

**Mr Sonakul covers a number of aspects, including
good governance, transparency, public policy in the private sector
and the financial system in Thailand**

Speech by Mr M R Chatu Mongkol Sonakul, Governor of the Bank of Thailand, at the Credit Suisse First Boston Asian Investor Conference 2000, held in Hong Kong, on 22 March 2000.

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This is the first major Investment Conference I have attended in the new millennium - so life goes on - although public speaking is a major part of the life of a central bank governor, it is not the only part and we actually have to study theories and concepts, and execute and implement so let me speak on what we have done during the last two years of the last millennium when I took on this job.

I will not address extensively macroeconomic issues. You probably know nearly as much as we do. Our website alone gives a lot of information and macroeconomic data and analysis are easy to come by.

In any case, macroeconomic wise, our economy is in a reasonable shape. Growth has been significantly and continuously positive for the last four quarters and we expect the trend to go on. Exchange rates are stable and interest rates are at an all time low, whilst capacity utilisation, at the best for a long time, is still only at 63%, belaying any fear of significant inflation in the near future.

I will mainly therefore in my talk today direct my remarks mostly at the problems of good governance, competitiveness, transparency, righteousness and public policy in the private sector, in the government and in the financial system.

I shall also mention specific situations which, though in the long term would not be significant, in the short term could upset the pace of the recovery and unsettle the good macroeconomic situations that we find ourselves in as I have just mentioned.

Let me first pick a simple governance and transparency topic, our homepage. In the financial sphere, we have been trying to improve governance and transparency by improving the information available so that the decision-makers, be they financial institutions, foreign investors or locals may have easy access to accurate information and in so doing will become better decision-makers, whilst the transparency and availability of information on particular topics will force better behaviour by peer group behaviour or public pressure as the case may be.

We have been improving the homepage tremendously in the last couple of years and the extent of information available, as quite a lot of people say, is good. But we still find, I still think, very much wrong with it.

Firstly it is not very user-friendly. The format is amateurish and there are no "search" and "help aid" for users. So we hired outside webpage experts to upgrade it, who have been working for the last year, and will be ready to go forward with our easy-to-read, easy-to-use, user-friendly format in the next couple of months.

The information available on our webpage, whilst extensive does not go back very far in history, and to do real economic analysis, you may have to contact with the team responsible for these issues. Though this is easily done automatically by just clicking into the information item, it is still much better to have the information readily available on the internet rather than having to contact people.

In the more major task of restructuring the organisation, the work system and the vision of the Bank of Thailand which we have been doing in the past two years, we have established a new department called the Data Warehouse Department. This department will store all the information of the Bank, sourcing the raw information totally by EDI, thereby dispensing with the more than 900 paper reports that the financial institutions are having to fill every month and make the information available to

every user inside the Bank of Thailand and outside the Bank according as to their needs and access clearance.

Upon completion of the data warehouse, we have a plan to make economic information available on our webpage over a 20-year historical time-span, and this will be done in the next two years.

Another user-aid which we have done, but have not had the time nor resource available to make it really effective, is having a separate English and Thai language webpage. We have instituted this dual webpage, but unfortunately the English translation is quite frequently not available. We will try to have more of an equivalence between the two services. But the English language, not being the language of choice in Thailand, we expect that the word “available only in Thai text” is going to reign supreme for a very extensive part of the alphanumeric system.

A webpage might seem only a small matter to bring up for this speech, but actually an organisation’s webpage signals its attitude towards advance technology and its intent to be transparent, so it is an important item and is useful to look at for a quick checking into the attitude of people you don’t know well.

More importantly the central bank itself has been undergoing a structural revamp which I shall speak about only shortly as I have spoken on this many times before. Basically the six levels of management and one level of operation have been transformed to have only two levels of management and two levels of operations, with each level having people of different ranking depending on the size of the job. This is the usual broad-base horizontal organisation that modern businesses have, not surprisingly proposed by A T Kearney, our consultant.

There are now no more “Banking” or “Note Issuing” departments as first so clearly expounded in Bagehot’s “Lombard Street” written in 1873. It is sad when one has to move away from what has become an institution of central banking, but we have to move with the time, as so many central banks have had to do in the past decade.

