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Post-Asian Financial Crisis Reforms in Thailand

A 20 Year Retrospective
on the Banking Industry

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ISSN 2191-5504 ISSN 2191-5512 (electronic)
SpringerBriefs in Economics
ISBN 978-981-97-3770-3 ISBN 978-981-97-3771-0 (eBook)
<https://doi.org/10.1007/978-981-97-3771-0>

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Preface

This book critically examines the Asian Financial Crisis, a pivotal event in the contemporary Asian economic landscape, over two decades after its onset. It explores the aftermath, scrutinizing the lessons learned and opportunities missed. Focusing on Thailand, where the crisis originated, this volume provides an in-depth analysis spanning 20 years. It delves into the financial reforms, market restructuring, and evolution of business practices and commercial banking performance post-1997, offering insights into the transformative impact of this significant economic upheaval.

The study delves into the tumultuous period of the Asian Financial Crisis, where numerous financial entities and commercial banks in Thailand faced bankruptcy, underwent government-driven restructuring, temporary nationalization, or were acquired by foreign institutions. Prompted by recommendations from international financial bodies, Thailand embarked on significant financial reforms aimed at reorganizing and deregulating its banking sector to foster transparency, competitiveness, and self-regulation. Central to this narrative is the “Financial Master Plan,” initiated in 2004, along with pivotal regulatory modifications affecting foreign investments. The monography thoroughly examines these reforms, focusing on their distinctive features and consequential impact on Thailand’s commercial banking sector post-crisis.

By examining significant alterations in ownership structures and shifts in the competitive market landscape, this research aims to assess the impact of financial reforms on the commercial banking sector. It conducts a detailed analysis of the changes within the banking industry, focusing on aspects such as corporate governance, business practices, and alterations in ownership and profit-cost dynamics. These facets are explored in the context of the financial reforms implemented post-crisis, highlighting how these reforms have reshaped the banking sector’s operational and structural framework.

Furthermore, this book investigates the tangible effects of these regulatory changes at the organizational level, exemplified through a detailed case study of a Thai family-owned business group. It explores the transformation in family control dynamics, management restructuring, and business performance, thereby shedding light on how such reforms have altered operational mechanisms. This analysis offers an

insightful view into the complex interplay between family-run businesses in emerging economies and the evolving socioeconomic environment, highlighting the intricate balance between entrepreneurship and regulatory changes.

The contents of this book were written in Kyoto during the COVID-19 pandemic, as a culmination of regular field surveys in Bangkok since 2014. The emergence of the pandemic triggered widespread panic and deep sense of uncertainty, an experience that remains vivid in my memory. It was during this period of global turmoil that I resonated profoundly with the words of George Gordon Byron: “The best prophet of the future is the past.” This belief, that a historical review equips us with the wisdom and confidence to anticipate and shape our future, was the driving force behind my decision to revisit the Asian Financial Crisis.

As of early 2024, the global economy is characterized by a blend of uncertainty and measured hope. Numerous countries are grappling with the challenge of high inflation, prompting central banks to increase interest rates, a move that could decelerate economic growth. The risk posed by substantial public and private debts is exacerbated by the possibility of continued rate hikes. Furthermore, the patchy recovery from the COVID-19 pandemic contributes to regional disparities. Ongoing geopolitical tensions and trade conflicts further compound market instability and disrupt global supply chains. This intricate economic scenario, laden with the potential for crisis, underscores the importance of understanding past financial upheavals and reforms. A retrospective analysis, such as this study of the Asian Financial Crisis, offers crucial insights for navigating today’s complex economic environment.

Lastly, I would like to extend my gratitude to Kosuke Mizuno, Shinsuke Nagaoka, Go Yano, Tomohiro Machikita, Miki Hamada, and Satoshi Shimizu for their valuable insights. My most profound acknowledgment goes to Fumiharu Mieno, a mentor who has significantly influenced my academic journey and helped me establish my own scholarly style. His guidance was crucial in integrating my financial engineering background with Southeast Asian studies, thereby refining my research methods and enhancing my practical understanding of the region.

