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PRIVATISING ELECTRIC POWER IN MALAYSIA AND THAILAND: POLITICS AND INFRASTRUCTURE DEVELOPMENT POLICY

THOMAS B. SMITH*

Department of Social and Behavioral Sciences, Zayed University, Dubai, United Arab Emirates

SUMMARY

Electric power development in Asia until recently has been a monopoly of the state, with the power sector's planning, finance, construction and management being a part of government activity. The surge in demand for power, as well as external pressures, induced Asian governments to allow private sector participation in electric power. The Malaysian and Thailand cases represent different patterns of policy-making regarding privatisation. In Malaysia, the government divested Tenaga Nacional Berhad in 1992 and awarded independent power producers (IPPs) licences to build and sell electricity to Tenaga for transmission and distribution. The IPPs were awarded without tender to friends of the government and the system has enabled the IPPs to make large profits at Tenaga's expense. In the Thai case, privatisation has been a very slow process as successive governments since 1989 have not had the power to initiate extensive divestment of IPP contracting. Privatisation in Thailand is a very contentious political issue and the employees union of the Electricity Generating Authority of Thailand (Egat) is very powerful. Thus, while Malaysia has had extensive privatisation of the power sector, the system eliminates competition in power supply resulting in a higher price of electricity for consumers. Copyright © 2003 John Wiley & Sons, Ltd.

INTRODUCTION

Private sector involvement in the power industry in Asia was quite limited until very recently. Governments of the region planned, made policy, built, owned and managed the generation, transmission and distribution of power as a state monopoly (Lucas *et al.*, 1987). Power development was a slow, deliberate, expensive and highly centralised, planned and regulated process.

With the surge in demand for power in the 1990s for industrialisation and commercial purposes, governments of the region were faced with an impossible task within their policy and institutional arrangements (Katayama, 1992). Most Asian states have been changing power policies and institutional arrangements resulting in deregulation and private sector participation of various forms (Caruso and Chen, 1996; Ingco, 1996; Cheng, 1997).

In the state owned and operated power systems in Asia, governance of power adhered to fixed roles. The government was the planner, developer, financier, manager, producer and distributor of electric power. One could complain about the inefficiencies in the system but some degree of certainty existed and the key players knew their roles. Some states have not been able to meet power demand and maintain inefficient systems (see, Sanghvi, 1991; Smith, 1993). Malaysia and Thailand have enviable records in guaranteeing adequate power supply and nearly 100% electrification of rural communities.

The restructuring of the electricity sector and the introduction of privatisation has dramatically changed the nature of governance of power. New organisations have been added to the system—independent power producers (IPPs), regulatory bodies, multi-national companies, international financial and development agencies and NGOs. Technological innovations in power supply, the trends of globalisation, international environmental concerns and the development of a civil society add complexity to the transformation of governance. Restructuring any major

*Correspondence to: Professor T. B. Smith, Department of Social and Behavioral Sciences, Zayed University, P.O. Box 19282, Dubai, United Arab Emirates. E-mail: tbsmith9@yahoo.com

policy area implies that some elements will be deprived and others rewarded in the outcomes of the policy change. Therefore, a highly political process is evident.

This article reviews the complexity and dynamism of electric power restructuring in Malaysia and Thailand. The cases represent contrasting strategies of promoting private–public sector relationships and illustrate the primacy of political elements in policy development.

THE POWER SECTOR

The supply and consumption of electrical energy is a key element in economic development, with electrical energy growth closely correlated with increase in GNP. Asian political and business leaders realise that sustained rapid economic growth is highly dependent upon the availability of electric power. The World Bank and Asian Development Bank estimated in 1994 that between $1.3 and 1.5 trillion would be spent by Asian countries in investment and expenditure on infrastructure in the decade up to 2004 (World Bank, 1994). Electric power development (with an estimated $400 billion expenditure) has been one of the major infrastructure sectors that is undergoing rapid expansion.

Initial power systems in colonial times were decentralised and largely unregulated. However, in the post-colonial times, centralised and highly regulated systems were designed (Flavin and Lenssen, 1992). Electric power generation and transmission is capital intensive. In the era of state monopoly of the power sector, expenditure on power in Asia often accounted for 20–35% of the development budget each year. The capital requirements could be met when countries were adding little additional power to their grids. However, when many Asian nations planned to double the power generation within a decade, the capital costs were beyond the finances of the government. Finance raised from taxes or borrowed (often from overseas) lead to a soaring public debt and balance of payment problems. Power in some countries is highly subsidised and distributed to consumers at low rates, so the utilities have little in the way of profits to invest in new power plants.

