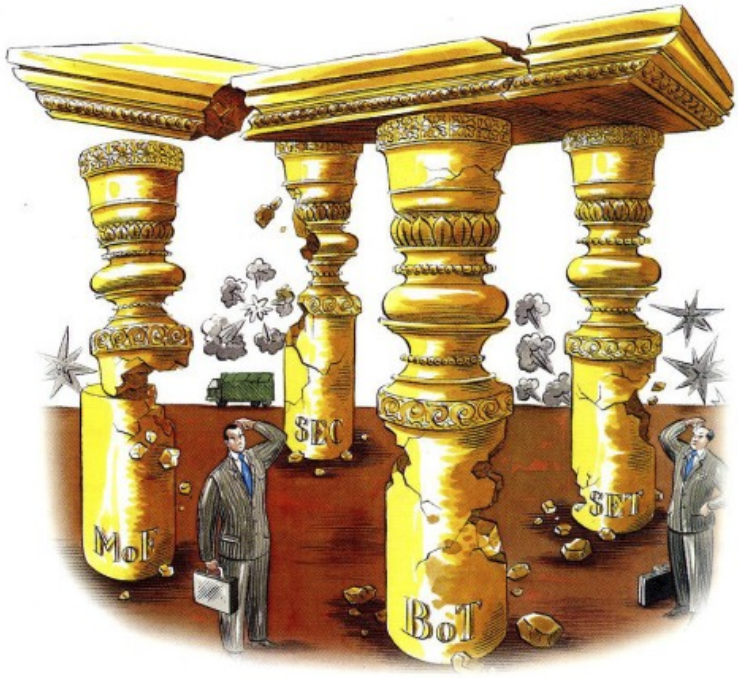
The rise and fall of Thailand's technocrats

In the space of 12 months, Thailand has had four finance ministers, two central bank governors, two stock exchange presidents, two secretary-generals at the Securities and Exchange Commission and the biggest bank rescue in its history. Can the damage to the four pillars of Thailand's once-solid financial bureaucracy be repaired?



It was a cool evening in October 1990 and the men and women who had gathered on the lawn outside the Bank of Thailand (BoT) were in high spirits. Among the star-studded crowd were Chavalit Thanachanan, outgoing governor of the BoT, Vijit Supinit, his successor, and Ekamol Kiriwat, the newly-appointed deputy governor. Also in attendance were other distinguished BoT scholars and *alumni* such as Seri Chintanaseri, a former deputy director of the legal department, and Olarn Chaipravat, the future president of Siam Commercial Bank.

BY BEN DAVIES IN BANGKOK

At the reception, held ostensibly to celebrate the end of Chavalit's term in office, Vijit, the incoming governor, gave a short speech of thanks. As the night wore on, they sang songs from a stage that had been erected for the occasion. Pakorn Malakul Na Ayudhya, who had recently been appointed an assistant governor, chose an Elvis Presley number. Ekamol, known for his humour and self-confidence, opted for a modern pop song chosen by his daughter. Vijit, regarded as the most conservative of the trio, selected a classical Thai song that was popular among the older genera-

tion. To round it off, the alumni, in chorus, sang a song wishing the host of the party (in this case, the BoT) prosperity in the years to come.

The occasion was memorable for several reasons. It marked the first time in the venerable institution's 48-year history that a BoT scholar had become governor. It also ushered in a new generation of future leaders. Vijit, at that time, was aged 49, making him one of the youngest-ever governors. Ekamol, too, was only 46. "Those were happy days," recalls one attendee. "It marked a whole new change of guard."

These days, the picture is different. On December 25 1995, Ekamol was forced to resign as secretary-general of the Securities and Exchange Commission (SEC). The following day, he was effectively fired as deputy governor of the BoT. His marching orders came in the wake of unprecedented allegations that he had leaked confidential information to unauthorized personnel. Vijit lasted only a short while longer. On the morning of July 11, he resigned in disgrace from his post as governor of the BoT.

"The bureaucracy was viewed as being extremely attractive. It provided wealth, power and status"

Their departures were not the only events to shake the very foundations of Thailand's financial system. On May 17 1996, the Ministry of Finance (MoF) announced the rescue of Bangkok Bank of Commerce (BBC) with an estimated Bt77 billion (US$3.1 billion) of bad and doubtful loans. The rescue was the biggest in Thailand's history, larger even than that of Barings, the British merchant bank.

The BoT was not the only venerable institution to suffer ignominy. In the aftermath, Surakiart Sathirathai, the then finance minister, resigned on May 27 at the request of Banharn Silapa-archa, the prime minister. His successor, Bodi Chunnananda, lasted only four months before he, too, handed in his resignation to be replaced by Chaiyawat Wibulswasdi, deputy governor at the central bank. Meanwhile, Seri Chintanaseri, president of the Stock Exchange of Thailand (SET), stepped down at the end of June after completing his four-year term in office. His departure represented a clean sweep of the four most important positions in the country's financial bureaucracy.

What had gone wrong? And can it be put right? Officials and bankers (they are almost unanimous) pin the blame on the incompetence and meddling of the former government led by Banharn.

But the problems run far deeper. The current crisis is not simply an aberration (the Banharn government was in power for only 14 months). Nor is it a temporary weakness that can be easily solved by a short sharp dose of medicine. Rather, it reflects a fundamental weakening of the four pillars that support the financial system, which, unless rectified, could have cataclysmic implications for the future of the country.

