

Summary of the 2006 TDRI Year-end Conference on “Toward a Decade after the Economic Crisis: Lessons and Reforms”*

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“...After the economic crisis, His Majesty the King’s Speech on the Philosophy of Sufficiency Economy was something which reminded and taught us that excessive behavior, immoderate attitude,



unreasonableness, and the absence of integrity as well as honesty that were prevalent in Thai society before the economic crisis did bring about the disaster. So, if we still do not improve ourselves or build up our immunity to prevent all risks and volatility from either internal factors or the impact from globalization, the economic crisis might occur again and again...”

*H.E. Mr. Anand Panyarachun
2006 Year-end Conference,
opening remarks*

For more than 20 years, the Thailand Development Research Institute (TDRI) has been organizing an annual year-end conference. The topic for each year reflects a theme that is considered to be relevant to the country’s development at that time. There are three main purposes of the year-end conference: (1) to present research findings related to the theme of the conference; (2) to serve as a forum for intensive discussions and brain-storming among the participants who come from diverse backgrounds, including the public sector, the private sector, academia and the people sector; and (3) for the participants to formulate recommendations on appropriate strategies and policies related to the issues under discussion.

As the year 2007 would mark the tenth anniversary of the onset of the 1997 economic crisis, the timing was therefore appropriate for looking back at what had been learned from the crisis, what reforms had been carried out to improve the economic resilience of the country, and what additional reforms were still needed. TDRI, in cooperation with the Chai Pattana Foundation, the Bank of Thailand, the Office of the National Economic and Social Development Board, the National Economic and Social Advisory Council, and the Community Organizations Development Institute, chose as the theme of the conference “Toward a Decade after the Economic Crisis: Lessons and Reforms.” It was held at the Ambassador City, Jomtien, Chon Buri on December 9 and 10, 2006.

* This article, except for the opening remarks quotation, was summarized and translated from TDRI Report No. 44, March 2007 (Special Issue) on the Summary of Group Discussions from the 2006 Year-end Conference: “Toward a Decade after the Economic Crisis: Lessons and Reforms.”

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FORMAT AND THEMES OF THE CONFERENCE

The Annual Year-end Conference for 2006 consisted of four parts. In the morning session of Saturday December 9, the Conference was inaugurated with opening remarks by H.E. Mr. Anand Panyarachun, TDRI Chairman of the Council of Trustees and Board of Directors, and former Prime Minister of Thailand. This was followed by a panel discussion on the previously mentioned theme topic and a presentation by representatives of the research team summarizing the various research papers distributed as background papers at the conference.

In the afternoon session of December 9, the Conference participants were split into four group sessions. In the plenary session on the morning of Sunday, December 10, representatives of each of the groups reported on their main findings and recommendations.

The Group sessions were divided up as follows:

1. Reforms in Macroeconomic Management

This topic focused on the changes in macroeconomic management brought about by the crisis, particularly the switch to a managed-float exchange-rate regime together with an inflation-targeting monetary policy framework. Possible risks from fiscal and quasi-fiscal policies were also considered. In addition, developments in regional cooperation aimed at reducing the risk of a future crisis and reforms in the international financial architecture were covered.

2. Reforms of the Financial Sector and Corporate Governance

A weak financial sector and poor corporate governance were factors that had been identified as important causes or factors contributing to the financial crisis. Since the crisis, together with cleaning up the

resulting financial mess, many reforms had been carried out to try to strengthen the financial sector and improve corporate governance. This topic covered the various reforms in order to assess their effectiveness and also suggest directions for future additional reforms.

3. Political Governance and Economic Policy

Politics influence economic policy directly. Poor political governance often leads to misguided policies and may increase the risks to economic stability. This topic covered issues stemming from poor political governance, such as conflicts of interest and the linkages between political monopoly and economic monopoly. Political reforms relevant to economic policy formulation were also covered.

4. Strengthening Local Communities and Safety Nets

Since the crisis, much had been done to strengthen local organizations and local communities so that they would have greater protection and become more resilient to possible crises in the future. The measures included spreading knowledge about His Majesty the King's "Philosophy of Sufficiency Economy" in order to encourage prudent behavior at all levels of society and to increase the society's resilience to shocks and crises. These topics were considered by this group. In addition, development of a formal social security system to provide additional safety nets for the people was also covered.