The central power authorities in Asian countries are often among the largest organisations in terms of employment and capital assets. Nearly one million employees work in India's State Electricity Boards. By mid-1997, Tenaga Nasional Berhard of Malaysia had capital assets of US$10.4 billion and 23,500 employees. The Electricity Generating Authority of Thailand (Egat) had assets of US$10.8 billion and 32,000 employees, with another 33,000 working in two state distribution agencies. The Philippine National Power Corporation had assets of US$13.6 billion and 14,500 employees; and Perusatiaan Listrik Negara (PLN) of Indonesia assets of US$19.6 billion and 50,000 employees.

PRIVATISATION TRENDS

The International Monetary Fund, the World Bank and various other international and United States development agencies provided Asian policy makers with strong arguments supporting deregulation and privatisation (World Bank, 1997). In Asia, privatisation experiences are noted by Ng and Woon (1992), Milne (1992) and Thynne (1995). The impact of power privatisation (in theory) should be a more efficient competitive system, ensuring a lower price of power for consumers. The private sector bears the infrastructure development costs (Newbery, 1995). The management of power systems and the transformation to a new system may provide opportunities for corruption on the part of enterprising individuals and organisations (Lovei and McKechnie, 2000).

Facets of the power sector include generation, transmission and distribution and the regulatory framework. Power privatisation can be promoted with various configurations of private–public cooperation and competition. State enterprises can be divested and IPPs formed that can sell power to a central authority (Albouy and Bousba, 1998). The basic pattern and process recommended can be summed in a set of 'principles' expressed by the Manual of Best Practice Principles for Independent Power Producers (APEC, 1996). The principles include clear and enforceable rules and regulations, the promotion of private over the public sector, the development of competition in generation, transmission and distribution, the advancement of transparency in power sector policy and management, elimination of favouritism and corruption, and a framework of globalisation with trans-national enterprise participation.

How various Asian states have dealt with institutional and policy change in the power sector varies considerably. Malaysia partially divested its state enterprise and has allowed IPPs to flourish without competition. Thailand

has not yet divested Egat, but has allowed limited private power producers. However, Thai power policy is strongly influenced by the International Monetary Fund, central power generating authority and its employees. Successive weak governments in the past decade have implemented privatisation slowly. Both countries have experienced an economic crisis since 1997 and this has had an impact on the pace and nature of restructuring processes (see, Gray and Schuster, 1998).

MALAYSIA

The Malaysian system

The restructuring of state enterprises in Malaysia under the leadership of Prime Minister Mahathir has been the most wide-ranging and comprehensive in Asia (Jomo, 1995a, 1995b; Adam *et al.*, 1996). The electric power sector has been typical of the process.

Malaysia is governed by a National Front of three ethnic based political parties: the United Malay Nationalist Organisation (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). Political power is concentrated in the Prime Minister. UMNO has extensive business interests that generate funds for political purposes (Gomez, 1994). Under Dr Mahathir's leadership since 1981, Malaysia has had rapid economic growth and has become a more authoritarian state with opposition leaders and NGOs harassed. Media is owned and tightly regulated by the government. The full power of the state has been used to promote the 75 years old leader's continued dominance, including arresting and imprisoning in 1998 Anwar Ibrahim, his popular reformist deputy prime minister, on charges of abuse of power and sodomy.

Malaysia has 11 peninsular states, Kuala Lumpur and other federal territories and the two states on the Island of Borneo—Sabah and Sarawak. This article will deal primarily with the experience on the peninsula, as the Borneo states have their own small electricity generation and supply systems.

Power development

Malaysia's pattern of electricity development mirrored the pattern found in other Asian developing nations, with the sector owned and regulated by the state. Malaysia's New Economic Policy (NEP) of the 1970s was designed to enable citizens of the mainly Malay (bumiputeras) race to take an increasing share of the country's wealth—largely in the hands of ethnic Chinese citizens. Malay entrepreneurs in the private sector were subsidised and the government took an active role in setting up state-owned enterprises, industrial and service areas that would normally be in the realm of the private sector—a 'government-in-business' strategy. By the mid-1980s, Malaysia had 900 public enterprises (Jomo, 1995). Bumiputeras were appointed as directors, managers and employees in state-owned enterprises. This process kept new business enterprises from non-bumiputera ownership. Government employment soared as well as the financial commitment needed to start and maintain many loss-making enterprises.

Electric power development fits into this pattern. The Ministry of Energy, Telecommunications and Posts, established in 1979, was responsible for coordinating electric power utilities. The National Electricity Board (NEB) provided for the 11 peninsula states and the Sabah Electricity Board (SEB) and the Sarawak Electricity Supply Corporation (SESCO) served the Borneo states. Small private power companies, remains from the British colonial days, supplied a small amount of power in several cities.

