Per Jacobsson Lecture

Privatization: Financial Choices and Opportunities

Amnuay Viravan

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Foreword

Dr. Amnuay Viravan, Chairman of the Executive Board of Bangkok Bank Ltd., delivered the second of the two Per Jacobsson lectures held in 1991. The title of his lecture was "Privatization: Financial Choices and Opportunities." The lecture was held in the Auditorium of the Bangkok Bank, in Bangkok, Thailand, on October 13, 1991. The facilities for the event were provided by the Thai Bankers' Association. Sir Jeremy Morse, Chairman of the Per Jacobsson Foundation, presided over the meeting, the proceedings of which are presented in this publication.

The Per Jacobsson lectures are sponsored by the Per Jacobsson Foundation and are usually held annually. The Foundation was established in 1964 in honor of Per Jacobsson, the third Managing Director of the International Monetary Fund, to promote informed international discussion of current problems in the field of monetary affairs.

The lectures are published in English, French, and Spanish and are distributed by the Foundation free of charge. Through the courtesy of other institutions, other language versions are also issued from time to time. Further information may be obtained from the Secretary of the Foundation.

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Opening Remarks

Sir Jeremy Morse

Good afternoon, ladies and gentlemen. I think we should begin, and to start, I would like to ask Mr. Tarrin Nimmanahaominda, the Chairman of the Thai Bankers' Association, to open our proceedings.

Tarrin Nimmanahaominda

Ladies and gentlemen, on behalf of the Thai Bankers' Association I would like to warmly welcome all of you who have joined us for the Per Jacobsson lecture today.

I should also like to express my sincere appreciation to the Per Jacobsson Foundation for giving us the opportunity to host this event. For the Thai Bankers' Association and our 15 member banks, we are greatly honored to be associated with this lecture series where important issues with great global significance and worldwide interest are discussed. We are, therefore, most happy that the organizers have selected as speaker today one of our highly respected senior banking members, Dr. Amnuay Viravan. I am sure that his lecture will prove to be intellectually stimulating and constructive. Thank you.

Sir Jeremy Morse

Thank you very much, Mr. Tarrin Nimmanahaominda, for that introduction, and thank you, too, and the Thai Bankers' Association, for sponsoring the lecture and for the reception which we shall have afterwards.

I will not take a long time in introducing our lecturer. I will simply say that this is the twenty-ninth Per Jacobsson lecture, and Bangkok is the tenth city in which this lecture has been held.

You have Dr. Amnuay Viravan's full life story in the program. He has himself chosen this fascinating and extremely topical subject, which he is going to treat in a very broad way.

After the lecture there will be the usual question and answer period and, as it says in the program, if you want to send in a written question, there will be attendants to collect the questions before that session begins. Equally, as you can see, there are four microphones, two on the center stair and two on either side of the entrance, if you wish to ask a question from the floor.

So I hope you will be preparing for that period. I will now invite Dr. Amnuay Viravan to deliver this year's Per Jacobsson lecture.

Privatization: Financial Choices and Opportunities

Amnuay Viravan

Mr. Chairman, distinguished guests, ladies and gentlemen: I am greatly honored by the invitation from the Per Jacobsson Foundation to address its prestigious forum today. I am also grateful to the Thai Bankers' Association, which is kindly co-hosting this Per Jacobsson lecture and has helped to make all the necessary arrangements. More importantly, I am delighted to have this opportunity to extend on behalf of my compatriots our warmest and heartiest welcome to the distinguished participants of the Annual Meetings of the World Bank and the IMF in Bangkok.

It is a pleasure for me to accept the privilege of choices given to me by the Foundation by selecting "Privatization: Financial Choices and Opportunities" as the topic of my presentation. It is my conviction that privatization, loosely defined as a process of converting or transforming state enterprises totally or partially into private organizations, should gradually become an integral part of a development process on a global scale. It could even become crucial to many countries in their development efforts in the next several years.

The Triumph of Private Enterprise

We have already witnessed since the beginning of this decade the great triumph of democracy, capitalism, and free market economies and the fall of communism and centrally planned economies. The triumph and fall were not totally unexpected, but the rapidity of their evolution did indeed surprise most of us.

The dismantling of the Berlin Wall in 1989 signaled an end to the cold war and a beginning of a new economic order in which centrally planned economies and public enterprises are giving way to market economies and private initiative. In the case of Germany, the unification process almost immediately integrated and transformed a socialist economy to a capitalist society. While the transformation process is still a long way from completion, the effort has given so much hope and expectation to the countries of Eastern Europe that they too are making dramatic changes in political ideology and economic policy for a market economy.

We see Eastern European nations—Bulgaria, Czechoslovakia, Hungary, Poland, and Romania—restructuring their economies through privatization and foreign investment. The conversion process in Eastern Europe, turning state-owned enterprises into private organizations, will involve nearly 20,000 entities with assets valued at over $100 billion.

The failed coup in the U.S.S.R. has obviously accelerated the destruction of the communist empire. The new Soviet leadership, which supports political independence of the Soviet republics, will most likely pursue with far-reaching results a market-oriented development policy and a policy to redeploy resources from military and defense to economic and social development.