The cracks are already widening. Last year, GDP growth slowed to 6.7%, the lowest in a decade. This year, despite the government's optimistic projections,* analysts believe the figure could be significantly lower.† High levels of short-term debt, zero export growth, a ballooning current account deficit and a property sector that threatens to implode have only added to the problems. In September 1996, Moody's downgraded Thailand's short-term sovereign debt from Prime-1 to Prime-2. And while the new coalition government led by Chavalit Yongchaiyudh is battling to restore credibility, the task is daunting.

"It is a tragic situation," says one senior government official. "All the good work we have been doing for years has gone up in smoke. Who is going to come back and restore our credibility?"

Crisis of confidence

Since it was founded on December 10 1942, probably no other institution in Thailand or in the entire region (with the exception of the Monetary Authority of Singapore) has earned itself such a reputation for sound economic management and independence as the BoT.

Despite conflicts and disagreements that might have inflicted lasting damage on any lesser institution, the BoT's code of honour and integrity has remained intact under a succession of illustrious governors. "We have had to resist political pressure and we have had to make tough decisions, but we never fail," says Salinee Wangtal, chief of the financial institutions development division at the BoT. Insiders still proudly recall the events of 1981 when, in the face of overriding opposition from politicians, the BoT devalued the baht.

But that record was shattered irrevocably at 5:30 in the afternoon of May 17 1996, when officials at the finance ministry announced the biggest bank rescue in Thailand's history for BBC. Over the next seven days, some Bt10 billion of funds was injected into BBC following a run on deposits. Within two months, both the BoT governor and the finance minister handed in their resignations.

The events that took place revealed once and for all the serious conflicts of interest and severe political meddling that have impinged on almost all levels of Thailand's financial system. BBC was not a sudden disaster, but the result of years of exploitation. More worrying, the fraud was perpetrated under the eyes of the BoT, which had been closely monitoring the bank for more than a decade (*see box on BBC*).

"I sat down with Rakesh (the bank's former treasury adviser) three years ago and he told me there was Bt12 billion of bad debt," says Andrew Stotz, former head of research at WI Carr. "On top of that, we considered there was another Bt20 billion in high-risk loans."

Others familiar with the BoT take a more uncompro-

The BoT is projecting 7.1% GDP growth.
†Credit Lyonnais Securities is projecting 3.8% GDP growth.

A proud tradition

On October 23 every year, the square outside Bangkok's old national assembly building is the scene of timeless ritual as Thais from all walks of life flock to place wreaths in front of the statue of King Chulalongkorn. The simple tribute is a telling one. For it was Chulalongkorn who in the closing years of the 19th century reformed Thailand's bureaucracy and laid the foundations for the country's emergence into the modern world.

A succession of enlightened monarchs continued Chulalongkorn's reforms. In 1875, the Royal Treasury Act was promulgated to institutionalize national revenue management. That was followed in 1939 by the setting up of the National Banking Bureau, the predecessor of the Bank of Thailand (BoT). In 1962, the country's first stock exchange was opened and finally in 1992, the final pillar was established with the opening of the Securities and Exchange Commission (SEC).

Such was the respect for Thailand's financial bureaucracy that it became common for members of the aristocracy and even members of the royal family to join the hallowed ranks of technocrats known as *kharatchakan* (literally, servant of the crown) Many of them first went for schooling abroad attending Oxford University or the prestigious Eton College, before returning to dedicate themselves to the running of the country.

"The bureaucracy was viewed as being extremely attractive," says Likhit Dhiravegin, a professor at the faculty of political science at Thammasat University. "It provided wealth, power and status."

The significance of the non-politically aligned technocrats was enormous. In the period between the end of the absolute monarchy in June 1932 and the present day, Thailand suffered 18 military coups or attempted coups and more than 25 changes of prime minister. That record would have been enough to turn many countries into a banana republic. Yet in the case of Thailand, its economic planners and policy makers quietly steered the country through the flux, providing a rare continuity that ensured stability.

Now however those pillars have been shaken to their very foundations. Whereas once every educated Thai battled to enter the ranks of the respected bureaucracy, now most prefer jobs in the private sector. These days, a bank manager earns as much as a director-general in the MoF. The prestige attached to the technocrats too is rapidly fading. Money and power have become the new driving force.

"Twenty years ago, technocrats played a vital role as advisers to the prime minister," says Chalongphob Sussangkarn, president of the Thailand Development Research Institute Foundation. "Now we are in a new situation. Elected politicians run everything and the balance of power has shifted."

That has led to an uneasy partnership. The weakening of the technocrats has also coincided with the emergence of hard-nosed politicians who have run the country as if it were their own.

"The changing of the guard in Thailand has not brought the same quality of technocrats as in the past," says a director-general at the MoF. "Good old people don't stay in the ministries. Good young people don't enter the ministries. That leaves you with a poor crop. The vision is no longer there."

mising view. "The central bank did a good job monitoring the situation at BBC," says Pisit Leeahtam, a former deputy director. "It was the decision-making process that was not up to scratch."

Rumblings of discontent

Vijit's handling of BBC was not the only thing that wrangled BoT men. As far back as March 1990 when his predecessor, Kamchorn Sathirakul, was sacked as governor of the central bank, rumblings of dissatisfaction had crept through the ranks. Insiders said that Vijit was partly responsible for the removal of Kamchorn and that his links with then prime minister Chatichai Choonhavan and other politicians created a potential conflict of interest.

