

## Summary of Discussion and Recommendations

### The 1998 TDRI Year-end Conference

## *From Crisis to Sustainable Development*

*Jointly organized by*

*The Chai Pattana Foundation and the Thailand Development Research Institute*

*December 12-13, 1998  
 Ambassador City Jomtien, Chon Buri*

**Ryratana Suwanraks\***

### THE CONFERENCE

Since its inception in 1984, the Thailand Development Research Institute (TDRI) has organized an annual Year-end Conference to present research results on subjects that are topical and significant to the medium to long-term development of the country.<sup>1</sup> The Chai Pattana Foundation has kindly co-organized the event since 1990. On many occasions, Her Royal Highness Princess Maha Chakri Sirindhorn graciously presided over the opening ceremony and attended the Conference.

The theme in 1998, "From Crisis to Sustainable Development," focused on the medium to long-term development of the country, as in previous years. Since mid-1997, Thailand has been trapped in her worst economic crisis since World War II. The economic crisis is a manifestation of deeper problems long suppressed in the Thai society, and people across the social spectrum have been affected. The scope and gravity of the crisis hence require intensive discussion, not only to seek ways out of the difficulties, but, more importantly, to lay the groundwork for future sustainable development. This will help prevent future crises, or at least minimize possible negative effects of future crises.

The goal of the 1998 Conference was not primarily to present research results as in previous years, but to organize a forum where representatives of various fields could have the opportunity to brainstorm. Apart from the plenary sessions, the Conference was divided into four group discussions, focusing on different aspects of the economic crisis: macroeconomic management; economic restructuring; social issues; and good governance. The Conference attracted approximately 400 participants, with representatives from the public and private sectors, academia, non-governmental organizations, international organizations, the media and the general public.

### BACKGROUND OF THE CONFERENCE

The theme "From Crisis to Sustainable Development" developed from the work of the Working Group on the Economic Crisis, chaired by H.E. Mr. Anand Panyarachun, chairman of the TDRI Council of Trustees and the Board of Directors. The Working Group was set up in response to the Government's request to the TDRI in December 1997 to provide recommendations on how to cope with the economic crisis. The Group comprises approximately 30 people from different fields, both within and outside the TDRI.

The Working Group set up four sub-working groups:

1. *The Working Group on Macroeconomics*, headed by Mr. Kosit Panpiemras, Executive Chairman of the Bangkok Bank Public Company Limited;
2. *The Working Group on Economic Restructuring*, headed by Dr. Phaichitr Uathavikul, Chairman of the Board of

Directors of the Thailand Environment Institute and former TDRI President;

3. *The Working Group on Social Issues*, headed by Mr. Mechai Viravaidya, Chairman of the Population and Community Development Association and TDRI Trustee;
4. *The Working Group on Good Governance*, headed by M.R. Chatu Mongkol Sonakul, Governor of the Bank of Thailand.

By the time of the Year-end Conference, the first three working groups had submitted recommendations to the Prime Minister, while the draft report of the Good Governance working group was discussed at the Conference. In addition, each working group prepared additional material related to necessary reforms for future sustainable development for discussion at the Conference.

Points of discussion and the recommendations of the four group discussions are summarized as follows:

## **GROUP 1: MACROECONOMIC MANAGEMENT**

The current crisis has clearly shown that appropriate macroeconomic management is crucial for sustainable economic development. Currency and banking crises have pushed Thailand into the most severe economic depression since World War II. Painful measures to tackle the crisis have been implemented, and while it is still debatable whether clear signs of recovery have emerged, it is expected that the country will eventually overcome the crisis in the not too distant future. As part of the necessary reforms, a more resilient macroeconomic management framework needs to be established in order for the country to better weather future economic volatility and prevent a similar crisis from happening again.<sup>2</sup>

Approximately 80 participants attended the group discussion. Discussions and recommendations are as follows:<sup>3</sup>