Electric power demand in Malaysia has grown to keep pace with the rapid economic growth rate of Malaysia. In Malaysia's case, the expansion of generation capacity through privatisation since 1994 has far outpaced the demand for electricity, leading to a surfeit of power by 1997. In 1999, peninsular Malaysia's generating capacity was 13,500 MW, although the demand was only 9000 MW. Malaysia's economy was severely jolted in 1997 by a plunging currency and stock market leading to a negative economic growth rate of −6.7% in 1998—after a decade of 8% growth rate. Power demand projections were vastly over optimistic in the depressed economic climate.

A changing system

Malaysia endured an economic recession in the mid-1980s. Part of the problem was the large extent of government involvement in the economy. Many public enterprises incurred losses and were a burden on the government's

finances (Mohamed, 1995, p. 68). Coordination was weak and an overall lack of accountability existed. Dr Mahathir and his finance minister Tun Daim Zainuddin restructured the state enterprises as a solution out of the economic doldrums. However, concern was expressed by some Malays that any major change in development policy could hurt bumiputera promotion.

The Economic Planning Unit issued the Guidelines for Privatisation document in 1985 and a Privatisation Masterplan (MPM) in 1991. The policy objectives were reducing the financial and administrative burden of government, promotion of competition and increased productivity of the SOEs, stimulation of private entrepreneurs, investment and growth, reduction in the role of the state and promotion of the objectives of the NEP through increasing the supply of private equity (Jomo *et al.*, 1995, p. 85). By 1993, 64 state enterprises had been privatised by divestment.

While the Guidelines were not specific, the MPM identified 424 enterprises for privatisation within a 5-year period with sequencing and methods outlined, including extensive use of 'build–operate–transfer' (BOT) methods for new ventures.

Infrastructure enterprises in Malaysia were among the first to be privatised in the post-1993 policy era (Naidu, 1995). Capital costs of providing the massive infrastructure needed to sustain rapid economic growth were beyond the capacity of the Malaysian government. A political factor was that new opportunities for bumiputeras could be improved by divesting the state enterprises and allowing new modes of infrastructure provision by the private sector.

The first large utility to be privatised was the Telecommunications Department. It was corporatised in 1987 to become Telekom Malaysia. In 1990, a portion of equity in the company was divested to the public with the government maintaining the 'golden share' as well as regulatory power. In effect, Telekom Malaysia is still owned and controlled by government.

Electric power

The process of privatising electric power followed the Telekom precedent (Naidu, 1995). The National Electricity Board was reconstituted as Tenaga Nasional Berhad (TNB) in September 1990. In May 1992, the government divested 30% of its shares in a public flotation. Tenaga is listed on the Kuala Lumpur Stock Exchange, but the government maintains regulatory control over many policy areas—including management, pricing and development activities. Tenaga was licenced by the Ministry of Energy, Telecommunications and Posts to operate for 21 years to generate, transmit and distribute electricity. Tenaga pays the government a fee of RM 1.50 per kilowatt based on installed generating capacity.

The divestment of shares of state owned enterprises in Malaysia is not a transparent process and allows bumiputera promotion to take new forms (Gomez, 1994). Some state enterprises have been 'sold' to individuals for a nominal fee. In other cases, shares are allocated to individuals on an application basis and larger lots of shares awarded to prominent individuals. At least 30% of the share allocation are supposed to be reserved for bumiputeras. The ruling National Front parties—UMNO, MCA and the MIC—also can be awarded shares. The opposition parties do not receive any.

The share allocation is used to reward bumiputeras generally as well as individuals (including Chinese and Indian) and organisations with personal or political links to Malaysia's leaders. Millionaires have been created overnight (and the rich have become more prosperous) in Malaysia by the allocation of privatisation shares. Political organisations also have been indulged, with scant concern about what happens to the shares. The MIC was allocated 10 million Telekom shares that were taken by the MIC leader and used for what appear to be personal rather than party purposes. The International Trade and Industry Minister, Rafidah Aziz, allocated shares of Leader Universal Berhad worth an immediate profit of RM5 million ($2 million) to her new son-in-law (Aliran, 1994). She allocated the same number of shares to the deputy prime minister's brother and to Dr Mahathir's son.