In June 1994, Sirichai Sakornratanakul, a former head of the banking supervision department, had resigned his position to become senior executive vice-president at the Industrial Finance Corporation of Thailand (IFCT). Sirichai, who claimed that he had been effectively sidelined, always maintained that it was inappropriate for the BoT to act both as guardian of monetary policy and supervisor of the banking system.

In January 1995, Pisit Leeahtam, considered one of the brightest prospects at the bank, also resigned as deputy director and BoT spokesman to join Bangkok Bank as executive vice-president of its investment banking group.

But insiders complained that under Vijit, the BoT became a more political animal

In an organization bursting with creative talent, the limited positions at the top could explain part of the haemorrhaging. In those days, there were as many as seven assistant governors. But insiders complained that under Vijit, the BoT became a more political animal and a less enjoyable place to work.

If Vijit's management style irritated some colleagues, his grasp of macroeconomics, his international contacts and his attention to detail were legendary. Insiders recall how, before a meeting of the Bankers' Association, he would check the microphone and even the lights to see that they were working. "He was very neat and

very particular in everything he did," says one colleague at the central bank. "He was a true perfectionist."

Others also point to his contribution to the liberalization of the economy, especially in the early 1990s when he teamed up with finance minister Suthee Singsaneh to push through 20 finance bills in only three months. "Vijit will always be remembered for his liberalization efforts and his vision of international markets," says Thirachai Phuvanat-Naranubala, head of BoT's financial institutions supervision and development department.

Right from his early days, the governor, with his small round glasses and pin-striped suits, had been singled out for greater things. Vijit was the top BoT scholar. He had impeccable credentials both at home, where he attended the illustrious National Defense College, and in the international circuits, where he personified all that was solid and reliable about Thailand's financial system.

But there were other less attractive attributes. Insiders say that he was not straightforward and that he did not always speak his mind. Repeated clashes with Ekamol, who was then deputy governor, had never been a secret. In one celebrated incident in 1992, Ekamol walked out of a meeting after a disagreement over whether to unpeg the baht. "I shouted at him," says Ekamol. "I am proud to say that. I shouted at him and I said that you are ruining the economy. We mismanaged. We have had a lousy monetary policy for four years. Now, we must untangle it."

Despite his normally cordial relations with the foreign business community, Vijit could also be abrasive. In one well-documented incident in mid-January 1995, he called in the representative of Crédit Lyonnais Securities to explain why its senior economist had written a report claiming that Thailand was the most likely country in the region to be hit by the Mexico-style devaluation. "It was staggering," says one analyst. "This was the governor of the central bank."

To give Vijit his credit, he was under tremendous pressure both from the government and the opposition to find a scapegoat for the sudden run on the currency. But as head of an independent central bank, such high-handed intervention raised a dangerous precedent.

Vijit was also close to politicians. When in opposition, Banharn, the future prime minister, had cultivated Vijit's friendship and trust. "Vijit helped educate Banharn. He was Banharn's man," says one of Vijit's friends who preferred to remain anonymous. In later days, that close relationship with Banharn and Surakiart gave Vijit unprecedented powers to run the economy. But there was a penalty to pay. While it increased Vijit's clout, it also meant that he was less able to protect the holy grail of independence.

When Banharn pushed for measures to bail out the stockmarket at the end of 1995, Vijit appeared to go along with it. Despite preaching a tight monetary policy, the BoT supported the launch of a US$30-million rescue fund. "These guys were in an impossible position," says one banker. "They either had to resign or accept and then try to work things out after." Surakiart disputes that view. "This was not a rescue fund," he told *Asiamoney*. "It was a credit line for securities companies to borrow. People misinterpreted."

On other fronts, Vijit resisted. When Banharn called for lower interest rates at the end of 1995 to boost the stockmarket and take the pressure off property, Vijit dug in his heels. "He did not budge an inch," says Surakiart. "I had to defend that decision to parliament."

Recent economic forecasts supplied by the BoT have also hurt the bank's credibility. In December 1995, the BoT predicted export growth of 17%. By midyear, the target had been lowered to 10%. Now, the BoT is projecting 0.1%. GDP projections have also been steadily reduced from 8.3% in December 1995 to 6.7%, although this, too, may be downgraded.

Was the BoT under pressure to paint a rosier situation or did it simply underestimate the scale of the problems? "How can they have PhDs when they don't even know how to add up?" questions Ekamol, who was recently appointed to the BoT court of directors. "The problem now is that even if we say something credible, nobody will believe us."

Newly-appointed governor Rerngchai Marakanond would not meet *Asiamoney* to explain the differences, despite repeated requests for an interview. Sources within the BoT confirm, however, that the governor would be required to approve all projections.

Rebuilding confidence could prove a Herculean task. Rerngchai had to wait six days before he was officially appointed governor, during which time both Olarn and Chatu Mongol Sonakul, the permanent secretary of finance, were offered the job. Both men turned down the post. "Nobody wanted to be in the firing line," says the president of one financial institution. "And Olarn is on a big salary."

So far, Rerngchai has defied his critics. Supported by his deputy, Chaiyawat Wibulswasdi (described as one of the most able members of the central bank), and backed by a highly-respected group of departmental heads, he has already moved to strengthen bank supervision and improve policy coordination with the MoF. But Rerngchai is also likely to face intense pressure to loosen monetary policy and let interest rates fall.