Some Latin American countries that damaged and stagnated their economies by public mismanagement and by incurring heavy external debts and hyperinflation are beginning to find their way back through economic liberalization, deregulation, denationalization, and privatization.

The People's Republic of China and the socialist nations of Indochina are seriously talking about the market economy and opening up their borders for trade and investment from their neighbors and the Western world.

The newly industrialized countries and developing nations of Asia, or more specifically the ASEAN [Association of South East Asian Nations] countries, are demonstrating to the entire world the increasing importance of private enterprise in trade and investment, which make the region the fastest growth area of the world.

Privatization has appealed to, or has become an economic necessity for, not just the socialist or developing nations of the world. In fact, developed and industrialized countries such as the United Kingdom and Japan have come close to perfection in the art of privatization and have demonstrated to the world how privatization can be successfully modeled to achieve the desired results.

Since 1980 the United Kingdom under Prime Minister Margaret Thatcher reportedly privatized over 30 state enterprises involving 900,000 employees and raised $75 billion for the treasury. The Government turned over to the private sector a wide range of economic activities, including water, gas, electricity, telephones, steel, and most transportation. The privatization program converted a \$4.5 billion annual loss in 1979 into a \$3 billion annual gain currently in new tax revenues. The privatized companies are now operating with greater efficiency and with improved rates of return on capital and in many cases with lower prices for the public. It is claimed that British privatization has benefited the state, the consumer, the worker, and investors alike.

Japan, a country with a traditionally strong private sector, has also found privatization to be a desired instrument to sharpen its competitive edge. It has privatized three major state-owned enterprises in railways, telecommunications, and tobacco with outstanding success. The Japanese experience is unique, however, for the Government does not really have the financial need to privatize. So it has adopted the policy of privatizing the management first and divesting later when the assets become more valuable with improved operating results. Japanese privatization has also benefited the Government in terms of greater revenue, the consumer in terms of lower costs and better services, the employees in terms of better pay and welfare, and hopefully will benefit the new investors when the stocks are offered to the public.

EXPANDING SCOPE OF PRIVATIZATION

Privatization has apparently gained such wide acceptance today that it is no longer a political issue; it remains, however, a strategic issue, a choice that has proved much more attractive in the overall process of national development.

The transfer of economic resources through privatization during the 1990s will be so great that it would dwarf the privatization efforts in the 1980s. Already economic managers are referring to a potential value of \$200 billion in privatization in Asia alone during the next five years. Eastern European nations are also looking for buyers of state-owned assets worth over \$100 billion. The U.S.S.R. has indicated its desire to privatize assets worth as much as rubles 300 billion or \$80 billion at the current exchange rate. As the media have it, privatization in the 1990s could indeed be the sale of the century.

The 1980s may have been named the decade of merger and acquisition, leveraged buyouts, and junk bonds, but the 1990s is likely to be known as the decade of privatization and market economy.

The winds of change are blowing throughout the world, privatization is being swept to the fore, and this watershed should provide marvelous opportunities for investors.

SUCCESS AND FAILURE

Now we come to a very important question. Privatization often succeeds in the developed world, but in the developing countries it frequently fails to meet expectation. Why should this be?

First of all, in the developed nations, governments are committed to privatization and are clear as to their objectives. In contrast, in the less developed world, governments tend to lack the political will and their objectives are often confused and in conflict. In order to commit ourselves strongly to privatization, we need to be clear in our objectives as to why such-and-such a state enterprise should be privatized. If privatization leads to greater concentration of wealth and turns a state monopoly into a private one and it becomes a tool for political favoritism, it would obviously fail to achieve the desired objectives.

Then there is the "paradox of privatization." Governments usually wish to sell loss-making enterprises, for which there are no buyers, whereas investors would normally like to buy profitable enterprises with which governments are reluctant to part.

Next is pricing of assets that is sometimes unrealistic in terms of their value and potential earnings. Investors naturally expect to enjoy dividends and capital gains from their investments. It is not uncommon that governments tend to be conservative and price the assets too high in order to avoid negative political consequences.

Management is another crucial factor that makes a difference. Investors would always look for greater efficiency from better management and less bureaucratic control. Privatization without accompanying changes in the business and managerial environment is not likely to succeed. The management factor would obviously be considered most vital for the future growth and earnings of the privatized enterprises.

Finally, the underdevelopment of capital markets in developing countries is a limiting factor in view of the scope of privatization and is often a major cause of failure. Equity in state enterprise assets must be easily marketable and one needs a sufficiently sophisticated capital market with good depth to ensure such a feature.

FEASIBILITY OF PRIVATIZATION

Privatization is bound to mean different things in different parts of the world. In the West and Japan, privatization is something of a luxury that is well affordable, in terms of both time and funding. In the post-socialist world it is a vital necessity, but time and funds are desperately short. Privatization in East and Southeast Asia and in Latin America lies somewhere in between, being very desirable but not vitally essential, and affordable given the will and the skill.