Work on reorganising the management side is now fully complete and we are working on reorganising the departments and its work system which will take about another two years.

We have of course over the last two years been developing control over the money market. Developing the debt market and improving our supervision examination capabilities. We can truly say that we have very good information in the form of database daily on the money markets in the country and have developed the instrument to fairly effectively control offshore activities.

In terms of the debt market, we have developed a government bond market and a yield curve, and our next move is in the area of the private sector debt instruments which we have formally formulated into project, using A T Kearney’s methodology to execute our plan.

In the area of examination and supervision, we have now finalised a system where we train and with the assistance of outside authorities certify our supervisors to be of high and uniform-standard apart from changing the method of supervision from individual-based to one of approval-by-peer-groups comprising a supervision and examination committee inside the central bank.

Let me get on to more interesting subjects. Changing yourself is sometime easy and sometime difficult depending on how you manage to tackle the psychology of it. But changing other people is always difficult especially if they are well entrenched, rich, and will not let go of their apparent present prosperity even though they are heading for disaster sooner or later.

I am of course talking about changing our banks which we are trying to do through three main approaches: competitiveness, good governance and transparency. Although fully half of our banks will probably be directly controlled by foreign banks, and will have the home supervisory body help making sure that the banks are performing prudently in so far as it can be done remotely from their home base, we still have the problem of supervising the rest of the banks by ourselves. Of course, in nearly all banks there are now major foreign investors who at least will ask piercing questions. But we still have to apply local standards adapted to local conditions, and the best way is to have the host supervisors do a good job.

To ensure competitiveness from all the banks and to enforce an early start by Thai banks, we have already allowed sub-branches or service-points to be opened freely, and so network opening is really rather free and only the account-keeping function needs permission for expansion.

Branch closure is free as of last month and bank opening and closing time has been free for almost a year now.

We are working on the product side, both credit and funding, to allow banks to be more free to offer customers better services.

For good governance, no matter what you do and what you write, unless you make people who contradict the rules pay a price, no rules will work. We have therefore in the last couple of years prosecuted about 90 people for 49,000 million baht involving really 1.7 trillion baht of assets.

We have recently ruled that directors of banks must devote their attention to the banks and may not be directors of more than three other companies. Some directors have already conformed even though it would not be legally sanctionable until we explicitly inform them individually, which we have not done. We are beginning the process of follow up to fully enforce these rules soon.

We have also indicated that we would like to see banks, which are now large complicated places to run, have their directors devote their time to particular functions of the bank. We are also going to begin checking on this, but for sure with Siam Commercial Bank which I visited last week in order to discuss with them personally on their risk control procedures now have a Compensation Committee, and that is a good development different from the time when I was the director of that bank on the behalf of the Ministry of Finance.

In terms of transparency of letting people see what banks are doing with their deposits or their investment, or generally what banks are doing to the country even if they have no money in the bank, because this may well be important to them, we are having some difficulties since the old law was drafted with secrecy sort of more predominantly in mind than other features.

In the new law, we will have no real difficulties but we are still trying to go through the exercise of finding some enabling clause in the present laws to allow us to enforce the banks to announce their NPL, related lending, fines and penalties at the end of every month, and also to announce it ourselves for better impact.

This will take some time because the lawyers in the central bank and those from outside helping us with various operations at the moment differ over our ability to do this. But we intend to do it as soon as we can rather than later.

In the general area of governance, things are also moving. The electronic commerce law and the electronic signature law have just passed the Cabinet. Whether it will pass Parliament in its last year of its life depends on whether the Government wishes to rush a lot of legislation through or whether it will delay them for fear of losing the election.

I am inclined to think that it will be the former, as the Government does need more positive results to enhance its electability. So that is good news, if it turns out to be true, for people who wish to have good things done to the country.

On a more mundane but essential matter, EDI is now operating between the importers, exporters and the Customs, the Ports as well as the Department of Commerce, and Office of Maritime Promotion Commission with rapid linkage into other government offices scheduled for the rest of the year.

This will reduce costs and enhance competitiveness of delivery of Thai exporters, as it is so important to Thai exporters who export to areas where just-in-time production is the fad, in the leading economies.

