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INFRASTRUCTURE-INDUCED RENT AND RENT SEEKING: A CASE STUDY OF A BANGKOK AIRPORT

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Objectives

- Examine rent seeking activities when an infrastructure project is expected to generate economic rent through the increase of land value
- Examine the land accumulation process, focusing on the roles of different stakeholders

Research method

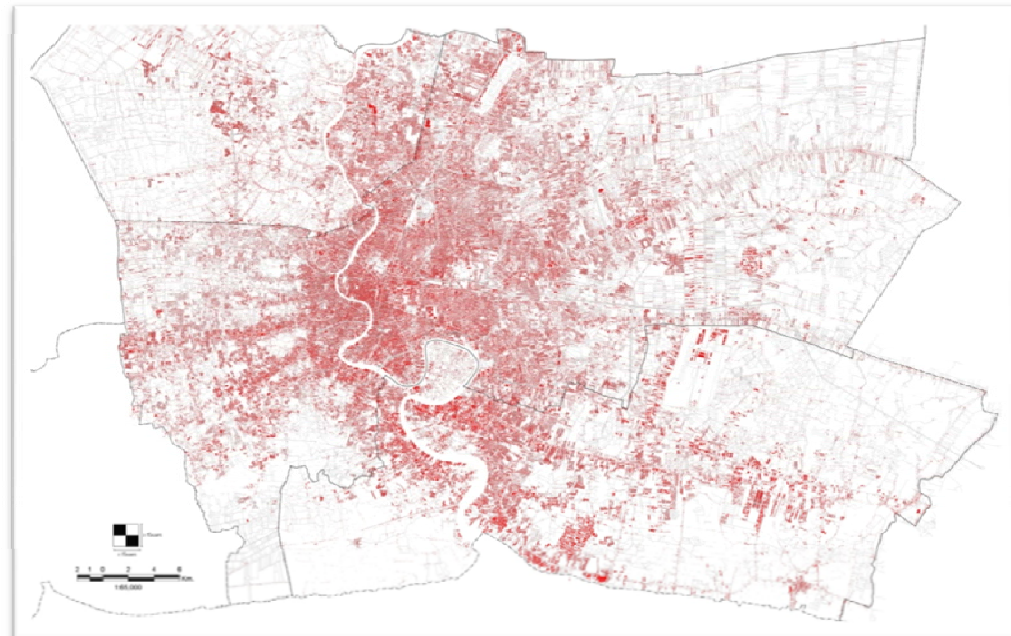
- A case study of a Bangkok Airport, focusing on its surrounding land market
- Data sources
 - Land Department's records on land sales and ownership (not publicly available)
 - public records on personal assets of politicians, submitted to the National Anti-Corruption Commission
 - in-depth interviews with land owners, developers, realtors, and local leaders

Rent and rent seeking

- *Rent*: "excess returns" above "normal levels" that take place in competitive markets (Tollison, 1982)
- *Rent-seeking*: Manipulating the social and political environment in which economic activities occur to gain rent
- *Infrastructure-induced rent*: the value of land is largely attributed to provision of infrastructure rather than contribution by the landowner

Background on Bangkok

- A megacity of 11 million
- Center of everything in Thailand
- Suburbanization continues



Source: nationsonline.org

Bangkok's airports

- Old airport: Don Muang
 - 1914-present (now domestic flights only)
- New airport: Suvarnabhumi
 - 2006-present
 - serving about 76 flights per hour and 45 million passengers per year: 17th busiest airport in the world
 - located about 25 kilometers from Bangkok's CBD
 - covers an approximate area of 32 km²

Long process

- Planning of the airport started in the early 1960s
- 32 sq.km. plot of land was purchased in 1973
- After a series of ups and downs, the "New Bangkok International Airport" company was formed in 1996.
- delayed again due to economic crisis in 1997
- located in a swamp, which took 5 years to reclaim land
- civil construction began later in 2002
- opened for commercial flights in September 2006

Infrastructure investment

- 155 billion baht (5 billion USD) investment
 - 137 billion by public agencies and state enterprises
 - funded mostly by general tax revenues
 - 18 billion baht through public-private partnerships
 - Expressways and other related infrastructure

Rent seeking activities

Two types of rent seeking activities

1. Corruption: public procurement
 - Rent from providing inferior services but higher costs
2. Decisions on locations, routes, scales and scopes of infra projects
 - Rent from increase in land value due to infrastructure

We focus on the second type.

