirectly involved / support roles in the case
- Law Consultants' Executive	persons who have been indirectly involved / support roles in the case
<b>Public Representatives</b>	
- Media representatives	persons who have been reported / responsible in the case
- Academics	Privatisation experts

## **5.3 Research Instruments**

### **5.3.1 Interviews**

Interviewing was a key instrument in this research. Interviews were semi-structured using a general interview guide. This involved outlining the issues that were to be explored with each interviewee before the interview began. The issues outlined were not taken in any particular order and the wording of the questions to elicit responses about the issues was not predetermined. Using the interview guide simply increased the comprehensiveness of the data and made the data collection systematic for each interview. It also allowed for logical gaps in the data to be anticipated and covered, as well as allowing the interviews to remain fairly conversational. Moreover, it clearly served as a checklist during the interview to make sure that all relevant topics were covered. Some of the questions asked at the interview were deliberately structured to provide a dichotomous response (i.e. yes or no) and others used presumptions to increase the richness and depth of the responses and data obtained. However, in some situations, the answers provided by the interviewees were used as the basis for further inquiry and probing. The details of how these interview questions were designed will be discussed later in this section.

Interviews have the advantage of flexibility in terms of adapting the questions as I proceed with the interview. It also allowed me to clarify some complex issues at certain points to ensure that the interviewees properly understood the questions. Moreover, comments made from the interaction of interviewee and

interviewer could be reflected and expanded upon with the least chance for misinterpretation.

The original interview guide was constructed in English. Since the actual study was conducted in Thailand, then it was translated into Thai by the researcher. Subsequently, a group of graduate students who are natives of Thailand and are now studying in Australia reviewed the Thai version. The revised Thai version was given to a qualified translator who works in Australian government organisations (i.e. Head of Thai Program at SBS radio and a former Thai reporter at Australian Broadcasting Corporation, both are in Melbourne) for the final draft to be checked. A copy of both English and Thai Interview Guidelines are attached as Appendix II.

Although the interview technique generated a lot of data which provided good insights into answers to the research questions, the conduct of interview was not without its limitations. These concerned poor recall and bias which may arise from interviewees giving what they believed the interviewer want to hear. In some circumstances interviewees may invent facts or stories in order to appear important. These problems were dealt with by using other sources of evidence to corroborate the interview data, namely documentary information. A variety of documents such as annual reports, company newsletters and newspaper were collected (Creswell 1994; Tharenou 2000; Yin 1994). This study searched for consistent evidence from the multiple sources of evidence as carefully as possible.



The same procedure was followed in each interview. Potential participants were approached with an overview of the research project and asked if they would be prepared to engage in discussions of the questions raised in the study. Prior to each interview, the participant was contacted to confirm his or her cooperation and to verify the arrangement for the discussions. A copy of the interview guide was sent to the participant beforehand. Interviews were arranged and conducted at a time suitable to the participant within a designated timeframe and at a location that was convenient, which allowed for privacy, and suited their schedule. Nevertheless, if the participants wished to contact the researcher to discuss matters pertaining to the study, they were able to do that by calling or sending electronic mail to the contact addresses in the introductory letter.

Each participant was told that his or her confidentiality was a primary consideration for this research, as required by the Human Research Ethics Committee at Victoria University. Consents were mostly verbal. Some agreed to sign a consent form before an interview started. His or her name was not on the cassette tape and I am the only person to listen to these tapes. Moreover, I wrote up each interview summary in a way to minimise the risk of respondent identification and no specific connotations of each individual's roles were included in the research.

The researcher personally conducted all the interviews. As expected, the use of semi-structured interviews generated more information than could be recorded by trying to write down everything that was said during the interview. Therefore each interview was tape-recorded, which increased the accuracy of the data collection and allowed me to be more attentive to the interviewee. It was also

intended to maximise the natural flow of the discourse and minimise any discomfort for the interviewee (Punch 1998). In addition, it allowed me to listen repeatedly during the data analysis stage of the study. However, I was aware that it might have been necessary at some stage through the interview to turn off the recorder if the interviewee wished to discuss confidential or sensitive information.

Taking notes during each interview allowed me to emphasise important responses. As soon as possible after each interview, the tape was transcribed by myself and used for preparing a summary of relevant points which are employed and presented in section 6.2. The transcriptions of the interviews were a labour-intensive part of this research methodology that absorbed hours in recording the participants' narratives. As Mishler (1986:47) explained "transcribing tape-recorded interviews is complex, tedious, and time-consuming work that demands careful listening and re-listening, the use of explicit transcription rules, and a well specified notation system". Therefore, an average time span for the transcription was approximately eight to ten hours of listening and notation to effect the delivery of a genuine representation of the discussion.

Each respondent was encouraged by me to treat the interview as a relaxed meeting and feel free to say if they had any concerns or feeling of discomfort with the conversation, particularly in discussing sensitive issues. This strategy allowed the respondents to develop confidence in me, as a interviewer, and thus the questions were more likely to be answered truly (Dooley 1995). Each data gathering interview lasted approximately one hour. The participants did not

receive any compensation for the interview but are entitled to receive, if interested, a summary of study findings and a complete copy of the research upon request.

The question guideline that formed the basis of the interviews was prepared from the initial goals and objectives of the study and the target information described in section 4.4.2 above. The focus of these interviews was to gather more details about interviewee perceptions from a set of questions devised for six specific areas of investigation.

- Privatisation in general. A set of questions aimed to elicit participants' existing understanding of the context of privatisation given current issues in Thailand generally. It also sought the opinion of the interviewees as to whether the private sector could play any role in assisting with current problems and what would constitute successful privatisation or failed privatisation.
- Institutional factors. These aimed to understand participants' perceptions as to the relative strengths and weaknesses of the public and private sectors. The questions investigate what are the key indicators of success and failure and the way in which the risk of failure surrounding the privatisation of SIA can be managed. The purpose of these questions was to place the answers in an institutional context.
- Economic factors. These questions sought to place privatisation in the context of fiscal necessity. One aim was to investigate opinions as to whether privatisation is only used by or useful to governments in times of fiscal necessity.

- Political factors. These questions identified participants' perceptions about the risks of private sector involvement in providing public infrastructure and the steps that the private sector can take to minimise the potential impact of those risks. This was intended to ground, or link, participants' answers to what was really happening in the case of SIA, given current political issues in Thailand.
- Cultural factors. These questions sought to validate one motivation of this research as stated in the introduction, namely that because Thailand is culturally different from the UK, the US, and others, we need to filter carefully research from these countries and also develop research within the Thai context.
- Cascade process. These questions identified other stakeholders not included in the first group, which is known as snowball technique or the network sampling method.

(See Appendix II for the interview schedule.)

### **5.3.2 Documents, Media and Reports**

Documentation analysis is often used in qualitative research like interviews and case studies. Lee, Mitchell & Sablinski (1991) state that document study is one of the three most commonly used forms of qualitative research. The technique may be used as a primary source of data collection in its own right, or as part of other research designs and case studies usually include an analysis of company documentation as a part of the research design (Creswell 1994; Tharenou 2000).

According to Lee (1999) and Forster (1994), the major types of documentation that may be used in research include:

1. Books, theses, and journals
2. Documents from government, industry, and local associations.
3. Media reports and newspapers
4. Company profile and annual reports (they provide hard data such as profitability and can be coded for qualitative data such as organisation mission, vision and strategic approach)
5. Public relation material and press releases
6. Minutes of meeting
7. Diaries and letters.

In this research, a mixture of documents has been used (see Bibliography). For example, historical data and the policies of the SIA case were selected from the company profile. Some public relation materials were used. Discussions and comments were adapted from media reports, journals and theses.

In reviewing the SIA case study, existing documentation was collected as secondary data to compare with the literature review. This documentation does not involve active intervention as do interviews. It is unobtrusive and largely non-reactive (Forster 1994). It can be used for triangulation of data, helping to counteract the biases of other methods and supplement other sources of information (Forster 1994).

## 5.4 Data Collection

This exploratory study investigated the perceptions of key stakeholders about the development of privatisation policy in Thailand, particular in the SIA case. In order to acquire information, the initial inquiries were made by sending letters to all the prospect stakeholders asking for their assistance in gaining interviews. The letter explained the aim of the study and how results would be expressed to benefit their organisations in term of understanding Thailand's privatisation process.

After a month of waiting, there were no responses from anybody on the list.

Therefore, in July 2001 I approached the President of the New Bangkok International Airport (NBIA) who managed the SIA project. With his support and his connections, I gained a high level of response and had confidence to travel to Thailand to conducted interviews. The potential population, however, was restricted to those members who: (1) worked or had a connection with the privatisation of SIA during the conduct of this research; and (2) had a relationship with the President.

The concern about the potential participants was shared with my supervisor. Another method to enhance the number of stakeholders and the accuracy of the SIA case was discussed. That was, the stakeholders were asked to nominate persons that they thought were other stakeholders to be included in the population frame. Therefore, another objective of the interview was added to locate other stakeholders who were not included in the first group of key stakeholders.

This method is known as the snowball or network sampling method (Bebbie 2001; Blaikie 2000; Dillon et al. 1993) or cascade process by the definition of the researcher's supervisor. The sampling was defined as a method that involved "first locating the respondents who have the necessary qualifications to be included in the sample and then using these respondents as informants to identify still others.... who belong to the target population" (Dillon et al. 1993:230). This may not have completely overcome the restrictions in the initial sample, but it did at least broaden the sample and include a wider range of interviewees.

The snowball method was successful since more than fifteen stakeholders were nominated by the first group of participants. Therefore, the researcher decided to travel to Thailand again for additional interviews. After spending two months contacting the nominated stakeholders through formal inquiry (introduction letter from the supervisor) and personal connection, which is usual in Thailand, eleven nominees agreed and gave interviews while three refused. Thus, the final population of key stakeholders involved in this study was twenty-one. Ten key stakeholders were interviewed during the first trip to Bangkok from 15 September to 5 November 2001, based on the type of stakeholder groups involved. Eleven further stakeholders were identified through the cascade process and interviewed during the second trip from 20 February to 10 April 2002. A chronology of the interview meeting is shown in Appendix III. They were intended to capture a cross-section, as mentioned in Figure 4.3, of key decision-making or key influencing stakeholders, including politicians, executive level staff of the organisation, prospective investors or business consortiums, financiers, project and other related business consultants, and representatives of the public including the media and independent scholars.

As some strategic decisions were discussed with interviewees, the names of people that participated in this research have not been disclosed to protect the privacy of the respective parties.

## 5.5 Data Analysis

### 5.5.1 Editing Technique

As there is no clear and accepted set of conventions for analysing qualitative data (Hussey & Hussey 1997), I investigated three ways in which data collected from the interviews could be represented. Firstly the form of narratives with diagrams to assist interpretation was considered. However, this approach demanded considerable effort and time to structure and represent the data in a clear and concise manner. Secondly, the use of pictures was briefly considered but as Mills, Neely, Platts and Gregory (1998) notes the design of the picture itself, such as size, shape, materials and method used to create it, even the artists employed can emphasise different strategic aspects. The third method which is the *editing technique* often applied in the analysis of case study research was chosen (Crabtree & Miller 1999).

The editing technique means that I enter the text like an editor searching for meaningful segments: cutting, pasting, and rearranging until the reduced summary reveals the reliable interpretation of the major themes. The editing technique has a cyclical quality. Interpretations emerge from the analysis of a particular theme or



category and then are repeatedly compared with the original textual data. This is called constant comparison, where eventually additional analysis no longer contributes to discovering anything new about a category. The qualitative data from interviews and documents were analysed to: (1) identify the common issues in the textual data, and develop categories so that these can be analysed; (2) conduct a broad count of these categories to obtain an idea of how much and which ones are relatively important; and (3) interpret the issues in relation to the research questions.

### **5.5.2 Grounded Theory Approach**

The editing technique is used to develop “grounded theory”. According to various studies, applications of grounded theory must result in the generation or elaboration of explicit theory (Glaser & Strauss 1967; Lee 1999). Grounded theory is a useful methodology under a constructivist paradigm. Grounded theory involves generating theory and conducting social research as part of the same process (Strauss & Corbin 1990). However, much of the theory development in grounded theory is data oriented: the actual is compared to the previous data anecdotally and continually. Since there is little quantitative data collection proposed for this research, the case study merely provides a point of comparison against prior research on privatisation, much of which involved economic comparison and data gathering.

Grounded theorists regard the definition of the theory quite loosely, and at least one has tried recently to refocus grounded theory on qualitative case study: “theory elaboration” (Tharenou 2000). Grounded theory tries to bridge quantitative and qualitative methods. It is a general methodology only. Accordingly, grounded theory

explains one approach to this research to the extent that recent theory is uncovered through secondary research, and that this theory is tested in one detailed Thai case study.

## **5.6 Closing Remarks**

This research is intended to contribute to the Thai privatisation literature by identifying stakeholder perceptions of privatisation and suggesting, from those perceptions, a wide range of relevant issues and criteria, and the weight which can be afforded to relevant theory. Also, it also aims to suggest new frameworks of analysis and evaluation that might be used by policy makers and researchers in the future. By selecting a case study methodology and supplementing the interview with a thorough review of the conduct of the case, a richly contextual analysis that informs all of the above-mentioned purposes is possible.

This chapter has developed the research instruments, the sample and data collection, the ethical considerations and limitations of this methodology. Results are presented in the following Chapter 6.

## **6. Analysis and Synthesis of the SIA Case Study**

### **6.1 Introduction**

This chapter contains three elements:

- i. an analysis of the SIA Case Study, both generally and by reference to Historical Privatisation Factors;
- ii. the summarised results of the interviews, on a question by question basis; and
- iii. an analysis of the interview results.

The purpose of this chapter is to place the case study in the context of the historical research contained in Chapter 2 and to identify the unique context, processes, and issues relevant in case study so as to be able to consider the Case Study in the context of the theories, political ideologies, and frameworks discussed in Section 2.5.

### **6.2 Observation and Documents Analysis**

In reviewing the SIA case study without consideration of the interview results, it is useful to summarise SIA's objectives in seeking the private sector partner (called Government Expectations from the SIA's Privatisation in Section 5.4) and in the approach taken to the process. To understand this process, one has to consider the policy structure adopted by the New Bangkok International Airport (NBIA) Co.,Ltd. (SIA is under the supervision of NBIA) as its "corporate policy" on partnering and reflected in a report by CUIPI, management consultants, adopted by NBIA's board of

directors on December 2001. In that report, partnering is defined as the involving of another entity outside of NBIA in some element of the provision of public infrastructure and services<sup>13</sup>.

Thus, to understand the link between privatisation in the past and this present case study, a comparison of the objectives of privatisation that were given as the original reasons for the privatisation policy and those of the SIA project were tabulated (Table 6.1). The former are Historical Privatisation Objectives isolated from the literature review (Section 2.3) and the later Specific Privatisation Objectives of SIA program that were gained from the government and consulting companies’ documents (see Section 5.4).

**Table 6.1** SIA’s Privatisation Objectives V.S. Historical Privatisation Objectives

<i>Historical Privatisation Objectives (from literature review in section 2. 3)</i>	<i>SIA Privatisation Objectives from Observation at the public inquiry sessions during 2001 and Review of Official NBIA Reports (the Specific Privatisation Objectives)</i>
1. To relieve the government's fiscal burden	YES
2. To raise revenue through the sale of SOEs	YES
3. To generate new sources of cash revenue	NO
4. To develop the domestic capital market	NO
5. To promote competition	YES
6. To minimise government interference	NO
7. To increase productivity and operating efficiency	YES
8. To disperse business ownership	NO
9. To attract direct foreign investment	NO
10. To respond to pressures from external org.	NO
11.	To Ensure Safety & Security Standards at Airports

<sup>13</sup> CUIPI; Royal Act on Private Participation in State Undertaking (B.E. 2535), Dec 2001, at section 3, p. 3.

The table shows that the policy objectives of SIA privatisation in the Specific Privatisation Objectives originate mainly from ideas drawn from general privatisation concepts or partly from the Historical Privatisation Objectives. However, a new issue arose in the case of SIA. It was believed that this privatisation would ensure increased safety and security standards.

According to the data relating to methods of privatisation in the SIA project, a second comparison was introduced in Tables 5.6 and 5.7. This study found that there were 11 general privatisation methods (stated in Section 2.4) and 3 of them mentioned as the most popular methods used in airport infrastructure privatisation (see Section 2.6.3).

As Figure 5.4 clearly shows, the project focused on the internationally accepted, Build Operate Transfer (BOT), method generally in use around the world. The main reasons for this were that the Thai government did not need to invest itself and there were no existing assets to be leased to the private sector. The Thai government also wanted to continue its ownership of the infrastructures in the SIA after it was privatised. Thus, the BOT method was the best method for the SIA case.

Hence, data from the SIA case study does not contradict observations presented in Chapter 2. However, focusing on the objectives and methods of SIA, I found that financial gain and improvement in efficiency were core functions whilst wealth redistribution was not the main target of privatisation because ownership of the four privatising infrastructures in the SIA were kept under the government control.

The following comments compare the results of the case study with perceived frameworks of privatisation (as stated in Section 2.5). Much of the economic theory previously discussed does not seem explicitly relevant to the SIA case yet:

- SIA privatisation did not relate to property rights because there was no transfer of ownership from the public to private sector;
- The theory of firm and transaction cost might have the same basis as the concept of SIA privatisation because the government had to decide whether the public or private sector would run this project;
- The principle agent theory tended to relate to this case study because the public sector needed the private sector to manage, particularly the contract between the government and the private sector; and
- However, the concept of the benefit of a competitive environment was still limited to increased efficiency compared with outside competition, with the aim of making this airport the hub of South East Asia region ahead of other airports in neighbouring countries. The concept of internal competition (bringing in competition in order to upgrade efficiency of airport operations) was not strong because this project was a natural monopoly. The partners who want to join in the SIA project are companies that used to work with the government in the existing Bangkok International Airport. Thus, competition theory was not very relevant to this project.

The main target of SIA privatisation is the issue of upgrading service quality to international standards, though there has been no evidence from studies that proves that the private sector can enhance the airport's international standard better than the public sector is able to do. However, this is a researcher's comment that the private

sector has more flexibility than the government which as a reason the private sector may be more confident in ensuring safety and security standards than the government. Monopoly services are not appropriate in the highly competitive global aviation market, where slow decision making and bureaucratic interference are negative factors.