PARTICIPANTS

The Conference attracted approximately 650 participants from the public sector, the private sector, academia, non-governmental organizations, representatives from local communities, and the media.



REPORT OF THE GROUP DISCUSSIONS

The results of the group discussions were presented at the plenary session, which was chaired by Dr. Juree Vichit-Vadakan, Associate Professor, School of Public Administration, National Institute of Development Administration (NIDA), and a member of the TDRI Council of Trustees. The results of the group discussions were as shown below.

GROUP 1: Reforms in Macroeconomic Management

Background

The 1997 economic crisis inevitably brought about significant changes in Thailand's macroeconomic management. In order to recover economic stability, two major alterations were executed. First was the switch from a fixed exchange-rate system, which had been used for 50 years, to a managed-float exchange-rate regime. Second was the launch of an inflation-targeting monetary policy framework, which maintained the core inflation rate at 0-3.5 percent per year. These two systems have been employed to the present day.

Apart from these changes, there have been several changes in fiscal stance and fiscal practice in the country since the 1997 crisis. Some of these changes are conventional, for example the use of large fiscal deficits for many years to restore and stimulate the general economy. Some changes are however more fundamental and not customary. Those changes, for instance, the extensive use of quasi-fiscal policies which required state banks and special financial institutions to make special loans to selected groups according to the government's policies, more use of extrabudgetary money via various funds, the doubling of the "central budget" portion in overall government expenditure (most of which was used to finance political objectives), the introduction of the "CEO governors" budget, the use of information and communications technology in fiscal administration and disbursements. Most of these changes in fiscal practice were made during the five years of

administration by the Thai Rak Thai Party. Moreover, these fiscal practices had some implications with regard to transparency and fiscal sustainability. For example, the government made substantive borrowings in order to finance the village revolving-fund policy without prior approval from the legislature; the use of quasi-fiscal policy also lacked sufficient of, public disclosure and there were no explicit plans on how to bear the extra cost or possible damage resulting from, such policies. In sum, excessive use of quasi-fiscal policy would increase the risk to the country's economy.

On the regional front, the 1997 crisis had raised awareness among East Asian countries about the need to cooperate more with each other in financial areas in order to strengthen the financial stability of the region. Therefore, various forms of regional collaboration to reduce the risk of a future crisis were initiated, such as ASEAN+3, the Chiang Mai Initiative, and the Asian Bond Market. Likewise on the global front, reform of the international financial architecture was considered to be one of the most important items on the global agenda and there were efforts among members of the global community to put this into action. Nevertheless, no tangible reform has yet been perceived.

Group discussion

The discussions focused on four topics as follows.

1. *Lessons learned from the risks that led to the 1997 crisis*

It was found that economic globalization, especially highly volatile financial globalization, can bring about tremendous risks for the country's economy. Hence, the group concluded that the country might face another severe crisis if policy makers (1) employ an irrelevant macroeconomic policy framework, (2) lack a comprehensive and correct database, such as an early warning system, (3) act imprudently with regard to project appraisal for all mega projects that would affect the whole economy, (4) are immoderate and unreasonable, and (5) lack integrity and honesty.

2. *Solutions to the crisis and ways to reduce the risk of a future crisis*

As mentioned previously, in order to attain economic recovery, two major changes in macroeconomic management were made and regional financial cooperation, such as the Chiang Mai Initiative, was also introduced.

Despite such progress, in order to reduce the risk of a future crisis, the government needs to promote the establishment of long-term funds and develop an economic database in order to support the establishment of an early warning system. Moreover, the Philosophy of Sufficiency Economy should be adopted as a tool

aimed at helping to reduce risks in the lives of the people.

3. *Current problems and potential risks*

It was concluded that risks and volatility in international financial and capital markets are not fewer than before 1997. In fact, they are even greater. Specifically, although an inflation-targeting monetary policy framework had reduced some risk of a future crisis, it could not control all volatility, especially the highly volatile currency market, which accordingly would affect the competitiveness of the real sector.