In other words, privatization in the advanced countries puts the finishing touches to already efficient market economies; in Eastern Europe and the Soviet Union (or what is left of it), privatization creates the basis for an as yet nonexistent free market; in the developing countries of Asia and Latin America, where market economies are already in place, privatization means a huge leap in efficiency and credibility, the key to economic development.

In terms of feasibility, privatization in the West has few constraints; in the former Soviet bloc countries the constraints are formidable, for despite the will to privatize there, who would want to buy into technologically backward and politically and economically unstable enterprises?

Privatization in Southeast Asia is more difficult than in the West for a number of reasons, such as the scarcity of domestic savings, the shallowness of stock markets, and, in many cases, a scarcity of managerial skills. On the other hand, privatization in Southeast Asian countries is very feasible, given their market economies, the openness of these economies to the rest of the world, and a ready access to world capital markets.

MOTIVATION FOR PRIVATIZATION

Various governments and various nations may privatize their enterprises for many different reasons. Eastern Europe would be primarily motivated by political ideology and a policy shift toward a market economy. Latin America would look toward privatization as a means to uplift the economies from stagnation and hyperinflation as well as to reduce the external debts that cannot possibly be handled otherwise. Japan and East Asia would be more concerned with the improvement of efficiency and much less with financial considerations. The United Kingdom, on the other hand, would adopt privatization policy both for a stronger fiscal position and for greater managerial efficiency.

Among ASEAN countries, Indonesia, Malaysia, and Thailand are supporting privatization policies mainly for a reduction of the fiscal burden created by state enterprises, to do away with political interference in management, and to improve efficiency. Privatization in these three countries would also enable the private sector to participate in investments in economic infrastructure, thereby accelerating their expansion programs and helping to redeploy the limited national resources for much-needed social development. The Philippines, with an economy long mismanaged by the previous political regime and devastated by a series of natural calamities, would need privatization to lower budgetary and payments deficits and to mobilize resources from the private sector for economic and social development. Singapore, on the other hand, already enjoys a strong revenue base and a high level of efficiency in the public sector but needs to privatize to increase the supply of equity stock in the capital market to absorb the fast-expanding flow of national savings.

PRIVATIZATION MOVEMENTS IN ASEAN

It would be of some interest at this point to take a brief survey of the privatization movements in the ASEAN region. As in most other regions, ASEAN members seem to have an unequivocal policy to support the private sector as an engine for economic development. The original five ASEAN countries, namely Indonesia, Malaysia, the Philippines, Singapore, and Thailand, share the same conviction that privatization and a stronger role for the private sector would help accelerate the national development process.

All five ASEAN countries have incorporated privatization programs in their development plans and have attached high priority to their implementation. Although privatization has been initiated in various ASEAN countries since the early 1980s, the process in general was rather slow. It is not until recently that the national efforts have become more intensified and momentum is being gained.

Among the major reasons supporting the ASEAN privatization process are

—the ever-increasing degree of interdependence in the global economy, which makes national competitiveness a prerequisite for sustained economic growth;

—rapid changes in technology and the greater need to harvest the benefits of available technology, which tend to make bureaucratic control and direct government involvement obsolete and incompatible with the competitive requirements in the national economy; and

—a private sector, gradually strengthened both in terms of management and financial resources through decades of rapid economic growth, which is eager and willing to play a greater development role in all areas of economic activity.

Singapore, a city state and a newly industrialized economy, has led the way and is considered more active in privatization. There were 56 government-owned companies in Singapore in 1985, of which 23 have been recommended for privatization by a government-appointed committee. At least 12 government-owned companies have been listed on the Singapore stock exchange, paving the way for fast privatization.

In Malaysia, the Government formulated a Privatization Action Plan identifying 246 government-owned entities for privatization. Of these, 69 are planned for privatization in two years and 107 within five years. By the end of 1990, 37 entities had already been privatized in varying degrees.

Indonesia has reviewed the performances of its 189 state-owned enterprises and found that 92 are considered unsound and 37 less sound. The remaining 60 are classified as sound or very sound. As an initial step, Indonesia plans to privatize 52 of its unsound enterprises during the next few years.

The Philippines, the ASEAN member that has been the subject of the most misfortune, has been in the process of re-privatizing the assets confiscated from the earlier regime, as well as privatizing other government assets to raise funds for the soaring economic and social needs and for the mounting external debt services.

The Philippine Government formally launched a privatization plan in December 1986 and has since then disposed of assets and equity of over 300 state-owned enterprises to the private sector. The extent of privatization is relatively small, however, and much more has to be done to come anywhere close to the planned target. Among the major organizations earmarked for privatization are the Philippine National Bank, Philippine Airlines, and the National Steel Corporation.

Thailand currently has 61 state enterprises. Most large state enterprises are responsible for public utilities and infrastructural development. During the Seventh Five-Year National Development Plan, it is estimated that $50 billion would be needed for expansion of infrastructural facilities. Privatization policy has therefore been adopted as a means to mobilize financial and managerial resources from the nonpublic sector to implement the development plan.