How does Malaysia's Initial Public Offering (IPO) method of divestment enable instant profits to be made? The initial offer price of the shares is significantly lower than the actual market price after a day of stock market trading. To use the Tenaga example (Goh and Jomo, 1995), the IPO sale of 30% of Tenaga shares in May 1992 set the issue price at RM 4.50 (about US$ 2.00). The price of Tenaga shares after one day of trading on the Kuala Lumpur Stock Exchange was RM 8.75, a 94.4% gain. The lucky persons and organisations that were allocated the shares could sell those and double their investment in less than 24 hours. The monetary loss forgone to the government was

calculated at over RM 2.5 billion (US$1 billion). Names of people and organisations receiving allocated shares remained confidential under the Official Secrets Act.

Independent power in Malaysia

On 29 September 1992, Malaysia suffered a long and total power blackout caused by lightning striking a transmission facility and causing a rolling failure in the transmission and distribution system. The immediate worry of government and business leaders was about how it would affect investors' images of Malaysia's infrastructure reliability. The government decided to increase the country's electric power generating capacity by allowing private IPPs to enter the electricity field to build and operate power plants and sell their electricity to Tenaga for transmission and distribution.

Five companies were granted licences by 1994 to establish power plants and sell power to Tenaga. Ten more companies had been granted licences by 2000. By 1997, the IPPs held about 30% of peninsular Malaysia's generation capacity (Jayasankaran, 1996). Since the IPP scheme was not based on a tender process, contracts were negotiated between Tenaga and each company regarding the pricing and supply of electricity *after* the permits had been granted. The price paid by Tenaga ranges from 11.8 to 15.5 sen/kWh. YTL Power International secured the most lucrative contract, as Tenaga must buy power produced regardless of whether it is needed or not.

The most controversial IPP project is the RM15 billion (US$5.5 billion) 2400 MW Bakun Dam project in Sarawak, East Malaysia. Previous analysis indicated that the project was not feasible on economic or environmental grounds. Sarawak uses less than 400 MW of power, so the power would be transmitted by under-sea cable 650 km to peninsular Malaysia. The Bakun project involves the inundation of a tropical forest and river system the size of Singapore and the resettlement of 10,000 indigenous people leading traditional lifestyle (INSAN, 1996). Malaysia's environmental impact assessement process was subverted and bypassed for the project. Environmental groups and affected indigenous people protested vigorously.

The contract to build and supply the power was allocated by Dr Mahathir without tender to Ting Pek Khiing's Ekran corporation (Gomez and Jomo, 1997, pp. 110–116). Ting (a close personal friend of the Prime Minister) is a businessman from Sarawak specialising in building resort facilities with no experience in dam building, power cable laying or power plant construction. Ekran negotiated a contract with Tenaga for the supply of electricity for 16.5 sen/kWh for 5 years and a higher rate after that. As the rainforest was being logged, the dam's construction began with many technical problems still unsolved. The 650 km under-sea transmission of large amounts of power had never been attempted anywhere in the world. However, in September 1997, the government postponed the project in response to a plunging stock market, decline in power demand projections, declining value of the Malaysian currency and Ekran's problems with ABB, its prime contractor. By then, RM1 billion had been spent, the forest logged and 10,000 indigenous people uprooted from their homes. In May 1999, the government announced that the project would proceed, but its size still undetermined and the market for the power remaining unexplained.

The transformation of the electric power sector in Malaysia was rapid and demonstrates how quickly the Malaysian government and private enterprise can change a key economic sector. However, on closer examination, this scheme has produced serious problems.

The impact of power restructuring

In 1992, Tenaga had a 30% reserve capacity that was more than sufficient to take care of routine maintenance and any breakdowns of power plants. With IPPs, the reserve capacity increased to over 50% by 1997. Much of the electricity had no real market, prompting the Prime Minister to urge consumers to use more electricity. In spite of the large reserve capacity, Malaysia still experienced major power outages. Penang Island was without power for days as the main cable faulted. The most embarrassing outage was on 3 August 1996 when West Malaysia experienced a 16-hour blackout caused by transmission problems. Tenaga's chairman, Ani Arope, tried to express his uneasiness in a joke—that TNB (Tenaga) also meant 'Total National Blackout'. Mahathir was not amused and Arope was replaced. His successor, the respected technocrat/manager, Dr Ahmed Tajuddin Ali, devoted his 4-year term to improving Tenaga services, dealing with the impact of the economic crisis starting in 1997 and coping with an IPP scheme detrimental to Tenaga.