Ironically, Vijit, the man who fell from grace as a result of politicians' meddling, now finds himself as an unofficial adviser to the prime minister. In an added twist, Surakiart, the former finance minister, is also vice-chairman of the prime minister's advisory council on economic and foreign affairs. Ekamol, too, has been recruited as an adviser to the economic team of Amnuay Viravan, the incumbent finance minister.

"The problem now is that even if we say something credible, nobody will believe us"

Ekamol: sharp, outspoken and witty

Baptism by fire

Thailand's SEC was born on the afternoon of May 16 1992 under the SEC Act BE 2535. As the newest of the four pillars supporting the financial system, its inauguration was memorable for several reasons. Only days earlier, tens of thousands of protesters had taken to the streets to demonstrate against the unconstitutional appointment of prime minister Suchinda Kraprayoon by a military council. The mass protests were to end in tragedy. In the early hours of May 18 1992, the military opened fire, killing more than 50 innocent civilians.

The first chapter of the SEC also ended in bloody fashion on Christmas day 1995, when its architect and respected secretary-general, Ekamol Kiriwat, was effectively stripped of his powers. In the intervening period, the SEC was to prove a battleground in other ways. Disagreements with finance minister Surakiart and BoT governor Vijit, run-ins with SET president Seri and an open feud with Banharn himself foreshadowed the final showdown.

In retrospect, the problems were inevitable from the start. Under the SEC Act, the new body was charged with the overall supervision of the entire securities industry. As such, its *raison d'ëtre* was based on the premise that a sound regulatory and policing framework had to be put in place if Bangkok were to establish itself on an international footing. But to do that meant cutting through the thicket of self-interest that, over the years had undermined the stock exchange, turning it into a casino exploited by politicians and big businessmen.

The decision to appoint Ekamol as SEC secretary-general only heightened the stakes. A former deputy governor at the BoT, Ekamol was the antithesis of Seri. Sharp, outspoken and witty, he was a *doer* who carried great presence both with the media, which he pandered fervently; and with former colleagues, who saw him as a crusader. While Seri liked a quiet afternoon on the golf course, Ekamol liked fast cars and good wine. More than anything, he enjoyed being seen as the centre of everything.

> **"How can they have PhDs and they don't even know how to add up?"**

"He is a man who likes to get things done fast," says one former colleague at the central bank. "He had no patience for long drawn-out meetings or for small talk."

Armed with a battery of laws at his disposal and the support of the 10-member SEC board, which included the permanent secretary of finance, the permanent secretary of commerce and the former president of the SET, Ekamol set about putting the needed changes.

True to his word, the new SEC secretary-general unleashed his first bombshell on November 18 1992, when SEC officials filed charges against Sia Song Vatcharasriroj and 11 others for allegedly colluding to manipulate the price of BBC shares. Five months later, on April 22 1993, he announced that criminal charges would be brought against a further 30 alleged market manipulators. "Nobody wants to take anybody to court. Why should we?" Ekamol told *Asiamoney* at the time. "But if we have to do it to help solve the problems, we will do it."

Such audacity won Ekamol admirers. But his outspokenness and uncompromising attitudes also sparked opposition from the entrenched powers who had the most to lose. For two more years, Ekamol maintained his stormy tenure at the top, despite disagreements with Seri over the implementation of stock exchange reforms and criticism of governor Vijit, whom he accused of impropriety.

After the appointment of Banharn as prime minister in July 1995, Ekamol's intransigence sowed the seeds for his demise. Days after the swearing-in ceremony of the new government, Ekamol threatened to resign unless he was given firm assurances that the SEC would remain independent from politicians. Although Surakiart and Banharn begged him to stay on, that single *faux pas* spelled the beginning of the end. "He had become a liability," said one member of the SET board. "It made him number one enemy of the prime minister — and a lot of people wanted him out."

The coup

Ekamol's end was not long in coming. On Christmas Day 1995 (the meeting had been postponed from the original date of December 21), a special session of the SEC board was convened at 5pm to discuss Ekamol's position in the light of allegations that he had leaked sensitive information to unauthorized personnel. At the meeting presided by finance minister Surakiart, Ekamol was asked to leave the room, while the board considered evidence compiled by the National Intelligence Agency. The evidence, according to Surakiart, included facts and analysis drawn up by bureaucrats and legal advisers.

After the meeting, permanent secretary of finance Chatu Mongkol Sonakul, one of the most senior members of the board, took Ekamol aside and advised him that it was in his best interests to step down. "Differences between the minister of finance and the SEC secretary-general were damaging the country," says one

The BBC imbroglio

Perhaps the most surprising thing about Bangkok Bank of Commerce (BBC), is that it lasted so long before it finally had to be rescued. Exploited by politicians and businessmen, used as a pawn by members of the opposition and riddled with non-performing loans, it is perhaps the most potent example of the self-interest and patronage that are fast damaging Thailand's reputation.

When the Ministry of Finance belatedly stepped in at 5.30pm on May 17 1996, the results were startling: BBC had lent money to a Russian bank, a Middle Eastern arms dealer as well as to countless nominee accounts. It had lent to politicians and to senior management. And it had used assets swaps to conceal its losses.

"The involvement of politicians was significant in terms of borrowing without collateral," accepts Surakiart Sathirathai, who was finance minister at the time. "I am quite confident that my predecessor knew that politicians were involved."