1. A major change in the macroeconomic policy framework, such as financial liberalization, must be systematically planned. Implementation of such a change must be all-rounded, and all aspects must be taken into account, including:
  - Appropriate sequencing;
  - Understanding of all parties concerned about the implications of the change, and the opportunities and risks inherent in the change;
  - Adapting management systems appropriate to the change, in the public sector, private sector and the people sector.
2. The country should establish a reliable database containing up-to-date information and an effective early warning system.
  - The database must be well organized, up-to-date and reliable. At the same time, it must contain sufficient information for decision-making.
  - Policy makers must understand and make appropriate and effective use of the database and the warning system.
  - Significant information must be revealed to the public to encourage analyses from different points of view. Disclosure of public information is common in democratic societies and is necessary as it creates checks and balances for policy decisions.
3. The country needs unity in macroeconomic management.
  - Fragmented macroeconomic management by different government agencies has led to inconsistency in policy directions. In some cases, information held by different agencies varies, leading to public and policy confusion.
  - To create coordination in the country's macroeconomic policy making, the existing network in policy making must be improved.

4. The country needs to develop capability to protect against external instability.

- The government should mobilize domestic savings to the level close to investment. Too much dependence on foreign investment is not sustainable.
- Methods to manage short-term debt, such as, for example, the Chilean model, should be considered and studied. In any case, the timing of implementation is important. The government should exercise appropriate instruments only when the country is ready.
- Thailand should support movements demanding more transparency from hedge funds.
- Domestic monetary and capital markets should be strengthened so that a variety of risk management instruments are available.

5. Capital mobilization from within the region via regional cooperation should be encouraged.

- Saving in the East Asian region exceeds investment.
- Mobilization of funds within the region from surplus countries to deficit countries should lead to better protection of the region from external volatility.

6. Thailand must minimize the social costs incurred from the process to resolve conflicting points of view.

- Varying viewpoints and options are common in democratic societies.
- For efficient problem solving, different viewpoints must be effectively and constructively harmonized.
- Constant dialogue among parties with different ideas should be established so as to create a sense of participation and ownership in the resulting policies.
- The final outcome should be a creative harmonization of different opinions acceptable to all.

## **GROUP 2: ECONOMIC RESTRUCTURING: A MEANS TO ACHIEVE COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT<sup>4</sup>**

To solve the present economic crisis and to pave ways for future sustainable development and competitiveness, Thailand needs to tackle the root problems of the real and industrial sectors while appropriately restructuring its economy. Attended by 110 participants from the public sector and entrepreneurs, the group devoted much time to the discussion of medium-term and long-term restructuring, while other two major topics of discussion were debt restructuring and overcapacity, and restructuring of the agricultural sector.

### **Debt Restructuring and Overcapacity**

#### ***Debt Restructuring***

Most companies in the Thai industrial sector face severe financial problems, and many are on the verge of bankruptcy. One prominent reason for this critical situation lies in the over-borrowing in the form of short-term foreign debt during the economic bubble. During 1993-1996, for instance, most public companies significantly expanded their investment in terms of asset expansion and business diversification. Assets in the following industries were doubled: real estate, telecommunications, petrochemicals and chemicals, energy, retail and wholesale businesses, electronics, and healthcare. While financial institutions freely encouraged credit lending, borrowers mismanaged the allotted funds or invested in non-core businesses. As a result of over-investment, many public companies had begun to experience financial instability even before the financial crisis broke in mid-1997.

In a capitalist society, it is normal for failing businesses to close down so that resources can be allocated to other productive activities. In Thailand, however, a large number of solvent and viable companies have become trapped with liquidity problems and high debt burdens. Without proper measures, these companies may go bankrupt, and such corporate failures will lead to social burdens, manifested most visibly in the form of unemployment. Therefore, it is

important that voluntary debt restructuring be effectively applied to prevent the closure of viable companies.