Major state enterprises that have already been partially privatized or will be privatized in the near future include the Telephone Organization, which is granting a concession for a three million line telephone expansion program worth $4 billion to the private sector; the Expressway and Rapid Transit Authority, which has established a joint venture with a private company for the second-stage expressway expansion worth $1 billion; and Thai Airway International, which will publicly issue a series of new capital on the Stock Exchange of Thailand to mobilize equity funds from private sources to help finance its $4 billion expansion program over the next five years.

FINANCIAL AVAILABILITY

Needless to say, the spectacular offer to the private sector on the world scene exceeding $380 billion in value presents an opportunity—though admittedly one fraught with risk—for profit-minded investors. Nonetheless, where will all the needed funds come from?

In financial terms, developed countries will experience the least difficulty in launching their privatization programs, followed by the dynamic Asian countries. Meanwhile, countries bled dry by capital flight, the less developed countries, and the post-socialist countries will face the most difficulty. The countries in the last three categories are also normally the ones with a large public sector.

The financial problem is more complicated as domestic savings, particularly in countries in the last three categories, fall far short of demand. In the countries experiencing capital flight, the situation may improve if they succeed in reversing the direction of the flows of funds. However, as things stand, local sources prove inadequate in most developing and post-socialist countries. Thus, these countries will have to look beyond their borders and seek funds in the world capital market. Even the developed countries and the dynamic Asian countries themselves have to rely to a varying degree on foreign sources to finance their privatization programs.

To make matters worse, the world is facing an increasingly tight credit situation. A credit crunch has developed in Japan, the United States, and unified Germany, the major sources of funds for the world.

The United States, which has accounted for 40 percent of total global credits, is still plagued by the twin deficit problem and a weak economy and has become a net borrower. Japan, which captures another 30 percent share of total world credits, is making preparations for its banking sector to meet the capital adequacy requirements of the Bank for International Settlements in the coming year. And unified Germany is burdened by the need to provide large and growing assistance to the eastern part of the country. On the demand side, additional need for funds for economic rehabilitation in Eastern Europe and the Soviet Union and for the reconstruction of Kuwait and Iraq in the years to come are expected to be huge.

The obvious financial imbalance in the world in the 1990s, the decade of privatization, implies that potential investors or the buyers of governmental assets would be in the driver's seat, being able to pick and choose the offers that are most attractive. In other words, we can expect a buyer's market to prevail in the global privatization game over the next several years.

The imbalance also implies that the governments that are successful in privatization will have to design their privatization packages for sale in a more attractive and more realistic manner. This is so because privatization has become and will become more competitive in attracting capital funds from both domestic and external sources. As already stated, the key features that will rank high in potential investors' considerations would be pricing, managerial ability, and the marketability of the privatized assets.

Supporting Policies for Privatization

Obviously, political will and political decisiveness will always be necessary, but never adequate, conditions for successful privatization. To develop a favorable environment for privatization is exactly the same as to develop a proper climate for investment. Private sector participation must be truly welcome, and governmental interference and bureaucratic red tape must be reduced to the minimum.

There are of course a great many factors affecting investment climate and privatization feasibility, but foremost among them are political stability, availability of professional managerial skills, freedom to manage without political interference, growth potential of the national economy, and depth of the local capital market.

Both foreign and local investors consider political stability and consistent favorable economic policy for private enterprise as prime prerequisites for long-term capital investment. Changing and unpredictable policies and practices greatly increase business risks and inevitably scare away potential investors. Political stability and predictable economic policies have been the most important supporting factors for the economic success of the newly industrialized countries of East and Southeast Asia.

Economies have to be efficiently managed both in the public and the private sectors. The growth and prosperity of an economy does not come about just because of natural endowments or the availability of financial resources. There are too many resource-rich countries in the world that make no headway in their development process. It follows that a successful privatization program requires a strong cadre of professional managerial skills in the private sector to accommodate the conversion process. In other words, lack of private managerial capacity or partial divestiture of state enterprise without managerial improvement would have very little if any impact on national economic efficiency.

Professional management needs to be consciously promoted and developed through academic training and a proper business environment in which governmental intervention is kept at a minimum level. Business managers will be at their best in a competitive atmosphere when they have to deal with constant changes in market forces, consumer preferences, and technologies, with the government acting more as promoter and facilitator. It is imperative that private business be given the maximum degree of freedom to manage and excel in a competitive environment, as is the case in most industrialized countries.

Privatization is a long-term process and needs to be given a long-term time frame so as to bring about lasting national development benefits. The sale of government equity or assets to the private sector cannot be undertaken on a nominal basis without real improvement in management and operating performance. Failing to achieve the long-term objectives in terms of better output and efficiency would mean failure and public disappointment. Consequently, privatization in an economy with a strong private sector and strong growth potential stands a much better chance of success.