Tenaga produces electricity for less than 10 sen/kWh; however, it is required by non-competitive contracts to purchase IPP power at up to 15.5 sen/unit (16.5 sen for the Bakun project). Tenaga plants remain idle so that power can be bought from IPPs. Tenaga paid RM1 billion to IPPs in 1995, over RM2 billion in 1996 and RM3.3 billion in 1997. The 1997 payout to IPPs was one third of Tenaga's total expenditure. Tenaga was selling power to industry (60% of power distributed) for less than 16 sen/unit. Domestic and commercial sectors paid 21.5 sen and 23.3 sen respectively. Tenaga's before tax profits fell by 17% to RM1.6 billion in 1995 and a further 29% in 1996 to RM1.16 billion. A further problem in 1997 was the collapse of the Malaysian currency. For 1997, the pre-tax profit of Tenaga plunged by 88% to RM144.7 million after accounting for a loss of RM1.3 billion in foreign exchange. The pre-tax 1998 loss was RM3.08 billion. With a stabilised currency and improved economic conditions, Tenaga's profit for the 1999 financial year was RM978 million. The share price of Tenaga on the stock market plummeted and has languished, as investors saw Tenaga as an unsound investment unless the electricity price to consumers is raised or the IPPs charge less for power.

The Malaysian experience with IPPs in the power sector privatisation is difficult to explain in terms of engineering, business or economics (Soong, 1996). A more promising explanation lies in the political realm—an example of privatisation by crony capitalism. The IPP companies are owned or controlled by UMNO's staunch supporters and, in many cases, personal friends of Dr Mahathir and Finance Minister Daim. The awarding of IPP contracts without a tender has become part of Malaysia's patronage process, with the recipients adding to their already substantial wealth. YTL Power International, headed by Datuk Francis Yeoh (reputed to be a personal friend of Dr Mahathir), has IPP contracts to supply power from its 1400 MW plants. The profit in 1996 was over RM700 million (US$280 million). This was almost equal to the profit for the whole of Tenaga. The good fortune has continued. For FY 1999, the corporation had sales of RM1.260 billion and after interest, taxes and operating costs, the profit margin was 47.4% of sales. Tenaga's profit margin for FY1999 was 6.4% of sales.

Since the IPP scheme was initiated, the Malaysian government has been faced with the necessity of raising electricity charges—unpopular decisions, leading to consumer's complaints, increasing the costs of industries and further politicising the power sector in Malaysia. In spite of criticism that IPPs 'sweetheart' contracts lead to overcharging, the government has not required the independent power producers to renegotiate their contracts. The current IPP policy has transformed the electric power sector into a system where the IPP owners get richer and the consumers pay more.

Tenaga's head from 1996 to 2000, Tajuddin, consistently argued a case that IPP contracts needed renegotiation, that a competitive power pooling method of buying IPP power be established and that the power price to consumers should be increased. Mahathir got tired of this advice and in September 2000 appointed Jamaluddin Jarjis, an MP and UMNO Supreme Council member, as chairman of Tenaga. Jamaluddin is a qualified power engineer and owns a company that sells equipment to Tenaga. It is understood from the comments by the chairman that the power pooling system and renegotiations of IPP contracts is not on his agenda.

THAILAND

The political process

Thailand was known as a 'bureaucratic state' where a civil and military bureaucratic elite ruled the country for decades. In 1989, the first democratically elected Prime Minister since 1976, Chatichai Choonhavan, took power. He was ousted in a military coup in February 1991 which was an attempt to reassert the dominance of the civil bureaucracy and military in politics (Hewison, 1996). In a bloody popular uprising, the military rule of General Suchinda was overthrown in May 1992; the military has stepped back from politics since then. Change and reform in most policy fields have been a process of stops and starts in Thailand for the past decade. Maclntyre (1999, p. 146) comments that Thailand has had great policy stability in the 1990s because political processes created unstable, weak and indecisive governments. Electric power policy has been no exception, as successive governments have been distinctly indecisive about privatisation.

After an interim government of Ananda Panyarachun, Chuan Leekpai in 1992 formed a coalition government following elections. Including the first Chuan government, four different governments ruled Thailand up to 2001.

Thaksin Shinawatra and his new Thai-Rak-Thai party won elections in January 2001. All the governments formed since 1992 have been loose coalitions of parties without common policies or ideological commitment. The inability to exert strong leadership has been due to the fragile nature of the 3–4 party coalitions, cabinet instability and the defection of parties and individuals in the hope of securing a better position in a government of a different leader and party (Maclntyre, 1999, p. 147). Thaksin promises strong leadership but the Thai political system may not allow this to be the case.

Electricity in Thailand

The demand for power in Thailand has increased rapidly as the country experienced a high level of economic growth. Power generation capacity was 1335 MW in 1970 and had increased to 7215 MW by 1985 (Lucas, 1987). Ten years later, the capacity was 14 700 MW. Some energy specialists have forecast that Thailand will require 30,000 MW capacity by 2010 (EIA, 1996). By early 1996, Thailand's planners and business elite had aspirations that the country would soon become one of the Asian 'tigers' such as Taiwan, South Korea and Singapore. The rapid growth of electric power supply was seen to be absolutely essential to sustain a rapid economic growth rate.