At the time of the 1998 Year-end Conference, debt restructuring measures had made satisfactory progress. The operational framework, referred to as the Bangkok Approach, was clearly defined. Appropriate amendments of taxation laws were on the move. Moreover, in the last quarter of 1998, the Bank of Thailand successfully accumulated pieces of information vital to the debt restructuring process, especially the number of creditors of each debtor and the level of non-performing loans.

Despite these positive signs, it will take some time for voluntary debt restructuring to materialize. It is a complicated matter and is very new to Thai entrepreneurs. As many as 3,000 companies will need to restructure their debts. Many of them have more than one creditor, and the stake of each creditor and debt varies. The situation is even more complex in the case of big companies with massive debts, as the "hair-cut" measures will have a negative impact on their creditor banks.

On the policy aspect, the government's measures on debt restructuring are found to have the following limitations. First, information on at least three areas is lacking: information for short and medium-term macroeconomic forecasts, information on both domestic and international industries, and information on troubled companies. Without these three levels of data, debt restructuring officials cannot accurately estimate a company's loss and future cash flow to determine the feasibility of the company's debt restructuring plan. Secondly, as in most cases, a company has more than one creditor, there are occasions where creditors disagree on terms and conditions. Thirdly, without a foreclosure law, many debtors do not cooperate in negotiating the debt-restructuring package, and creditors are in no position to force them to do so. Fourthly, the Bangkok Approach does not clearly specify the allocation of loss. Moreover, debt-to-equity swaps in the case of companies operating under the government concession are prohibited by law. Last but not least, the Asian economic recession has dramatically eroded corporate competitiveness and cash flow, making it difficult for businesses to recover.

The group's recommendations on the above situation are as follows:

- The objective of voluntary debt restructuring should aim at the survival of viable companies, which will in turn prevent further massive lay-offs of workers.
- The public sector should take a lead in gathering information vital to the debt restructuring process. Such data will also serve as a crucial base for further research on problems and the effectiveness of the current restructuring process.
- The government should design and implement effective and fair measures on voluntary debt restructuring. These measures should aim at reducing the transaction costs of debt-restructuring negotiations, avoiding burdens on taxpayers, and defining clear rules of loss allocation.
- The government should amend relevant laws to increase incentives of all parties involving in the debt restructuring process, while reducing incentives of those who prolong the process.
- The government should lead in the debt restructuring process of companies operating under government concessions.

### **Overcapacity**

Overcapacity is a worldwide problem, and especially so in Asia. In Thailand, overcapacity is found in many industries, notably petrochemicals, steel, construction materials and automobile. Triggered by over-investment, the problem has been aggravated by the present Asian recession. Total volumes of sales in many industries are now only 30 percent to 50 percent of production capacity. Now facing the situation of over-capacity and a drastic drop in sales, many industries have been forced to rationalize. Since financial losses will occur in corporations undergoing structural adjustment, this industrial rationalization will also affect the financial sector. It is thus important that the government hasten the process of industrial rationalization through drastic and appropriate measures to enhance the competitiveness of Thai industries.

### **Medium-term Restructuring of the Production Sector**

A lot of time and discussion was devoted to this topic. The group agrees that in the medium term, the government

should focus on the creation of a conducive environment for industrial survival, and trigger the dynamics needed for competitiveness and sustainable development. The following are recommended as significant policies in this regard:

- *Government measures to reduce costs of doing business*, e.g., tax rebates, infrastructure and utilities costs.
- *Appropriate value of the baht*. At the time of the Conference, some participants felt that the baht was overvalued since the current account surplus resulted from a decrease in imports rather than an increase in exports. Hence, the Bank of Thailand should find an appropriate currency regime to ensure the proper value of the baht.
- *Toward a more uniform tariff*. The current tariff structure is relatively biased against some industries, and still has a relatively moderate level of protection. To eliminate the bias against exports and some upstream industries, there is a need to reform the tariff system.