Another key factor in the privatization process is the capacity to mobilize savings in the national economy. We all realize that we need funds from external sources to support the privatization programs of developing countries, at least to some extent. But the more we can depend on domestic sources of savings, the better results we can expect to achieve. To ensure a substantial source of domestic savings and the likelihood of ownership dispersion on the widest possible scale, we obviously need a great depth in the local capital market, considering the financial scale of privatization.

A Prescription for Privatization

The cold war has ended and the communist empire has crumbled. We have also recently witnessed the first bold step in unilateral nuclear disarmament by President George Bush and the subsequent response of President Mikhail Gorbachev, which drew praise and support from political leaders all over the world. The nuclear disarmament process is likely to end the arms race and could significantly divert national resources of most nations from defense to economic and social development. It should also, in the medium and long term, accelerate growth in the global economy and enhance the global capacity to save and invest. This development would naturally strengthen and be compatible with the privatization process.

The political aspect of privatization would also strengthen democratic society and enhance the role of the private sector in economic development. It is therefore in the interest of private investors, be they individual, corporate, or institutional, to support privatization programs.

Many investment banks and securities companies are already very active in devising privatization plans for state enterprises, both as financial consultants and as underwriters. Many fund managers have also found privatization an attractive area for investment and a lucrative source of earnings for their capital. Much more, however, can be done to capitalize on the fast expanding opportunities in the privatization process.

The World Bank, through its International Finance Corporation (IFC), which provides loans and equity investment in private sector projects, has with great success initiated sponsorship of many investment or country funds. Most notable among them is the Emerging Markets Growth Fund established five years ago with a private investment participation of $50 million. The Emerging Markets Growth Fund has since expanded to nearly $800 million and has provided much-needed equity investment in many developing countries.

It is strongly recommended that the World Bank and the IFC play greater roles in supporting privatization movements, especially in the developing nations. The IFC could invest directly in the privatized projects from its own funds and should of course initiate and sponsor more investment funds for privatization in the developing world, both in member countries and in the socialist-turned-democratic nations. The World Bank and its developed member countries should provide technical assistance in the planning and implementation of privatization programs in the countries that need them.

Various international institutions and member countries of the Organization for Economic Cooperation and Development should make greater efforts to assist developing countries in upgrading their professional managerial capacity and in strengthening their capital markets, the two conditions that are so vital to a successful privatization program.

It must be made abundantly clear, however, that the responsibility for success in the privatization program rests fully and solely on the privatizing nations. International organizations, donor countries, and external investors can play a supporting role but can never substitute for the necessary actions on the part of the host nations.

Already identified are a number of factors that are critical to effective privatization, namely, strong political will and unambiguous objectives, realistic pricing of the privatized assets, managerial improvement and freedom from bureaucratic control, and a sufficiently strong and sophisticated capital market.

The importance of such critical factors to privatization can never be exaggerated. But it is also vital for the governments to establish privatization criteria against which the actual results can be measured and evaluated, for without established criteria we might not be able to ascertain the effectiveness of our efforts.

I would strongly suggest that privatization in a democratic society must have as its primary objective a firm intention to widen equity ownership and decentralize wealth in the nation. Better income and wealth distribution have already been given highest priority among the various development objectives, and privatization should be one key measure to support such a priority.

Equally important is to ensure that privatization effectively promotes competition and sharpens the competitive edge of the national economy. In line with this objective, bureaucracy must take steps to do away with unnecessary supervision and controls to ensure a degree of independence and flexibility similar to those of a private business entity. Only in this way can privatization truly increase productivity and accelerate economic growth on a sustained basis.

Special attention should also be given to the management and employees of the state enterprise under a privatization program. It is desirable and recommendable that a certain proportion of stock issue be offered for sale to the management and employees, preferably on a concessionary basis. The recommended action is not to buy support from the employees but to be fair in recognition of their valuable contribution in building up the organization.

Mr. Chairman, ladies and gentlemen, privatization has indeed become a global phenomenon, a strategic tool for democratic and economic development, an attractive choice for promoting competitiveness and efficiency, and a viable opportunity for investors and professional managers. It is an economic conversion process that a post-socialist country cannot survive without, a developing nation cannot afford to overlook, and a developed society can only neglect at its own risk.

Thank you very much.

* * *

Sir Jeremy Morse: Thank you very much, Dr. Amnuay Viravan, for that remarkable lecture, which was both a trumpet call for privatization and a very detailed prescription for a decade worldwide of the process.

If you could hand in your questions or be prepared to give them over the microphone, Dr. Amnuay Viravan will remain here at the podium to answer them. I think there was plenty to challenge as well as to excite in that lecture. So please may we have your questions.

Questions and Answers

Following the formal presentation, Dr. Amnuay Viravan answered questions from the audience.

Sir Jeremy Morse: Here is the first question. *You stated that there is a role for external agencies such as the IFC to be catalysts in promoting privatization. Is it your judgment that the subject is perhaps too sensitive for any external initiative?*

Amnuay Viravan: I would have felt that way some ten years ago but, as I have stated, privatization is no longer the political issue that it used to be in the past. So, in my expectation, in this decade of the 1990s external assistance would be greatly welcomed.