Thailand established numerous public enterprises and in 1985 comprised 262,000 employees—the numbers grew to nearly 400,000 employees by 2000. In a pattern similar to Indonesia, a large number of public sector enterprises were also established by the military during decades of military rule. The privatisation of some of the many public enterprises in Thailand began in the 1980s (Dhiratayakinant, 1991); however, the pace has been very slow. Thailand maintained a government monopoly in electric power until very recently and the Electricity Generating Authority of Thailand (Egat) is one of the largest and most powerful public enterprises in Thailand.

The structure of the power system

Egat is responsible for designing and building power plants and transmitting the power. Egat administratively is under the Prime Minister's office, with a minister assigned the supervisory role. Egat, however, does not distribute and sell power except to very large users. Instead, it sells power to two other public enterprises for distribution and sale. The Metropolitan Electric Authority (MEA) provides power to the Bangkok area and the Provincial Electric Authority (PEA) distributes power to the rural areas of Thailand. The MEA and PEA are under the administrative jurisdiction of the Ministry of Interior.

By the late 1980s, planners feared that Thailand's rapid economic growth could falter due to the lack of infrastructure. Ports, transport, communications and electric power were all overburdened. As reports put it, 'Thailand Hits the Wall' (Handley, 1988) and 'Bangkok on the Brink' (Tasker, 1990). To cope with the growing demands for power, Thai energy policy permitted private power companies to supply electricity to Egat for transmission. Contracts with Laos were negotiated for the import of hydroelectric power. Also being considered (for at least the past decade) is the privatisation of Egat and the MEA and PEA. The external supply of power to supplement Egat's generating capacity has taken place, but Egat's privatisation by divestment or selling of power plants was in the 'considered' category for many years. The economic crisis of 1997 prompted an International Monetary Fund intervention into the Thai policy process that forced the Thai government to restructure the power sector.

Planning for energy development is a state sector activity conducted in part by National Economic and Social Development Board (NESDB). NESDB is attached to the Prime Minister's Office and the National Energy Policy Office (NEPO) established in 1986, is also under the direction of the Prime Minister's office. NEPO, under the leadership of Piyavasti Amranand until May 2000, has taken the lead in promoting privatisation of the energy sector.

Early privatisation efforts

An initial attempt to revise electricity policy was in 1989 when the Chatichai government dismissed 9 of the 11 Egat's board of directors in order to appoint a new board favourable to privatisation efforts. Egat employees threatened to strike and cut off power supplies if the government did not reinstate Egat board members who had been dismissed (Handley, 1989). The employees' pressure won. In 1991 one of the excuses for a bloody military *coup 'd etat* by General Suchinda was Egat employee's rejection of privatisation of power and the threats to disrupt power supplies.

In 1992 during the interim government of Ananda, policy was changed to enable IPPs to operate in Thailand. The first IPP formed to supply power to Egat could hardly be called 'independent'. Not wishing to give up its monopoly on power supply, Egat established a wholly owned subsidiary called Electric Generating Company Ltd. (Egco). Egco was designed to build and operate a plant at Rayong, mainly to supply electricity to a nearby industrial complex. With a generating capacity of 1232 MW, the company has a 20-year contract to sell to Egat its output. Egco divested the Rayong plant in December 1994 to establish the Rayong Electricity Generating Co. Ltd. (Regco). Egat, however, kept 48% of the shares. In March 1997, the first power purchase agreement with a truly independent IPP (Independent Power—Thailand) was signed. Unlike in the Malaysian case, tenders were called and a rigorous vetting process initiated that resulted in a competitive power price (Lord, 1997).

The economic crisis and electric power

The economic crisis that hit Thailand in mid-1997 changed privatisation politics. Before 1997, governments of the day could always promote privatisation in symbolic policy terms but do very little in actual practice and Egat could dominate power sector policy. However, as part of the IMF's $17.2 billion intervention to 'save' the Thai economy, the government was forced to set deadlines for privatisation of key sectors (especially power).

The Chuan Leekpai coalition government took power in September 1997 in an economic crisis and worked quickly to meet the IMF guidelines. In the 24 February 1998 'Letter of Intent' to the IMF, the Prime Minister pledged to accelerate privatisation, establish a privatisation secretariat and enact a corporatisation law. The letter also promised that Egat's Ratchaburi and one other power plant would be sold, with the process completed in 1999.