Even more amazing was the fact that the Bank of Thailand (BoT) had been aware of the problems. In a confidential eleven-page document dated February 14 1996 and bearing Vijit Supinit's signature, the governor disclosed figures indicating that as of December 31 1995, BBC was close to bankruptcy[1]. Another document marked confidential and dating back to April 18 1994 showed the situation to be even more critical.

What had gone wrong ? In the flurry of claims and counter claims, two things are certain: BBC had power. It also had connections. The bank's chairman until his death on October 9 1995 was respected former prime minister Kukrit Pramoj, widely known as the elder statesman[2]. Its president, Krirkkiat Jalichandra, was a former chief of the financial institutions supervision department at the BoT.

Although Krirkkiat left the BoT in 1986 to take the helm at BBC, he had learnt valuable lessons about the central bank's monitoring systems. He had also made close friends. "He was a very popular guy," recalls one former colleague "Vijit liked him. Ekamol liked him. He was influential because everyone looked at him as a younger brother and they trusted him."

That trust was to prove badly mis placed. Right up to the very end, BBC management showed total disregard for the directives issued by the BoT. In May 1995, the BoT ordered BBC to stop lending for corporate takeovers. BBC executives chose to ignore the directive. In another incident on April 26 1996, the BoT attempted to appoint two officials to BBC's board of directors. But the appointments were vetoed by management as a result of a technicality.

The following day, Krirkkiat and Rakesh Saxena, the bank's former treasurer-adviser, were both seen celebrating in the Japanese restaurant at Bangkok's plush Sheraton Hotel "It was their last dance," says one observer "They knew they could not snub the Bank of Thailand forever."

But Krirkkiat and Rakesh had one final ace to play. Hours before the Ministry of Finance moved to take over BBC, Krirkkiat left for a two-week holiday in London. Rakesh also left the country for an unknown destination (He is currently in Canada where he is expected to face extradition charges in June).

The BoT for its part, continues to defend its actions and maintains that its supervision was up to scratch. "We knew the situation was bad and we tried to prevent it from going from bad to worse. But before we knew it, the problem had doubled in size," says Thirachai Phuvanat-Naranubala, head of the Financial Institutions Supervision and Development Department "There was a lot of criminal action. We should have adopted a different approach."

Chatu Mongol Sonakul, permanent secretary at the Ministry of Finance raises another possibility. "It (BBC) was an aberration" he says "Thailand is still elitist in many ways, and I guess elites stick together."

[1]BBC's total assets of Bt181 billion adjusted for bad and doubtful debt of Bt16.5 billion were not sufficient to cover the bank's liabilities of Bt169 billion.
[2]There is no evidence to suggest that Kukrit was involved in any of the alleged irregularities. In his latter years, Kukrit was barely involved in the day to day operations of the bank.

board member who was present. "You certainly could make a case against Ekamol, but it was borderline."

Ekamol, who reportedly believed that he would be accepted back into the ranks of the BoT where he was concurrent deputy governor, signed his own resignation. He then rejoined the board for a Christmas dinner accompanied by bottles of red wine.

The following morning, Ekamol's hopes were shattered when the cabinet also ended his 25-year reign at the BoT. In the space of only 24 hours, he was dumped from two of the most influential positions in the country.

Ekamol's departure was devastating. Even the normally demure Prasarn Trairatvorakul, who is deputy secretary-general, accepts that it badly affected the credibility of the SEC. "This was a bad precedent," he told *Asiamoney* in an interview held in July 1996. "It caused very serious damage to the Securities and Exchange Commission."

More than simply an act of vindictiveness or sheer folly, the effective sacking of Ekamol proved, without a shadow of doubt, that it was politicians who called the shots, regardless of the public standing or popularity of the individual technocrat.*

The final twist in the SEC's epic saga ended quietly on July 5, when the Supreme Court, the highest court in the land, ruled that Sia Song Watcharasriroj and his 11 alleged accomplices were not guilty of colluding to manipulate the share price of BBC. The landmark decision

*On November 28 1996, the attorney-general dropped all charges against Ekamol.

brought to an effective end charges filed in early 1993 under articles 243, 246 and 247 of the SEC law.

Ekamol's successor, Pakorn Malakul Na Ayudhya, is of a more cautious disposition. An economics graduate from the Queen's University of Belfast and a former assistant governor at the BoT, he is described by outsiders as a solid manager and a gentleman. "During my year at the SEC, we worked as a team to protect investors, to see that the markets are supervised and to see that they are being regulated efficiently," he says.

Backed by his highly respected deputy, Prasarn, who earned an MBA at Harvard University, Pakorn is also moving to strengthen the debt and equity markets as well as introduce short selling, covered warrants and, in the longer term, futures and options.

Whether they will continue the high-profile crusade championed by Ekamol seems less likely. Given the complexities of Thailand's legal system and the lack of progress in recent cases, the new thrust is expected to focus on deterrence and where sanctions are necessary to maintain an orderly market.

Ekamol, for his part, remains characteristically defiant. "I have taken on the minister of finance and the governor of the Bank of Thailand. I am not worried. I can survive anything," he says.

"I have taken on the minister of finance and the governor of the Bank of Thailand. I am not worried. I can survive anything"

The weak link

It's only a short distance from the headquarters of the SEC to the Stock Exchange of Thailand (SET), but the changes are striking. Whereas the SEC executive offices sport plush carpets, fine modern paintings and antique china, the offices at the SET are small and cramped, devoid of character.