For potential risks, it was found that some fiscal risks have occurred owing to the quasi-fiscal policy and the lack of an economic database during the administration of the Government by the Thai Rak Thai Party. The study pointed out that, during the fiscal years between 2003 and 2006, the use of extrabudgetary funds was greater than that of budgetary funds (nearly double in fiscal year 2003). Moreover, the investment budget under the extrabudgetary funds was much greater than that under other financial sources, including budgetary funds and the budget of State-owned enterprises.

For mega projects, it was concluded that a system for project appraisal has not yet been developed. Furthermore, there are loopholes that contribute to higher risks in the economy as a whole.

Lastly but significantly, it is noteworthy to remark that all behaviors which contradict the Philosophy of Sufficiency Economy, such as excessive, immoderate, and unreasonable behaviors, as well as the lack of integrity and honesty, have been prevalent during the past several years.

4. *Recommendations*

As the current government will last for only a short period, it might not be possible to set up an intermediate-term goal. However, the government can still pave a stepping stone for the future sustainable development of the country. For example, the government should enact some laws that would prevent the abuse of power of future governments. Recommendations were divided into five topics as follows:

a) International area

- Thailand should be one of the leading countries for promoting further financial cooperation in the region.
- Thailand should support the establishment of a regional financial institution, the development of a regional bond market, and the extension of Asian Development Bank so that it could facilitate the provision of long-term funds to private businesses in the region.

b) Financial area

- The government should draft a law to support the existing macroeconomic policies, such as laws for the Bank of Thailand.
- The Bank of Thailand should develop more effective and flexible management in dealing with the volatility of exchange rates.

c) Fiscal area

- The government should set up a fiscal early warning system in order to forecast the potential risks that stem from future fiscal and quasi-fiscal policies.
- The government should establish a comprehensive and transparent database of fiscal information in order to support the previously mentioned fiscal early warning system. This would include a breakdown of each fiscal liability.
- The government should enact a law that promotes transparency in all fiscal activities.
- All stakeholders should be encouraged to monitor the fiscal policymaking process.

d) Mega project

- The government should develop a system of checks and balances in project appraisal for all mega projects, as there are many loopholes in the current process. This issue should be the main item on the agenda of the current government; otherwise the country would lose a large amount of money to corruption and inevitably put the country at greater risk.
- There should be a main goal for all investment (e.g., effectiveness, cost reduction) in order to get the big picture of the investment, that is, to see how each project is related to others.
- The government should be concerned about financial risk. It might look at the possibility of raising long-term funds in the region, in the same direction as the development of regional long-term bonds.

e) International competition

- The government should be prudent; it could sequence as well as prioritize the free trade agreements into which the government should enter.
- The government should establish a more comprehensive early warning system for

international competition. For instance, information from the public and private sectors should be combined. Moreover, a knowledge base needs to be developed, as it is a key factor for driving the economy, according to the Master Plan on the Fundamental Knowledge Base of the current government. It was, nevertheless, remarked that this knowledge base should be created soon.

**GROUP 2:
Reforms of the Financial Sector and Corporate
Governance**

Background

A weak financial sector and poor corporate governance, because of “crony capitalism,” were factors identified as important causes of, or factors contributing to, the 1997 crisis. Therefore, since the crisis many reforms had been attempted to strengthen the financial sector and improve corporate governance, for example, the supervision of financial institutions and the capital market by the Bank of Thailand, and the restructuring of financial institutions and other businesses, such as the change in the business model used by commercial banks.

Group discussion

The major lesson to be drawn from this discussion is that economic management without a system of checks and balances will lead first to a non-transparent system and finally to corruption. Therefore, after the financial crisis, all sectors, especially the financial institutions, had joined together in supervising and strengthening the financial market. For the capital market, there were also changes in rules and regulations. However, there are still some loopholes that could be exploited for personal gain, such as share price manipulation, and the use of nominees in the stock market.

The discussion was divided into four topics as follows.

1. *The role of the Bank of Thailand*

The Bank of Thailand has developed a system for supervising financial institutions in order to reduce possible risks in the future, for example, by establishing important standards on reserve requirements for financial institutions. Specifically, the Bank of Thailand has prepared financial institutions before launching the application of the Basel II Framework and the IAS 39, which is international accounting standard No. 39 on reserve requirements. IAS 39 requires finance, securities, and credit foncier businesses to maintain their reserves at 100 percent of the difference between total

liabilities and the cash flow expected from the debtor or the gain from selling securities. These measures are aimed at strengthening financial institutions and encouraging them to manage their assets in order to reflect real market prices.