I think the IFC has already made some direct investment into privatized projects, and some of the fund managers worldwide have also regarded privatization as one of the most profitable areas for investment.

Sir Jeremy Morse: Thank you. Now, I have two questions that are somewhat similar. First: *would you care to comment on the prospects of privatization in China during the 1990s?* And, not content with that, it goes on. *And what about prospects in India?*

And then a very similar question. *You have charted the course of privatization around the world, particularly in Southeast Asia. What course would you predict or what advice would you give to privatization in China?*

Amnuay Viravan: These are the two largest countries in the world in terms of population. Perhaps we should leave a few countries for the next century!

Sir Jeremy Morse: Right! Next question. *Milton Friedman has suggested that equity in public sector companies should be gifted to residents as a way of widening equity holding. Do you have any comments on this?*

Amnuay Viravan: There have been some comments to that effect from some of my colleagues that the distribution of government assets to the private sector does not increase, or might not increase, productivity immediately because it is just a transfer, and the government might as well distribute assets as gifts. In terms of productivity, all stock market transactions serve the same purpose; by themselves, they do not increase economic productivity.

The countries that need to privatize today need funds for other purposes, and the only efficient way of fund raising, like any family or like any corporation, is to sell your assets that are still of some value and use those funds for more productive purposes.

So, it is my belief that most governments are not in a position to give away or distribute their assets as gifts. They need money for other purposes that are more important.

Sir Jeremy Morse: Thank you very much. The next question relates to Asia. *In Asia, how much attention is being given to assessing the performance of privatized companies after privatization; for example, addressing regulatory issues in the case of public utilities?*

Amnuay Viravan: It is always my belief that if you privatize an organization and distribute its assets widely in the economy, you are going to have hundreds of thousands or tens of thousands of shareholders to look after their interests, and this in effect would help you to evaluate your performance because there will be a lot of interested parties forcing you to do that. Of course, if you privatize by simply turning over the asset to one single party, you may not have the same effect, the same benefits.

But the consumers who would be affected by poor performance, or who would not be able to share the benefits, or who might be adversely affected, they would be the party to force the evaluation process.

I think the privatization that is gaining momentum in most developing countries, and especially in Southeast Asia, will precipitate the interest in the need for evaluation, and this will happen.

Sir Jeremy Morse: Thank you. Our next question: *Privatized companies cannot become better managed without causing some political problems, for example, unemployment if the firm lays off workers. It involves the "freedom to manage" ideal versus the "public interest." How do we prevent a backlash against privatization when, on occasion, things go wrong?*

Amnuay Viravan: This is most often cited as the reason against the privatization process, especially during the past decade or so. The results usually have proven otherwise. Most of the privatization that is carried on with a clear objective, with a proper program, has proven to be beneficial, including to the employees.

There has been some fear, of course, that the employees might be laid off.

Now, in the Asian context, this is not as much of a concern because Asian managers do not lay off employees. If they have to do so, it would be as a last resort. It is usually the other way: the employees feel that they could not—or the management feels that it could not—get away with some of the abuses that they had enjoyed in the past, and therefore they fight against privatization and use all political means to support the fight. In a more democratic society, this is much less of a problem.

Sir Jeremy Morse: Here is a very broad question in two parts. *Is privatization essential for democracy?* Second part: *Is democracy essential for privatization?*

Amnuay Viravan: I think there is some interrelation, and as I have also stated in my presentation, obviously, in socialist-turned-democratic nations, privatization would be essential; otherwise, how can you support an effective market economy without private enterprises or private initiative?

In a developing country, like a country in Southeast Asia, including Thailand, I think privatization can serve both purposes—can make the country more democratic or less democratic. As I have stated, how you privatize is as important as the privatization itself.

Sir Jeremy Morse: I have plenty more questions if you are game to answer them.

Amnuay Viravan: I enjoy it.

Sir Jeremy Morse: Are there any clear safeguards against the potential monopolies that privatization could create, particularly in countries where the political background is not conducive to keeping the hands of politically influential individuals from the control of such monopoly-privatized companies?

Amnuay Viravan: This, I must admit, would vary from nation to nation, and you will find different degrees of it in Southeast Asia. I'm sure many of my friends here in the audience who are more expert, who have been directly involved with privatization in individual countries, can testify to the fact that the concepts and the principles involved in the process are not quite the same.

I would say that, of course, in the more democratic countries where the government is held accountable for the performances of state enterprises and has to operate under the eyes of the public, there is much less of a problem in terms of creating such a monopoly.

Sir Jeremy Morse: Do you advocate any areas where privatization should not be thought of? The question is addressed to Asia and the Middle East, and it is suggested perhaps water or electricity.

Amnuay Viravan: I would think that anything that would have to be operated on a commercial basis can always be privatized in some form or other. Of course, I have to advocate that the government should keep direct government services! I have too many friends in the government!

