

SOMKID'S GRAND PLAN – CAN HE DELIVER?

In the two years since he was appointed finance minister, Somkid Jatusripitak has presided over an extraordinarily ambitious economic game plan that aims to restore the shine to Thailand's once vaunted economy. Can the brilliant 49-year old academic come up with the results? By Ben Davies.

The first thing that you notice about Thailand's Ministry of Finance building on Bangkok's Samsennai Road are the two life-sized wooden elephants that guard the entrance. The elephants are covered in pink and yellow ribbons as well as propitious offerings to placate the spirits. Staff at the ministry claim that the gigantic wooden animals have been there for as long as anybody can remember and that they bring good luck not only to the ministry's 25,000 employees, but to their ultimate chief—the minister of finance.

When Somkid Jatusripitak was appointed Thailand's finance minister on February 17 2001, he needed all the good luck he could get. Rumours of his pending appointment sent the stock market tumbling, reflecting concerns over his lack of experience and international stature as well as fears that Somkid would simply be a yes man to the strong-willed prime minister. But the brilliant 49-year old academic, who is credited with masterminding Thaksin's successful election victory, has worked hard to disarm his critics. Avoiding the spotlight for which his predecessor Tarrin Nimmanahaeminda was renowned, Somkid has quietly presided over an extraordinarily ambitious programme that aims to revitalize the Thai economy. That programme includes a three-year debt moratorium for small-time farmers, a Bt30 per person national health scheme, a Bt1 million (approximately US\$23.49 million) per village scheme and a host of other schemes that aim to stimulate the rural economy and lay the foundations for an era of sustainable growth.

The jury is still out on the likely outcome of Somkid's grand experiment and the cost of the exercise on the country's balance sheet as well as on its independent institutions and the media.

But one thing is certain: Somkid's plans herald the biggest shake-up that Thailand has experienced in decades.

A quietly spoken man, Somkid was educated at Thammasat University before gaining a PhD in business administration and marketing at Northwestern University in the US. Since then, he has worked as a university professor, an advisor to the stock exchange, a director of the Petroleum Authority of Thailand and an advisor to the foreign minister and the commerce minister. He is also co-author of several books on marketing including *The New Competition*.

But while nobody doubts Somkid's intellectual credentials or his marketing savvy, question marks remain over his ability to deliver on the government's bold campaign promises. In a recent interview, Somkid talked to *Asiamoney* about the challenges that he faced when taking the job and his vision for a vibrant Thai economy.

AM: Your appointment as finance minister in February 2001 was strongly opposed by the business community which claimed you lacked the necessary experience and international stature. How tough were your first few months in office?

Somkid: To be a finance minister you must have some credibility with the public. Unfortunately my former career was as a professor at a university and my involvement in the public sector was always behind the scenes as an advisor or director of a company. Even though

I had been helping Thaksin for more than seven or eight years, nobody knew anything about me. Three years ago, I helped Thaksin to establish the Thai Rak Thai Party. People are not



Somkid Jatusripitak: "Am I satisfied with 5% economic growth? Yes, I am very glad that we can see some of the successes of our policies. But this is just a starting point. It's only round one."

aware of this. But Thaksin always believed in me. That is why he wanted me to be finance minister and would not consider anyone else.

AM: Was it difficult gaining credibility?

Somkid: It was not easy. During the first one or two months I heard that I was criticized quite a lot. But I was never concerned about what people said. I just kept doing my job. I have always believed that ultimately I would be judged on my performance.

AM: The ruling Thai Rak Thai Party came to power on the back of an unashamedly ambitious election campaign. How difficult has it been to maintain fiscal discipline in the face of the government's costly populist policies?

Somkid: It has not been difficult because I have been able to explain our policies to the Thai public. This is not a populist platform, but a set of policies that we believe will turn around Thailand's economy. If you look back at the policies of previous governments, you will see that they did not provide the right answers. What we have done is to draft a new strategic architecture for the Thai economy and we will follow this policy with discipline – which is very different to the past.