The National Energy Policy Office has taken the lead in promoting energy policy privatisation in Thailand. The privatisation Master Plan (August 1998) details the structure, process and regulatory framework for future change. In a series of documents in 1998, NEPO enunciated a privatisation strategy and strongly defended the process. In '10 Questions on EGAT Privatisation', Amranand (1998) poses and answers the key criticisms of privatisation. Why privatise? Because a 10% increase in power demand means at least 1000 MW of capacity needs to be added. This will cost Bt50 billion and is beyond public finance capability. Will privatisation lead to increase in power prices? If competition is promoted, the expectation is that the price will be cheaper than under the natural monopoly of Egat. Where will the money go from the sale of assets such as power plants? All the money will go to Egat, where 10% will be allocated to an employee fund for employees who voluntarily retire early. What if there is no privatisation of power? Egat will face a financial crisis and consumers will have to pay a higher price for power.

In order to implement electricity privatisation, Chuan Leekpai in March 1998 removed eight of Egat's eleven directors, including its chairman. Those sacked included directors unhappy about Egat's privatisation. The Egat governor, generally opposed to the government's plans, retained his seat only by ex-officio status. Some of the replacement directors were strong supporters of privatisation, including Piyasvasti Amranand, the secretary general of NEPO. This action was similar to Chatichai Choonhavan's strategy in 1989 and it met with the same response from Egat employees.

Egat-State Enterprises Employees Association (Egat-SEEA) immediately demanded that a new board be established by 16 April—including dismissal of four directors who openly advocated rapid privatisation. Demonstrations ensued and a mass strike was called. Piyasvasti was assaulted at one demonstration. The government caved in (as had Chatichai 9 years earlier) and on 18 April a compromise was reached between Savit Bhotivihok (the Minister responsible for power), the Egat governor and leaders of Egat-SEEA. A committee of high officials (chaired by Kamthon Sindhuvanon, ex-governor of Egat) would study the situation and recommend a restructured board. A month later the entire board resigned to make way for the appointment of a new board without the four offending directors.

By early 2000, the guidelines for power sector reform had been designed that established a regulatory framework, power market rules and a power 'pool' to be initiated by 2003. The cabinet and parliament put the new system into law late in 2000. The new regulations effectively will end the Egat monopoly and create a competitive power system.

The Ratchaburi controversy

The key procedural issue was consideration of the State Enterprise Corporatisation bill by Parliament in 2000. However, the most contentious issue was the sale of Egat's Ratchaburi power plant. Accounting for 20% of Egat's

capacity, the 3270 MW plant was commissioned in 1999 west of Bangkok. Privatisation plans called for one-third ownership to be sold in a complex eight stage process for an estimated Bt.50 billion ($1.4 billion). The power minister Savit, argued that the facility must be sold to allow Egat to meet the IMF imposed 25% self-financing ratio. Savit has claimed that without the sale, power prices in Thailand would have to be increased.

SEEA claimed that under a 1998 agreement with the government, no sale of Egat's power facilities could occur without their consent. Since Savit would not allow a 'referendum' among Egat employees on the sale, the union advocated the government's downfall and organised vigorous protests from 1998 to 2000.

SEEA's concerns reflect a strong negative view of privatisation held among union leaders and some NGOs in Thai society. The concerns over the Ratchaburi case were that the assets of profitable state enterprises should not be sold, but if they are to be sold, there should be no (or limited) foreign ownership. Fears were expressed that earrnings from the sale of assets will be sent overseas to pay debt rather than reinvested in Thailand and that consumers will have to pay more for power with privatisation. A more immediate concern was that staff numbers will be reduced for the sake of more profits and fewer benefits will flow to the employees of the enterprises.

The Egat governor supported the union's call for delay and consultation which was another victory for bureaucratic and employee power. By May 1999, the Prime Minister's office buckled to Egat employee pressure and established a committee to search for alternatives to the selling of the Ratchaburi power plant. Egat employees agreed to a new settlement that would set the price for Ratchaburi at Bt56 714 million ($1.4 billion). In October 2000, 40% of the shares were offered to the public and the company was listed on the Stock Exchange of Thailand. Egat retained 45% of the shares, with 15% allocated to Egat employees at a subsidised price.

A policy process and a powerful player

The privatisation process in Thailand has been slow because successive coalition governments have been weak and unable to take strong leadership in any policy area. Privatisation involving the divestment of Egat and MEA involves the allocation of shares or selling of power plants in a system where persons or groups could earn high profits. Therefore, any divestment is a major political issue and the free media of Thailand thoroughly scrutinise the winners and losers. Egat's divestment until the IMF intervention always seemed to be in next year's plan, in part because it is a very contentious process that further destabilises already unstable government coalitions.