Sir Jeremy Morse: The next question relates to the former communist countries. *In these countries, a feeling of political guilt about the past has led to their desire now to benefit the population and to bring in for that purpose foreign investors. But do you regard that process as practical, as one that could be achieved?*

Amnuay Viravan: If they have to do that simply to appease the population, simply because of guilt, then it would be a reluctant policy that is not likely to bear fruit. I would think that many of the former communist countries, especially in Eastern Europe, will have strong aspirations for a better economic performance through a market economy. They might have too high an expectation, as proven in some areas, but I think you need a firm belief in the system in order to make it work.

Sir Jeremy Morse: Thank you. Now, here's a question about expertise in two forms. *Privatization needs managers. Is there a big enough supply?* And, secondly, *where should all the experts come from for the actual process of privatization itself? Does capitalism in mature countries provide enough of these experts in the process?*

Amnuay Viravan: This is one of the limiting factors, the availability of managerial supply. The countries that have been enjoying rapid growth through private investment and private initiative, like some of the ASEAN countries, they would, of course, have sufficient supplies of professional managers to make privatization work.

The least developed countries will have more of a problem and will need more assistance. That's why I rank the possible degree of success also by the degree of development or the stage of development in each national economy. Countries where a lack of managerial expertise could be a serious limiting factor would need help, and one of the suggestions that I have made is that efforts should be made to help them by strengthening the managerial capacity of those nations.

Sir Jeremy Morse: Question: *If privatization is going to be so important in the 1990s, should the World Bank, the IMF, or the United Nations set up some organization or institution to conduct research, offer consultancy service, et cetera, to member governments?*

Amnuay Viravan: I would like to pass this question back to the floor, and especially to Mr. Clausen, a former president of the World Bank, who is here with us.

Sir Jeremy Morse: He may have asked it! Tom, would you take the microphone? Would you be willing?

Tom Clausen: I'm a bit surprised to be asked, but nevertheless not displeased.

This is the age for the private sector going forward, and I think it is marvelous. The most powerful force on planet earth is the individual entrepreneur, and if governments can efficiently harness those powers and unleash those powers inside their countries, they are going to have far stronger economies. Standards of living of peoples are going to rise in those countries. It's going to be a better world.

I'm a little disinclined toward starting new institutions. I like to use existing institutions. The IFC, I must say, has been doing a marvelous job. We haven't mentioned the Multilateral Investment Guarantee Agency (MIGA) at this meeting yet, but that, too, tends to unleash the powers in the private sector. I'm inclined to think very seriously before we start a completely new institution. I would like to use existing institutions of which we have great ones. Thank you.

Sir Jeremy Morse: Thank you very much, Tom.

A question here about possible reversal. *In democracies, privatization may be promoted by one party, but it may be reversed by another. So how can you make privatization stick? Should you spread the shares widely, give constitutional guarantees against expropriation, or what?*

Amnuay Viravan: Like all economic policies, privatization is dictated by the popular choice, a wish of the people. And I would prefer that this is done not by constitutional means. If it is a good idea, it is beneficial to the people, and the only assurance of maintaining the momentum and not allowing a reversal is to distribute the equity as widely as possible.

I think the decentralization of the wealth of a nation is perhaps the most important and challenging task of all for the world's national economic managers.

Sir Jeremy Morse: The next question follows exactly on that. It's really how would you do that. It says: *In countries plagued by extreme inequality, privatization might merely be a strategy for perpetuating disparities of income and wealth unless a way can be found to widen participation. What ways for widening participation would you suggest?*

Amnuay Viravan: On that, again, the degree of development comes into play. More developed countries would be in a position to undertake this process and this policy effectively. The less developed countries, countries with a very low income per capita, would not be in a position to do so, and as yet there are no substitutes to make it work. In that case, I would prefer to see that gradual steps are taken.

Sir Jeremy Morse: Now we're getting a question which is provoked by your previous answers, so perhaps I might make this the final question. It's very fundamental. The question says: *I took your answer to the question about unemployment to mean that there is nothing that we can do about it. How much faith do you have that life will actually improve for the majority of the population in your 1990s of privatization?*

Amnuay Viravan: I don't believe I implied that unemployment is not a matter to be concerned about. Unemployment, of course, is a problem if we should allow it to happen. For most government organizations or state enterprises that would be privatized, there's really no need to start by laying off people or to force unemployment.

The basic assumption underlying the privatization process implies that you can develop greater efficiency by better management, by a better environment in which to operate; that is, greater freedom in business operations. Therefore, the increased efficiency that is to be expected would benefit the employees rather than result in forced unemployment. In many cases, a government would put it as a mandate that a privatized company cannot lay off employees for so many years. Although that might be a good movement for political consumption, I would think that you, as business managers, can improve efficiency by a better system, by better management, even though you may have more staff working for you than you really need. But if you can operate in a growth environment, you can always make the necessary adjustment.

I did not think that unemployment was a problem because I have always believed that the efficiency factor will overcome it and that in the long run employees would all benefit, either within the existing organization or by moving into other organizations that they consider to have better opportunities. I would consider unemployment to be less of a problem than any other factor because it could be overcome, not because it should not be a matter of concern. Thank you.