### **Long-term Restructuring of the Production Sector**

Thailand has been rapidly losing her comparative advantage in labor-intensive and agricultural exports. Her technological capability is as yet too shallow for industrial upgrading. A TDRI study finds that the total factor productivity of the manufacturing sector has been negative. Thus, there is an urgent need for Thailand to restructure production. The topic attracted much attention and discussion. The group agrees that the core strategy for long-term production restructuring lies in the building of technological capability, as well as the creation of a conducive environment.

Recommended strategies for the two long-term objectives are:

- *Upgrading of educational standards*. The government should strengthen qualifications for teachers and teaching methods, and create an education control system whereby credible associations are authorized to certify educational standards. In addition, the government should expand the education base in the secondary level.
- *Promotion of supporting/conversion industries*. The government should promote the supporting/conversion industries as they enhance the value-added strategy as well as create new markets and intra-industrial linkages, such as in the petrochemical industry.
- *Creation of technological competence*. The comparative advantages of Thailand, such as cheap labor and raw materials in particular, are quickly eroding. Hence, to survive in the competitive world market, Thailand must seek a new and dynamic comparative advantage that should focus on building technological capability. Key strategies for technological capability development include the promotion of creative imitation and the cooperation between the private sector and public research institutes in product development, such as through soft loans and the promotion for technology-importing companies to adapt and to develop new technological competence. Moreover, the government should upgrade industrial and environmental standards.

However, the group is concerned that an unbiased environment alone may not be effective enough to promote sustainable growth in certain industries key to the country's technological capability development. Some members of the group recommended that the promotion of targeted industries and the creation of a conducive environment be balanced. Strategic industries include supporting/conversion industries which directly affect the competitiveness of Thai industries. The government should set out critical conditions to support key strategic industries, provided that these conditions are implemented under a determined time frame.

### **Restructuring of the Agricultural Sector**

The group agrees that the agricultural sector can partially absorb some of the shock of the economic crisis. The weaker baht, for instance, increases agricultural income as a consequence of higher export earnings. Commercial agriculture (under the mainstream agriculture), however, does not yield as much cash income as other economic sectors. At present, even though revenue from agriculture accounts for only 12 percent of the gross national product, agricultural employment is as high as 47 percent, resulting in the lowest income per head compared to other economic sectors. In addition, attempts to increase agricultural income face various restraints, e.g., scarcity of resources, especially water, lack of land rights documents, long-term shortage of agricultural labor, and environmental degradation from overuse of pesticides.

The group agrees with a study conducted by the TDRI that agricultural policies must aim at increasing productivity

and reducing risks. The government should redirect agricultural policy toward more investment in research and technology, which is found to yield the highest return. Other important policies include hastening the issue of land rights documents which farmers can use as collateral to obtain long-term credit for investment in agricultural or non-agricultural activities; effective management of water usage; control of pesticide usage through the revision of import taxes and pest control measures, such as free pesticide handouts; and the promotion of the futures market. Moreover, to increase agricultural productivity and income, farmers need a creative mixture of many disciplines. Apart from agricultural knowledge, they need managerial and marketing skills, as well as business linkages between the agricultural and the industrial sectors.

In addition to the above policies, the government should promote rural development so that farmers have more choices, be it a choice in non-agricultural sectors through the provision of non-agricultural credit, or a choice of alternative agriculture. Concerning alternative agriculture, the group agrees on the following:

- Alternative agriculture or a mixed farming system can be sustainable and beneficial to farmers' families, society and the environment. The best way to support alternative agriculture is to educate farmers so that they can make their own choices, learn to solve their own problems, and adopt alternative agriculture that suits their ability and environment.
- Alternative agriculture and commercial agriculture, characterized by large-scale farms with commercial and marketing potential, should be concurrently developed on the basis of local wisdom. This will provide alternatives for farmers with different capacity levels.