Furthermore, the Bank of Thailand has collected basic financial information in order to analyze and set up the previously mentioned early warning system. It also supports financial institutions so that they would be sufficiently protected from risks, especially by encouraging them to be more stringent about risk management. Also, it encourages them to practice good corporate governance in their organization, both in terms of the structure and accountability of the board of directors and executives.

2. *The restructuring of financial institutions*

Apart from the restructuring of financial institutions according to the rules and regulations of the Bank of Thailand (e.g., the classification of reserves for bad debts, requirements on liquidity assets and the level of funds), financial institutions have also been forced to adapt and develop in nearly every dimension of their operations. In terms of business structure, the financial institutions currently are focusing on financial services. This will increase non-interest income and reduce risks from depending on interest income. In terms of risk control, the focus is mainly on credit risk management, risk control in marketing, and operational management. With regard to customers who are very important to entrepreneurs, the financial institutions had adopted a customer-centered approach. They tried to sell various kinds of financial services to serve the various needs of each customer. This method requires a good relationship between the financial institutions and their customers. The financial institutions which took this approach would enjoy more advantages than the ones that would focus only on financial services.

3. *Government intervention*

The government has played an increasing role (no matter how intentionally or unintentionally) in the Thai financial sector since the 1997 crisis by turning the 56 finance and securities companies that collapsed into State-owned enterprises called Specialized Financial Institutions (SFIs). The provision of this aid, however, made the government incur a loss of 1.4 trillion baht. Moreover, as State-owned enterprises, SFIs might be exploited by the authorities or politicians.

Apart from that, the government stimulated the demand for investment by borrowing from the SFIs for the execution of the administration’s populist policies. Although some populist policies showed goodwill toward the underprivileged, they did not generate tangible results. Moreover, supervision of the SFIs still faced some problems.

4. *The development of the capital market*

Because the Bank of Thailand had been stringent in the application of its rules and regulations, most financial institutions were very careful about approving loans. Hence, after the economic recovery, the capital market (especially the stock market) became an alternative for companies to raise funds. However, the increase in market capitalization has come about largely through new listings. Therefore, making market capitalization more sustainable requires improvements in the quality of the market, expansion of the investor base, both retail and institutional, and dissemination of useful information to investors.

The Securities and Exchange Commission (SEC), the supervisory agency for the stock market, had also developed its working system with regard to supervising the listings. In doing so, the SEC tried to lessen the inequality in information disclosure by forcing the listings to disclose their in-depth information to shareholders, such as information on their management policies and financial reports. Nonetheless, the SEC is without authority to pursue legal cases against those that have been found to have violated the law, such as in cases of share price manipulation.

GROUP 3: Political Governance and Economic Policy

Background

The link between politics and business is hardly separable since politics directly influence economy policy. Hence, poor political governance, which occurs when there are conflicts of interest and linkages between the political monopoly and economic monopoly, often leads to misguided policies and might increase the risk of economic instability or even precipitate an economic or political crisis.

Group discussion

The evidence shows that there are conflicts of interest among politicians, concession businesses, and supervisory organizations. Specifically, concession businesses often seek to influence policy outcomes related to them in both direct and indirect ways, such as providing political contributions, having representatives in the Cabinet and on the Trade Competition Commission. Such a cycle of corruption could be called the “Iron Triangle of Money Politics.” This type of cycle raises questions about whether consumer rights will be protected if a committee on the Trade Competition Commission has a clear conflict of interest, for example.

In order to break this iron triangle, the group recommended the following recommendations:

1. *For the public sector*

1.1 Punishment measures

The current government should show serious intention in punishing corrupt officers and also strengthen the punishment system. For example, reviewing laws with a view to increasing the penalties for corrupt politicians and officers, and promoting the “rule of law” or, in other words, not allowing any person to be above the law.