In the government, many advance institutes such as textile and gemmology and so on are being set up to enhance competitiveness of our producers, and civil service reform is beginning at least in the area of the total number of civil servants.

The 30,000 people retired early are to be replaced only by 6,000 new recruits into the system who will reduce costs and bring in a newness to a very old and tired administration. One wishes one could have true reform where the way people are replaced throughout the ranks is also changed, or where incentives to work are changed, but I guess one has to start somewhere, and downsizing is better than nothing at all, and perhaps the most difficult part of a government programme.

Outsourcing, job contracting and such other more advanced managerial restructuring technology might well therefore be given emphasis in the near future, in the same way as there might now in October be two permanent secretary level jobs at some government ministries to enhance their workload capabilities just as most countries have decided long ago that since the chief civil servant was not the chief policymaker, it might be a good idea to have more than one, the way that CEOs have COO, CFO and CCOs.

At this time of writing my statement, the results of TPI court cases have just been announced. That the court has decided in favour of the creditors is probably a decision welcomed by many, but the due process of the law be carried out is probably more important than the results. It does seem that the process of restructuring does not have too much to do with debtor, creditors or the Thai people in the country.

As a poor man, my sympathy is often with the debtors who somehow honestly or otherwise having made all that money must now lose it all solely because they were greedy and try to take more or take too big a risk at the period when few people could foresee the cataclysm that would strike the country.

The TPI court decision seems to be “Classical Thai”. In the sense that we are a country which has a lot of compromises. I urge a new governance on the country where society would be rule-based. People compete according to known and clear rules and do not have to talk to civil servants just in order to do business.

Those rules were written 70 years ago in the change of the absolute to constitutional monarchy and tended, therefore, to be protective of the public and the consumer and to protect them against sharp practices or practices that might be deemed sharp of the business people.

Those rules have had to be changed over time, one by one, but they have not all been changed such for instance that a business company can not buy its own capital back to enhance its returns because it might be deemed financial engineering for its own sake, which the ignorant public might not understand.

One day soon there might come a time when the country would be fully competitive and it would be good for the general public, but at the moment the sentiment that the public must be protected is still quite noticeable.

And now the TPI decision seems to be no exception. In terms of legal framework, TPI has been put into rehabilitation process and that should satisfy investors for both foreigners and Thais who wish the due process of the law to be administered.

Looking at it in another way, a Thai compromise to let people have second and third chances and to minimise individual's suffering has been undertaken, in that the old owners have for the meanwhile been still kept running the plant, and they could perhaps renegotiate again what was not agreed upon during the interval.

I have a large part in making the two sides come to terms. Once the terms were agreed, I wish that they could have been followed but it does seem that businessmen when in real trouble have to take big chances.

That the court has given TPI a chance to rethink even if it is only over a couple of months is, I think, a very characteristic decision and we have to see whether it was worthwhile. I do not want to express my views on the outcome, but that one takes a little bit of time to try and solve what is important to everybody seems sensible.

Ladies and Gentlemen, to end my statement let me expand on the essential nature of the TPI case to a larger sphere. There is still a conflict of philosophy basic to the management of Thailand. Does one

help the poor or does one help the rich? Are we now in such a state that by helping the rich, the people who have money to invest, and the people who have businesses to manage makes sense - can the trickle down effect be the best way to get the poor richer.

We are on the verge where free competition would mean that everybody would do better. Give everybody equal chance in business and clear and known rules. Ensure the poor would be able to compete by giving them a good education such as the new 12-year compulsory free education under the new Constitution. Making sure that the poor have a reasonable chance to compete rather than stopping the rich from competing might well be the best strategy in the country where economy has taken off and will not look back and go back into the feudal age. That is a major question facing all of us who wish well for Thailand and weigh heavily as a consideration on every action that we take.

Let me end my statement by talking about something much nearer to the immediate pace of the recovery.

The amorphous leadership is dragging us, but every moment we are climbing resolutely out of the morass, and soon I could see the day when NPLs, although still there, would form only a small portion of the total economy, and Thailand could raise its head once more as a leading country and hopefully not repeat its mistake of overconfidence, caprice and greed.

At least in not such a big way, I guess we will always have cycles and bubbles but hopefully the last one will have taught us something for a long time and be the biggest collapses we will have for at least two or three decades.