I extend further thanks to Sukanda Lewis, Nualnoi Treerat, Saithip Konggiatnarong, Thanyalak Vacharachaisurapol, and Nattapong Puttanapong for their invaluable support and insights during the field survey phase. Gratitude is also due to the Ministry of Education, Science, Sports, and Culture of Japan (MESSC) for their support, denoted by the Scientific Research No. 21K20074, and the financial support provided by the Global Collaborative Research program at the Center for Southeast Asian Studies, Kyoto University.

Kyoto, Japan
January 2024

Wanxue Lu

Contents

1	Introduction	1
1.1	Research Background and Problem Description	1
1.1.1	Organization Structure Evolution of the Financial Sector	3
1.1.2	The Transformation of the Commercial Banking Sector Before and After the AFC	7
1.2	Research Objectives, Methodology and Data	18
1.3	Composition of the Study	19
2	The Financial Sector Reform and the Change in the Ownership Structure of the Commercial Banks	21
2.1	Introduction	21
2.2	Financial Regulatory Reforms Post-Asian Financial Crisis	23
2.2.1	Macro-economic Environment in Thailand	23
2.2.2	Financial Sector Master Plan: Phase I	25
2.2.3	Financial Sector Master Plan: Phases II and III	27
2.2.4	Improvement of Legal Bases	29
2.3	Market Reorganization: Before Versus After the AFC (Until 2001)	32
2.3.1	The Banks That Survived the AFC	33
2.3.2	The Banks That Merged After the AFC	36
2.4	Deregulation and Opening Market Access Under the Thaksin Administration (2001–2006)	37
2.4.1	Partial Foreign Equity Participation Versus Green Field Entry/Acquisition	37
2.4.2	Promoting a Diverse Array of Domestic Banking Participants	39
2.4.3	The Impacts on Ownership Structure	40

2.5	Changing Financial Environment at Home and Abroad (2006–2011)	42
2.5.1	Capital Enrichment of Large and Medium-Sized Banks	43
2.5.2	The Rising Role of Regional Foreign Bank Players Since the Lehman Shock	44
2.6	Acceleration of Intra-regional Investment (2011–2016)	45
2.7	Conclusions	49
3	Thailand's Commercial Banking Sector in Regional Asian Markets	51
3.1	Introduction	51
3.2	The Transformation of Regional Financial Environment	53
3.3	Competitive Environment in Bank-Level	57
3.4	Conclusions	62
4	The Business Practice and Performance of Commercial Banks	65
4.1	Introduction	65
4.2	The Transformation of Overall Market Structure	66
4.3	The Market Competitive Environment	73
4.4	The Business Practice and Performance	76
4.4.1	The Business Environment After the AFC	76
4.4.2	The Shift of Lending Behavior	77
4.4.3	The Profit–Cost Structure—General Structure	78
4.4.4	The Profit–Cost Structure—Comparison by Ownership	80
4.5	Conclusions	84
5	An Empirical Analysis of the Policy Impact of Foreign Investment Deregulation in the Banking Sector	87
5.1	Introduction	87
5.2	Literature Review	89
5.3	Methodology and Data	91
5.3.1	Theories on Foreign Entry	92
5.3.2	Measures of Foreign Entry	93
5.3.3	Variables and Data	94
5.4	Foreign Ownership Evolution in the Commercial Banking Market	98
5.5	Empirical Results and Analysis	99
5.5.1	Baseline Empirical Analysis	109
5.5.2	Extended Analysis	113
5.6	Conclusions	114