Housed inside the three-tower Sindhorn Office Complex on Bangkok's Wireless Road, the SET has long been viewed as the weakest of the four pillars supporting Thailand's financial system. It was originally founded in July 1962 by a private group of investors and named the Bangkok Stock Exchange. But the first chapter was to prove short-lived and, less than a decade later, it closed its doors.

In 1969, following recommendations by the World Bank and the appointment of Sidney Robbins, a former chief economist of the United States Securities and Exchange Commission as adviser, the foundations were laid for a new Securities Exchange of Thailand (SET). Five years later, on April 30 1975, the SET started trading under its first president, Sukri Kaocharern.

The growth of the SET since then has been little short of phenomenal. There are now 454 listed companies compared with 25 in 1975. Daily market turnover has risen from an average US$0.45 million to US$222 million in 1996. But while the growth of the exchange has been impressive, the management style has failed to keep up with the times.

Not only has the SET been accused of lax enforcement of disclosure requirements, but it has been heavily criticized by foreign institutions for its record on vetting new issues. Worse still, the launch of a succession of rescue funds and a strong reluctance to enforce maintenance margin rules and regulations on forced sales of shares undermine the credibility of the 10-member board of governors, which includes a powerful lobby of brokers.

"The question is not whether it has the will to implement reforms, but whether it has the power," says Francis Middlehurst, former director of research at Crosby Research. "The administrative structure in which it operates is not conducive to change. Foreign institutional investors will want clear evidence that the leopard can change its spots before they come charging back in."

The departure of Seri Chintanaseri, the SET's erstwhile president, is unlikely to change that view. At a farewell party held in a private room of the Dusit Thani Hotel in early July 1996, Seri was given a fine sendoff by members of the board of directors and presented with a Bt200,000 set of golf clubs ordered from the US.

But Seri, a lawyer and former deputy director of the legal department at the BoT, will not be sorely missed. His four-year reign was characterized by long-running disputes with member-brokers and run-ins with the SEC. Some colleagues claim that his biggest achievement was to have survived at all. "He felt betrayed," says one close associate, who preferred not to be named. "He had his hands tied. And his decisions were influenced by brokers on the board."

Succession problems

Seri's departure at the end of June set in motion a search for a replacement. Aswin Kongsiri, president of IFCT, was approached but he turned down the posting. Aswin claimed that it was high profile but lacked responsibility. "The SET board does not have much power," he told *Asiamoney* . "The power comes from the SEC."

Other candidates were also shortlisted, including Vicharat Vijit-Vadhakarn, head of Nomura Capital, and Siri Ganjarerndee, an assistant governor of the central bank. They, too, flatly turned it down. "I told Seri it was a bum job," says one candidate for the post. "[Dealing with] politicians, small-time investors, certain journalists and certain brokers, they are the dregs."

Eventually Singh Tangtatswas was named. A former graduate from Thammasat University's Faculty of Economics, the 54-year-old Singh is widely accepted as a popular choice. Until he was named the new president in May, he worked as deputy managing director of Siam Pulp and Paper. A former director at the fiscal office in the finance ministry, Singh is considered an able man. He has a sound knowledge of the private sector and close

Chatu Mongol: wants a leaner, meaner, cleaner MoF

contacts with senior ministry officials. He is also renowned for his single-mindedness and, above all, his integrity. "Singh is very frank and straightforward," says Surat Palakit, Singh's deputy. "He expresses his own opinion."

But Singh, a slightly balding man who prefers to keep a low profile, has had an unfortunate start to his four-year term in office. In the first week of his presidency, he announced that there would be no rescue funds under his reign. Less than three months later, he was forced to swallow his pride after the index had dropped by a further 20%.

Who had intervened? According to Surat, the stock exchange president vehemently opposed the decision. So, had the politicians intervened? "I am not at liberty to say anything," he answers. "Why should I deny it or confirm it? Let's put it this way: it was not Singh's point of view, nor was it mine."

Others claim that the decision to launch the rescue funds in September 1996 came entirely from the private sector in full consultation with then finance minister Bodi. "There was political pressure," says a former chairman of the SET. "But you have to realize that there was pressure from all quarters."

The recent decision by the SET and SEC to be more flexible on maintenance margin and forced sales rules has done little to improve the credibility of the regulatory authorities. As of October 1996 (the latest available figure), the BoT estimated outstanding margin loans at Bt110 billion. Unless market conditions improve, that could prove a time bomb for finance and securities companies already hit by the accumulation of bad loans and losses on their portfolio.

"Maintenance rules apply to Mr Mini-Minor, but not to Mr bullet-proof Mercedes Benz"

"The potential write-off is between 30% and 50% of the industry's total outstanding margin-loan position," says one broker who now employs three armed bodyguards after receiving death threats for enforcing forced sales rules. Others claim that the majority of securities companies implement the rules on a case-by-case basis. "Maintenance rules apply to Mr Mini-Minor, but not to Mr bullet-proof Mercedes Benz," says one analyst.

Despite more cordial relations between members of the SEC and SET boards (they now have joint dinners and rounds of golf), Singh and his colleagues are unlikely to remain immune from political meddling. Such is the importance of the stockmarket in Thailand that the SET index is seen as a barometer of the popularity of a government. Given that the market stands at a four-year low, there seems little likelihood that the practice will change.

Musical chairs

By almost any standards, the history of the MoF is an impressive one. Its roots can be traced back more than 500 years to the establishment of the Royal Treasury Department in 1448, under the reign of King Boromtrailokant of Ayutthaya. In 1875, King Chulalongkorn promulgated the Royal Treasury Act that institutionalized national revenue management and placed it under one central organization. Finally in 1933, after the end of the absolute monarchy, the MoF was officially named.