When comparing with the political frameworks stated in Chapter 2, there was no evidence of the public choice theory that relates to this study because the SIA privatisation tended to be outsourced, and public bureaucrats, currently, did not affect from privatisation in the SIA case on their duty and on their authority. Hence, it was premature to conclude any relationship between the public choice theory and the SIA case.

In summary, it was found that this case study fitted into the privatisation literature, especially in regard to its objectives and methodology. Financial gain and improvement in efficiency were the main objectives of the SIA, however, in comparison it was found that ensuring safety and service standards was a specific objective that the government expected addressed by SIA privatisation. The process of selecting a method of privatisation based on a definite concept was the same as at other airports. Some basic theories that can be described were the 'firm' and 'transaction cost' theory, and the 'principal agent theory'.

The next section will describe the interview results and use the data to differentiate ideas of privatisation held by the government from the perceptions of other stakeholders.

### 6.3 Interview Summary: Perceptions of Key Stakeholders

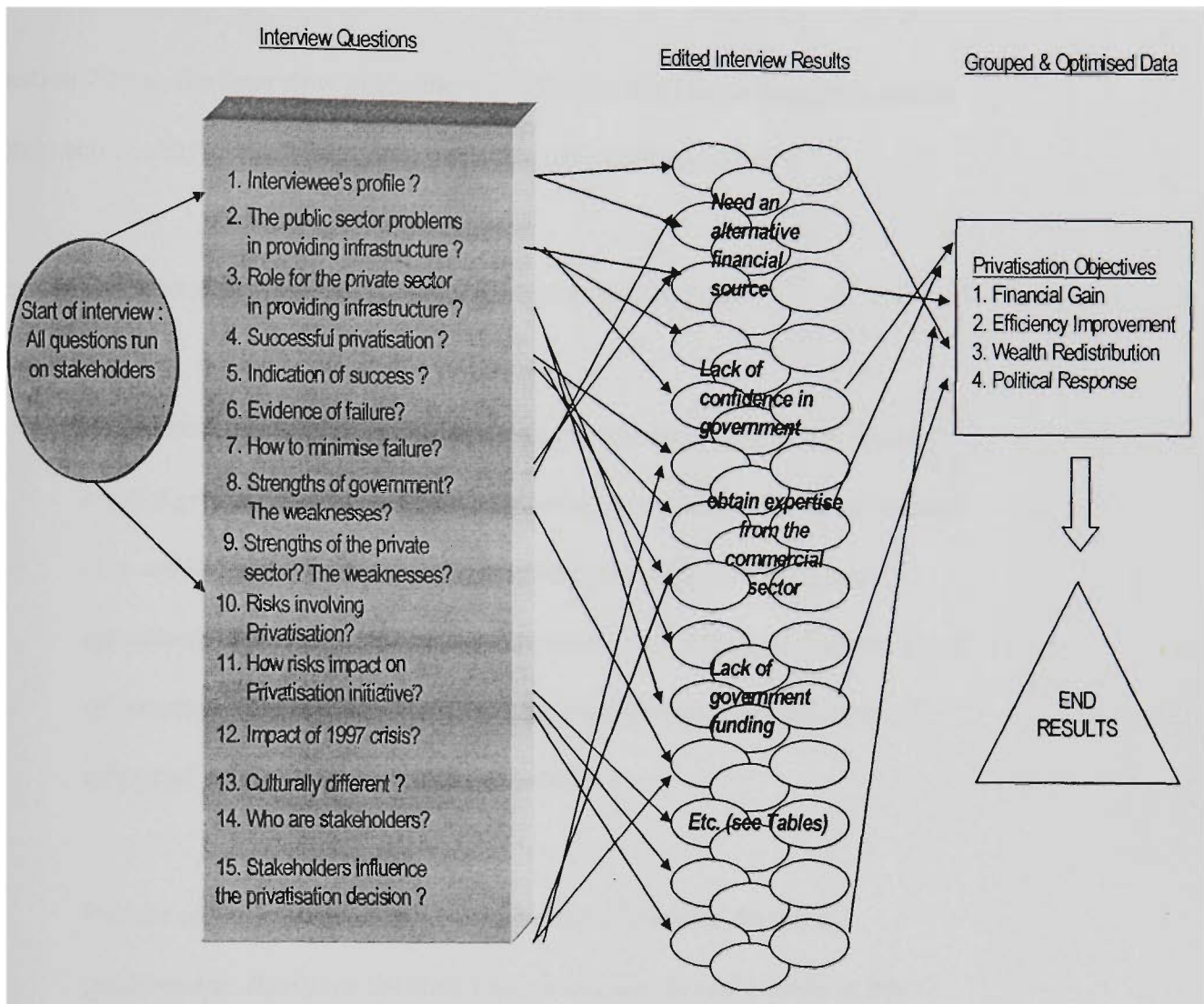
The aims of this section are: to understand stakeholders' perceptions on privatisation policy within the scope of this study as previously defined, to extend the ideas of balancing perceptions, and to compare stakeholders' perceptions with other views in the literature. The section uses the stakeholder interviews to synthesise stakeholders' perceptions of the important contributions that privatisation would make.

The following diagram (Figure 6.1) shows the structure of the data collecting process and illustrates how edited perceptions are drawn from stakeholders. The diagram further divides this structure into: i) asking questions, ii) editing interview answers, and iii) categorising responses into the proposed core privatisation objectives.

It is clear from the diagram that there was considerable variability among the answers as identified by the interviewees. With the editing technique, the answers have been consolidated to the common issues, and paraphrased in short form on a response-by-response basis. In Chapter 2, I identified 4 major privatisation objectives that are recognised in the literature. There are: financial gain, efficiency improvement, wealth redistribution and political responses. I used the editing technique to draw out the key issues that interviewees were referring to in their unstructured answers, and then to map these issues to these 4 major privatisation objectives. This is represented in Figure 6.1



Figure 6.1 The Pathway of Interview Results



6.3.1 The Editing Technique and Interview Results

The editing technique, as discussed in detail in Section 4.6, must be elaborated. This technique requires entering the text like an editor searching for meaningful segments: cutting, pasting, and rearranging until the reduced summary reveals the reliable interpretation of the major themes or results. The following examples present how the

results of each question (particularly in questions 2 to 15) have been edited and summarised.

Question 2 from the interview guideline is: “What are the issues facing the public (state) sector today in providing infrastructure and public services?”

Interviewees responded and their responses were coded as follow:

Public sector stakeholder: “...*scarce government funding: the 100% capital grants from governments do not exist anymore. The other reason is to make sure that the new infrastructures are provided at cost effectively and with high quality*”, I summarised this as the issues “*Lack of government funding*” and “*Making sure that services are cost effective*” which led to 2 entries in Table 6.3

Private sector stakeholder: “...*elimination of funding from the government: therefore the state enterprises are forced to look at new financial sources to get capital works and infrastructure works, including involving the private sector...*” I paraphrased this as the issue “*Need an alternative financial source*”

Consultant stakeholder: “...*financial constraint preventing government from keeping up with need to refurbish and provide new facilities. Operating costs keep rising if you don't keep up with construction. Requirements for the new infrastructure have increased. There is a*

*conscious decision to outsource now in order to obtain expertise from the commercial sector” I paraphrased this as the issue “Ability to fund capital infrastructure” and “Lack of financial and marketing expertise”*

Financier stakeholder: “...*where to get financing to fund the project? The private sector can have a role, but it must be carefully structured, and the nature of the public interest clearly defined*” I paraphrased this as the issue “*Need alternative financial sources*”

Academic stakeholder: “*there are myriad of issues facing the public sector today. Status quo has been totally disrupted and they are trying to figure out how to maintain their power, perks and spheres of influence. The government are paying lip service on providing adequate infrastructures. Therefore, the role for the private sector is to put in the real intention that the public sector doesn't have and to ensure that the services are provided at reasonable cost, and standard maintained at an acceptable price in everyone's range...*” I paraphrased this as the issues “*Lack of confidence in government*” and “*ensure services are provided at acceptable prices*”

Media stakeholder: “*the issues are the cost of maintaining the existing infrastructures and funding the new ones. Also, there is considerable pressure from the IMF to seriously implement the privatisation policy if*

*Thailand want to get help....”* I paraphrased this as the issues “*Lack of funding from the government*” and “*pressure from the IMF*”.

### **6.3.2 Characteristics of the Interviewees as Stakeholders**

As explained in Chapter 4 (Section 4.4.2 the stakeholders selection), the sample consisted of representatives from six different stakeholder groups: the public sector, the private sector, project consultants, project financiers, independent academics, and representatives of the media. In all, 21 individuals were interviewed. Table 6.2 provides profiles of the interviewees obtained from question 1 to reflect their credentials. Interviewees’ names have not been disclosed to protect their confidentiality.

Interviewees from the public sector consisted of a politician who had worked in the Ministry of Transport and Communications (MOTC); three executives from the New Bangkok International Airport (NBIA) and Airport Authority of Thailand (AAT) who were directly responsible and involved in the SIA’s privatisation initiative; and a high ranking soldier who is an associate of SIA .

**Table 6.2 Profiles of the Interviewees<sup>⊕</sup>**

Interviewee No.	Organisation / Company	Group No.	Stakeholder Group	Level of Education	Sex
1	Ministry of Transport and Communication	1	Public	Bachelor Degree	Male
2	New Bangkok International Airport Co.,Ltd.		Public	Doctoral Degree	Male
3	New Bangkok International Airport Co.,Ltd.		Public	Master Degree	Male
4	New Bangkok International Airport Co.,Ltd.		Public	Master Degree	Male
5	The Royal Thai Army		Public	Bachelor Degree	Male
6	Thai Airways International Public Company	2	Private	Master Degree	Male
7	Frankfurt Airport Services Worldwide Ltd.		Private	Bachelor Degree	Male
8	Thai Airport Ground Services Ltd.		Private	Master Degree	Male
9	Thai Airport Ground Services Ltd.		Private	Bachelor Degree	Female
10	Japan Bank for International Cooperation	3	Financier	Master Degree	Male
11	Japan Bank for International Cooperation		Financier	Master Degree	Female
12	Government Saving Bank		Financier	Master Degree	Male
13	Government Saving Bank		Financier	Bachelor Degree	Male
14	Project Management Consultant Group	4	Consultant	Master Degree	Male
15	Project Management Consultant Group		Consultant	Bachelor Degree	Male
16	TISCO Securities Ltd.		Consultant	Master Degree	Male
17	White & Cases (Thailand) Law Office		Consultant	Master Degree	Female
18	Chulalongkorn University	5	Academic	Doctoral Degree	Male
19	Eastern Asia University		Academic	Master Degree	Male
20	Bangkok Post Newspaper	6	Media	Bachelor Degree	Female
21	Matichon Newspaper		Media	Bachelor Degree	Male

**Remark:** <sup>⊕</sup> Question 1: Please tell me about yourself and your background including professional background, education and particular interests relevant to infrastructure privatisation.

The private sector representatives were the prospective investors in the four privatisation programmes of the SIA case study; namely (i) cargo terminals, (ii) catering, (iii) ground service equipment maintenance, and (iv) aircraft refuelling.

There were certainly some personal overlaps across these companies since most proponents tended to bid for several of the above four programmes. Accordingly, the study focused on senior members among the operators at the existing Bangkok International Airport that currently provides existing services in those four areas.

Four financial institution executives were selected for interview. The main financial provider in this project is a foreign institution. Therefore, an appointment was sought through its branch in Bangkok but they declined to be interviewed. After a second attempt was made to contact the overseas head office with references from the NBIA's executive, the company representatives in Bangkok granted an interview and agreed to be involved in the study. A further two financial institution participants were Thai bank executives.

There were six potential consultant participants involved in the SIA case but two of them declined the interview. Of the four individuals who were interviewed in this group. Two were executives from the project management consultant group providing overall airport management and procurement, one from a law firm, and the other from a financial consulting company.

Finding a representative voice from Thai citizens became difficult because only a small number of members of the general public showed up for the public inquiry sessions during 2001 (organised by NBIA) and none of them agreed to be interviewed. Because of the concern over the representative nature of the data, it was decided to seek opinions through interviewing local associations involved with airport businesses, media and independent academics from private and public universities. These groups were not necessarily representative of public opinion, but were the best available for this study and falling within the scope of interview as discussed above in Chapter 4. However, after several attempts to explain the aim of the study both by letter and telephone, there were no responses from representatives of local associations. Four individuals from other types of organisations responded; there were

two reporters from the two different newspapers in Thailand. There also were two independent academics, a professor of law from a public university and an associate professor from a private university.

The interviewees represent a rich sampling based on their understanding of NBIA philosophy and mission together with the current privatisation landscape. The average working experience of these participants is almost 30 years. They are highly educated professionals and include two with doctoral degrees, eleven with master degrees, and eight with at least bachelor degrees. Most of them are engineers and the rest are business people and lawyers. Some of them have both business and engineering degrees. Most of interviewees are male and only four are female.

### **6.3.3 Influence on Privatisation and Initial Perception on the Private Sector's Role**

The two questions aimed to investigate the current environment in Thailand as the context of the airport privatisation.

- *Q2: What are the issues facing the public sector today in providing infrastructure and public services? and*
- *Q3: Is there a role for the private sector in assisting with respect to the above problems?*

The following table (Table 6.3) summarises interviewees' answers to these questions. Many interviewees gave several answers to these questions and some answers were duplicated across participants. The result is that the number of issues (answers) isolated is more than the number of participants.

There were 19 different answers across the key stakeholder's responses. I have categorised these into the 4 core objectives of privatisation as shown in Table 6.3. It is interesting to note that privatisation is apparently perceived by most interviewees to be a solution to the problem of providing successful project implementation.

According to the perception of public sector interviewees, the most common significant issue was lack of funding. About forty percent of the interviewees gave an opinion on this funding topic: they were less concerned about other topics, such as reduction of government financial burden, provision of high quality services for users, enhancement of management efficiency, and maintenance of service level.

The second group of interviewees were from private sector organisations. This group seem to perceive more motivating factors behind privatisation than the first group.

The interviewees indicated that the significant issues were the public sector's need for new sources of funding, reduction of government financial burden, provision of high quality services for users, enhancement of management efficiency, and the need for more competitive structures, high technology and qualified technicians.

In terms of wishing government to pay more attention to privatisation, consultant groups isolated several crucial issues to be significance, namely: finding sources of finance, infrastructure needs, safe and reliable services, upgrading service efficiency,



adapting to the effects of globalisation and deregulation, and the use of experts from various professional disciplines.

**Table 6.3 Influence on Privatisation and initial Perception on the Private Sector's Role<sup>Ⓔ</sup>**

Privatisation concerns	Respondent Type and Number of Responses in the Issues	#Role for the private sector and Number of Responses
<b>1. Financial gain</b> - Lack of funding from the government - Need alternative financial sources - Ability to fund capital infrastructure - Reduce government financial burden <b>2. Efficiency Improvement</b> - Provide high quality services to the users - The need to run a safe and reliable infrastructure services - Lack of monitoring and proper regulations - Enhance management efficiencies: Speed, Flexibility - Obtaining more competitive structure - Jurisdictional change: less approval processes - Making sure that services are provided cost effective - Ensure services are provided at acceptable price - The need for high technology and qualified technicians - Lack of financial and marketing expertise <b>3. Wealth Redistribution</b> - NONE <b>4. Political Response</b> - Pressure from IMF - Adapting with globalisation - Mistrust of government spending - Lack of confidence in government - Controlling corruption	Public (3) and Media (1) Private (1), Financier (1), and Academic (1) Financier (1) and Consultant (1) Public (1), Private (1), Financier (1), and Media (1) Public (1) and Private (1) Consultant (1) Financier (2) Public (1), Private (1), Consultant (1), and Academic (1) Consultant (1) Academic (1) Public (1) Academic (1) Private (1) Consultant (1) NONE Media (1) Consultant (1) Media (1) Academic (1) Media (1)	Yes (4) Yes (3) Yes (2) Yes (4) Yes (2) Yes (1) Yes (2) Yes (4) Yes (1) Yes (1) Yes (1) Yes (1) Yes (1) Yes (1) Yes (1) No (1) Yes (1) No (1) Yes (1) Yes (1)

**Remarks:**

<sup>Ⓔ</sup> Question 2: Issues facing the Public sector in providing infrastructure that leading to privatisation?

# Question 3: Is there a role for the private sector in assisting with respect to the above problems?

However, project financiers whose organisations provided loans to the SIA project believed that the public sector currently faced problems with lack of monitoring and proper regulations. Other issues were the need for financial sources, an ability to fund capital infrastructure, and the need to reduce the government's financial burden.

Interviewees from the academic group believed that privatisation would assist the government to find new financial resources, to increase management efficiencies, to change jurisdictional processes, to solve problems relating to the lack of reliability in the public sector, and to provide more infrastructure and services at a reasonable cost.

Media representatives expressed the view that there is a role for the private sector to support the public sector where funding from government sources was inadequate, and to reduce the government's financial burden. However, some of this group said that the private sector could not lend a hand in issues such as reduction of pressure from the IMF on the government to seriously implement privatisation policy; the unreliability of the public sector, and the ability to control corruption in the privatisation process. This means that the private sector participants need to take steps to convince the media that they were not prejudiced by private sector participation in privatisation.

The significant of these responses is not only the variety of 'contexts' suggested but also the unanimous view across all stakeholder groups that there is a role for the private sector to play in almost all those contexts. This suggests that interviewees feel

that the private sector can play a role in a variety of contexts, and can help to solve a variety of problems facing the public sector.

**6.3.4 Success Factors and their related Indicators**

Two questions aimed to examine interviewee bias regarding government and private sectors, on the basis that these preconceived notions of who was good at what, would in turn drive decision making about who should do what.

- *Q4: How would you define a successful privatisation with respect to public infrastructure? and*
- *Q5: What would the various indication of success be?*

Assuming that public private partnerships (privatisation) could succeed in providing infrastructure services, all 21 interviewees were able to visualise and articulate a definition of success and related indicia in a qualitative manner. The responses to question 4 can be summarised as shown in Table 6.4.

There are 16 different success factors grouped by participants. Most interviewees were able to imagine a public-private partnership based on bringing the best of the private and public sectors together (“win-win” scenario). This suggests that respondents did not regard privatisation as a zero-sum game with one party’s gain necessarily coming at the expense of the other’s loss.