6 Ownership and Business Practice of the Thai Banking Sector After the Asian Financial Crisis: A Case Study of a Family Business	117
6.1 Introduction	117
6.2 Literature Review	119
6.2.1 Theories on Family-Run Businesses	119
6.2.2 Family Business in Thailand	120
6.3 Kasikornbank: A Family-Style Business	122
6.4 Ownership Evolution After the Asian Financial Crisis	124
6.5 Management Structure	128
6.5.1 Changes in Top Management Positions and Large-Scale Foreign Entry	128
6.5.2 Persistence of Management Control by the Founding Family	134
6.6 Management Reforms and Banking Performance	135
6.6.1 Organizational Restructuring Post the AFC	135
6.6.2 Further Adjustments in Business Development Strategies from 2007 to 2012	139
6.6.3 Regional Business Expansion Since 2013	141
6.7 Conclusions	144
7 Conclusion	147
Appendix 1: Reorganization of Thai Commercial Banks (1997–2017)	153
References	157

About the Author

Wanxue Lu is an Assistant Professor in the Faculty of Economics, Kyoto University. She earned her M.A. in finance and a Ph.D. in Southeast Asian area studies, both from Kyoto University. With a research tenure at the Institute of Asian Studies at Chulalongkorn University in Thailand, and engagements in research projects at the Institute of Developing Economies (IDE-JETRO) and the Asia Pacific Institute of Research, her extensive experience has not only endowed her with a nuanced understanding of the financial dynamics in Asia, but also integrated her into a vibrant network of policymakers and industry professionals. Her scholarly output, including her analyses and documentation of financial reforms following the Asian Financial Crisis, offers profound insights into the complexities of Southeast Asian financial markets, proving essential for both academic and practical applications in understanding and navigating this region's economic environments.

List of Figures

Fig. 1.1	The changes in Thailand’s financial system from 1997 to 2015. <i>Source</i> Bank of Thailand, IMF, Asian Bonds Online. <i>Note</i> According to the definition and classification by IMF, domestic money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits	4
Fig. 1.2	The main organizational chart of the financial regulatory system. <i>Source</i> Ministry of Finance, Thailand. Bank of Thailand	5
Fig. 1.3	Market concentration of commercial banking sector. <i>Source</i> Bank of Thailand, <i>Commercial Banks in Thailand</i> , various versions	17
Fig. 2.1	The change in real GDP growth rate in Thailand from 1990 to 2017 (%). <i>Source</i> Key Indicators, World Bank	24
Fig. 2.2	The change of foreign entry and its patterns: Thaksin versus Post-Thaksin Period. <i>Source</i> Bank of Thailand, Stock Exchange of Thailand. <i>Note</i> Foreign ownership share is calculated as the weighted annual average of every commercial bank’s foreign ownership, weighted by the bank’s total assets	38
Fig. 3.1	The change in the financial sectors’ scale in East and Southeast Asian Countries. <i>Source</i> MIF, ADB, Asian Bonds Online, calculated by the author. <i>Note</i> 1. Bank credit is calculated from domestic money banks, which comprise commercial banks and other financial institutions that accept transferable deposits	54
Fig. 3.2	The change of foreign bank number ratio (%)	55
Fig. 3.3	The change of foreign bank asset ratio (%). <i>Source</i> World Bank. <i>Note</i> A foreign bank is defined as a bank with 50% or more of its shares owned by foreign investors	56