AM: What is the basis for this so-called new strategic architecture?

Somkid: The old economic structure must change. During the past decade, we relied too much on an export-led economy. This is not the correct policy. A strong country must create a balance between the local and the external economy. But in the case of Thailand, we are very poor in the countryside. That is why we lack the local demand. And because domestic demand has not been strong enough to generate growth, we have traditionally had to rely on exports. What this government is trying to do is to achieve a balance. To strengthen the local economy you need to use the budget to stimulate investment in the village. We are using funds to create employment and sustainable income in the future.

AM: But the government's Bt1 million village scheme, its Bt30 per person health scheme and its three-year debt moratorium for small-scale farmers have to be paid for. Even some economists worry that in the long term they could bankrupt the country.

Somkid: No, no, no. You don't have to ask this question any more. I think the Thai public now understands the true situation. This is not a cheap policy. But it is not an expensive policy compared with what the country has spent over the past decade. First of all, you must strengthen your local economy. This is what we are doing.

AM: So far are you happy with the results?

Somkid: Am I satisfied with 5% economic growth? Yes, I am very glad that we can see some of the successes of our policies. But this is just a starting point. It's only round one. The second round is to reform the country's industrial sector so that we can compete in a global economy. And if we do this we can sustain high levels of growth. What I want is quality growth and by that I mean growth that can be sustained. For example, if you produce electronic products, do you think that you will be able to compete with China? No country in Asia can do that unless they are producing different products. So you must find your own target industries. We have chosen four or five target groups like agribusiness for example or tourism. The key is to be competitive and to promote an entrepreneurial culture.

AM: Isn't this the same policy that every other country in the region is pursuing?

Somkid: Most Asian countries have the same structural problems. We produce similar products, but with different cost structures. You cannot survive like this. The challenge is to transform the structural practices of the economy and of society. My strategy is this. We want to strengthen the big corporations and make them more competitive. We also want to build up new companies. And 10 years from now these companies will be able to produce for the global market.

AM: The 2003 budget projects a deficit of Bt149 billion on spending of Bt999 billion. How realistic are these figures given the uncertainties over the external environment and domestic consumption?

Somkid: I am not worried about the budget deficit. This year we expected a deficit of around Bt170 billion, but we were able to collect more tax so the figure fell to Bt140 billion. Next year, we expect a smaller deficit. We can have a balanced budget within five years – that's for certain. The reason for this is because we will cut out all expenditure that is unnecessary. In the past this was difficult because there were many political parties in the government. Now only one party controls the parliament. As a result we can improve management of the budget to focus on strategic areas: on the building of new industries, on the strengthening of village industries and on better managing our resources.

AM: Since 1988, successive governments in Thailand have made privatization a cornerstone policy. So far none has really delivered on their promises. Is this government different?

Somkid: I challenge you to compare us with previous governments in terms of privatization. We announced to the public

"Ours is not a populist platform, but a set of policies that we believe will turn around Thailand's economy."

How is Thailand doing?

Asiamoney spoke to four research heads and asked for their views on Thailand's economic performance.

// I believe the Thai economic performance during the past several quarters has been very impressive. Firstly, the GDP growth during the past four quarters has beaten market expectation. Secondly, foreign reserves have been re-built to a comfortable level, despite heavy foreign debt repayment by the private sector. Thirdly, NPLs in the Thai financial system are stabilizing. We see stronger financial institutions. Most of them have begun recording profit. Lastly, Thai people have more confidence in economic prospects. This should ensure that the domestic consumption will continue its momentum.

"However, I have two major issues that I am still not quite comfortable with. First is the public debt. The government plans to fiscalize FIDF debt (over Bt700 billion). They did it last year by selling Bt305 billion of saving bonds. There will be more to come. How do they plan to manage the growing public debt? Second is the legal system. Thai NPLs cannot come down as most of the cases are stuck in the court system. Revamp the foreclosure and related laws to allow faster liquidation of collateral, or the NPL problem will not be solved within the next three to four years."