### **GROUP 3: SOCIAL AND ECONOMIC RECOVERY OF THAILAND**

The gravity and magnitude of the present economic and social crisis is the most severe since Thailand became a constitutional monarchy in 1932. As many as 1.84 million people were unemployed in 1998. The contracted economy has also provided limited employment opportunities for approximately 500,000 new graduates (primary school level and upwards) who entered the job market. Impacts are also felt among the poor, especially those receiving state welfare (e.g., pre-school children, students fed by supplementary meals, the elderly, and neglected HIV-positive patients etc.) and other less advantaged groups under the care of charitable foundations (e.g., orphans, street children and the handicapped). Moreover, as the economy has been, and will continue to be weak for some time yet, the social and economic impacts will also spread throughout society in the form of income reduction and a rise in living expenses, which will in turn cause an increase in crime, drug abuse, unsustainable exploitation of natural resources, and over-use of public facilities (TDRI 1998).

Traditional economic management strategies will be insufficient to tackle such severe social problems. As of May 1998, severe budget cuts, amounting to 47,956 million baht as a result of the International Monetary Fund (IMF) conditions to reduce government expenditures, were imposed on the Ministries responsible for rural management and welfare, i.e., the Ministry of Education, the Ministry of Public Health, the Ministry of Agriculture and Cooperatives and the Ministry of Labor and Social Welfare. Moreover, the crisis has highlighted how the country's development approach has neglected to construct an "immune system" for society, i.e., the strengthening of family institutions and communities, which are the roots of Thai society. For Thailand to survive the present crisis and to construct an appropriate shield for future crises, a new approach of development, both at the conceptual and strategic levels, is needed. People's participation and strong civil societies must be enhanced. Families and communities should be strengthened to enable them to support members of society affected by the crisis. At the same time, it is important that families and communities have choices and the ability to determine the appropriate use of resources suitable to their economic situation, social standing and environment (TDRI 1998).

Approximately 95 participants attended the group discussion, most of whom were representatives from the public sector and non-governmental organizations. Points of discussion and recommendations are:<sup>5</sup>

#### **Impact of Economic Crisis**

- The impact from unemployment is found to be the most severe, now that inflation has decreased.
- The impact is uneven in different communities.
- The impact of the crisis on the environment is both positive and negative, thus requiring monitoring and assessment.

## From Crisis to Sustainable Development

- Non-Performing Loans (NPLs) have increased and have been witnessed among the poor.
- The crisis has reinforced the drug trade, which has become an easy way of earning income.
- Child and prostitution problems have increased.
- Tension, violence and crimes have risen, while family structures are weakening.

## Government Constraints

- The government's capacity to effectively target assistance is weak.
- The government has shifted assistance policy/levels without adequately considering the impact of such changes.
- Unacceptable use of authority and discretion in program implementation are being witnessed.
- National budgets are viewed by government agencies as theirs, rather than public budgets.
- Capacity, accountability and transparency of local governments are debatable.
- The government's approach to problem solving is too fragmented.
- Planners lack information and vision.
- Gaps exist in the rendering of a social safety net. The informal sector, for instance, does not have access to the social safety net.
- Government officials lack appropriate attitudes and skills to generate productive cooperation with communities.

## Recommendations

1. The development and promotion of innovations in approach, behavior, policy, and program implementation are needed.

### *Innovations in Approach and Behavior*

- Communities should participate in overseeing institutions that have important roles in developing community capacity, e.g., schools, temples and the police.
- Tax measures, such as green taxes, should be used to encourage socially desirable behavior.
- The capacity of communities in developing and expanding the social safety net should be recognized.
- Communities should have access to government resources for local benefits, e.g., the use of government facilities for community meetings.
- Thai consumers should be encouraged to consume community-produced merchandise, e.g., those marketed at Lemon Green outlets.

### *Structural Innovations*

- Transparency and justice should form the basis of government budget allocation, including allowing organizations that are not part of the state to access public budgets, all under clear accountability provisions.
- The potential of local governments in collecting and managing local revenues should be enhanced.
- Local savings groups should be upgraded and promoted.