**Table 6.4 Perceived Success Factors<sup>⊕</sup>**

Privatisation concerns	Respondent Type and Number of Responses in the issues
<b>1. Financial gain</b> <ul style="list-style-type: none"> <li>- No financial burden on the public</li> <li>- Attract investment (domestic and overseas)</li> <li>- Financial benefits to the Privatised SOEs</li> <li>- Win - Win Position (Task completed and satisfaction with returns)</li> </ul>	Public (1), Academic (1), and Media (1) Public (1) Consultant (1) and Financier (1) Consultant (1)
<b>2. Efficiency Improvement</b> <ul style="list-style-type: none"> <li>- Quality infrastructure at efficient and effective price</li> <li>- Raised quality standards with no increase in price</li> <li>- Benchmark standard</li> <li>- Efficiency, quality, and benefits to both private and public sectors</li> <li>- Faster decision making</li> <li>- High quality service and product</li> <li>- Accountability and transparent monitoring</li> </ul>	Private (1), Consultant (1), and Academic (1) Public (1) Private (1) Public (2) and Private (1) Private (2) and Media (1) Private (1) and Financier (1) Financier (1) and Academic (1)
<b>3. Wealth Redistribution</b> <ul style="list-style-type: none"> <li>- Boost up a local capital market</li> <li>- Shared benefits and risks</li> </ul>	Public (1) and Consultant (1) Financier (1)
<b>4. Political Response</b> <ul style="list-style-type: none"> <li>- Control corruption in the process of privatisation</li> <li>- Achieving government goals</li> <li>- Support from broaden public and staff of SOEs</li> </ul>	Media (1) Academic (1) Public (1) and Consultant (1)

**Remark:** <sup>⊕</sup> Question 4: How would you define a successful privatisation with respect to public infrastructure?

Responses from the public sector interviewees were diversified on financial aspects into various factors, such as boosting the Thai capital market and attracting investment; and on public responsibilities, such as providing infrastructure services at no financial cost to the public at large, raising the quality of service at reasonable prices, and obtaining broad support from the public and the staff of SOEs.

Interviewees from private sector bodies maintained that the most important success factor was faster decision making. Minor factors were providing high quality infrastructure at a reasonable price, obtaining international standardisation and maintaining the profitability of the public and private sectors (Win-Win situation).

The consultants who were interviewed lent weight to the financial benefits from privatising SOEs such as boosting the local capital market and investment value, a win-win scenario for both government and private sectors, which would be supported by the public and the staff of SOEs.

The responding financiers singled out success factors such as the sharing of risks and benefits between the private and public sectors, increased accountability and transparency, and financial benefits to the SOEs. Academics commented on achieving the government objectives of raising funds, reduction of government financial burden, and improvement of service quality. Lastly, media representatives realised that success privatisation factors involved processes that place no financial burden on the public, decreased corruption, and sped up decision-making.

Question 5 asked for indicators associated with the above success factors. The perceived indicators mostly include financial benefits, such as share price rise and increment of rate of returns in the privatised SOEs, increased size and diverse profile of Thai capital market, increment of investment budget, level and profile of investment, higher level of sale proceeds and lower government debt level. Amongst others, reducing the level of corruption, meeting international standards, reducing

work process times, and using of public opinion surveys were also mentioned as indicators of success. It is important to note that the word “corporate governance” has been introduced in Thailand as an indicator associated with the success factors relating to accountability and better monitoring systems.

### **6.3.5 Failure Factors and their Solutions**

The purpose of Question 6 was to attempt to expand the list of relevant factors determining success or failure by asking interviewees to focus on failure alone.

- *Q6: What evidence of failure is there in the public infrastructure privatisation?*

Many interviewees stated that evidence of failure was the inability to achieve the success factors mentioned earlier, but then went on to add additional factors that had not been identified in the answer to Question 4: the list of factors shown in Table 6.5.

These concerns represent the frequency with which most interviewees recognised failures in public sector organisations. The failures included uncertainty about government requirements, inconsistency and lack of continuity in privatisation policy, and especially political intervention in privatisation process. Lack of support from management and staff of the privatised SOEs, negative public perception of privatisation policy, and misaligned objectives were also mentioned.

Table 6.5 Perceived Failure Factors<sup>Ⓢ</sup>

Privatisation concerns	Respondent Type and Number of Responses in the issues
<b>1. Financial gain</b> - Failure to do the project at all (Increased costs or poor selection process)	Financier (2)
<b>2. Efficiency Improvement</b> - Misaligned objectives or fail to meet the objectives - Creation of bureaucrat process	Public (1) and Academic (1) Media (2)
<b>3. Wealth Redistribution</b> - Negative public perception or bad press - Changing hand of monopoly power from the public to the private	Public (2) and Private (1) Academic (2) and Media (1)
<b>4. Political Response</b> - Lack of support from Management, Staff, and Unions of SOEs - Uncertain government requirements - Inconsistent and non continuity of the government policy - Political intervention	Public (1), Private (1), and Consultant (1) Private (2) and Consultant (1) Public (2), Private (2), and Financier (2) Public (2), Private (3), Consultant (2), Financier (1) Academic (2), and Media (2)

**Remark:** <sup>Ⓢ</sup> Question 6: What would evidence of failure in the privatisation with respect to public infrastructure comprise?

For example, financiers expressed concern about failure to complete the privatised project because of the increase costs, inappropriate risk transfer between the public and private partnership, and poor partnership selection process. Further, media representatives and academics expressed additional concern about monopoly rights of the privatised project and the creation of bureaucratic process.



Question 7 shifted attention to solutions, asking interviewees how they could or would minimise the risk of failure, and how they would ensure success.

- *Q7: How can failure or uncertainty surrounding the project be minimised?*

*How can the likelihood of success be maximised?*

It is interesting to note that interviewees recognised the importance of communication, proper contracts with clear points of expectation, and proper information which were seen as highly important measures in minimising failures. Most mentioned in answer to question 7 that an explicit contract and a transparent privatisation process can help maximise success. Additionally, anticipating changes in government policy and preparing to deal with these changes upfront were also mentioned by interviewees from both the public and private sectors as solutions to reduce failure. Financiers focused on picking the right partners with stable financial backgrounds, setting standards, and ensuring accountability. Academics and the media representatives further supported variety of ownership in the privatised SOEs can minimise failure.

The interesting outcome of answers from questions 4 to 7 is that taken together they comprised a case-driven (inductive) list of constraints and policy criteria that could be used as a checklist for governments contemplating infrastructure privatisation, a checklist that is at least Thai-context specific. These lists are used in the recommendation section of Chapter 7.

**6.3.6 Strength and Weakness of the Public Sector derived from Perception**

Question 8 aimed at identifying interviewees’ preconceptions as to what government is good and bad at, assuming that in those areas where the government is not perceived as being efficient, privatisation would be a solution.

- *Q8: what do you believe to be the strengths and weaknesses of the public sector with respect to the provision of public infrastructure? By function - finance, design, construction, operation, ownership?*

Most interviewees did not answer by reference to the functional areas listed in the question. There were 12 different answers relating to the strengths and 14 different answers relating to the weaknesses across the key stakeholder’s responses. According to public sector opinion, the government has more advantages than the private sector in terms of making use of special loans and in its role as a protector of public benefits such as social welfare as well as dealing with politicians’ demands. However, the weak points of the public sector compared with the private sector were seen as the uncertainty of privatisation policy; lack of technology, funding, and professional staff; the complexity of work processes; lack of sense of ownership; and low pay. Private sector interviewees said that the public sector had more advantages in terms of benefit from special low rate loans, the authority that results from having a monopoly, role of social protector, and the power to set policy. However, the private sector viewed the weak points of the public sector as being corruption, uncertainty and unreality of policy setting by government. The following Table 6.6 is a summary of the interviewees’ answers to Question 8.

**Table 6.6 Perceived Strengths and Weaknesses of the Public Sector<sup>Ⓢ</sup>**

Privatisation concerns	Respondent Type and Number of Responses in the issues
<b>Strengths of the Public Sector</b>	
<b>1. Financial gain</b>	
- Government can apply for special loans	Public (2) and Private (1)
- Able to collect taxes	Financier (2)
<b>2. Efficiency Improvement</b>	
- NONE	NONE
<b>3. Wealth Redistribution</b>	
- Provide services at same price without discrimination	Public (1)
- Provide services with subsidised prices	Public (1) and Private (1)
- Provide basic services without making profit	Consultant (1)
<b>4. Political Response</b>	
- Government able to set broadly policy	Consultant (1) and Media (1)
- Controlling Monopoly right	Private (1) and Academic (1)
- Acting on behalf of public at large to protect social welfare	Public (1)
- Acting on behalf of public at large to own the public projects	Consultant (1)
- Having right to make plans and decisions	Private (1) and Academic (1)
- Government good at control standard and control ownership of the public projects	Consultant (1) and Financier (1)
- Dealing with the political demands	Public (1), Financier (1), and Media (1)
<b>Weaknesses of the Public Sector</b>	
<b>1. Financial gain</b>	
- NONE	NONE
<b>2. Efficiency Improvement</b>	
- Lack of professional staff	Public (1)
- Bureaucracy red tape process	Public (1) and Media (1)
- SOEs staff gets low pay	Public (1)
- Policy does not response to change	Consultant (1)
- Operate under too many different rules	Consultant (1)
- Slow in process and overregulation	Consultant (1) and Financier (1)
- Fear to take responsibility	Financier (2) and Academic (1)
- Slow to take up the new technology	Consultant (1)
- Inflexibility	Consultant (1)
- Staff have no motivations and innovations	Academic (1)
<b>3. Wealth Redistribution</b>	
- Lack of sense of ownership	Public (1) and Academic (1)
<b>4. Political Response</b>	
- Corruption	Private (3), Academic (1), and Media (1)
- Inconsistence policy	Public (2), Private (1), and Media (1)
- Political intervention	Financier (2)

**Remark:** <sup>Ⓢ</sup> Question 8: Thinking particularly about the Thai situation, what do you believe to be the strengths of government with respect to the provision of public infrastructure? The weaknesses? By function (finance, design, construction, operation, ownership)

According to the expressed perceptions of the consultant group, the strengths of the public sector were its authority to pinpoint policy, ownership of public assets, control and protection of public benefits such as social welfare, and provision of services without expecting profits in return. However, the weaknesses of the public sector were characterised as slow decision-making, complexity in job processes, lack of creativity and inexperience in technology and customer service, and inflexibility in terms of improving designs, constructions, and operations in privatised projects. Project financiers said that the public sector had more advantages than the private sector in its ability to collect taxes. This perception differed from that of other groups. Further, this group believed that the public sector could protect social welfare better than the private sector. It could also manage to get along with politicians' demands better than the private sector. However, financiers expressed the disadvantages of the public sector were that it had to work under pressures from politics and it was risk averse, causing the public sector to lose benefits and have slow decision-making.

The independent academics who responded said they saw the strengths of the public sector as the authority that results from being a monopoly, and its role of social protector. However, the weaknesses of the government were seen to be: lack of a sense of ownership, corruption, government officials being afraid of responsibility, and lack of creative thinking by government officials.

Lastly, media representatives who responded stated that the advantages of the public sector includes the authority to set policy and ability to manage politicians' demands. On the other hand, the disadvantages were complicated official processes, corruption, and the inconsistency of policy.

In summary, based on the responses to question 8 the majority of interviewees' views were that the public sector is better at, and should be involved in, financing (through lower charges), dealing with political needs, policy planning and decision making, collecting taxes, protecting the public interest, maintaining ownership in public goods, carrying out legislative obligations. The weaknesses of the public sector as identified by interviewees from the private sector, academics, and the media were controlling corruption and inconsistency given regular changes in the politicians in power and in charge of operations. Financiers had additional comments about failure to take individual responsibility for particular tasks, political intervention, and slowness in processes, and lack of adequate innovation. The public sector does not have a strong sense of customer service, sense of ownership, flexibility in design, construction operation, or innovation. The above issues may result from lack of professional staff, lack of advanced technology, and insufficient funds. The respondents suggested that bureaucrats receive low pay so they are not eager to work hard. Further, the public sector operates under different rules in decision-making and is bound by complex procedures compared with the private sector.

#### **6.3.7 Strength and Weakness of the Private Sector derived from Perceptions**

Question 9 aimed at identifying interviewees' preconceptions of the strengths and weaknesses of the private sector.

- *Q9: What do you believe to be the strengths and weaknesses of the private sector in assisting with the provision of public infrastructure?*

There were 12 different answers regarding the strengths and 8 different answers regarding the weaknesses across the key stakeholder's responses. Implicit in the question was the assumption that public sector cynicism about the abilities or integrity of the private sector might curtail potential privatisation opportunities. The responses to question 9 are listed in Table 6.7.

The strengths of the private sector according to the perception of interviewees from the public sector were that the private sector had more professional staff as well as better work processes and technology. The private sector was also seen as having better sources of funds; applying faster decision making process, and having greater work efficiency. The weak points were that the private sector only participated in profitable projects; reduced staff if necessary, and lacked reliability in terms of protecting social welfare. The private sector respondents by comparison viewed their advantages over the public sector in terms of having increased sources of funding, having strategic responses to targets, control of internal policy in organisations, problem solving skills, less regulation and ability to take risk, and more being realistic in planning and operations. Nevertheless, the private sector had disadvantages, according to the private sector interviewees, compared to the public sector in terms of having an image of being profit seekers, and would not be accepted by the public as protectors of public benefits. Interviewees from the public sector had similar views.

**Table 6.7 Perceived Strengths and Weaknesses of the Private Sector<sup>⊕</sup>**

Privatisation concerns	Respondent Type and Number of Responses in the issues
<b>Strengths of the Private Sector</b>	
<b>1. Financial gain</b>	
- Sources of Funds	Public (1), Private (2), Financier (2), and Media (1)
<b>2. Efficiency Improvement</b>	
- Available of professional staff, work process, and technology	Public (1) and Financier (1)
- Quick decision process	Public (1), Financier (1), and Media (1)
- Ability to response to the strategic targets	Private (1) and Academic (2)
- Having control over its own policy	Private (1)
- Having problem solving skill	Private (1) and Consultant (2)
- Wider business networking	Consultant (1)
- Better goodwill	Consultant (1)
- Better work efficiency	Public (1), Consultant (1), and Media (1)
- Aim to speed, solution oriented, and more creative	Academic (1)
- Less regulation, able to take risks, and more creative	Private (1) and Academic (1)
- More realistic when do planning	Private (1) and Financier (1)
<b>3. Wealth Redistribution</b>	
- NONE	NONE
<b>4. Political Response</b>	
- NONE	NONE
<b>Weaknesses of the Private Sector</b>	
<b>1. Financial gain</b>	
- Profit seeking motivation	Private (2) and Media (1)
- Borrow money at higher rates	Private (1) and Financier (2)
- Reduce staff if necessary	Public (1) and Media (1)
- Profit motive always contradict with public interest	Academic (2)
- Only interest in profitable projects	Public (2) and Private (1)
<b>2. Efficiency Improvement</b>	
- NONE	NONE
<b>3. Wealth Redistribution</b>	
- Do not look after the public needs	Public (1), Consultant (1), and Media (1)
- Do not have social accountable	Public (1) and Private (1)
- Less responsiveness to and accountability to the public	Consultant (2), Academic (1), and Media (1)
<b>4. Political Response</b>	
- NONE	NONE

**Remark:** <sup>⊕</sup> Question 9: What do you believe to be the strengths of the private sector in assisting with respect to the provision of public infrastructure? The weaknesses?

The perceptions of the responding consultant groups in terms of the strong and weak points of the private sector included a belief that the private sector was better than the public sector in its ability to solve problems, its involvement in more networks, good will in doing business, and efficiency of administration. However, the weak points of

the private sector as isolated by consultants were lack of social responsibility and reliability as well as its concentration on profit making.

The financiers who were interviewed expressed their beliefs that the private sector had more advantages than the public sector in terms of finding financial resources and skilled experts. They also recognised that the private sector was known for quick decision making and being realistic whilst planning or working. However, the private sector had to borrow money at a higher interest rate than the public sector.

The academics who responded said that the advantages of the private sector were: the ability to respond to management targets; engineering and finance; being concentrated on speed and being solution oriented; and working with less regulation and ability to take risk. However, the disadvantages of the private sector were being profit motive organisations, and the image of being less socially responsible and reliable.

Finally, the responding media representatives thought that the advantages of the private sector were having sources of funding, quick decision-making, and efficiency of work whilst the disadvantages were that the private sector aimed at profits, reduced staff if necessary, and had less responsibility to society.

In summary, responses to question 9 show that the private sector was generally by interviewees perceived as having a quicker rate of decision-making, better sources of funds, better work efficiency, availability of professional workers, advanced technology, ability to respond to strategic targets, and better problem solving skills. Other supportive comments, such as applying business networking, good will, less



regulation, and being more realistic when planning or operating were also mentioned. In terms of weaknesses, most interviewees felt that the private sector was cold-blooded compared with the public sector. It is profit seeking and tends to make use of monopoly power, not look after public needs, not be responsive to or accountable to the public, and prepared to sacrifice the public interest for profit and cut jobs if it seemed necessary.

The responses to question 9 tend to validate the position reflected in questions 2 and 3: namely, that there was a role for the private sector in providing infrastructure even when the public sector was not financially compelled to do so. The near uniform responses to question 8 and 9 indicate that the public sector could borrow more cheaply, but the private sector were valuable 'partners' because of their wide range of alternative and valuable attributes such as ingenuity.

By contrast, the weaknesses of the private sector as perceived by the public sector centred on the potential for abuse of control, failure to attain performance standards, and overall perceived lack of accountability to the public. This suggests that full privatisation, including ownership of assets and ability to control prices would not be considered in the SIA case. This position was consistent with the existing privatisation plan of SIA and the responses from other groups.

### 6.3.8 Perceived Risks Involving in Privatisation

Question 10 aimed at identifying obstacles to privatisation from a risk point of view.

- *Q10: what are the risks to the private sector in being involved in public infrastructure projects?*

Interviewees discussed what can go wrong when the private sector seeks a partnership with the public sector. The results of these interviews may suggest regulatory change to the extent that a party needs statutory protection from the perceived risks in order to enable a privatisation process to proceed.