Thanawat Patchimkul, head of research, DBS Vickers Securities (Thailand)

// Thailand's 5% growth in 2002 was much better than expected and the government can take credit for restoring confidence, which translated into strong domestic spending supported by low interest rates. The strong growth also helped

increase tax collection, which greatly alleviated concerns about fiscal discipline. However, it should be noted that net exports contributed 1.4 percentage points to last year's 5% growth. Therefore, while momentum from domestic spending can prop the economy up reasonably well during the first half of 2002, a more convincing global recovery from the middle of the year will be necessary for the positive outlook to be maintained. Over the long term, enhancing Thailand's international competitiveness through reforms and liberalization as well as achieving tangible economic integration of Asean will be critical to sustained growth."

Supavud Saicheua, Thailand economics and strategy, Merrill Lynch

// Phase one of Thailand's economic recovery (GDP was near 5% in 2002) was helped by the government's actions to boost consumer spending and stimulate the property sector. The acid test of the sustainability of the recovery, however, will be whether investment follows. The potential hand-brake on growth is that significant amounts of industrial capacity remain idle as they are tied up in the hands of distressed companies. Not only is this unproductive but it also acts to deter new investment. Therefore, the good parts of the Thai economy are going gangbusters but the bad parts remain bad. For the economy to fire on all cylinders these dead assets need to be liquidated. Tougher foreclosure laws would help but policymakers seem to have little control over this."

Andrew Maule, head of research Thailand, ABN Amro

// We are pretty sanguine about the state of the Thai economy and of public finances. The point

about the fiscal stimulus enacted by the Thai Rak Thai administration in its first year is that it has resulted in the public sector debt/GDP ratio falling quite sharply to 53% – against some analysts' predictions. Given that normal expenditures have barely risen, and that traditional sources of fiscal stimulus such as infrastructure expenditure have been negative, the surge in growth since 2001 has been largely down to the private sector. And consumer expenditure has actually not accelerated markedly from its trend of the past three years. The difference is the pick-up in private sector investment, which bodes well for sustainability of the recovery.

Meanwhile, Thailand is very competitive at anywhere near current levels of the baht, and is attracting some of the highest levels of FDI in proportion to the size of the economy in Asia. We would like to see this traditional openness to foreign investment continuing and Thailand continuing to cut tariffs and trade barriers, as it has done with such success over the past decade. As for government initiatives, we would be wary of too much tilting of the board towards certain sectors – or too much nannying of the consumer. Thailand's strength in the past has been its application of the free market – by comparison with North Asia.

We applaud the government's initiatives on the housing market, including the ambitious low-cost housing project recently announced. But we are concerned that the public healthcare budget needs to be measured against what is practically affordable given the need to maintain Thailand's competitiveness. Finally, we would like to see the baht allowed to strengthen if the market so determines, since this will insulate the economy against commodity price pressures while having little effect on the balance of payments."

Adrian Dunn, head of research Thailand, HSBC

that we would pursue widespread privatization and we have already privatized the Petroleum Authority of Thailand and two or three other companies. This year, Thai International and Krung Thai Bank will sell shares together with the Telephone Authority of Thailand and the Ports Authority.

AM: But haven't these companies seen the sale of their shares postponed time and time again?

Somkid: The issues have been postponed because of the market situation. But privatization in my terms is not only listing on the stock market. Privatization also means increasing efficiency. Sometimes the media gets confused. Only the state enterprises that need to be listed on the stock market will be listed

on the stock market. But every state enterprise must be corporatized to improve their efficiency. I think four or five state enterprises will be listed this year.

AM: Another major challenge for this government is to clear the overhang of NPLs from the system. How critical is this?