Housed in a sprawling seven-story complex off Rama VI in the northern part of the city, MoF has 25,000 employees nationwide. Together, they preside over the country's fiscal and treasury affairs as well as tax, excise and customs revenues. They also control nine of the country's state enterprises, ranging from the Thailand Tobacco Monopoly to the Government Housing Bank.

If scholarliness is the traditional hallmark of the BoT, mediocrity is the term that is somewhat unfairly used to describe the staff at the MoF. Despite a proud heritage that includes such distinguished men as Puey Unghakorn, as well as recent successors such as Amnuay Viravan, Aran Thammano and the current permanent secretary Chatu Mongol Sonakul, MoF has found it harder to attract the cream of Thailand's graduates. Its salaries are lower than those at the BoT and its scholarship programme is less attractive. Indeed, central bankers like to claim that wealthy families would traditionally encourage their children to join the ministry to learn about tax avoidance rather than for intellectual gratification.

But if MoF lacks the sheer brilliance of the BoT, it is indisputably the most powerful of the four pillars that support the financial system. The minister of finance is a political appointee and he has the right to nominate the central bank governor — and to sack him.*

**He requires cabinet approval.*

Also, he is by law *de facto* chairman of the SEC, which, in turn, overlooks the SET.

But in recent times, MoF has become something of a spectacle. In only 12 months, four finance ministers have presided over its far-flung empire. The change of guard has sown confusion among the ministry's ranks. It has also affected policy. While the BoT pursued a tight monetary policy, MoF did little to rein in spending on big-ticket items. The result has been piecemeal initiatives driven by short-term political goals.

"Over the last 18 months, the fiscal side has been weak," says Chalongphob at the TDRI. "The coordinating mechanism between monetary and fiscal policy or at least between the BoT and the MoF has not been there." Permanent secretary of finance Chatu Mongol partly shares that view. "It's basic textbook stuff," he told *Asiamoney*. "Too many changes at the top are not good for you."

Of the four men to take the helm, it was the appointment of Surakiart Sathirathai that sparked the biggest controversy. A brilliant 38-year-old academic and a former economic and foreign trade adviser to former prime minister, Chatichai, it was Surakiart who helped orchestrate Banharn's successful election campaign. But while his academic abilities were exceptional†, Surakiart had neither the financial grasp of his predecessor, Tarrin Nimmanahaeminda, nor the independence to take on the prime minister.

"The appointment of Surakiart was devastating," says one of the director-generals at the MoF. "It showed that you didn't need expertise for the job." Others complain that under Surakiart, their role became subservient "We just packed his suitcase," remembers one adviser.

To be fair, Surakiart had an almost impossible task. Dogged by talk of inexperience, rocked by stockmarket declines and dismissed as a shadow of Banharn, he was written off before he had even started. Yet, during his 10 months in office, Surakiart worked hard to shake off that image. "Surakiart learnt fast," says Sirichai Sakornratanakul, senior executive vice-president at IFCT. "He tried to do the best, but maybe he tried too hard."

Given his vulnerability and loyalty to Banharn, his departure, when it came, seemed doubly cruel. On the morning of May 27 1996, Surakiart, who at the time was in Hong Kong, received a telephone call from the cabinet secretary-general, Visanu Kruangarm on behalf of the prime minister, calling on him to resign. Surakiart tendered his resignation by fax that afternoon. "I was blamed by Banharn, but I did nothing wrong," says the former minister. "This was a political post. I am not a politician."

In the business circles, the sudden demise of Surakiart raised hopes of a more suitable replacement. Virabongsa Ramangkura, a former finance minister under the Chatichai government, was reportedly proposed by Prem, but was turned down by Banharn. Kosit Panpiemrat, an executive director at Bangkok Bank and Som Jatusipitak, president of Siam City Bank, were also tipped as possible contenders. "They weren't sufficiently malleable," says one banker scathingly. "Banharn needed to have his own man holding the purse strings."

The appointment of Bodi Chunanananda at the end of May 1996 was seen as a compromise. A former commerce and accountancy graduate of Chulalongkorn University, Bodi had worked for 20 years in the budget bureau, including nearly 10 years at the helm. Despite widespread concern over his apparent lack of fiscal and monetary experience as well as suspicion over his links to Banharn, the 61-year-old technocrat stood his ground.

Ironically, it was disagreements over the national budget that led to Bodi's departure at the end of September. Realizing that there was going to be a shortfall in revenues, Bodi called for cuts of Bt16 billion to be implemented in the national budget for 1997. When the cabinet overruled his plan, he handed in his resignation. "He took the only route open to a good finance minister, and that is, to register your complaint and resign," says one colleague. "He didn't want to be seen as Banharn's creature."

After Bodi's departure, Chaiyawat Wibulswasdi, deputy governor of the BoT, was appointed in the run up to the elections. Finally, six weeks later, after the appointment of a new coalition government, Amnuay Viravan, the present finance minister took control.

Changing of the guard

If the merry go round at the top has proved catastrophic for the country's financial management, the appointment of Chatu Mongol Sonakul as permanent secretary of finance in late 1995 spurred hopes of an end to the nepotism that, in recent years, has seen officials promoted on connections — rather than merit.