Perceived risks and ways to minimise those risks are reflected in the responses presented in the following Table 6.8. Compared to other questions, here there is high agreement across the range of stakeholders about what the risks are.

The primary risk foreseen by interviewees for the private sector was management of political risks, that is the risk of changing political views and philosophies, which could result in not getting approval for the arrangements after money has been spent bidding and negotiating. Even the risk resulting from a change in government that could alter political sentiments were also repeatedly stated. These factors were similar to the perceptions about failure factors (Section 6.3.4) when political intervention was regarded as the most unwanted factor in privatisation.

**Table 6.8 Perceived Risks Involving in Privatisation<sup>⊕</sup>**

Privatisation concerns	Respondent Type and Number of Responses in the issues	#How to minimise risks? and Number of Responses
<b>1. Financial gain</b> - Risk of over estimate (Demand, Supply, and Costs)	Private (2), Consultant (2), and Financier (2)	Realistic forecasting in project income and expenses (4), and do more research (1)
<b>2. Efficiency Improvement</b> - NONE	NONE	
<b>3. Wealth Redistribution</b> - Negative perception from public at large	Private (1) and Media (1)	Well designed public relation plan (1)
<b>4. Political Response</b> - Politicians change their minds or change the ground of policy - Changing politician who responsible to the privatisation policy - Labour disputes and resistances from unions - Lack of support from management and staff in the privatised SOEs - Unfair bidding process that lead to corruption	Public (3), Private (2), Consultant (2), Financier (3), Academic (2), and Media (2) Public (2), Private (1), Academic (1), Media (1) Consultant (2) and Academic (1) Public (1), Private (1), and Financier (2) Private (2) and Consultant (1)	Prepare contracts that also binding on the future government (7) Reduce roles of politician (4) Meeting with union leaders or staff representatives (2) Clear structure of private participations (2) and Communicate with management and staff (1) Develop transparent processes (1), Apply Good governance approach (1), and Provide better law enforcement (1)

**Remarks:** <sup>⊕</sup> Question 10: In Thailand, what are the risks to the private sector in being involved in public infrastructure projects?  
# What steps could the private sector take to mitigate or minimise the potential, impact of those risks?

Apart from the political risk, there are financial risks involved from over estimating demand and revenue, or underestimating costs. There is a risk that unions will not agree to conditions or other offers from the private sector. There are risks from poor communication with the public at large and lack of support from the privatised SOEs management and staff. There is also risk from an unfair bidding process that could lead to a less competitive and less efficient privatisation.

Some interviewees supplied answers concerning risk mitigation. For example, political risks could be minimised by preparing clear-cut contracts that bind future governments in order to increase the commitment from the public sector and reduce government interference by developing transparent privatisation processes with reference to good governance. Interviewees also suggested that financial risks could be diminished by good forecasting in costing and by being more realistic about project income. This required researching the project well. Good communication with all stakeholders upfront could reduce risk from negative perceptions by the public at large, management and staff of SOEs, and unions. In addition, one interviewee from the academic group suggested that political and financial risks could be decreased by better law enforcement.

In respect of question 11 (How has the risk impacted this privatisation initiative?), most interviewees felt that it was too early to see how their individual concerns about privatisation risks would play out in the SIA case.

However, most responses to this question agreed that those risks could be reduced if the government gave attention to risks in the early stage of the privatisation initiative.

6.3.9 Impact of the 1997 Economic Crisis

The purpose of Question 12 was to understand the effects of the 1997 economic crisis on Thailand’s privatisation policy particular by in the SIA project.

- Q12: *If there had not been the 1997 crisis, do you believe there would still be the same level of interest in public infrastructure privatisation?*

The following (Table 6.9) is a summary of responses.

Table 6.9 Impact of the 1997 Economic Crisis

If there was not so much of a Thai budget burden caused by the 1997 economic crisis, do you believe there would still be the same level of interest in public infrastructure privatisation as there is today?	Respondent Type and Number of Responses
<b>YES (12)</b> 1. The policy has been implemented before the crisis. 2. The policy has been planned in advance.  3. The government has to raise funds for repay its public debts, no matter what. 4. The policy was not totally affected of the crisis.	Public (1) Public (4), Private (1), Consultant (1), and Financier (2) Financier (2) Academic (1)
<b>NO (9)</b> <i>There will be MORE interest in privatisation (7)</i> 1. The SOEs became more profit oriented after the crisis. 2. With no comment 3. Government needs money to repay public debts.  <i>There will be LESS interest in privatisation (2)</i> 1. The private sector does not interested in unprofitable SOEs 2. The economic was not good enough.	Academic (1) Consultant (2) Private (2), Consultant (1), Media (1)  Media (1) Private (1)

Interestingly, the answers seem varied. Twelve of 21 interviewees perceived unequivocally the same level of interest in privatisation regardless of the economic crisis. All respondents from the public sector and the financiers were in agreement, as were one interviewee from the private sector and one consultant. The most mentioned

reason was that the policy was planned before the crisis happened. Others included arguments that the policy had been in place for some time. The need for funds and the implementation of the policy were not totally determined by the crisis.

Nine interviewees said that there would have not been the same level of interest in privatisation with the 1997 economic crisis. Of these, seven interviewees perceived that greater interest in privatisation resulted from the 1997 crisis whilst the other two believed there was less interest as a result of the crisis. On the 'more interest' side, four interviewees from the private sector, consultant and media groups believed that privatisation was motivated by the 1997 fiscal crisis. One academic thought the crisis made SOEs look more important, and two consultants made no comment. On the 'less interest' side, one media representative said that the performance of past SOEs were not strong enough whilst one private sector stakeholder said that the Thai economy was not encouraging privatisation regardless of the crisis.

In summary, the interviewees were not unanimous in their views about the effects of the crisis on privatisation. However, the common responses were that the crisis would not have had as much of an impact because the policy was planned in advance. Further, that the crisis added to interest in the policy because the government needed funds to repay public debt.

### 6.3.10 Cultural Difference

Question 13 aimed at considering the extent to which those interviewees felt that Thailand was the same as other countries that have experienced significant privatisation initiatives.

- *Q13: Do you believe Australia, New Zealand, Europe, the United Kingdom, and the United States to be culturally different than Thailand in respect of infrastructure privatisation?*

Implicit in the question was the degree to which experiences in those other countries were directly transferable to the Thai context.

**Table 6.10 Cultural Differences**

There has been a considerable experience with privatisation in Australia, New Zealand, Europe, the United Kingdom, and the United States. Do you believe these countries to be culturally different than Thailand in respect of infrastructure privatisation? If so, how?	Respondent Type and Number of Responses
<b>YES (17)</b> 1. Thailand governments prefer to control on policy and regulations. 2. Western countries use the business contract while Thailand use the business connection. Cronyism still applied 3. Thai prefers group responsibility not individual 4. Negotiable and compromise 5. Speed of adapt to change (Thai prefers slow but sure) 6. Thai unions are not so strong 7. Thais prefer soft technique in dealing any problem ( use heart ) 8. There is a thought that the public sector is superior than the private one. 9. Thai, sometime, are not strict to any rule or regulations.	Public (1) Private (1) and Media (1) Consultant (2) Consultant (2) Academic (1) Media (1) Public (1) and Financier (2) Private (2) Private (1) and Financier (2)
<b>NO (4)</b> 1. The concept should be the same everywhere even different in practices. The more important thing than culture is enforcement. 2. Moral hazard has made things differently not culture. 3. Foreign partners should adapt to suit Thai styles.	Public (1) Academic (1) Public (2)

Table 6.10 shows that most interviewees said that Thailand is different from Australia, New Zealand, Europe, the United Kingdom, and the United States. Some respondents suggested that Thai styles praised the public sector rather than the private sector; used personal connection to do business; involved working as a group, negotiating and compromising, being easygoing about changes, being soft hearted, and not being strict about rules. With respect to those who did not see any Thai cultural differences concerning privatisation, three from the public sector said that this concept should apply equally everywhere, but the difference was in enforcement, and foreign partners themselves have to adapt to Thai culture if they wanted to join in.

A possible conclusion is that Thailand needs to develop its own approaches based on its current economic and fiscal situation, infrastructure needs, institutional settings, citizen’s preferences, and private sector capabilities.

**6.3.11 Rethinking Project Stakeholders**

The purpose of Questions 14 and 15 was to identify the SIA stakeholders through a cascade process, and also to confirm that interviews included all the main stakeholders.

- *Q14: Who do you think are the other stakeholders in this project?* and
- *Q15: How important were/are these stakeholders in influencing the decision of privatisation?*

Table 6.11 shows responses to questions (some interviewees gave no answer, some gave multiple answers, and percentages that may not exactly total 100 percent due to



rounding errors). More than 47 percent of answers shown that the key stakeholders are government participants (the public sector); which included the staff from the Ministry of Transport and Communication, the Ministry of Finance, the Ministry of Defence, the Airport Authority of Thailand, the New Bangkok International Airport Co.,Ltd, and the politicians.

Investor and business operators, who were interested in participating in the project, were second most mentioned as a project stakeholder. Both the public and the private sector stakeholders thought that Thai citizens should be looked after. Project staff and shareholders, airlines and air transport businesses, and financial institutions were moderately mentioned. The least mentioned was international transport organisations.

The outcome of question 14 and 15 validates the fact that this study has interviewed almost every group of concerned stakeholders. The International Transport Organisations was the only stakeholder that was not interviewed.

**Table 6.11 Rethinking Project Stakeholders**

Who do you think are the other stakeholders in this project?	Respondent Type and Number of Responses	How important?
<b>1. Government (34) (47%)</b> - Ministry of Transport and Communication - MOTC (11) - Ministry of Finance - MOF (7) - Airport Authority of Thailand - AAT (5) - New Bangkok International Airport Co.,Ltd - NBIA (6) - Ministry of Defence - MOD (2) - Politician (3)	Public (1), Private (5), Consultant (2), Financier (2), and Media (1) Public (1), Consultant (4), Financier (2) Private (3) and Financier (2) Private (2), Consultant (2), Financier (2) Public (1) and Academic (1) Academic (2) and Media (1)	- as Project Owner - as Project Guarantor - as a Major shareholder - as Project Administrator - for National Security reason - Most policies came from their decision.
<b>3. NBIA's staff (Management and employee) (7) (10%)</b>	Public (1), Private (1), Consultant (2), Academic (1), and Media (2)	- Responsibility to the policy implementation
<b>4. NBIA's shareholder (2) (3%)</b>	Public (2)	
<b>5. Investor &amp; Business operators related to the project (11) (15%)</b>	Public (4), Private (1), Consultant (3), Academic (2), and Media (1)	- Be partner with the public sector
<b>6. Airlines and air transport businesses (6) (8%)</b>	Public (5) and Consultant (1)	- Using services from the new airport
<b>7. International Transport Organisations (IATA, ICAO) (1) (1%)</b>	Public (1)	- Monitoring on service standard and security standard
<b>8. Thai citizen (Consumer) (9) (13%)</b>	Public (3), Private (5), and Consultant (1)	
<b>9. Financial Institutes (2) (3%)</b>	Public (2)	

## **6.4 Comparison of Interview Results**

### **6.4.1 Similar Perceptions**

#### **6.4.1.1 Consolidating by Key Questions**

The foregoing data and edited interview results are next consolidated into charts (Figures 6.2 to 6.7) as shown in the following insert A3 size page. The charts aimed to assess how stakeholders allocate their perception in the study’s four core privatisation objectives; namely, financial gain, efficiency improvement, wealth redistribution, and political response. The consolidated charts are based on data in the previous Tables 6.3 - 6.8.

Figure 6.2: Issues leading to Privatisation

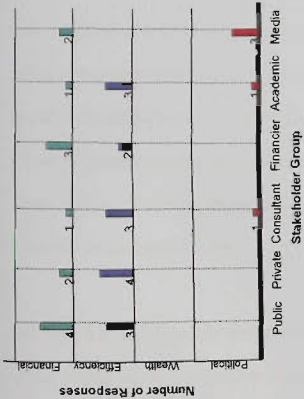


Figure 6.3: Perceived Success Factors in Privatisation

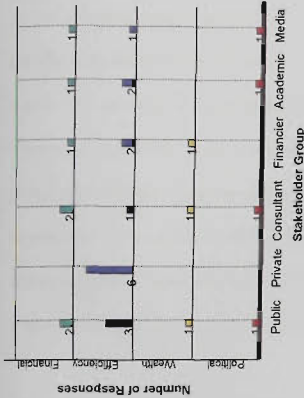


Figure 6.4: Perceived Failure Factors in Privatisation

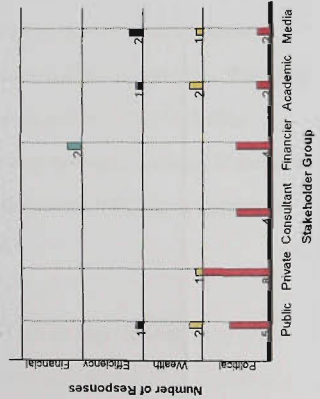


Figure 6.7: Perceived Risks Involving Privatisation

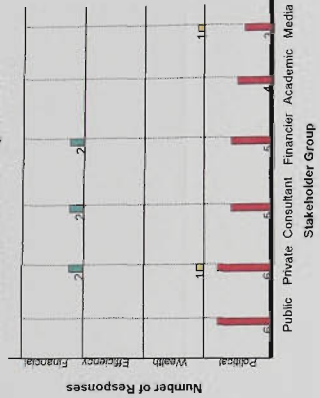


Figure 6.5 (a): Perceived Strengths of the Public Sector in Privatisation

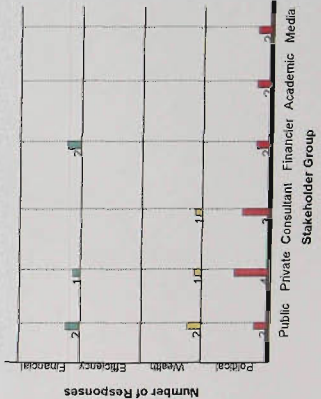


Figure 6.6 (a): Perceived Strengths of the Private Sector in Privatisation

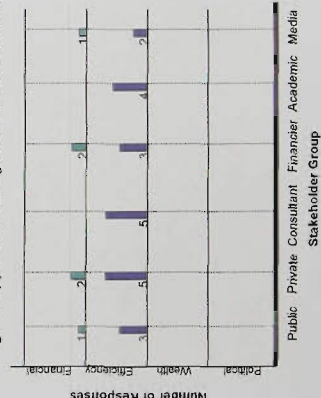


Figure 6.5 (b): Perceived Weaknesses of the Public Sector in Privatisation

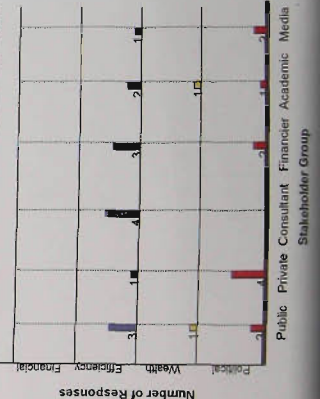
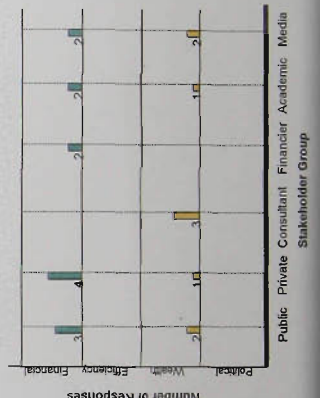


Figure 6.6 (b): Perceived Weaknesses of the Private Sector in Privatisation



Figures 6.2 to 6.7 give a colour-coded profile of stakeholder perceptions. Each Figure describes stakeholder perceptions relating to a key question (i.e. issues leading to privatisation, success factors, failure factors, etc.) concerning privatisation, and shows the comparative weight that stakeholder groups give to that factor's relationship with the four core objectives of privatisation. For example Figure 6.2 shows that respondents generally see privatisation being considered where there are objectives of financial gain and efficiency improvement. Figure 6.3 shows that the respondents perceived those two objectives as success factors in Thailand's privatisation. The respondents indicate that a political constraint is the top issue leading privatisation to unsuccessful (see Figure 6.4). The same theme, that political constraint is also seen as a set of risks in being involved in privatisation.

The responses to Figure 6.5 (a) as to the strengths of the public sector in privatisation show considerable support, in all groups, for the public sector to deal with political demands and continuing to protect the public interest (an objective of wealth redistribution). It is interesting to note that almost all respondents have seen the political responses also a weakness of the public sector (see Figure 6.5 b). This could be reflective of the degree of political intervention in Thailand's privatisation.

However, as answered by all respondents, the most mentioned weakness of the public sector is work efficiency. Therefore, there is likely much to be done to improve the operation of the public sector.

In Figure 6.6 (a), all groups seen that the rapid and the high efficiency work processes of the private sector compared to the public sector is strength of the private sector in privatisation, and almost all respondents agreed that the private sector could be an

alternative source of funding. While Figure 6.6 (b) shows the financial issues, in term of higher borrowing costs when compared to the public sector, is perceived as a weakness of the private sector. Along with that, most respondents did not believe that the private sector could handle a wealth redistribution objective and they continually supported for the public sector to own the infrastructure and to act as protector of the public interests.

When carried through in the results of Figures 6.2 to 6.7, one way to reconcile these findings is to suggest that the privatisation policy will only be considered if there are financial and efficiency improvement needs but certainly in an environment where the public sector still maintain control, maintain ownership of assets, and use the unique and particular special abilities of the private sector: that abilities being defined as either an alternative source of funding or the processes and resources to improve work efficiency. It is interesting to note that due to the perceived weaknesses of the public sector, there is the expressed belief that the private sector can added value to the privatisation process (see Figure 6.5 a and Figure 6.6 b for comparison). Critical for both the public and private sectors seems to be the political intervention issue in the privatisation initiative. This would suggest that both sectors would need to do more to reduce political pressures. This will lower the political risk; which is the most mentioned failure factor and risk factor, and increase the chance of success considering the privatisation policy.

#### **6.4.1.2 Consolidating by Stakeholder Groups**

The following charts (Figures 6.8 to 6.13) present the results of the interviews arranged into stakeholder groups. These charts were made to make general observations about dominant issues of each stakeholder groups in key questions (issues leading privatisation, success factors, failure factors, strengths and weaknesses of the public and the private sectors, and risks) and to see similarities and differences of allocation of their perceptions among those groups.