Somkid: The previous government did not dare to set up a national asset management corporation because they knew that they would be attacked politically. This government was the first one to set up a national asset management corporation and we survived. We can explain and justify what we are doing to the public. They understand us. Unfortunately if the national asset management corporation had been set up

three years ago as in Malaysia, the situation would already have improved a lot.

AM: In one sense, aren't you simply bailing out bankrupt companies at the expense of the tax payer?

Somkid: Whatever action you take, there will always be people who find fault. But at the end of the day, a national AMC was the only solution. As finance minister, I was the one that had to stand up in front of parliament one year ago and explain everything. The process is now going quite well. The central bank governor is taking care of the NPLs in the private commercial banks that were not transferred to the national AMC. We are helping each other to solve the NPL problem. But it is not easy. The problem has accumulated for more than four years. This government is committed to real restructuring. The reason that you have re-entry NPLs is because in the past a lot of the debt was rescheduled time and time again.

AM: Doesn't the establishment of the Thai Asset Management Corporation (TAMC) send out the wrong message to debtors? Doesn't it tell them don't worry, we will always be here to bail you out?

Somkid: I think that we are very fair. We are not concerned about the individual debtor or creditor. We are working in the interests of the nation. For example if you look at some big corporations that have been restructured lately, you will see that their capital has been written down to zero – like Thai Copper. This is not a bail out. The purpose of the TAMC is to try to make companies strong again rather than leaving them to go bankrupt. If you allow all the assets of the nation to go bankrupt, how can you survive? The job of the TAMC is very difficult. Whatever decision you make, you will always be criticized. But everyone is working hard. And so far, so good.

AM: Do you believe that Thailand's financial sector has learnt the lessons of the 1997 financial crisis?

Somkid: This crisis was not the fault of any single company or any person in particular. It happened because we were not ready to face globalization. During the past decade, Thailand, together with most countries in Asia, had strong fast growing economies. There was free flow of capital. The region enjoyed exporting without competition. Then the winds of globalization came and not one single nation was ready. But I think this is a blessing in disguise. It has provided us with a useful

lesson. If you want to be strong, you must have very strong fundamentals. Personally I think it is time for every nation to reform. In the future, change will be constant. So a country that cannot adapt to change will be unable to survive.

AM: Could Thailand withstand another financial crisis on the scale it suffered in 1997?

Somkid: There will be no repeat of the financial crisis in Thailand. Most cabinet members come from the private sector. We understand economics and we understand business. As the finance minister, my job is not just to look at banking or fiscal policies. I must also look at the real sector and the financial sector. Our policies must incorporate both of these to develop the structural architecture for the nation.

AM: How do you see the role of state banks like the Bank for Agriculture in developing the rural economy?



Somkid: Jatusripitak: "We would like to develop a regional bond market in Asia. This region should try to focus on the supply side."

Somkid: We plan to use the Bank for Agriculture and the Small and Medium Enterprise Development Bank to stimulate demand. In the past, the Bank for Agriculture simply lent money to farmers. I said: 'Hey. Don't act like a commercial bank. Your mission is to strengthen the rural economy. You are a development bank. You must help them to develop'. So I have given them a new mission to help the farmers not only in their work but to develop the village economy. As a result, the bank has reshaped its strategy. Now there is a team to help the farmers. And the lending is only one part of the package. The same is true for the Small and Medium Enterprise Development Bank and other state banks involved in micro lending or lending to small and medium-sized enterprises. I told the executive board to look at the situation in the US. Twenty-five years ago, the government

encouraged the development of small to medium-sized companies. Now many of those same companies are big corporations. Look at Japan. Most of the companies are small and medium-sized. The structure and strategy of state lending institutions must support this trend.

AM: Late last year, Thailand was forced to postpone its global bond issue due to poor market conditions. If conditions improve, is the issue likely to be re-launched?