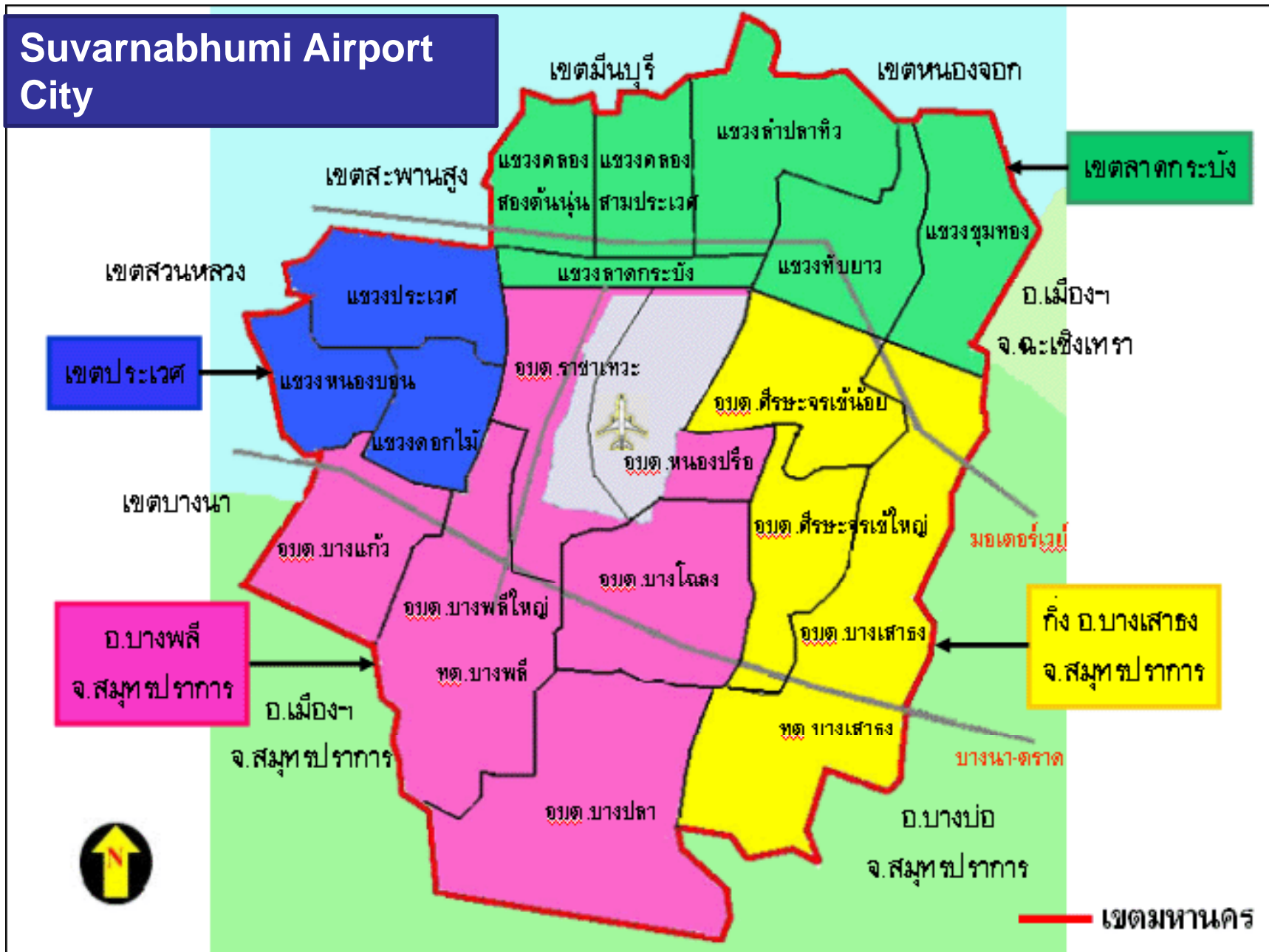
Rent seeking: information + power

- Politicians and gov't officials know where roads and other facilities will be built
- High-ranking officials can also influence the process and outcome of the projects
- They purchase and speculate on land; the value is certain to increase because of infrastructure development
- However, things are not always certain and could change as political landscapes change

Suvarnabhumi Airport City

- Plan for an airport city of 422 sq.km. for 462,000 people
 - For logistics, airport services, MICE, etc.
- Large infrastructure investment
- Housing development by the National Housing Authority and the private sector (despite noise problems)
- The total infrastructure investment would have been about 153 billion baht (5 billion USD); all from tax revenues

Suvarnabhumi Airport City



Land grab and speculation

- Waves of speculation, according to project certainty
- Most of the large plots around the airport are now owned by a handful of families and developers
 - 5 families/developers own 35 sq.km.
 - Plus a few others; each owns about 1-2 sq.km.
- Increase in land value in the Airport area was greater than the rest of Bangkok
 - In certain plots, 50-80% increase during 2006-2009
- Many of the plots remain unused to this day

Rent seeking through land donation

- Donate land for public facilities
 - 2 developers that own large land plots around the airport announced they would donate 1.1 sq.km. of land for the new parliament building
- Expectation: gov't invests in infrastructure
- Land owners/donors gain from land value increase in their remaining plots
- The project didn't materialize due to political change
- Nonetheless, a few road projects are already underway

Land accumulation process

National politicians/developers → Real estate agents/Local “influential people” → land owners

- Village leaders work as real estate agents
 - 2-3% commission fees, depending on plot sizes
 - They do not protect the interest of the villagers
- Use their “influence” to convince land owners to sell their land at cheap prices
 - Social and cultural factors: local leaders, esp. not elected ones, are very powerful

Information Asymmetry

- Land owners do not know:
 - There will be infrastructure projects that eventually lead to an increase in land value
 - even if they know, they have no negotiation power
 - No public records on land transactions
 - Lack of information about previous sales
 - Inadequate land value appraisal system
- market imperfection due to information asymmetry

No effective value-capture mechanisms

- Property taxes:
 - Current system does not function well
 - Building and Land Tax: too many exemptions
 - Local Development Tax: based on assessed value from 30 years ago
 - Land transaction fee: People report low purchase figures to pay less
 - Opportunity cost of holding up land is low
 - Developers create their land banks with low costs

Other value capture mechanisms

- There have been several efforts to revise the country's outdated property tax laws, but still in vain.
 - Betterment levy/Development impact fee
 - the 7th National Plan proposed it in the early 90s, but no follow up - Politicians find ways to block this
 - Special assessment levy was proposed 2 decades ago, but...
 - Only land readjustment method materialized, but limited success so far
- Infrastructure policies remain indifferent to infrastructure justice

Concluding remarks

- Infrastructure development is a source for rent seeking
 - Corruption in procurement and increase in land value
- Effective urban land policy is needed
 - A value capture mechanism is necessary to assure fairness in distributing infrastructure-induced rent
 - Value capture mechanisms will lessen rent seeking
 - Land accumulation is ok as long as s/he pays back to the society
 - Governance structure
 - Local power structures perpetuate rent-seeking activities