Fig. 3.4	The Change of Financial Accessibility in East and Southeast Asian Countries. <i>Source</i> MIF, World Bank	61
Fig. 4.1	The change of foreign ownership ratio. <i>Source</i> Updated by the author based on Fig. 2 in Lu (2018), utilizing data from Bank of Thailand, Stock Exchange of Thailand. <i>Note</i> (3) represents the annual average of foreign ownership for each commercial bank, weighted according to the bank's total assets	74
Fig. 4.2	The change of total assets and loan deposit ratio. <i>Source</i> Updated by the author based on Fig. 6 in Lu (2018), utilizing data from Bank of Thailand, Commercial Banks in Thailand, various versions, Bangkok Bank, BankScope	77
Fig. 4.3	The Change of Banking Credits Classified by Industry. <i>Source</i> Updated by the author based on Fig. 3 in Lu (2018), utilizing data from <i>Commercial Banks in Thailand</i> , Bangkok Bank	78
Fig. 4.4	a The profit structure of commercial banks 1997–2016. b The cost structure of commercial banks 1997–2016. <i>Source</i> Revised by the author based on Fig. 4 in Lu (2018), utilizing data from BankScope, Bureau van Dijk	79
Fig. 6.1	The Lamsam family leaders of Kasikornbank. <i>Source</i> “Zaibatsu in Thailand” Suehiro (1991), Kasikornbank Annual Report of Kasikornbank, various versions	123
Fig. 6.2	Kasikornbank ownership evolution. <i>Source</i> Stock Exchange of Thailand, Kasikornbank Annual Report 2001–2014. <i>Note</i> FOWA is the weighted annual average of foreign ownership in the whole banking sector by bank assets	125
Fig. 6.3	Change in major domestic shareholders (Unit: %). <i>Source</i> Stock Exchange of Thailand, Kasikornbank Annual Report of 2001–2014. <i>Note</i> The three shareholders are selected from the top 10 largest shareholders each year since the 2000s. The rest of the domestic shareholders in the top 10 were not selected due to small scale and/or short-term holding	126
Fig. 6.4	a Change in non-interest income ratio. b Change in operating expense ratio. c The change in return on assets. <i>Source</i> Stock Exchange of Thailand; BankScope, Bureau van Dijk. <i>Note</i> BBL = Bangkok Bank, KTB = Krung Thai Bank, KBANK = Kasikornbank, UOBT = United Overseas Bank Thai, SCBT = Standard Chartered Bank Thai	138
Fig. 6.5	Kasikornbank's change in bank credits since 2008. <i>Source</i> Kasikorn Research Center, survey by the author. <i>Note</i> The percentage is calculated as the ratio of corporate loan to total loan, the ratio of SMEs loan to total loan, and the ratio of retail loan to total loan	142

List of Tables

Table 1.1	Number of commercial banks and branches	9
Table 1.2	Landscape of the commercial banking sector in 2016—commercial banks	11
Table 1.3	Landscape of the commercial banking sector in 2016—foreign bank branches	13
Table 1.4	The development of 19 domestic commercial banks from 1997–2016	14
Table 2.1	The transformation of business status and major shareholders in the commercial banking sector: 1996 versus 2001	34
Table 2.2	Ownership structure of selected commercial banks in 2005–2006	41
Table 2.3	The entry of major foreign financial institutional investors in the banking sector	48
Table 3.1	Concentration of top 3 commercial banks in regional countries (%)	58
Table 3.2	Top 20 major banks in ASEAN in 2018	59
Table 4.1	The ownership structure of commercial banks in 2016	67
Table 4.2	The bank size and market share of foreign bank branches in 1997 and 2016	72
Table 4.3	The change of return on assets of selected banks	81
Table 4.4	The change of operating expense ratio (operating expense/ total assets) of selected banks	82
Table 4.5	The change of interest rate spread of selected banks	84
Table 5.1	Definition of dependent variables and independent variables	95
Table 5.2	Descriptive statistics on dependent variables of banking performance of 2000–2008	96
Table 5.3	Descriptive statistics on dependent variables of banking performance of 2009–2015	97

Table 5.4	Foreign ownership evolution of commercial banks 2001–2016	100
Table 5.5	The baseline results of commercial banks	103
Table 5.6	Comparative analysis of foreign banks and domestic banks	105
Table 5.7	The regression results of interest rate spread	107
Table 5.8	The regression results of operating expenses	108
Table 6.1	Kasikornbank major foreign shareholders (%)	127
Table 6.2	Kasikornbank’s top management and shareholders from 2001 to 2012	129
Table 6.3	Kasikornbank’s top management and shareholdings (2013–2016)	131
Table 6.4	The expansion of overseas service network of Kasikornbank	133