Three different types of perceptions are reflected in the Figure 6.8 to 6.13. These 3 types were empirically observed, but that they are analytically what would be expected. This validates the empirical interviews and the “editing technique” used to extract data from the interviews.

The first consistent type groups together representatives of the public sector and the consultants. The scattered responsive pattern among objectives was found in both Figure 6.8 and 6.10. In addition, there is a remarkable similarity as to financial, efficiency, and political objectives, even though there were some disagreements in the wealth redistribution objective. Perhaps these similarities are to be expected from these two groups since the consultants were directly working for the public sector in preparing the privatisation programs.

Figure 6.8: The Public Sector's Perceptions

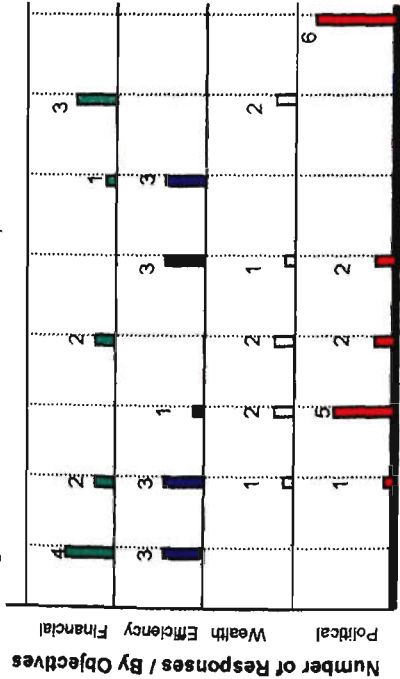


Figure 6.10: Consultants' Perceptions

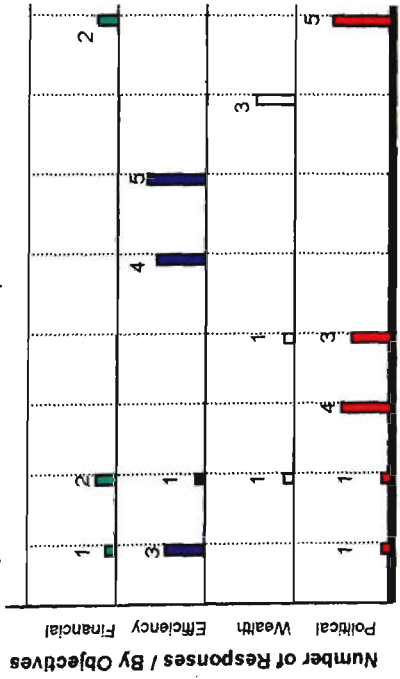


Figure 6.9: The Private Sector's Perceptions

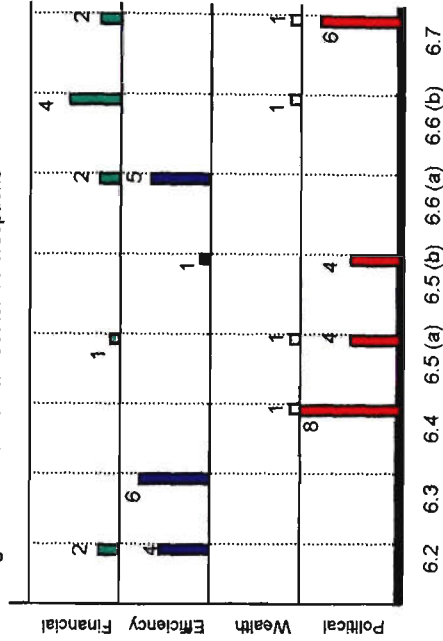


Figure 6.11: Financiers' Perceptions

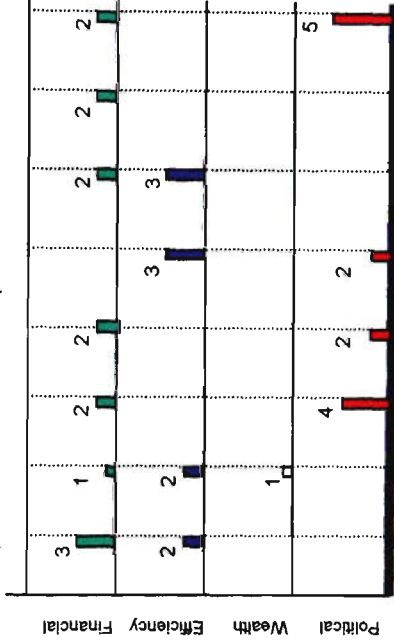


Figure 6.12: Academics' Perceptions

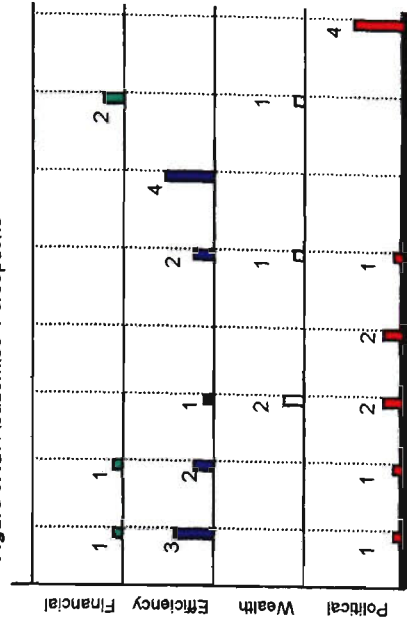
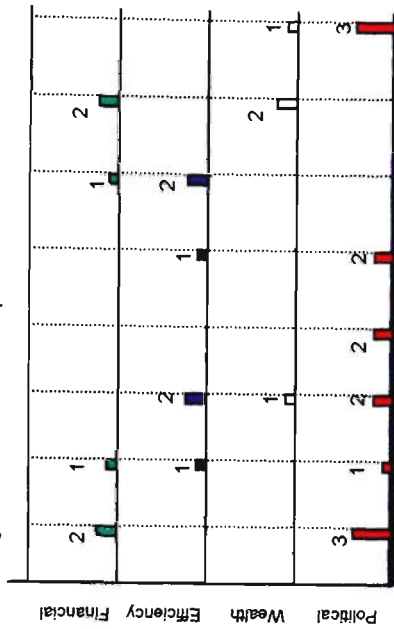


Figure 6.13: Media's Perceptions





The second type groups together the private sector and the financier representatives. It is seen in Figure 6.9 and 6.11 that the significant similarity was the effect of politics on privatisation, particularly as failure factors, strengths and weaknesses of the public sector, and risks. The financiers concentrated more on financial issues most likely because they feel those are of essence to the privatisation. These two groups are generally less concerned about the wealth redistribution objective when compared to other groups. This may be a result of profit motive that is mainly importance in both stakeholder groups.

The last type groups together the academics and media representative. It is seen in Figure 6.12 and 6.13 that these two groups provided remarkable similarities in almost all questions and responses to each objective. The shifts into political objectives axis from both groups indicate that a portion of their perceptions actually goes to politics, even though these two groups agreed that financial and efficient objectives remain important.

#### **6.4.1.3 Thai and Non-Thai**

In addition, there was a significant similarity of perceptions about cultural differences. Most stakeholders who responded as discussed in section 6.3.10, saw Thailand was different from the listed countries (Australia, New Zealand, Europe, the United Kingdom, and the United States) in: praising the public sector rather than the private sector, using personal connections to do business, working as a group, negotiating and compromising, using an easygoing approach to change, having “soft hearted” as opposed to hard line business deals, and not applying rules strictly. As discussed in

section 3.2.1, one of the key cultural characteristics of Thailand is low individualism (Hofstede 1980; Sorod 1991). One consultant indicated that Thais prefer group rather than individual responsibility: *“Yes, there are some differences. It’s the collective culture in Thailand versus the individual in those countries.”* Thai culture is also characterised by low masculinity (Hofstede 1980; Sorod 1991). Therefore, Thais prefer soft techniques in dealing any problem (use heart) and dominant interpersonal styles are not favour in Thai culture. One participant from the public sector verified this by saying: *“Yes, in Thailand, we avoid face-to-face confrontation or any hard condemnation. Although, these characters might be seen by Westerners as an exchange of opinions.”* Therefore, most interviewees considered that the characteristics of Thai culture affected the planning and implementation of privatisation.

In contrast to this majority view, four respondents accepted that a different culture might affect some details of the policy, but this was not considered an important factor, as the main concept of the policy would remain the same. A participant from the public sector said: *“No, there are no cultural differences with respect to a governments’ ability to employ privatisation. There are similar values amongst all these countries in that respect.”*

#### 6.4.2 Different Perceptions

The largest consistent differences were in the perceptions of media representatives. This group of stakeholders had a more pessimistic view of privatisation than the other groups. It was also the only group which suggested that there was no role for the private sector in dealing with government spending, corruption, and pressures from international institutions (see Table 6.3). Although the media interviewees agreed with some other groups that the public sector could benefit from the private sector in regard to funding and improving work process, it was still concerned about the negative perceptions from the public at large and the issue of monopoly rights (as were academics). In addition, representatives of the media were critical of decision making in the private sector, suggesting that it does not base projects on public need but is profit oriented.

Perhaps the above pessimistic perceptions resulted from mistrust in government. Though the media participants believed that privatisation was good, its complications could encourage corruption in the process of implementation. It is important to note that the bad press would further increase the negative perception of privatisation held by the public at large, and damage the policy's initiatives. Again from these responses it seems governments need to develop simple and transparent processes in privatisation, and convinced the media that they are not prejudiced about the privatisation policy.

### 6.4.3 Unexpected Perceptions

There were perceptions from interviews that were unexpected. First and foremost, was the richness and depth of replies, and the range of issues raised by various interviewees (see Tables 6.3 to 6.8). The depth and range of those responses in many cases raised new issues that should be the subject of further research. One example was the discrepancy over the perception of the impact of the 1997 economic crisis on privatisation initiatives (section 6.3.9). Though the hypothesis has not been stated, it was expected that the impact of the crisis would be a significant factor that drove privatisation in Thailand. However, answers from interviewing were not consistent. More than half of the responses in Table 6.9 stated that the level of interest in privatisation would have been the same whether the 1997 crisis had happened or not. Interviewees from the public sector and financiers agreed with this belief because they believe that privatisation is a policy that was planned in advance. However, interviewees from the private sector and consulting groups viewed the impact of the 1997 crisis on interest in and the number of privatisation projects differently. Thus, it is believed that the impact of the status of the economy might directly affect the number of privatisations. This might not be true all the time.

Also unexpected was the degree to which the public and the private sectors were able to identify their own weaknesses, including in the case of the public sector, the bureaucratic processes and inconsistent policies. In case of the private sector, the lack of understanding of an environment with no profit motive, and weakness in the area of social accountability were mentioned.

Different readers, having different backgrounds, would also disagree about which stakeholder perceptions were expected or unexpected. The fact that reader perceptions of stakeholder perceptions could vary, further supports the richness of the interview results.

#### **6.4.4 Economic theories and Stakeholder Perceptions**

In this SIA case study, the theory of the firm and transaction cost approaches are central to stakeholder perceptions about whether government should design, build and operate the new infrastructures in the SIA itself or whether it should outsource it to a third party. One could argue that the government has made the decision to maintain ownership of the assets given that the service is critical and strategic to the country over the long term. On the other hand, a decision to contract out design, construction and operations could reflect the reality that outside suppliers were plentiful and more efficient than the government could be in undertaking certain activities. It was difficult to judge, given the early stage of the case, the extent, to which co-ordination costs in outsourcing outweighed the benefits.

The principal agent theory was also central to this case study. This was because the commonly perceived strengths of the private sector, including improved creativity, faster decision-making, bottom line orientation, better management, were all potentially the result of efficiency seeking and profit seeking incentives built into the organisational structure of private sector firms. Reduced capabilities of the public sector in these areas were illustrative of their mixed objectives, including providing and controlling public services, minimising potential for political intervention, and

ensuring preservation of public interests as well as operating efficiently. This suggests that in such situations, where profit and efficiency can be isolated as paramount or primary motives, and the government can satisfy its objectives in other ways, such as by regulation (itself an instrument of principal agent theory), privatisation was a valid alternative.

Interview responses seemed less illustrative of the property rights theories, to the extent that the public sector seemed unwilling to consider devolving ownership of the airport assets to the private sector. Indeed, the private sector did not seem to be interested in acquiring permanent ownership of the assets. However, this may only reflect the unique and single purpose use of the assets themselves or a prior understanding that seeking private sector ownership might lead to a falling through of the entire privatisation deal. On the other hand, long-term contracts may create elements of interest in the residual and property rights to the extent that the private sector wanted to avoid default under the contract.

In conclusion, the case study demonstrated, and indeed the interview results strongly supported, the firm and transaction cost theory and principal agent theory. Competitive markets and the property rights theories appear to have less relevance to this case study.

#### **6.4.5 Political theories and Stakeholder Perceptions**

It is difficult to find any identifiable or consistent ideology of respondents that would suggest a particular political orientation. On the other hand, several public sector

respondents and some of the consultants and financiers supported the government role in providing services at subsidised prices, defending the public interest, and owning infrastructure assets. This may reflect a conservative ideology. Supporters of privatisation, who were suggested a reduced role for government, may represent a more liberal viewpoint. Arguably, the private sector would be in favour of market liberalisation over the government intervention policy (a passive state system) and the ideology of the right. Those in the public sector may be in favour of an active interventionist state with broad social welfare goals and the desire to manipulate the economy, and to use whatever powers are necessary from time to time, including privatisation, to achieve those broad social welfare goals. That is the ideology of the left. The former is evident in private sector respondents, and the latter in public sector respondents. On the other hand, the privatisation contemplated in the SIA case did not in any way resemble the architecture of the Thatcher privatisations, as it ensured that there was no opposition to the privatisation.

In Chapter 2, I discussed several theories that give reasons for privatisation. I now compare these to the reasons given by stakeholders.

Responses to the interviews, however, do illustrate both the reinvention of government literature and the public choice theory in political science. SIA's approach, particularly focusing on good public sector management, can be seen as an effort to ensure ongoing efficiency although it is not clear from this one project that any internal organisational change is necessary or contemplated. However, given that the SIA exercise was based on potential outsourcing, it is hard to see any reinvention

of government initiative from the response to the interviews or the case study itself with respect to this particular project.

The public choice theory literature is relevant to SIA's deliberations. Both from the interview summaries and the case study itself, there is evidence of self-interested behaviour by the politicians and the existing bureaucrats. According to interviews, bureaucratic self-perpetuation was clearly reflected in perceptions of strengths of the public sector in regard to protecting public interest and ownership of the infrastructures. Whilst it was also stated in the case study that ownership and control over the airport assets were the main concerns when the government makes decisions on the chosen privatisation mode (discussed in section 4.3.5).

In conclusion, results from the interviews reflect an image of the current environment of privatisation policy in Thailand both from the framework carried by the government and perceptions of political influences on ideas of privatisation. The overall thrust of interviewees' opinions shows that privatisation itself has not been conceived in Thailand but it was introduced by Western academics or Thai academics educated overseas. Most stakeholders accepted that this policy was necessary for fund-raising purpose, it allows the private sector to join in public projects, and helps the government earn more income. Further, the effects of 1997 crisis on levels of interests in privatisation in Thailand was seen as unclear by interviewees.

Moreover, results from interviews show that most stakeholders believed that allowing private sector participation in public organisations improved work efficiency and developed better infrastructure and public services. Stakeholders also felt public



sector administration of project reduce risks. However, all stakeholder groups also recognised that the private sector was concerned about the risks associated with changes of government. In the Thai context, where incoming governments might revoke contracts that they did not agree with, this risk is managed by the private sector only getting involved in projects that have cross-party support and by preparing clear-cut contracts that bind future governments in order to increase the commitment from the public sector. Other risk mitigations are discussed in Section 6.3.8

The interview study revealed that basic reasons and methods of infrastructure privatisation, especially airport infrastructure privatisation, were the same as other privatisation projects. Consequently, lessons from this case may also apply to other cases. In particular, most stakeholders identified the strengths and weaknesses of the public and private sectors. These should be taken into account in designing other privatisation proposals, and lead to clearer delineation of the appropriate responsibilities of each sector.

## **7. Research Conclusions**

### **7.1 Introduction**

The discussion in Chapter 6 focused on the results emanating from the investigation. The emphasis was on reporting the evidence collected from multiple sources of information including the government and consulting companies' documents, and the interviews. The purpose of this chapter is to effect some closure on the research; to identify the key issues arising from the details material in Chapter 6, in so doing, to respond specifically to the research questions posed in Chapter 1, and to discuss further work required.

### **7.2 Revisiting Goals**

As mentioned in Chapter 1, the two primary motivations of this research were to develop experience in actual privatisation initiatives relevant to Thailand, and to determine whether broader criteria, a more balance perspective, better frameworks exist or was suggested to assist public decision makers and analysts.

Therefore, this study undertook research into infrastructure privatisation that was mostly Thai-based. The study was based on a variety of factors that involved the assumption that public projects or services should be privatised. It investigated the approach that should be applied for privatisation in that context. The process of this study included interviews, a case study and document research which indicated a

basic methodology for privatisation, its objectives, and the expectation of private sector participation in providing and managing public projects.

This study established new lists of factors which are involved generally in the privatisation of public assets in a case study of a new international airport in Thailand. The lists of factors shown in various tables (i.e. Tables 6.3 to 6.8) were found to be conditions for use by other privatisation projects in appraisal. By doing this, other public projects can take these factors into consideration in privatisation planning. Such findings can act as a checklist to compare perceptions of strengths, weaknesses, opportunities and risks of any project. Thus, the analysis of those factors can be applied to other studies and projects. Accordingly, the Case Study, the interview results, and this research have satisfied the aims of this study (as stated in section 1.2: Potential Contributions) as shown in Table 7.1.