The most powerful 'player' in the electric power arena in Thailand is Egat, in part due to its location in the government structure. Instead of Egat being attached to an energy, development or industry ministry, Egat is directly under the office of the Prime Minister. Egat absorbed the lion's share of development funds of the country, is the largest public enterprise and is regarded by politicians as a vehicle for patronage in appointments and awarding contracts. Even 10 years ago, Egat had over 30,000 employees and the combined employment of Egat, MEA and PEA was over 65,000. Egat's political power has enabled it to control the policy of private sector involvement in the electricity sector.

The size of Egat in staff numbers, their dispersion throughout Thailand and the power the staff hold in providing electric power give them a political advantage no other public enterprise holds in Thailand. Employees of Egat are very well organised and regularly contest the decisions of the Prime Minister of the day, the minister in charge of Egat and the Egat board. Undoubtedly, any Prime Minister must tread warily when dealing with Egat's well-organised employees, since they have the power to cut off the electricity. For the Egat employees, privatisation will not only mean a reduction in the size of the workforce, but a possible reduction in lucrative benefits. In addition to free electricity, in 1998 the mean annual bonus for Egat employees was about US$1000.

Egat employees are well aware of the political power they wield to support or bring down a minister or a government. Going too far and cutting electric power supply could well be the excuse for a military coup—as the government of the day could, using extreme force to keep the power system operating. Therefore, Egat is indulged rather than antagonised. The economic crisis and the IMF agreements have changed the process somewhat.

Electricity development has become one of Thailand's most controversial policy arenas in part by privatisation attempts, but also because local communities have organised many demonstrations against the construction of dams and polluting power plants (Bello *et al.*, 1998). While pressure from international agencies promote power

privatisation in Thailand, caution is expressed for reasons other than the nationalistic and self-interest perspectives of the electricity employees (see, Goss, 2000; Ryder, 1999).

Thaksin's new government promised to implement privatisation policies within 3 months of taking office. However, the electricity sector unions have issued a challenge that Egat will not be divested to the private sector—and especially to foreigners.

CONCLUSIONS

The process of restructuring the infrastructure in the Malaysian and Thailand cases illustrate the prime importance of political factors in making policy. These factors include: first, the character of government leadership (ranging from a weak coalition style in the case of Thailand to strong Prime Ministerial government in the case of Malaysia); second, interface with the political system (in Malaysia, pressure to reward cronies in the ethnic oligarchy and in Thailand the importance of the power sector as a source of patronage with regard to appointments and contracts); and third, relations with civil society, in particular the strength of labour unions in Thailand in foreclosing some options in electric power restructuring. In addition, also in the Thai case, the web of party coalitions and labour interests have further precluded privatisation to foreigners.

Thus, Malaysia's experience of privatisation appears to have been designed to enrich supporters of the national front regime, rather than to create a competitive power system that benefits consumers. With the media tightly controlled and an absence of public debate, the political leadership can use privatisation for political and personal ends. Recently the government has taken over previously privatised enterprises that cronies could not operate efficiently. In the bailout Malaysian Airlines, the government purchased shares for double the KLSE market value, showing once again that public money will be used to ensure friends do not suffer financially.

In Thailand, electric power is a highly contentious arena and the political power of well-organised state employees is a force that successive governments have found must be engaged and indulged, rather than dominated. This has slowed the pace of privatisation, but political leaders are forced to fully explain policies and their implications. One of the most contentious issues for any government is privatisation of electric power. The numerous governments since 1989 did not have the skill or power to accomplish the task. Unlike in Malaysia, the Thai policy process in privatisation will be more transparent and openly contentious as the views of major stakeholders will have to be considered.

The two cases that have been presented in this article thus have a number of implications for all countries in the ASEAN region and beyond in terms of: first, the changing roles of governance in the power sector; second, contrasting strategies of promoting public–private relations; and third, the various governance issues arising from all of the foregoing, including transparency and corruption and modes of cooperation and competition.

Once upon a time, in most Asian countries, the roles of governance in the power sector were fixed: government was the planner, developer, financier, manager, producer and distributor of electric power. Performances were impressive in developmental terms, including in the rural electrification of both countries studied. Times have changed. The rhetoric of globalisation, advocating deregulation and privatisation, has enabled the Malaysian government in particular to conduct a rapid but non-transparent restructuring, the net result of which has in fact been a reduction in competition, increase in charges and consumer complaints.

And there are lessons for other countries in the region. As the article also shows, in terms of governance and civil society related issues, e.g. India, Philippines and Indonesia also have central power authorities which are amongst the largest organisations in terms of employment and capital assets. How the authorities in those countries, given also their size and potential volatility, deal with labour and with managing political aspects of restructuring will be critical.

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