- Policies and institutions to allow people's participation in the allocation of natural resources and protection of the environment should be reviewed and improved.

### *Innovations at the Project Level*

- An agency to protect the rights of low-income consumers should be established. This organization should educate the public on the quality and price of merchandise.
  - The state-owned mass media can be used in the creation of community linkages and the exchange of knowledge and information among communities.
  - The management capacity of community leaders and managers of local governments should be enhanced.
2. The government should involve the people's sector in the evaluation processes of projects to mitigate the negative impacts of the crisis.
  3. Reorientation of inappropriate attitudes of government officials toward communities and vice versa can be done through mutual learning processes, such as visits to community projects, as well as joint design and implementation of community development projects by governmental officials and local people.
  4. Another option to mitigate the negative impacts of unemployment is the use of the national budget to hire the laid-off to work as social volunteers.
  5. The expansion of the human rights network should extend to village level.
  6. Exemplary practices of communities that are successful in multilateral development activities should be collated; their processes reviewed; and exchange visits encouraged.

## **GROUP 4: GOOD GOVERNANCE FOR SUSTAINABLE DEVELOPMENT**

Good governance refers to "systems, structures, and procedures that set out relations among the economic, political and social sectors of a country" (ÁÏ¼Ô¹·i 1998: 6). It involves mechanisms to instill good administration and management systems in all aspects and at all levels of society, ranging from the Cabinet, the public sector, governmental organizations not under the public sector, local administration organizations, independent organizations, private organizations, associations and groups, private businesses, and the civil society.

"Good governance" has caught attention in Thai society following the enactment of the 1997 Constitution and the onset of the economic crisis. In the first Letter of Intent between the Thai Government and the IMF, one of the conditions stated is for the Thai government to establish "good governance" in the public sector administration. It is believed that the lack of good governance in Thai society is an underlying cause of the present economic crisis, and the establishment of good governance in all social sectors will accelerate the recovery process, as well as lay a solid foundation for future sustainable development (°ÇÄÑî; 'Ôî 1998; ÁÏ¼Ô¹·i 1998).

The establishment of good governance is a long-term task that requires strong will and cooperation from all social sectors at all levels. Approximately 110 participants attended the group discussion. The following recommendations were made.<sup>6</sup>

### **Promotion of Good Governance in Thai Society**

- Thai people from all groups at all levels must collectively select, screen and determine the desirable structure and components of "good governance." This process will yield "Thai good governance" best suited to the Thai society, and it will create an efficient and transparent system of administration in different sectors under which a just and transparent Thai society can be formed and nurtured.
- The 1997 Constitution, in which the people sector for the first time had a significant input, triggered the momentum for good governance. However, to instill good governance in the Thai administrative system is a long term process, and the severity of the social and economic situation does not allow the evolution of good

governance through political reform alone. A separate ongoing process to push for good governance is thus needed, and all social sectors need to participate in the establishment and promotion of good governance (See [chart 1](#)).

- Active roles in the establishment of good governance should belong to independent yet linked task forces not under the public sector structure. Their roles are three-fold:
  1. Systematic organization of the participatory process of people at all levels to exchange ideas, create social awareness, and trigger momentum;
  2. Conduct of good governance-related studies in order to form a continual body of knowledge; dissemination of the accumulated knowledge through the media and educational system; creation of a new generation through the involvement of the educational system;
  3. Organization of networks to ignite change through existing mechanisms of related agencies.
- "Sunset laws" to promote good governance are needed, with a determined time frame and specified procedures of monitoring and evaluation.

## **Public Sector Reform to Support Good Governance**

### ***Importance of Good Governance in the Public Sector to the Survival and Sustainable Development of Thailand***

- The public sector supports the private and people sectors by setting rules, maintaining justice, upholding democracy, and protecting society against potential harm. It initiates and maintains effectiveness and efficiency in administrative systems for sustainable development.
- The establishment of good governance in the public sector is key to the public sector reform which is much needed in the era of globalization. Appropriate public sector reform will lead to sustainable development.
- Good governance in the public sector guarantees fairness and effectiveness in the allocation and use of resources, as well as the distribution of public services.
- Good governance in the public sector prevents rent-seeking behavior resulting from collusion between politicians and government officials.