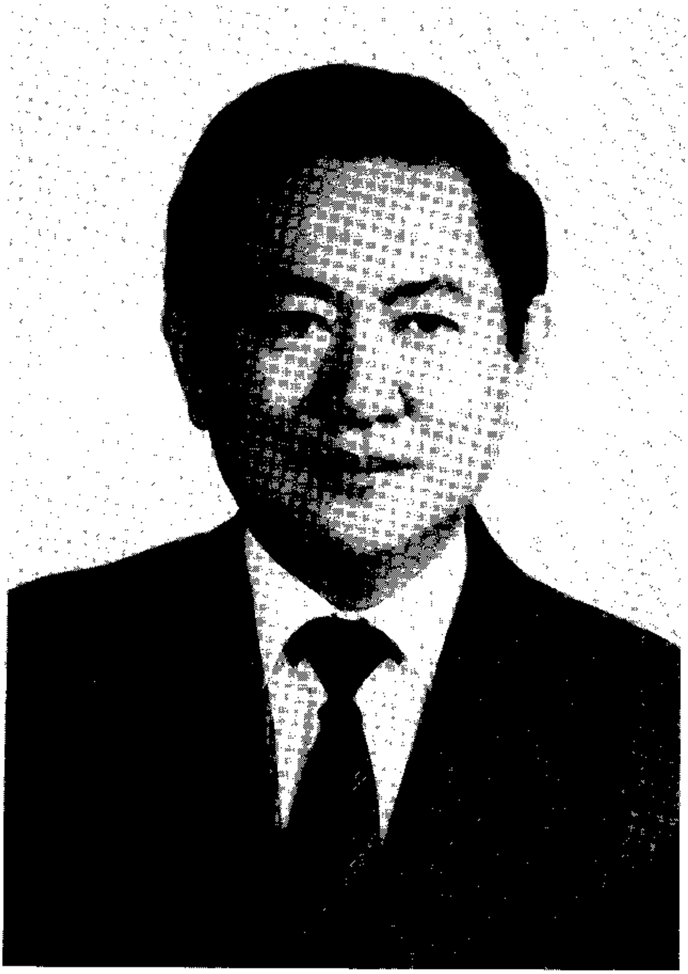
* * *

Sir Jeremy Morse: In winding up this session, let me say three things. First, about arrangements. We will go now to the twenty-ninth floor for a reception in an equally beautiful room. Also, buses will be here for some time for those who want to go back to the Convention Center.

Secondly, we again extend our very warm thanks to Mr. Tarrin Nimmanahaominda and the Thai Bankers' Association for their sponsorship, and especially to Dr. Amnuay Viravan and his bank not merely for the venue but for the brilliant lecture and answering of questions which we have heard and which I am sure will make very impressive reading when we circulate it.

We also express our gratitude to them and to our other Thai hosts for the reception we have had here in Bangkok for this meeting and for the very fine arrangements, but, above all, for the friendliness of the welcome that we're enjoying here in this remarkable country.

And thirdly, thank you all for coming, and I hope we will see a great many of you at our next lecture, which will be held in September 1992 in Washington and will be given by Karl Otto Pöhl. Thank you. That concludes our session.



Amnuay Viravan

Biography

Dr. Amnuay Viravan, a national of Thailand, is Chairman of the Executive Board, Bangkok Bank Ltd., a position he has held since 1983. He is also Chairman of the Board, Saha-Union Group of Companies.

Born in 1932, he was educated at Chulalongkorn University, Bangkok, where he received a B.Com. degree. Subsequently, he received M.B.A. (with Distinction), M.A. (Economics), and Ph.D. (Business Administration) degrees from the University of Michigan.

In the course of his distinguished career, Dr. Amnuay Viravan has served his country in many capacities, spanning both business and government. His current appointments include Chairman of National Economic and Social Development Board, Government of Thailand; Member, Advisory Board of the New Perspective Fund; Member, Visiting Committee of the Graduate School of Business Administration, University of Michigan; Governor, East-West Centre, Hawaii; Chairman, Institute for Management Education for Thailand Foundation; Member, Asian-Pacific Advisory Council of McGraw-Hill, Inc.; Member, Asian-Pacific Advisory Council of United Technologies Corporation; Director, Asian Pacific Banking Council; Member, Asian-Pacific Advisory Council of Caterpillar Tractor Co.; Governor, Asian Institute of Management; and Director, Trade Policy Research Centre, London.

Previously, he had served as Member, International Council of United States Information Agency, and Chairman, Asian Bankers Association (1987–88); Director, ASEAN Finance Corporation (1985–89); and Member, Asian-Pacific Advisory Council of AT&T (1984–88).

In his government career, Dr. Amnuay Viravan has been Minister of Finance (1980–81); Permanent Secretary for Finance (1975–77); Director General of Customs Department (1973–75); Director of Economic Cooperation Center for Asia and Pacific Region (1971–73); Secretary General of the Board of Investment (1968–71); Director of the Technical and Planning Department, Ministry of National Development (1963–72); and Economic and Financial Advisor to the Prime Minister (1962–71).

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