Table 7.1: the Aims and the Achievements of this Study

The Aims	The Achievements
<ul style="list-style-type: none"><li>Summarising experience in general and infrastructure privatisation reviewed in the world literature, and perceptions as relating to applicable theory from the fields of economic and political science;</li></ul>	<ul style="list-style-type: none"><li>In Chapter Two, this study reviewed the objectives, the methods, and the economic and politic theoretical perspectives affecting privatisation both in general and in airport privatisation;</li><li>Indicated reasons and objectives for privatisation from the literature review which assists in abstracting subjective information and permitting comparisons between historical experiences and results from interviews of the case study's stakeholders.</li></ul>

<ul style="list-style-type: none"> <li>• Exploring background and current experiences of privatisation in Thailand</li> </ul>	<ul style="list-style-type: none"> <li>• In Chapter Three, the development of privatisation in Thailand is examined and recent cases of the country's privatisation are reviewed;</li> <li>• The initial and continuing objectives of Thailand's privatisation were identified.</li> </ul>
<ul style="list-style-type: none"> <li>• Describing and analysing the SIA case study in the context of the experience of airport related privatisation programs, and current selections of its privatisation methodologies;</li> </ul>	<ul style="list-style-type: none"> <li>• Chapter Four studied the background information of the case, the proposed privatisation methodology, and government expectations from the SIA privatisation programs;</li> <li>• Explained the relationship between objectives and structures of the SIA privatisation programs though this may be too early to propose opinions about the link between structures and implications since the SIA privatisation process is still in progress</li> </ul>
<ul style="list-style-type: none"> <li>• Comparing the perceptions and examining the impact in the SIA case of key stakeholders, and compare these to both the existing theoretical frameworks and the recent history of infrastructure privatisation,</li> </ul>	<ul style="list-style-type: none"> <li>• Chapter Six summarised the results of the interviews on a question-by-question basis; and</li> <li>• Broader lists of success and failure factors, advantages and disadvantages, risks, economic and political effects and added other issues mentioned by stakeholders who isolated positive and negative impacts from the projects</li> </ul>
<ul style="list-style-type: none"> <li>• Integrating the results of all findings from the case study to develop a conceptual framework for studying privatisation and the researcher's policy recommendations.</li> </ul>	<ul style="list-style-type: none"> <li>• Frameworks, instances and recommendations were developed through this study, which will be discussed in the next section</li> </ul>

## **7.3 Research Findings**

The main objective of this study was to provide a detailed analysis of the privatisation programs under supervision of the New Bangkok International Airport (NBIA) Co.,Ltd at the Suvarnabhumi International Airport (SIA), the second Bangkok international airport project, in the early 2000s, with an emphasis on the perception of stakeholders on the development of privatisation policy. In order to achieve this objective a number of research questions stated in section 1.4 had to be responded to. Conclusions in relation to this objective are discussed in this section.

### **7.3.1 What were the pressures on the Thai government that led to its intention to privatise the state-owned enterprises (SOEs)?**

The literature review, particularly Chapter 3, explored the origin and development of privatisation in Thailand. If traced back to the past, it is evident that the Thai government needed to privatise because of its national Economic and Development Plans (NESDPs) (see Figure 3.1) in order to reduce government responsibilities and increase work efficiency. Privatisation in Thailand at the earlier time was mainly focused on small SOEs. These enterprises were generally unsuccessful and lost profits. They also failed to facilitate the main infrastructure. Even in the case of large SOEs, only minor changes were made through abolishing some divisions.

However, the present objectives of privatisation have changed since the 1997 economic crisis because currently the Thai government has earmarked SOEs' shares

or assets for sale to the private sector in massive numbers. Further, these SOEs were big and dealt with important infrastructure. As stated in the Thai government letter of intent to the IMF, specifically the third letter, organisations dealing with energy, communication, and transportation were to be privatised. By doing this, the Thai government said it would increase work efficiency, decrease state debts, increase competition and production, and develop employees' social welfare (IMF 1997). It is noticeable that all organisations targeted for privatisation were efficient and profitable, e.g. Telephone Authority of Thailand, Communication Authority of Thailand, Petroleum Authority of Thailand, and Airport Authority of Thailand.

Thus, the goals of privatisation were not to decrease lost profit or increase efficiency but presumably aimed to provide a means of obtaining more money to pay off loans. According to Petchprasert (2000), the Thai government owes both domestic and foreign institutions around 3.35 trillion baht, particularly foreign loans or guaranteed state enterprise loans (800,000 million baht). But the Thai government by privatising in order to earn more foreign money to pay back loans may bring even more disadvantages to Thailand. For example, the Thai government offered the Nakhornthon bank, the Rattanasin bank, and the Srinakhorn bank to foreign investors under the condition that they will handle the banks' non-performing loan (NPL), and if foreign investors cannot collect those debts, Thai government will be responsible for 80 percent of the debts. This condition has not provided for Thai investors. Thus, a negative image of privatisation policy has been formed by Thai people (Petchprasert 2000).

Further, the complex nature of regulations, procedures, and the institutions involved (see, typical Thai privatisation process in Figure 3.2), sometimes facilitated the chance of illegal advantages and lead to corruption. This particularly occurred with parties who wanted to join in big SOEs privatisation, especially for their massive profit. In fact, the Thai government launched national policies more clearly in the master plan for state enterprise sector reform in 1998 (see section 3.2.4). Certainly, SOEs are public investments that come from national taxes, and for those that have foreign loans (such as in the SIA case), repayments still come from national taxes. In other words, the Thai government took part in the management of SOEs but other stakeholders, such as the general public, investors, and employees of state enterprise should have the right to express their opinions.

In Chapters 2 and 3, the history of methods of developing privatisation were researched by considering policy development, the principles behind privatisation frameworks from both the economics and political science view points. This shows that privatisation policy in Thailand has been influenced by neo-liberalism from western countries. However, privatisation policy as used in Thailand lacked a basic understanding and cooperation from all groups involved in implementing this policy. Such an admiring policy cannot be successful without cooperation. This study does not attempt to prove that privatisation is good or not: such investigations have been done by particular research groups of the World Bank and many others. However, this present study aims to analyse the opinions of stakeholders whose businesses are affected by this policy. It is important to understand the stakeholders' perceptions because they have influence in the privatisation policy (as discussed in section 2.5).

### **7.3.2 Who are the stakeholders and how important is each of them?**

This research question was clearly answered in section 6.3.11. As shown in Table 6.11, the study found that the public sector, including government and NBIA staff, was the most mentioned as the key stakeholder in this SIA case study. The importance of this group included roles of project owner, project administrator, project guarantor, and a major shareholder. In addition, most policies including privatisation policy also came from the decisions of the public sector.

The second most mentioned group was the private sector, including investor and business operators related to the project. Their importance was in being a partner with the public sector in order to improve the chance of successful in the privatising projects. The third group was Thai citizens who are important as consumers of the services provided in the new airport. Project shareholders, airlines and air transport businesses, and financial institutions were moderately mentioned. The least mentioned was international transport organisations.

### **7.3.3 How did the key stakeholders perceive the idea of privatisation and its implementation; what were their different criteria for issues leading to privatisation, success factors, failure factors, opportunities and risks involving privatisation?**

To investigate the perceptions of interviewees towards the objectives, policies and outcomes of the SIA project, key stakeholders were interviewed. These included



government agencies, private sector participants, financiers, project consultants, independent academics, and representatives of the media that were involved with the SIA. The advantages of conducting interviews were: i) to collect more data with political content that related to this case study; ii) to support this study in terms of comparing results of interviews with concepts of privatisation contained in the literature; iii) to comprehend the mind set of groups involved with SIA that could lead to a conclusion about the understanding of each group of stakeholders; iv) to bring in other factors that related in this case study; and v) to use the interviews as the most salient approach of this research to assist in developing a framework by which to study privatisation.

Tables 6.2 to 6.11 in Chapter 6 give the results of the interviews. Table 6.3 shows the perceptions of interviewees towards factors facing the public sector in providing and running infrastructure projects and public services in Thailand. It was found that stakeholders gave more importance to the core objectives of privatisation (see section 2.3) as means of: i) improving efficiency; ii) gaining financial benefits; and iii) responding to political demands.

Comparing the results of the interviews with the Historical Privatisation Objectives from Chapter 2, it was found that most of the answers from public sector interviewees focused on financial gain issues and the rest aimed at efficiency improvement issues. However, interviewees from the private sector aimed at efficiency more than at financial gain. This is similar to answers from the project consultants. On the other hand, financiers' answers focused on financial gain more than on efficiency improvement issues. Further, answers from independent academics and public media

representatives were the same as other groups in terms of issues relating to financial gain and improvement in efficiency, but, these two groups presumed that the government still faced other problems, such as lack of reliability in government administration, problems of corruption, and pressure from the IMF.

In terms of the success factors of privatisation as perceived by interviewees, these were similar to those found in studies from related literature. Most interviewees believed that successful privatisation comprises two elements. In terms of financial gain issues, an achievement of reasonable costs and providing services at reasonable prices are mentioned most. Indicators of these success factors are presented in Table 6.3, namely the service fees, rate of returns, share prices, etc. In term of improvement in efficiency issues, the most mentioned factor was the need to upgrade levels of public administration. Indicators were service quality levels and international benchmarks. These two elements indicated that the perceptions of interviewees in the SIA case study were the same as those of others involved in different privatisations in terms of expected benefits.

In terms of failure factors, it was found that all groups viewed these elements as serious negative factors, especially the intervention from politicians. This issue particularly related to the successful construction of this project on schedule. Historically, it was evident that political change and the intervention of politicians had effectively delayed this project for more than four decades. Similarly, when considering the risks involved in cooperation between the private and public sectors, most of interviewees considered that the major risks were from political change. One major concern was policy changes. A further concern was the disruption involved

when the politicians involved changed through reassignment to other portfolios or through other normal process of government. Further, most interviewees presumed that other risks, e.g. lack of support from employees and unions or over estimated incomes, could be controlled.

To minimise risks, it is suggested that if the Thai government wants privatisation it will need initially to reduce the role of politicians in implementing privatisation policy. Privatisation should be depend on market mechanisms and the actual requirements of the organisations that need to be privatised, otherwise the policy itself might be viewed as a tool politicians used to take advantage of the situation, which is unacceptable from the public point of view.

Factors in the public sector that were accepted as advantages by interviewees were: its role as the public protector and the owner of infrastructure and public services. By contrast, the perceived negative elements of the public sector were the intervention from politicians, slow progress, and corruption. Further, financiers and academics suggested that other risks were that officials were afraid of risk and dared not respond and make decisions. This made the public sector lose the benefits or consume more financial resources than the private sector in investments.

The advantages of the private sector compared with the public sector were its ability to make quick decisions and its better work processes. Even interviewees from the public sector agreed with this aspect. However, interviewees from the public sector indicated that this was because the private sector had more financial resources, more experts, and better technology than the public sector. In terms of the disadvantages of

the private sector, most interviewees seemed to assume that the private sector aimed only at its own benefit, thus, could not be relied on to supervise and respond to public welfare. This reflected the conflict between public interest and profit motives. If the private sector wants to participate in privatisation more than it is currently doing, then efforts to build a more reliable attitude towards social responsibility and to be recognised as protectors of the public at large through its infrastructure and public services must be established.

Though the size of the target sample was rather small (21 interviewees) and results could not be generalised, the interviews gave data that was relevant to the SIA privatisation case study. Results of interviews as presented in tables 6.2 to 6.11 reveals those perceptions of privatisation by interviewees from each group strongly indicate similarities and differences between the stakeholder groups.

#### **7.3.4 In light of the case study, what conclusions can be drawn about the SIA case within the context of theoretical approaches to privatisation?**

This study suggested that a privatisation plan must consider the objectives, implications, risks, and controlling factors involved. However, to be successful, adjustment and situational problem solving must be taken into account within the plan. Since privatisation of such projects is different from the objectives of the public sector and can involve political intervention, planners need to pinpoint a structure of privatisation that is appropriate to those factors and take into account the case-specific contexts to achieve a congruence of all elements.

According to the document analysis in this study, theories of economics and political science are relevant to a statement of basic policy of privatisation (i.e. Firm-Transaction Cost Theory, Principle Agent Theory, and Public Choice Theory). This assists policy planners to understand the basic ideas of the private and public sector better. It also helps to prepare for precise and clear concession contracts.

Based on an assumption that a balance among the objectives of privatisation; namely, *financial gain, efficiency improvement, wealth redistribution, and political response* can lead to a successful privatisation program, this study suggested a new appraisal framework built on those four objectives. The results presented in Figures 6.8 to 6.13 were found to be conditions for use in this evaluation and further enumerated as a framework shown below.

**Table 7.2: Hypothetical Analytical Framework: the SIA Privatisation**

	<i>The Public Sector and Consultant</i>	<i>The Private Sector and Financier</i>	<i>Public Voice (i.e. Academic and Media)</i>
Financial	M	H	L
Efficiency	M	H	M
Wealth	M	L	L
Political	H	H	M

Legend:

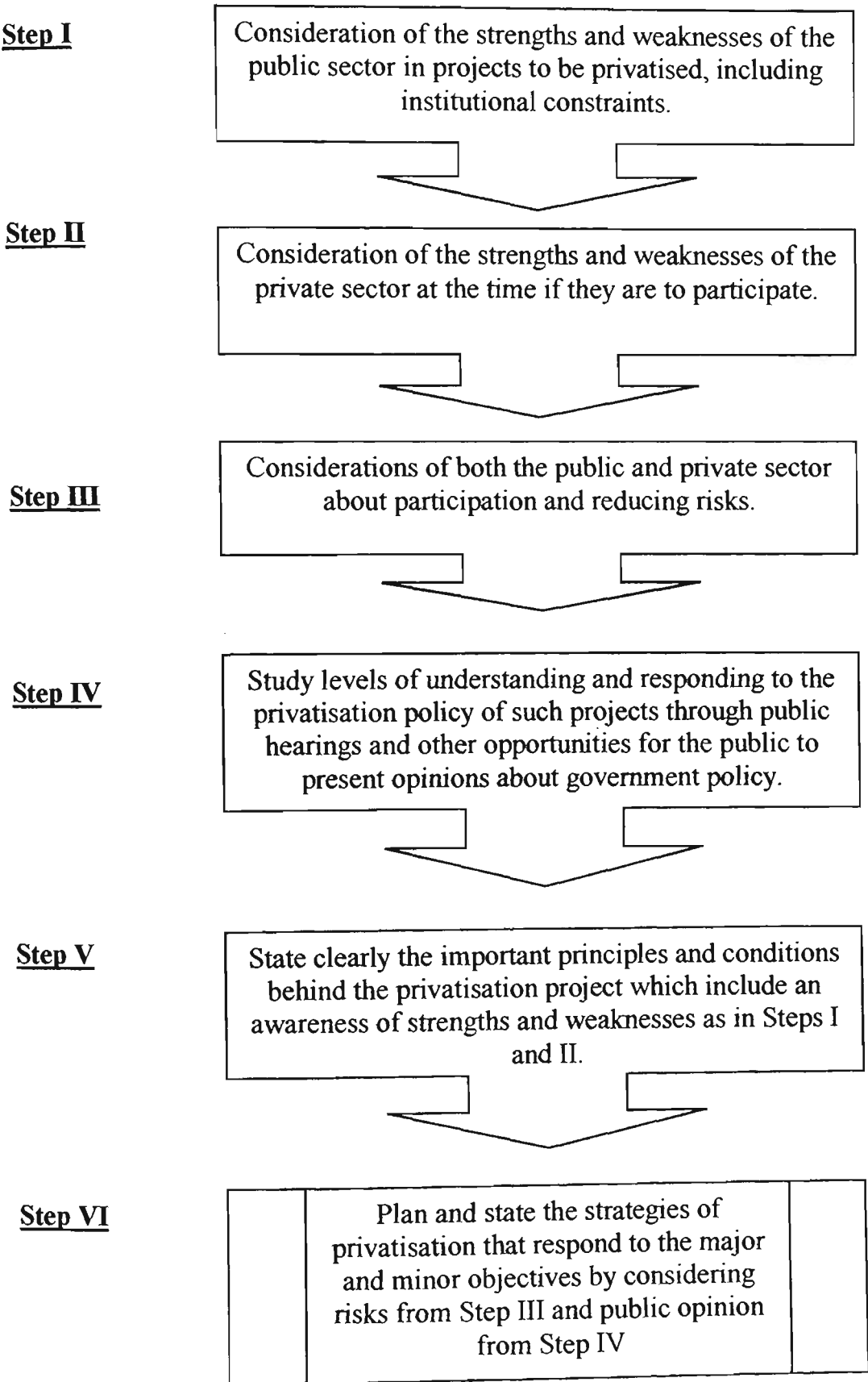
- L – Low (number is less than one-third of total responses, i.e. less than 12)
- M – Medium (number is in between the two-third range, i.e.12 - 24)
- H – High (number is more than two-third of total responses, i.e. more than 24)

This indicates the different interests of different stakeholder groups and so suggests that policymakers should engage differently with these diverse groups.

The cooperation strategies and structures of privatisation must be considered from basic data in selecting private sector participants congruent with objectives. This needs to be controlled in such a way as to minimise disadvantages and increase the chance of success. This stage must involve both the public and private sector and have clear objectives and a time frame because delay and indirectly uncertainty in planning can result in difficulties or failure. Significantly, good privatisation must contain a good mixture between roles of public protector and public benefit seeker. This mix cannot be stated or controlled by international formulae or inferred from theories. Even though previous data and various theories are beneficial, appropriate structures or mixtures of privatisation must be specially developed for each project because the roles of participants in privatisation are different depending on the time, place, culture, and institutional setting.

Also, the approach by which this research was undertaken can be seen itself as a framework as shown in Figure 7.1. In other words, the policy makers interested in a privatisation initiative might go through an evaluative process similar to that undertaken using the questionnaire and analysis developed in this research.

**Figure 7.1 A Recommended Process of Studying Privatisation**



Though the potentially different contexts of privatisation of each project can present issues that are different from this study, the important point is not to keep to past systems, but to understand the specific issues of each program. By using the results to adjust planning, the project can be appropriately adjusted to each specific case.

## **7.4 Recommendations:**

### **7.4.1 For the Public Sector**

Politicians and officials currently need to study data critically, and pay attention to the issue of privatisation regularly to understand and comprehend the advantages and disadvantages, strengths and weaknesses of the private and public sector thoroughly. Further, they need to learn and comprehend the methodology and technique of working to upgrade the level of efficiency of the public sector to achieve the same standards as the private sector so that businesses run by the public sector can operate effectively.