1.2 Prevention measures

The government should enact a law to circumvent the “conflicts of interest,” such as requiring information disclosure and imposing penalties for failure to do so. Apart from that, the government should promote transparency in government agencies, such as enacting an information disclosure act, and promoting freedom of the press. Lastly, the government should enact some laws to require the economic supervisory agency to be politically free and to be responsible for its actions affecting the public, such as passing a law requiring that officers be dismissed if they abuse their power.

2. *For the people sector*

The people sector should set up a network to monitor the relationship between all actors involved in the cycle of money politics and another network to campaign for opposing monopolies and corruption. On the juridical side, the people sector should try to use the juridical process to solve problems and urge the government to provide easier ways for people to pursue legal action, such as requesting the enactment of a class-action law.

3. *For academia*

Academia should monitor and conduct research on new methods of corruption that have evolved as a consequence of money politics. Moreover, academia should recommend ways of recovering financial losses incurred as a result of past monopolistic practices and corruption.

In sum, corruption will continue to prevail since the law still empowers officers with decision-making powers. However, this problem could be lessened by setting up a mechanism to make the officers accountable. Furthermore, corruption can be prevented if monopolies are deterred from influencing policy and a network set up that would encourage the people’s participation in investigating corruption. The Iron Triangle of Money Politics can be destroyed if the government and the people sector have knowledge and information, and work together to solve this problem.

GROUP 4: Strengthening Local Communities and Safety Nets

Background

After the crisis in 1997, millions of people were laid off and had to bear heavy economic burdens. At that time no social protection system was in place, so not much could be done to help those adversely affected. Moreover, financial assistance, both from domestic and international sources, could not be allocated fast enough to help the affected people right away. With regard to local organizations and the local community front, these groups were still not strong enough to take care of the problem by themselves.

However, at present the social protection system has been developed in many areas, especially in strengthening local organizations and local communities as well as encouraging that the Philosophy of Sufficiency Economy be put into practice. People have more protection than in the past and have become more resilient to possible crises in the future. For the development of the formal social security system, much has been done to provide additional safety nets for the people, such as unemployment insurance and universal healthcare coverage. Nevertheless, despite all the progress, there is still some room for improvement.

Group Discussion

This group discussion was very interactive in terms of the different background of the participants, ranging from a Minister to local leaders as well as villagers.

Seven topics were discussed and the following conclusions reached:

1. Lessons from the local community and the challenges it faces

It was found that the community has been increasingly recognized by other sectors in society owing to the establishment of local organizations, the development network, both in terms of area and topic, and the horizontal working process. Moreover, the process of community planning and using local know-how has helped people in the community know themselves better which can help them to set common goals for the development of their communities. Apart from that, there is also community welfare based on community funds, community finance saving groups, and so on. It was found that some community finance saving groups were able to solve debt problems in their communities.

Concerning the housing problem facing the urban poor, the community has jointly worked with the local government and universities to upgrade and secure tenure for the urban poor. On the management of natural

resources, there are many community networks involved in natural resource preservation and management, such as the community forest network and the community land reform network. Sustainable agriculture is also promoted. In addition, the community is encouraged to self-manage and emphasize harmony politics.

On the challenge side, the local community still has to face 1) existing severe debt problems, 2) the values associated with over-consumption promoted by the mass media, 3) problems in the education system, and 4) the community still lacks supporting legislation to legitimize its status despite increasing recognition.

2. Local Administration Organizations

The status of the Local Administration Organizations is currently between that of a political organization, a quasi-government agency, and a civil society organization. In terms of the role of such organizations, they have changed their focus from constructing infrastructure to improving the standard of living of the people. In terms of authority, the central government has decentralized power to Local Administration Organizations, but this change has not had much effect on the community.