### ***Major Problems in the Promotion of Good Governance in the Public Sector***

#### ***Structural Problems***

- Centralized administration;
- Centralized budgetary system;
- Lack of an effective system to monitor achievements of public agencies;
- Lack of performance indicators;
- Lack of serious enforcement of rules;
- Monopoly and lack of social participation in decision-making and service provision;
- Lack of competition in public service provision.

#### ***Behavior of Government Officials***

- Ranking individual and organizational benefits over public benefits;

- Unaware of own appropriate roles;
- Lack of discipline and lack of rule enforcement;
- Lack of vision or having a vision incompatible with appropriate values and desirable cultures (in the case of executives);
- The patronage system in Thai society and the public sector;
- The perception that government officials are protectors/benefactors.

### ***Obstacles to the Promotion of Good Governance in the Public Sector***

- Lack of strong leadership; lack of interest and will from executives;
- Lack of political will to back up concrete and continual change;
- Lack of incentives and a reward system;
- Lack of knowledge and understanding of the concept, resistance to the concept;
- Lack of movements and pressure from outside the public sector due to a weak civil society and social networks;
- Clashes of ideas and benefits among different groups;
- Lack of budget and human resources to initiate and support promotion of good governance in the public sector.

To overcome the above obstacles, the following are needed:

- A Bill on public sector reform;
- The establishment of social networks as a base of social forces;
- Standards in public service provision;
- Legal enforcement through the strict enactment of rules;
- A code of conduct and ethics for government officials;
- People's awareness of their rights and duties.

### ***Recommended Procedures for the Promotion of Good Governance in the Public Sector***

- Public sector reform should be set up as a national agenda with a determined time frame and concrete operational plans, e.g., the drafting of laws within six months; the operation of short-term plans within five years, and of long-term plans within 10 years.
- There should be a movement to create awareness and educate the general public on the issue.
- The country needs "sunset laws" to promote and support good governance in the public sector and to endorse agencies which promote good governance in the public sector. In the laws, a clear definition of good governance, a specific enforcement timeframe, objectives of the laws, and mechanisms for constant monitoring and evaluation of the laws need to be incorporated.
- The government should provide sufficient financial and human resources.
- Public sector reform aims to improve the following: role; structure, authority and duty; administrative structure; organizational structure; mode of operation; system and procedures of government officials; culture and values;

and technology.

### *Who is responsible?*

The establishment and promotion of good governance in the public sector should be a joint task between agencies inside and outside the public sector. The task force should comprise representatives of scholars, the general public and the private sector. The secretariat of the task force should be in a form of an advisory body, possibly the National Economic and Social Development Board (NESDB). The government should provide financial support.