In general, the public sector must reduce risks and maintain the role of protector of the public interest. Further, the public sector needs to locate the framework of policy in such a way as to prevent taking political advantage in the short term or leading into dangerous situations in the future.



Recommendations for the public sector that arise from this study are as follows.

1. Politicians and officials must understand thoroughly the effects of political actions when the private sector participates in running national infrastructure and public services.
2. The role and policy of the private sector in running public business must be clearly defined and the strengths and weaknesses of private sector properly understood.
3. From Tables 6.3 to 6.8, this research is of benefit to politicians and officials who are involved with privatisation in terms of understanding the private sector and stakeholder perceptions so that the policy and methodology of privatisation become congruent and accepted by stakeholders and the public at large. For example, to define policy the government can make use of Table 6.3 (Influence on Privatisation and initial Perception on the Private Sector's Role) in terms of the perceptions of factors that influence privatisation. This indicates that privatisation can reduce government debt, bring increased investment and work efficiency through allowing the private sector to participate. It also indicates the perception of weaknesses of the public sector when the government runs businesses alone. From Table 6.7 (Perceived Strengths and Weaknesses of the Private Sector) complicated work practices may be disappear or be reduced if private sector methodology is used. Further, taking the success factors as presented in Table 6.4 (Perceived Success Factors in Privatisation), e.g. privatisation leads to providing more public services and increased investment from overseas, and these need to be presented to the public at large as beneficial.

4. It is important that the government understands the strengths of the private sector in joint privatisation ventures, and takes as much advantage as possible (i.e. financial sources, quick work process, modern technology and tools) as demonstrated in Table 6.7.
5. It is important to be sure that staff of prospective SOEs understand the factors that lead to failure (Table 6.5: Perceived Failure Factors in Privatisation) so that conditions which lead to the selection private sector partners can be made effectively.
6. Politicians and officials need to comprehend thoroughly the current strengths and weaknesses of the public sector (Table 6.6: Perceived Strengths and Weaknesses of the Public Sector). In doing this, staff and organisations that are going to be privatised can brain storm strategies to solve problems such as the public sector's lack of experts, technology, and finance.
7. It is necessary to be sure that the risk factors are considered in the process of invitation and negotiation with the private sector (Table 6.8: Perceived Risks involving Privatisation) and measures to reduce those risks developed. For example, documents containing precise details of advantages and costs of investment should be produced. Details of reduction in the number of procedures in which politicians can intervene must be clearly stated to stimulate the private sector to participate. Then, the best choice must be selected.

### 7.4.2 For the Private Sector

In terms of the private sector, this research demonstrates the significance of public relations and the social acceptance of private sector participation in public business. If government-public relations are inadequate, the private sector can also assist. Public relations undertaken by the private sector must be accurate. Privatisation that facilitates more advantages and less disadvantages for the public at large will be accepted. Thus, the private sector will have more opportunity to participate with the government in the future in such ventures. These factors should be stated that are crucial in helping other stakeholders to accept private sector participation: i) the advantages of the private sector joining with the public sector; ii) the impacts and limitations of privatisation; and iii) information which does not lead to unrealistic expectations.

The following items suggest some implications that may facilitate the private sector to join with the public sector:

1. The private sector must be certain that staff of companies both at executive and operational levels understand and accept the details of privatisation, in particular the motivation for privatisation (see Table 6.3).
2. The staff of a company must comprehend that the factors leading to successful privatisation are realistic (see Table 6.4) as perceived by stakeholders.
3. The private sector must be able to work or join with the public sector in running infrastructure and public services as signed in the contract.
4. The parties must avoid factors that lead to the failure of privatisation (see Table 6.5), and be confident about solving future problems.

5. The staff from the private sector must carefully express the weaknesses of the government without posing serious problems for official staff. Further, the strong points of the private sector in supporting the public sector must be demonstrated (see Table 6.7).
6. It is important to perceive the weaknesses of the private sector as shown in Table 6.7; and be certain that those problems will be overcome when planning to sign a contract. Specifically, the private sector must be sure that the process of internal corporate governance and compromise during the project are considered from the stakeholders' viewpoint.
7. The private sector must understand the risks that can occur when joining with the public sector (see Table 6.8), it should brainstorm with staff and executives to reduce those risks. Further, staff from the private sector must negotiate with staff from the public sector about the risks that can exist before and after signing the contract.

#### **7.4.3 For the Public at Large**

This study attempts to provide for the public at large a way to understand privatisation policy in terms of the perceptions of each group of stakeholders that influence the process including success and failure factors, and the strengths and weaknesses of public and private sectors. This is placed in a broader perspective than that provided by government news and press.

Significantly, the new framework and research process, arising from this study (see Table 7.2 and Figure 7.1), can be utilised in the consideration and appraisal of the

appropriate usage of privatisation policy in other privatisation projects such as the current (2002) privatisation of Telephone Organisation of Thailand (TOT) and Communications Authority of Thailand (CAT), amongst others.

#### **7.4.4 For Further Study**

Infrastructure privatisation is a concept that covers a wide variety of approaches for substituting, in whole or in part, private market mechanisms for the traditional government role of providing products and services. It is one of the most fascinating and still relatively unexamined areas of research in public management and international business. In developed countries, privatisation, including infrastructure privatisation, was seen as the quick fix solution that would end the seemingly relentless growth of public expenditure and the inefficiency of public enterprises (Clarke 1994). In developing countries, disillusion with the prospects of public enterprise, combined with the insistent advice of international agencies, propelled widespread privatisation programs.

In this thesis, I have aimed to make a contribution to the existing research record by examining the differing perceptions of major stakeholders in the Thai flagship of infrastructure privatisation. The results present evidence that the real case is substantially more complex than the literature anticipates. First, the differing perceptions of each stakeholder group partly reflect their different interests in, and their ability to influence, decisions about privatisation. Second, stakeholder perceptions also partly reflect Thai characteristics. Planning and implementing privatisation policy in developed countries seem tough and business-like, whilst in

Thailand it is based more on culturally appropriate soft technique, negotiation, and may be personal connection.

The research, therefore, suggests that, in order to increase the chance of success in planning and implementing privatisation, policy makers need to understand and pay attention to the complexity of differences among stakeholder groups, and balance the different needs (objectives) of these various groups in ways that are appropriate to national cultural characteristics. The research also demonstrates how stakeholders' perceptions may be studied to gain understanding of these factors.

Lessons gained in the SIA case study indicate that the Thai government does not intend to give up all of its economic activities. Rather, it will only divest the functions (air cargo terminals, catering facilities, ground service equipments maintenance facilities, and aircraft fuelling systems) that it sees will be better off in private hands. This requires an extensive evaluation of the private sector in terms of its readiness and capabilities. In fact, this knowledge is one of the key requirements in implementing a successful privatisation program. The government expects the private sector to "perform these functions more efficiently and economically than the public sector" (Moe 1987). Otherwise, the argument for privatisation would not be very convincing. Therefore, more research should be done in the area of Thailand's private sector readiness and capabilities in general. If, by some means or other, the government decides to place restrictions on foreign ownership, the market's ability to finance the privatisation program will then be of extreme importance.

Extending the frameworks and application from this study to other industries such as power, telecommunication, and water would also add value. Moreover, comparisons between and among sectors would be an interesting research direction. Only through continued theoretical and empirical exploration can we more fully explain patterns of privatisation in developing country infrastructure, and use those efforts to better inform both public and private managerial theory and practice. Finally, this researcher also hopes that what has been accomplished in this study will stimulate opening the gates wide for more research on infrastructure privatisation, particularly in developing countries.

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**APPENDIX I**  
**SUMMARY OF THAILAND'S MASTER PLAN**  
**FOR STATE ENTERPRISE SECTOR REFORM 1998**

**Goal and Purpose of the Master Plan<sup>1</sup>**

The goal and purpose of the Master Plan for State Enterprise Sector Reform is to provide guidelines, principles, and practices for increasing effective private sector participation in the economy. The Master Plan will serve as the basic guideline for these reforms, and as a reference document for the government, ministries, enterprises, investors, employees and the general public as privatisation plans and legal, regulatory and institutional reforms are prepared, approved and implemented in the years ahead. The Master Plan is a strategic document, giving the government flexibility in implementation but setting clear objectives and goals. The Master Plan highlights the government's commitment to improve the efficiency of the economy and increase the welfare of all Thai citizens. The government will publish an annual Action Plan and Program Report based on this Master Plan.

**Background and Context for the Reform of State-Owned Enterprise Program**

Thailand has a long history of privatisation and private sector participation in the economy, with privatisation efforts dating back to 1961. The current program, supported by the World Bank and IMF, accelerates activities and reforms the government has contemplated for some time. In pursuing this program, the government has established a State Enterprise Policy Committee (SEPC); identified

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<sup>1</sup> The Royal Thai Government's "Master Plan" (Master Plan for State Enterprise Sector Reform) was approved by the Royal Thai Government Cabinet on September 1, 1998. The content of this appendix is simply a summary of the full Master Plan as documented on the Office of State Enterprises Policy Commission's Secretariat web page. For complete details on the Master Plan see Office of State Enterprises Policy Commission's Secretariat. "Master Plan for State Enterprise Sector Reform." 15 September 1998. <http://www.mof.go.th/sepc/sepdnmenu.htm> (27 March 1999).

and begun fast-track divestiture of SOEs; appointed privatisation advisors; and prepared a Master Plan to ensure that reform efforts have a solid foundation and framework in the months and years to come.

### List of State Owned Enterprises in Thailand

<p><b>Telecommunications Sector:</b></p> <ul style="list-style-type: none"> <li>- The Telephone Organization of Thailand</li> <li>- The Communications Authority of Thailand</li> <li>- The Mass Communications Authority of Thailand</li> </ul> <p><b>Water Sector:</b></p> <ul style="list-style-type: none"> <li>- The Metropolitan Waterworks Authority</li> <li>- The Provincial Waterworks Authority</li> </ul> <p><b>Transportation Sector:</b></p> <ul style="list-style-type: none"> <li>- Expressway and Rapid Transit Authority of Thailand</li> <li>- Metropolitan Rapid Transit Authority</li> <li>- The State Railway of Thailand</li> <li>- The Transport Co., Ltd.</li> <li>- The Bangkok Mass Transit Authority</li> <li>- The Express Transportation Organization of Thailand</li> <li>- Airports Authority of Thailand</li> <li>- New Bangkok International Airport Co., Ltd.</li> <li>- Aeronautical Radio of Thailand</li> <li>- Civil Aviation Training Center</li> <li>- Thai Airways International Plc.</li> <li>- Port Authority of Thailand</li> <li>- Thai Maritime Navigation Co., Ltd.</li> <li>- Bangkok Dock Co., Ltd.</li> </ul> <p><b>Energy Sector:</b></p> <ul style="list-style-type: none"> <li>- The Electricity Generating Authority of Thailand</li> <li>- The Metropolitan Electricity Authority</li> <li>- The Provincial Electricity Authority</li> <li>- The Petroleum Authority of Thailand</li> </ul> <p><b>Other Sectors:</b></p> <p><b>Banking</b></p> <ul style="list-style-type: none"> <li>- Bank for Agriculture and Agricultural Co-operatives</li> <li>- The Government Savings Bank</li> <li>- Krung Thai Bank Public Company Limited</li> <li>- The Government Housing Bank</li> </ul>	<ul style="list-style-type: none"> <li>- Export-Import Bank of Thailand</li> </ul> <p><b>Industrial</b></p> <ul style="list-style-type: none"> <li>- Liquor Distillery Organization</li> <li>- Thailand Tobacco Monopoly</li> <li>- Playing Card Factory</li> <li>- The Glass Organization</li> <li>- The Battery Organization</li> <li>- The Tanning Organization</li> <li>- The Police Printing Press</li> <li>- The Industrial Estate Authority of Thailand</li> </ul> <p><b>Commercial and Services</b></p> <ul style="list-style-type: none"> <li>- The Government Lottery Office</li> <li>- The Marketing Organization</li> <li>- Public Warehouse Organization</li> <li>- The Tourism Authority of Thailand</li> <li>- The Syndicate of Thai Hotels &amp; Tourist Enterprises</li> </ul> <p><b>Agricultural</b></p> <ul style="list-style-type: none"> <li>- The Forest Industry Organization</li> <li>- The Botanical Garden Organization</li> <li>- Office of the Rubber Replanting Aid Fund</li> <li>- Fish Marketing Organization</li> <li>- Rubber Estate Organization</li> <li>- Dairy Farming Promotion Organization of Thailand</li> <li>- The Thai Plywood Company Limited</li> <li>- The Marketing Organization for Farmers</li> </ul> <p><b>Social and Technology</b></p> <ul style="list-style-type: none"> <li>- Sports Authority of Thailand</li> <li>- The Zoological Park Organization</li> <li>- The Institution for the Promotion of Teaching Science and Technology</li> <li>- Thailand Institute of Scientific and Technological Research</li> <li>- The Government Pharmaceutical Organization</li> <li>- Office of the Public Pawnshop</li> <li>- National Science Museum</li> <li>- National Housing Authority</li> </ul>
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## **Overview of the Current State-Owned Enterprise Sector**

The Master Plan comprises an action plan for the reform or privatisation of 59 state enterprises. These enterprises are an integral part of economic activity in key sectors of the economy and can be broadly categorized into the following five major sectors: telecommunications, water, energy, transport, and others (including industrial, social and technology, commercial and services, agriculture, and financial sectors). While some are profitable, increased private sector participation will improve economic efficiencies, reduce the government burden, as well as improve service quality, coverage, and reliability. The total number of state-owned enterprise employees currently stands at approximately 320,000, with the top ten largest entities employing over 226,000 individuals.

## **Definition, Goals, Objectives, and Benefits of the State Enterprise Sector Reform Program**

Privatisation is defined as all measures that increase private sector participation in sectors where government enterprises presently operate. The privatisation program is part of an overall economic reform program being undertaken by the government. The goal of the program is to increase the efficiency of the economy, to provide a basis from which Thai companies can compete internationally, and to ensure that quality goods and services are available to the Thai public at the least cost.

The program has specific and identifiable objectives and expected benefits. These include structural reform objectives and benefits; financial objectives and benefits; and social objectives and benefits. The privatisation program's ultimate success will be measured by its ability to meet these diverse objectives and deliver these benefits.

## **Roles and Responsibilities of the Participants in the Privatisation Process**

In order to be effective, the program must have clear and transparent procedures, in addition to well-defined roles and responsibilities for all participants. A new committee is proposed, the State Enterprise Reform Committee or SERC, combining the future Corporatisation committee with the current State Enterprise Policy Committee (SEPC). The SERC will have as its secretariat the Office of State Enterprises at the Ministry of Finance and the National Economic and Social Development Board. The SERC will review and approve all privatisation, private sector participation, and regulatory reform initiatives before forwarding them to the Cabinet for final approval.

## **The Future Role of the State**

The state will have a significantly reduced role in the future economy. The state's role will primarily be as policy maker and regulator - ensuring that public goods and services are properly delivered and protecting citizens/consumers, but providing a level playing field for active competition between private sector entities. The state will look to exit from enterprise operations, which can be more efficiently and effectively performed by the private sector. Finally, the state will maintain an operating role only in specific enterprises whose operations are strategic, socially obligatory, or non-commercial in nature.

## **The Legal Environment**

In order for the privatisation program to be successful, a number of changes to existing laws will be required. Foremost is the need to create or improve the legal

basis for independent regulatory bodies in each of the critical infrastructure sectors, namely telecommunications, water, transport, and energy. A number of other legal changes will be required as well. These regard the Land Law, the Alien Business Law, Competition Laws, Taxation Laws, Intellectual Property Laws, the Employment Law, the Private Sector Participation Law, the Company Law, and Securities Laws. A single “State Owned Enterprise Reform Act” is proposed to incorporate most of these changes and to provide the framework legislation for creation of regulatory bodies.

### **Regulatory Framework**

Currently, the roles of policymaking, regulation, and operation overlap in many sectors and many state enterprises. Clear separation of policymaking, regulation, and operation is an essential component of the reform program and a requirement for the development of transparent, competitive markets. A program of regulatory reform is proposed which includes the specification of individual regulatory bodies in each of the infrastructure sectors of telecommunications, water, transport, and energy, and the definition of roles and responsibilities of those authorities. A detailed assessment of the organizational structure of those bodies and their reporting, funding, and staffing arrangements will be conducted. This will ensure that regulators operate on the basis of consumer protection, promotion of competition, and promotion of efficiency.

### **Forms and Methods of Privatisation**

A wide variety of methods of privatisation may be used by enterprises and the state to accomplish the reform objectives. This includes divestiture, deregulation, and licensing of private sector participants. Privatisation plans may be submitted by both state enterprises and private entities, and will be considered and selected based upon

stated criteria and appropriateness to a given SOE and the sector reform objectives.

While a clear objective of privatisation is to raise needed capital at the maximum value, the government will seek to balance this objective with other objectives, such as: privatising rapidly, reducing financial burdens on the state, securing technical or managerial expertise, recapitalising and SOE, or other stated objectives.

The primary forms and methods of privatisation proposed in the Master Plan are listed below:

- Public Offerings
  - Build, Own, Operate, Transfer (BOOT)
- Private Placements and Joint Ventures with Strategic Partners (trade sales)
  - Build, Own, Operate (BOO)
- Management Buy Outs (MBO)
  - Build, Transfer, Operate (BTO)
- Asset Liquidation
- Debt for Equity Swaps and Debt Buy Backs
- Convertible Bond Offerings
- Coupons/Options
- Competition, Regulation, Deregulation
- Management Contracts
- Leasing
- Concession Contracts
  - Build, Operate, Transfer (BOT)

The SERC will have the responsibility to approve plans and to oversee transparent and timely privatisation.

### **Use of Proceeds from Privatisation**

Privatisation proceeds will be used by the government for reinvestment in the economy and for social, health and welfare benefits for the Thai people. Where proceeds are earned directly by the government they will be used in accordance with the cabinet resolution of May 19, 1998, which stipulates that 50% will be used to fund needed social services such as education, public health, labour welfare, and agriculture, while another 50% will be allocated to the Financial Institutions Development Fund (FIDF).