3. The practice of the Philosophy of Sufficiency Economy

To approach the practice of the Philosophy of Sufficiency Economy, this group focused on the Study of the Database of the Community Using the Sufficiency Economy Philosophy for the Appropriate Conduct of Life, which was carried out by Dr. Pipat Yodprudtikan, Director, Thaipat Institute, Foundation of the Thailand Rural Reconstruction Movement. This study involved a database review aimed at revealing information on the communities that used the Philosophy of Sufficiency Economy for the appropriate conduct of life and their profile of living in the midst of drastic changes within a culture of consumerism, social and environment deterioration, as well as on poverty issues. The database comprises data from 13 secondary sources, which have collected information on activities relating to the Philosophy of Sufficiency Economy. The data categorization of the database is based on three sufficiency-entailing components: moderation, reasonableness, and self-immunity, with two underlying conditions, knowledge and ethics. Those three categories are the Philosophy of Sufficiency Economy-inclining (78%), the Philosophy of Sufficiency Economy-including (20.1%), and the Philosophy of Sufficiency Economy-insight (1.9%). Moreover, it was found that the major problems in using the Philosophy of Sufficiency Economy for the appropriate conduct of life are debt, education, and problems relating to an individualistic society. Details of the data on the community may be accessed from the website <www.sedb.org>.

4. *The Philosophy of Sufficiency Economy versus the Village and Community Fund Program (VCF) and household savings*

VCF seemed in principle to be compatible with the Philosophy of Sufficiency Economy. Nonetheless, the administration of VCF, which progressed too quickly, spent too heavily, emphasized knowledge accumulation minimally, and performed program monitoring, brought about negative reversal effects with regard to program performance and sustainability. Therefore, policy adjustments for VCF, under the aegis of the Philosophy of Sufficiency Economy, should emphasize three aspects: 1) achieving balance between risk and the competence of the community, 2) reducing debt burdens, and 3) promoting an accumulation of funds in the community as a reserve for development.

With regard to household savings, the community saving group has created various types of savings. However, each saving group is encouraged to apply good governance practices in its activity, such as information disclosure, no matter what type of savings is involved.

5. *Universal healthcare coverage*

Universal healthcare coverage has been carried out very successfully. If the Local Administration Organizations would like to include healthcare coverage as part of their responsibility, they must improve its earning-competence and the central government must supervise the quality of each health-service provider.

6. *Future of the local community*

6.1 Principle

6.1.1 Employ the Philosophy of Sufficiency Economy as the backbone of development

6.1.2 Focus on the geographical area and let the community be the main actor in coordinating with other sectors

6.2 Method

6.2.1 Community plan – This is a development plan which can apply at all levels in society, including the family, community, sub-district, district, and province. It will help to set common goals and integrate with the plans of other sectors.

6.2.2 Community finance saving group/village fund – This method will encourage people to maintain household accounts and savings. The fund will be a capital resource of the community and could help to solve debt problems.

6.2.3 Community network on housing – The community, as a main actor, along with other network organizations would comprise a key factor in successfully tackling the housing problem.

6.2.4 Local community council – The council at the local community level will be a good mechanism to encourage people to work together.

6.2.5 Encourage the development of local databases and mutual learning processes within the community and between the community and other sectors.

7. *Recommendations*

7.1 Revise as appropriate those laws and regulations that facilitate the practice of the Philosophy of Sufficiency Economy in order to promote self-management in the local community, such as laws and regulations on funds, urban planning, and land tenure.

7.2 Balance the role of Local Administration Organizations between political, governmental, and civil society organizations; encourage them to focus mainly on local development and to remain free from national political mandates; and promote staff development, both in terms of attitude and competence.

7.3 Foster concern about the diversity of lifestyles and culture in different local communities and encourage each community to develop in its own way.

7.4 Encourage educational institutions in the region to participate in strengthening the local community by revising their education system in line with the local community, and support volunteer students to work with the local community and build up the young generation so that it could join in the development activities of the local community.

7.5 Divide the role and responsibility between the central government and Local Administration Organizations in providing healthcare services by considering their efficiency.

7.6 Support the allocation of financial budgets for the local community to self-manage their own problems and needs, because they know what is best for themselves.

7.7 Disseminate lessons and knowledge to other communities and Local Administration Organizations.

7.8 Promote the values associated with the Philosophy of Sufficiency Economy; foster integrity and oppose dishonesty and corruption. In this regard, a social investigation mechanism should also be set up.

7.9 Encourage community welfare and apply ethical principles in activities in order to create harmony in society.

7.10 Revise the policy to facilitate the strengthening of the local community, such as the use of the village fund to carry out community welfare activities.

7.11 Support the enactment into law of “The Local Community Council Act.”

7.12 Revise the law and constitution by adding issues on the rights of the community and its self-management.