Somkid: That depends on market conditions. There is no pressing need to offer a global bond. We would just like to save some money. If there are better alternatives, we will opt for them. Right now I think that the level of global uncer-

Thai privatization pipeline

Issuer	Industry sector	Amount US\$m	IPO	Expected date	Bookrunners
Airports of Thailand	Transport & shipping	300-350	Yes	1Q 2003	Credit Suisse First Boston and Merrill Lynch
Communications Authority of Thailand	Telecoms/communications	800-900	Yes	1Q 2003	Asset Plus Securities, Credit Lyonnais, Lehman Bros and Thai Thanakit Securities
Krung Thai Bank	Banking & financial services	400-600	No	1Q 2003	Merrill Lynch
Thai Airways International	Airline	75-100	No	1H 2003	Asset Plus Securities, Bualuang Securities, JP Morgan, Merrill Lynch, National Securities and SCB Securities
TOT Corp	Telecoms/communications	600-800	Yes	2003	Merrill Lynch, Morgan Stanley and Salomon Smith Barney

Source: Dealogic

tainty is quite high so we will wait and see. There is no need to rush.

AM: Can you tell me about Prime Minister Thaksin's proposal to establish an Asian bond market?

Somkid: We would like to develop a regional bond market in Asia. This region should try to focus on the supply side. For example Thailand, Singapore and Malaysia must try to develop the infrastructure so that they have good products to sell, a strong ratings agency and secondary market. That way, we will be able to attract global investment to Asian bonds.

AM: How long will that take?

Somkid: It will be step by step. At the moment, many countries are interested in this idea. If you have good products the money will come.

AM: In the last cabinet reshuffle, you were dropped from your former position as deputy prime minister. Was this a demotion?

Somkid: I don't think so. In politics if you have been assigned to do a job, you must do that job properly. So now I have more time to do my job in the finance ministry which is good.

AM: You didn't feel upset?

Somkid: No. This is the first time that I have been able to focus on new initiatives. Recently I held a big meeting with all the staff at the Ministry of Finance to explain to them the overall direction that I want. My priorities are to strengthen the local economy, to impose fiscal discipline and transparency and finally to help strengthen the competitiveness of the nation and the financial system in Thailand. Nowadays I also hold meetings in every region in Thailand so that people know the overall direction of this government.

AM: Has your new role affected your relationship with the Prime Minister?

Somkid: No. We are very good friends. I always support him because he is the one who appointed me and brought me into politics.

AM: What about your own political ambitions?

Somkid: I never wanted to be in politics. I came into politics because I believe that the nation needed my support. As a professor, I believe that if you have the opportunity, you should help the country. I support Thaksin and I have respect for him so I joined the cabinet. My job is to try to help him to accomplish his tasks.

AM: What is the best thing about your role?

Somkid: It is not an easy job, yet at the same time it is an honour to help the country in a period when the country is in trouble and you are the one who shoulders all the pressure. In a sense, I am lucky that the economy is improving.

AM: What do you dislike most about your job?

Somkid: It's not the worst thing, but your life changes and you don't have any privacy any more. It's some kind of sacrifice. Some people like to be in the public eye, but I like privacy.

AM: What would you like to do after politics?

Somkid: Teaching. My former career was teaching. I would like to spend the last part of my life teaching. It's a real contribution to society. Education helps to create good human resources and that is vital to the competitiveness of the country.

AM: Do you think that Thailand will ever regain its position as the darling of foreign investors?

Somkid: This decade will be the decade of Asia. When you talk about Asia, most people think about China because it is a big market. But Asean is another region that is very important. It has a very high potential because in the north it can link with China, to the west it can link with India and to the east, Indochina. If you talk about Asean, the real hub is Thailand. This country has rich resources, a central position and good human resources. The challenge is to manage this properly. If you are a Japanese investor and you want to make an investment, then half of your investment will be in China. But what about the other half? It will go to Asean. And I would like to say come to Thailand because we have high potential. If we offer high growth, real reforms, good governance, it is only natural that investors will come here. **am**