In the case where an SOE sells shares, assets, or an operational unit in one of its subsidiaries, the proceeds derived from the sale of these shares or assets will be used in the following manner:

- establish a reserve fund for the expansion of the SOE's services or an employee assistance fund for SOE employees affected by this divestiture.
- of the remaining proceeds, 50% will be allocated to the government and used to fund needed social services such as education, public health, labour welfare, and agriculture, and another 50% will allocated to the FIDF.
- if the SOE in question awards a concession in any form to the private sector, with a concessionaire fee being provided, these proceeds will be distributed according to the aforementioned scenario.



## **Corporate Governance and Performance Monitoring**

The existing system of corporate governance of SOEs does not provide sufficient accountability and enterprise control. With Corporatisation this will change, but for those enterprises that remain majority state-owned, a similar board structure as that mandated under the Public Companies Act is proposed.

At present, two performance evaluation systems are used for state-owned enterprises: the Good Enterprise System (GES) and the Performance Agreement System (PAS). Performance measurement of SOEs will be improved through the adoption of a balanced scorecard system, which uses comparative performance indicators for key enterprise stakeholders and operations and is common in many commercial enterprises worldwide. The MOF's Office of State Enterprises (OSE) is proposed as the central manager of this system.

To permit more effective supervision and regular monitoring of enterprise performance, an improved Management Information System will be established. The system will effectively standardize reporting formats, data inputs, and timing for SOEs.

## **Social, Labour, and Environmental Concerns**

The government recognizes the social and labour issues associated with privatisation. As a result, all privatisation proposals must include a discussion regarding treatment of social obligations after privatisation, and a discussion of the employment impacts of privatisation. The government will also evaluate the tariff and other social aspects of greater private sector participation and seek to balance these with the privatisation

program. Programs that benefit state employees in the transition to privatisation and afterwards will be encouraged. These include stock distribution schemes, early retirement packages, and retraining efforts. The government intends to pursue the plan that minimizes the overall impact on social, labour, and environmental issues while still meeting the reform objectives of the program. The privatisation program will address these concerns in the following manner:

- Privatisation plans — all enterprise privatisation plans will be required to include measures of their social (tariff rates), labour (employment), and environmental (pollution) impacts.
- Enforcement of existing measures — programs currently exist to provide employees with specific benefits if they are terminated due to privatisation. The government intends to ensure that such benefits are paid and received by employees.
- Adoption of additional measures — the government will establish an employee fund based on the following key dynamics and objectives: to ensure that severance pay will be provided to employees; to make certain that SOEs are ‘first in line’ in terms of their responsibility in providing severance pay; the fund will pay only when it becomes evident that the individual SOE is incapable of delivering the severance pay; a Committee will be established comprising the government, private sector, and SOE representatives. This Committee will oversee management of the fund, effective distribution, and evaluate the necessity of the fund and ability of the SOE to make severance payments.
- Public information — the government recognizes that employees require regular, reliable information on the objectives, benefits, and timetables of

privatisation. The Public Information and Education section is aimed to outline the actions to be taken.

### **Public Information and Education**

The privatisation program will be accompanied by a dedicated public awareness campaign that addresses key audiences and stakeholders in the process and responds to their particular concerns. Key audiences include the SOE employees, investors, the media, and the public at large. Immediate efforts to be pursued include the establishment of an interactive SERC website, the publishing of a bi-monthly newsletter, and the holding of public seminars and forums. These channels will seek to disseminate both general information on privatisation and sector-specific details to the identified audiences.

## **TRANSPORT SECTOR PLAN**

The transportation sector comprises 14 SOEs (see list of SOEs in Thailand above), which are categorised in three major transportation modes or subsectors: land (road, rail and mass transit), water and air transportation. The sector as a whole will benefit from a clear transportation master plan, endorsed by the government, which identifies sector investment priorities and private sector opportunities. Overall, private sector participation can be substantially increased where the public sector is providing services which compete with or operate alongside predominantly private sector operators. These are primarily in the transportation services businesses.

## **Key Elements**

### *Policy-Making & Planning:*

The Ministry of Transport and Communication (MOTC) will bear primary responsibility for transportation policy. The MOTC will formulate and determine policy, with input from and in coordination with other ministries.

### *Regulation:*

independent regulators will be established in accordance with the guidelines of the Master Plan, drawing on existing government departments, agencies and SOEs. This separation of regulatory functions from policy responsibilities will effectively serve to restrict potential conflicts of interest. Several options exist and will be analysed with respect to the regulatory framework in the sector. Regulatory bodies may be created at the subsector level (land, water and air) or within subsectors.

### *Transportation Authorities:*

evaluation will be made of transformation of certain SOEs into more formal transit authorities. The authorities would be administrative units with to manage and administer private contractors and concessionaires. These may be legally established by transforming SOEs that match the authorities' mandates. Existing overlapping responsibilities of SOEs would be eliminated. Infrastructure development will be shared between the MOTC, transportation authorities and the private sector

### *Operations:*

the provision of services will be predominantly the responsibility of the private sector.

This will be accomplished as existing entities and services are privatised and new service providers enter the various markets. A system will be established in which private sector operators would compete for providing subsidised services. This will assure the government of the lowest subsidy cost while maintaining or improving service levels and quality.

*Action Plan:*

an immediate priority will be for the government to undertake two detailed analyses. The first is an institutional and regulatory analysis, which will more specifically define the policy, regulatory and agency structure and provide detailed recommendations on enterprise restructuring. The second is a review and analysis of the existing concessioning and licensing process across the sector. This study will result in proposals to improve the concession and licensing process and framework and provide the basis for regulation of future concessions in the entire sector. Based on these analyses, legislation will be drafted and submitted to parliament to implement recommended institutional reforms and support the creation of efficient regulatory systems.

**APPENDIX II (a)**  
**Interview Guideline – English Version**

**Privatising Infrastructure in a Developing Economy: Lessons from Stakeholder Perceptions in a Case Study of Thailand's airport**

**Introduction**

1. Please tell me about yourself and your background including professional background, education and particular interests relevant to infrastructure privatisation.

**Privatisation in Thailand's Infrastructure Project**

2. What are the issues facing the public sector today in providing infrastructure and public services
3. Is there a role for the private sector in assisting with respect to the above problems?
4. How would you define a successful privatisation with respect to public infrastructure?
5. What would the various indication of success be? Is this achievable?
6. What would evidence of failure in the privatisation with respect to public infrastructure comprise?
7. How can failure or uncertainty surrounding the project be minimised? How can the likelihood of success be maximised?
8. Thinking particularly about the Thai situation, what do you believe to be the strengths of government with respect to the provision of public infrastructure? The weaknesses? By function (finance, design, construction, operation, ownership)?
9. What do you believe to be the strengths of the private sector in assisting with respect to the provision of public infrastructure? The weaknesses?
10. In Thailand, what are the risks to the private sector in being involved in public infrastructure projects? What steps could the private sector take to mitigate or minimise the potential, impact of those risks?
11. How has that impacted this privatisation initiative, if at all?

12. If there was not so much of a Thai budget burden caused by the 1997 economic crisis, do you believe there would still be the same level of interest in public infrastructure privatisation as there is today?
13. There has been a considerable experience with privatisation in Australia, New Zealand, Europe, the United Kingdom, and the United States. Do you believe these countries to be culturally different than Thailand in respect of infrastructure privatisation? If so, how?

**Cascade process**

14. Who do you think are the other stakeholders in this project?
15. How important were/are these stakeholders in influencing the decision of privatisation?

## APPENDIX II (b)

### Interview Guideline – Thai Version

#### หัวข้อการสัมภาษณ์

การแปรรูปโครงการสาธารณะขนาดใหญ่ในแนวทางของประเทศกำลังพัฒนา : บทเรียนจากความรับรู้ของผู้มีส่วนรับประโยชน์ ในกรณีศึกษาของสนามบินแห่งใหม่ในประเทศไทย

หัวข้อคำถามทั้งหมดนี้จะใช้เป็นแนวทางในการสัมภาษณ์ โดยพิจารณาจากวัตถุประสงค์และเป้าหมายในการศึกษา และข้อมูลที่ต้องการได้จากการสัมภาษณ์ โดยที่การสัมภาษณ์จะใช้เวลาประมาณ 30 ถึง 45 นาที

#### ความนำ

1. กรุณาพูดถึงตัวท่านเอง ทั้งด้านการศึกษา ประสบการณ์การทำงาน และความเกี่ยวข้องกับการแปรรูปโครงการสาธารณะขนาดใหญ่

#### การแปรรูปโครงการสาธารณะขนาดใหญ่ในประเทศไทย

2. ท่านคิดว่าอะไรคือปัจจัยในการพิจารณาเรื่องการจัดสร้างโครงการสาธารณะขนาดใหญ่ของรัฐ
3. ท่านคิดว่าอะไรคือบทบาทของภาคเอกชนที่สามารถเข้ามามีส่วนช่วยในปัจจัยดังกล่าวเบื้องต้น
4. ท่านคิดว่าอะไรคือเหตุผลที่จะทำให้การแปรรูปโครงการขนาดใหญ่ของภาครัฐประสบความสำเร็จได้
5. ท่านคิดว่าอะไรคือตัววัดความสำเร็จในสิ่งที่ท่านกล่าวมาเบื้องต้น และท่านคิดว่าสิ่งเหล่านี้สามารถทำให้สำเร็จได้ตามความเป็นจริง หรือไม่
6. อะไรคือเหตุผลที่อาจนำไปสู่ความล้มเหลวของการแปรรูปโครงการขนาดใหญ่ของภาครัฐ
7. ท่านคิดว่าความเสี่ยงในความคิดพลาดต่างๆ และความไม่แน่นอนในการจัดสร้าง โครงการสาธารณะขนาดใหญ่ของภาครัฐสามารถทำให้ลดลงได้หรือไม่ อย่างไร และในขณะเดียวกันท่านคิดว่าโอกาสในความสำเร็จสามารถทำให้เพิ่มขึ้นได้หรือไม่ อย่างไร
8. หากท่านพิจารณาภายใต้สภาพปัจจุบันของประเทศไทย ท่านคิดว่าอะไรคือ จุดเด่นหรือจุดแข็ง และอะไรคือจุดด้อย ของภาครัฐในการจัดหาโครงการสาธารณะขนาดใหญ่ (โดยพิจารณาจากทางการเงิน การออกแบบ การก่อสร้าง การดำเนินการ และการถือกรรมสิทธิ์)
9. หากท่านพิจารณาภายใต้สภาพปัจจุบันของประเทศไทย ท่านคิดว่าอะไรคือ จุดเด่นหรือจุดแข็ง และ อะไรคือจุดด้อย ของภาคเอกชนในการเข้ามามีส่วนช่วยในการจัดหาโครงการสาธารณะขนาดใหญ่ (โดยพิจารณาจากทางการเงิน การออกแบบ การก่อสร้าง การดำเนินการ และการถือกรรมสิทธิ์)
10. ในประเทศไทยท่านคิดว่าอะไรคือความเสี่ยงของภาคเอกชนในการเข้ามามีส่วนร่วมในการแปรรูปโครงการสาธารณะขนาดใหญ่ และ ท่านคิดว่ามีขั้นตอนใดที่ภาคเอกชนสามารถปฏิบัติ เพื่อลดความเสี่ยงข้างต้น หรือกระทำเพื่อลดผลกระทบจากความเสี่ยงจากปัจจัยการเมืองดังกล่าว
11. หากท่านคิดว่าปัจจัยการเมืองมีผลต่อรูปแบบของการแปรรูปโครงการสาธารณะขนาดใหญ่ ผลกระทบดังกล่าวจะเป็นไปในรูปแบบใด



12. หากไม่เกิดกรณีวิกฤตเศรษฐกิจในช่วงปี พ.ศ. 2540 ท่านคิดว่า ระดับความสนใจในการแปรรูปโครงการสาธารณะขนาดใหญ่เหมือนอย่างที่เป็นอยู่ทุกวันนี้หรือไม่ อย่างไร
13. ในประเทศตะวันตกอย่างเช่น ออสเตรเลีย นิวซีแลนด์ ยุโรป อเมริกา และ อังกฤษ การแปรรูปโครงการสาธารณะขนาดใหญ่ เป็นเรื่องที่ได้กระทำกันเป็นเวลานาน ท่านคิดว่าประเทศเหล่านี้ ซึ่งมีวัฒนธรรมแตกต่างจากประเทศไทย จะมีรูปแบบการทำงาน หรือ รูปแบบของการตัดสินใจในเรื่องของการแปรรูปฯ ที่แตกต่างจากของเราหรือไม่ อย่างไร

**คำถามเพื่อตรวจสอบคำนิยามของผู้มีส่วนได้ส่วนเสีย**

14. ในความเห็นของท่าน ท่านคิดว่าบุคคลกลุ่มใดบ้างที่น่าจะเป็นผู้มีส่วนรับประโยชน์ (Stakeholders) ของการแปรรูปในโครงการสนามบินแห่งใหม่
15. บุคคลต่างๆ เหล่านั้น มีความสำคัญต่อการตัดสินใจในการแปรรูปฯ ของโครงการสนามบินแห่งใหม่มากน้อยเพียงใด อย่างไร

### APPENDIX III

#### Chronology of the Interview Meeting

Interviewee	Date	Organisation	Type
A	1 October 2001	New Bangkok International Airport Co.,Ltd.	Public
B	10 October 2001	New Bangkok International Airport Co.,Ltd.	Public
C	10 October 2001	New Bangkok International Airport Co.,Ltd.	Public
D	11 October 2001	Ministry of Transport and Communication	Public
E	October 2001	Frankfurt Airport Services Worldwide Ltd.	Private
F	October 2001	Japan Bank for International Cooperation	Financier
G	October 2001	Japan Bank for International Cooperation	Financier
H	October 2001	Project Management Consultant Group	Consultant
I	October 2001	Project Management Consultant Group	Consultant
J	2 November 2001	Thai Airways International Public Company	Private
K	27 February 2002	The Royal Thai Army	Public
L	14 March 2002	TISCO Securities Ltd.	Consultant
M	14 March 2002	White & Cases (Thailand) Law Office	Consultant
N	14 March 2002	Eastern Asia University	Academic
O	18 March 2002	Government Saving Bank	Financier
P	18 March 2002	Government Saving Bank	Financier
Q	20 March 2002	Thai Airport Ground Services Ltd.	Private
R	20 March 2002	Thai Airport Ground Services Ltd.	Private
S	27 March 2002	Bangkok Post Newspaper	Media
T	27 March 2002	Matichon Newspaper	Media
U	30 March 2002	Chulalongkorn University	Academic

**APPENDIX IV**  
**Initial Contact Letter from Mr. Teeravut Suksaard**  
(VICTORIA UNIVERSITY LETTERHEAD)

TO WHOM IT MAY CONCERN

I would like to introduce myself. I am a doctoral student in the Faculty of Business and Law at Victoria University, Australia. I am conducting a research project on the topic of “Privatising Infrastructure in a Developing Economy: Lessons from Stakeholder Perceptions in a Case Study of Thailand’s Airport” under the supervision of Professor Michael Muetzelfeldt.

I would like to invite you to be a part of a study into a detailed analysis of the privatisation of the Thai Airport in the early 2000s, emphasising the development of the idea of privatisation policy in Thailand. To accomplish the study, the researcher needs the cooperation from interviewees to provide information about general and openly known information of strategic, tactical issues and perceptions concerning the privatisation case of the new Bangkok International Airport and will not be asked to disclose personally or organisationally sensitive material. The information you provide is confidential and will not be available to anyone other than my supervisors and myself. I also attached an interview guideline that gives you the opportunity to understand an overview of the project and how questions will be asked in the interview session.

I greatly appreciate your cooperation and assistance in making this research possible. I anticipate that the results and analysis of this research will be of valuable interest to your organisation.

Yours sincerely

Teeravut Suksaard  
Victoria Graduate School of Business  
Victoria University  
Melbourne, Australia

## APPENDIX V

### Letter from Professor Michael Muetzelfeldt (VICTORIA UNIVERSITY LETTERHEAD)

To whom it may concern

This letter introduces Mr Teeravut Suksaard, who is a doctoral student in the Victoria School of Management at Victoria University. I am supervising his thesis *Privatising infrastructure in a developing economy: Lessons from stakeholder perceptions in a case study of Thailand's airport*. This thesis is an important study of a major Thai privatisation project, comparing it to Western approaches to privatisation and examining the economic, political and cultural factors that differ in the Thai case. It has the potential to make a major contribution to socio-economic policy in Thailand, and to understanding privatisation processes in developing economies.

Because of your expertise and key stakeholder role in the Thai airport privatisation, Mr Suksaard would like to interview you as part of his research. This research has ethics approval from Victoria University, and I guarantee that your confidentiality will be assured. Please contact me if you would like further information about this.

I hope you will be willing to support his research by agreeing to be interviewed, and by facilitating his contact with other expert stakeholders.

Yours sincerely

Professor Michael Muetzelfeldt  
Head of School  
Victoria School of Management

<Michael.Muetzelfeldt@vu.edu.au>  
[www.BusinessAndLaw.vu.edu.au/Management](http://www.BusinessAndLaw.vu.edu.au/Management)

**APPENDIX VI**  
**CONSENT FORM FOR SUBJECTS INVOLVED IN RESEARCH**

I, ..... of .....  
.....

certify that I am at least 18 years old and that I am voluntarily giving my consent to participate in the experiment entitled:

**Privatising Infrastructure in a Developing Economy: Lessons from Stakeholder Perceptions in a case study of Thailand's airport**

being conducted at ..... by: **Mr. Teeravut Suksaard**

I certify that the objectives of the experiment, together with any risks to me associated with the procedures listed hereunder to be carried out in the experiment, have been fully explained to me by: **Mr. Teeravut Suksaard**

and that I freely consent to participation involving the use on me of these procedures.

**Procedures:**

- A letter of introduction will send to all interviewees beforehand providing an overview of the project and interview guide
- Follow-up telephone calls will be made to confirm participant and schedule meeting times.
- The interview will last about an hour.
- The researcher will ask for a permission to tape-record the conversation during the interview.

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this experiment at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed..... } Date: .....

Witness other than the experimenter:  
..... } Date: .....

Any queries about your participation in this project may be directed to the researcher (Name: Mr. Teeravut Suksaard ph. + 61 3 9813 8021). If you have any queries or complaints about the way you have been treated, you may contact the Secretary, University Human Research Ethics Committee, Victoria University of Technology, P0 Box 14428 MC, Melbourne, 8001 (telephone: 03-9688 4710).