### **Directions to Establish Honesty and Transparency in the Public Sector**

- Causes of corruption in the public sector.
  - Giving out gifts or money in return for favors is still practiced although it no longer fits the values of modern Thai society.
  - The lack of strict control opens door to greed and leads to corruption.
  - Authoritarianism is still practiced in the system, encouraging government officials to compete for top positions through materialistic means.
  - Misinterpretation and misuse of some Thai sayings, such as "Turn a blind eye" (อย่าเห็น) and "Make hay while the sun shines" (ทำมาหากิน), has led to misconceived sentiments that corruption is a normal way of Thai life.
- Corruption is likely to increase if managerial and administrative systems are not improved.
- Enforcement of law alone cannot instill transparency and honesty in the public sector. Other supportive measures, monitoring agencies and pressure from outside the public sector need to be established. In the newly-established system, one should see transparency, monitoring and control, as well as higher participation from the people sector, particularly in personnel management and the procurement process.
- The following are some strategic options: promotion of counter-corruption movements through public dissemination of knowledge and information; promotion of both social and legal indictments against the corrupt; demotion of cultures prone to supporting corrupt practices; and the promotion of cultures in favor of transparency and honesty, such as praise for transparent, efficient and accountable styles of work. Government officials at the executive level must not be corrupt and must take it as their duty to guide and monitor subordinates not to practice corruption.
- The people, as recipients of public services, must not encourage corrupt practices in any way. Bribery in all forms must be withdrawn. The people and other stakeholders should be encouraged to monitor practices of government officials, while those who reveal information on corruption should be rewarded and protected by the government. The family, as a social institution, has a direct role in forming an anti-corruption mentality.
- The press should constantly monitor and reveal corrupt practices and should receive state protection when revealing information on corruption. It is important that the press adhere to transparency and objectivity at all times.
- Groups and associations established for the purpose of anti-corruption movements, by educating the public against corruption and revealing the behavior of the corrupt, for instance, should be recognized by law.
- Government officials must realize that their role is to provide public services and that a basic right of taxpayers is to receive effective services from them. A system of reward to government officials who provide effective public services will diminish the mentality that government officials are superior to the people and will establish a new social concept of "service government officials." The system of "business government officials" will eventually be replaced. In addition, the public sector must comply with the Information Law and the Public Sector's Practices Law. In all cases, support from the government is crucial.

## **Good Corporate Governance in the Private Sector**

The establishment of good corporate governance must take place concurrently with that in the public sector and the people sector. This is a long-term process. However, in the short run, the following components of business practices can be adjusted as a constructive start for sustainable development.

### ***Structure of Shareholders***

Approximately 60 percent of the shareholders of most Thai public companies are controlling share-holders. It is necessary that the roles of banks (as creditors), institutional shareholders, and minor share-holders be encouraged in business administration.

### ***Roles of the Board of Directors***

The board of directors links shareholders and the company's management and is accountable to the share-holders. An increase in the component of independent board members is thus important. Moreover, the audit committee, nomination committee and compensation committee should be organized. Programs to improve the quality of the management should also be encouraged so that management is aware of its roles and responsibilities. An example of such programs is the establishment of the institute of directors.

### ***Legal Aspects***

The structure of shareholders in most Thai public companies leads to a tendency of controlling shareholders dominating the decision-making process, and a sign of bad corporate governance in Thai society is minor shareholders being taken advantage of. To create equality among shareholders, a law to protect non-controlling shareholders is needed. Non-controlling shareholders should have sufficient authority in such areas as calling for shareholders' meetings, nomination of members of the board of directors, and voting rights in crucial matters. It is also important that the law guard against controlling shareholders seeking individual benefits from the company through insider trading or other business activities that potentially lead to conflicts of interests.

Lack of efficiency in the enforcement of the law, for instance, delays in the juridical process or the fact that a plaintiff must prove the defendant guilty, has hindered good corporate governance as it leaves room for those who break the law not to be indicted.

### ***Transparency***

Release of information on public companies that is true, accurate and sufficient for investors' decision is a basis for good corporate governance. Accordingly, accounting standards, accounting systems, and auditing are very important.

### ***Voluntary Practices***

Good corporate governance will be established only with the voluntary cooperation of the private sector. Good governance of a company will increase the credibility of the company in the view of investors. Pressure from market competition and the establishment of business codes of ethics are strong motives for voluntary practices in the private sector.

### ***Strategies to Instill Good Corporate Governance in the Private Sector***

To the Thai society, good corporate governance is still an abstract idea. To develop good corporate governance, it is important that businesses and the general public understand its concept, structure and process. Incentives for all parties involved to welcome and practice good corporate governance should be enhanced. The public sector and the people sector should also join forces to push for the development of good corporate governance. If these strategies prove insufficient, measures to pressure private businesses to adopt and adhere to good corporate governance are necessary.

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