A veteran civil servant with thick-rimmed spectacles and the elocution of an English country squire, Chatu Mongol's credentials are, by any standard, impressive. After attending Britain's upper-crust Harrow School, he went on to complete an honours degree in Mechanical Sciences and Economics at Cambridge University. He then attended Harvard University before joining the MoF as a junior economist. Since those early days, Chatu Mongol, who is now 53, has worked his way up the ranks to become director-general of the powerful revenue department and, finally, permanent secretary in October 1995.

Insiders describe Chatu Mongol as progressive and straightforward. Others point to his strong convictions and fearsome temper. But one thing that almost everyone agrees upon is his single-mindedness and integrity.

If anybody doubted those attributes, Chatu Mongol showed his mettle in December 1996, when he abruptly reshuffled the six directors-general who, after the finance minister and permanent secretary, are the most powerful men in the ministry. The reshuffle followed a major

†He was PhD student from Harvard and a dean of Chulalongkorn's University Law School

shake-up of *C9* officials, who constitute the second line of command.

"The economic and political situation has been worsening in this past year or two," says Chatu Mongol. "The reason we reshuffled the directors-general was because it was a good time to put the right man in the right job."

Such a high-handed approach has won Chatu Mongol support from outsiders. But the unprecedented moves have also sparked fierce opposition. One director-general called a press conference to deplore his transfer. Others claim that while Chatu Mongol has taken the meat cleaver to senior officials, he had not actually replaced any of them. "The problem at the Ministry of Finance is that (in the past) politicians have played a very strong role in appointments," says one MoF official. "There is now a very strong opposition to Chatu Mongol."

But far from backing down, Chatu Mongol, who is a close associate of finance minister Amnuay, is busily planning the next phase of the ministry's overhaul. "I want a meaner, cleaner, more efficient organization," he told *Asiamoney*. "I want the Ministry of Finance to be a model for other government ministries."

It is a crusade reminiscent of Chatu Mongol's mentor, Puey Unghakorn, who devoted much of his life ensuring the stability of the country's financial system. In so doing, he established himself as one of Thailand's greatest technocrats. But it's a crusade that even Chatu Mongol admits could prove an uphill struggle. "They don't have anybody like Puey anymore," he laments. "He taught me how to work ethically and flexibly with a long-range view. He taught me to select people for promotion with honesty and capability. I would not be here without him."

The future

Perhaps, the most worrying thing about the crisis of confidence now gripping Thailand's technocrats is that it comes at the worst possible moment. In the past, a buoyant economy could conceal intervention by politicians and disagreements among policy-makers.* But the current chain of disasters coincides with the most serious downturns in more than a decade.

Mounting problems at property companies, banks and finance houses have been compounded by high levels of short-term foreign debt and a slowdown in exports. With a current account deficit that hit US$15 billion in 1996, poor corporate earnings and a stockmarket touching its lowest level in four years, the need for strong leadership is probably greater now than at any time in the country's recent history.

So far, there have been no major collapses. Most believe it is only a matter of time. The fact that previous governments have tended to prop up companies for political expedience rather than allowing them to fail has only added to the difficulties. "We will see more companies failing," predicts Aswin at IFCT. "It is already showing up. A lot of companies are having their cheques bounced. There have been reschedulings and efforts to sell assets."

Some hope that the new batch of leaders voted in on the November election can restore the country's economic fortunes. Heading up the economic team (known as the *dream team*) is finance minister Amnuay Viravan, a former executive at Bangkok Bank and chairman of the National Economic and Social Development Board. Widely-recognized for his technical abilities and his international stature, Amnuay is heralded as the man who, if given the leeway by politicians, can rebuild Thailand's shattered economy. He is backed by Narongchai Akrasanee, a former chairman of General Finance, now minister of commerce. Other well-known advisers include Ekamol and Pakhawat Kovithvathanaphong, former president of Securities One.

But if the public face of the government is new, the residue is not. More than half of the cabinet ministers (including Amnuay and prime minister Chavalit) come from the discredited Banharn administration.

Whether the new government is prepared to accept change and see economic growth tumble also remains to be seen. To date, the talk has been of propping up property companies rather than letting them collapse, and of creating funds to bail out finance companies, much as the Japanese did in the late 1980s. But while that may delay the pain, it is unlikely to provide a long-term solution.

Even the fiscal cuts now being proposed — Bt50 billion for 1997 with a further Bt50 billion for 1998 — while a welcome departure from the overspending of recent times, may need to go further, if they are to keep pace with falling tax revenues.

For the technocrats, who run Thailand's ministries and institutions, the future is also uncertain. Despite attempts to shore up confidence, their position is likely to remain a tenuous one as political intervention and a steady brain drain take their toll.

Indeed, if there's any hope, it's that the mistakes of the past have been recognized, and that senior technocrats such as Chatu Mongol and Ekamol can cut through the layers of self-interest that have steadily eaten away at the very foundations of the country's esteemed institutions. Moves by the Civil Service Commission to push for higher salaries, to increase efficiency and to reduce outside intervention are also being quietly welcomed as a step in the right direction (although according to the TDRI, salaries would need to rise by 400% to put senior technocrats on par with their counterparts in the private sector).

Longer term, as democracy becomes more entrenched and vote buying a less common means to office, the emergence of educated and accountable politicians working for the well-being of the country could also usher in a new chapter of stability. Until then, the foundations of the country's recent economic success are likely to remain at risk. am

**Thailand's GDP growth averaged 9% over the last decade, one of the highest levels in the world.*