Chapter 1

Introduction



Abstract This introduction examines the overall evolution of the organizational structure of Thailand's financial system and the transformation of the commercial banking sector by comparing key market characteristics before and after the Asian Financial Crisis, serving as a foundation for analyzing the post-Asian Financial Crisis financial reforms. The analysis reveals that, in contrast to the pre-crisis era characterized by a closed market structure, minimal foreign participation, and family-run operations in large banks, the commercial banking market has increasingly incorporated foreign capital and foreign banking entities. Traditional family founders of these banks have seen a reduction in their ownership control. In light of this market reorganization, the study scrutinizes the resulting changes in ownership structures and banking practices, aiming to evaluate the effectiveness of financial reforms and policies implemented in the post-crisis period.

1.1 Research Background and Problem Description

Throughout the history of the contemporary Asian economy, there have been few events as impactful as the Asian Financial Crisis (AFC). Current literature on AFC in the region often place emphases on the causes and impacts of the crisis itself. Nevertheless, analyses on the post-crisis financial reforms, positioned as diagnosis and remedies of governments, and their effectiveness and impacts on the financial system in the long run are still little understood. Over two decades have passed since the crisis. What has occurred since then? What lessons have we learned, or perhaps failed to learn? This study seeks to offer a longitudinal and evidence-based empirical analyses on the repercussions of financial regulatory reforms implemented in the wake of the AFC, examining the multifaceted impacts on the commercial banking sector in Thailand, where the crisis originated.

Having been typified as “bank-centric,” the financial sector’s expansion played a pivotal role in fueling Thailand’s rapid economic ascent from the 1980s to the early 1990s. The vitality of the financial system is commonly perceived as a bellwether for the nation’s overall economic trajectory. Yet, deficiencies such as subpar corporate

governance, inefficient lending practices, and widespread corruption in this sector were considered as key contributors to the AFC of 1997, casting a significant shadow over Thailand's economic landscape.

In response to directives from leading international financial institutions, Thailand initiated sweeping reforms in its financial sector, primarily targeting the banking industry. These reforms were designed to overhaul and liberalize the banking system, with an emphasis on enhancing transparency, fostering competitive practices, and promoting self-regulation. A cornerstone of these efforts was the "Financial Master Plan," which was set in motion in 2004. This plan was complemented by significant regulatory adjustments, particularly in relation to foreign investment, marking a critical turning point in Thailand's financial regulatory landscape.

Consequently, the past two decades have seen Thailand's banking sector grappling with intensified challenges from foreign entities, particularly those from East and Southeast Asia. Moreover, this competitive landscape was further shaped by the 2014 ASEAN Banking Integration Framework (ABIF), conceived as part of the preparations for the 2015 ASEAN Economic Community. This framework is anticipated to accelerate foreign competition in Thailand's commercial banking sector and simultaneously open avenues for domestic banks to expand their footprint in Southeast Asia.

In the context of both domestic regulatory reforms and international influences, Thailand's banking sector has undergone substantial transformations. Distinguished from collections of past events; through a thorough 20-year retrospective analysis of Thailand's post-AFC financial regulatory reforms and their complex effects on the commercial banking sector, this study is a lens through which the intricate relationships between regulatory changes, market dynamics, and organizational behavior are explored and understood.

This monograph aims to methodically examine the alterations in market structure and ownership dynamics within the banking sector, following the post-AFC financial reforms. The objective of this study is to conduct a critical analysis of the effects of post-crisis financial regulatory reforms, specifically aiming to elucidate the underlying mechanisms of policy impact at the micro-level.

This introduction chapter provides a historical overview of Thailand's commercial banking sector, framing it within the broader context of the country's financial system. This serves as a foundation for analyzing the post-Asian Financial Crisis financial reforms. The chapter outlines the research background, defines the scope of the study, and clarifies the terms and entities involved. Furthermore, it conducts a detailed exploration of the development of Thailand's commercial banking system, with a focus on significant market shifts post-2000. This investigation leads to the formulation of the study's central research problem and objectives.