

PROJECT PAPER

THAILAND

PRIVATE SECTOR IN DEVELOPMENT

PROJECT NUMBER 493-0329

USAID/Thailand

January 1983

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
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 MM DD YY
 3 31 87

7. ESTIMATED DATE OF OBLIGATION
 (Under "B." below, enter 1, 2, 3, or 4)
 A. Initial FY 83 B. Quarter 2 C. Final FY 83

8. COSTS (\$000 OR EQUIVALENT \$1 = B23)

A. FUNDING SOURCE	FIRST FY 83			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	2035	1465	3500	2035	1465	3500
(Grant)	(2035)	(1465)	(3500)	(2035)	(1465)	(3500)
(Loan)	()	()	()	()	()	()
Other U.S. 1.						
Other U.S. 2.						
Host Country		1570	1570		1570	1570
Other Donor(s)		435	435		435	435
TOTALS	2035	3470	5505	2035	3470	5505

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) T	B260	150				3000		3000	
(2) W	B730	840				500		500	
(3)									
(4)									
TOTALS						3500		3500	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code _____

B. Amount _____

13. PROJECT PURPOSE (maximum 480 characters)

Increase private sector investment in employment generating, export oriented, resource based ventures in areas outside of Bangkok.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 3 8 5 1 8 7

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY
 Signature: Robert Halligan
 Title: Director, USAID Thailand
 Date Signed: MM DD YY
 07 17 83

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION:
 MM DD YY
 09 24 83

THAILAND
PRIVATE SECTOR IN DEVELOPMENT
PROJECT PAPER

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ABBREVIATIONS

AA/PRE	Assistant Administrator/Private Enterprise Bureau (AID)
ADB	Asian Development Bank
AID	U.S. Agency for International Development
ASEAN CCI	Association of Southeast Asian Nations - Chamber of Commerce and Industry
ATI	Association of Thai Industries
BOI	Board of Investment (Thai)
BOT	Board of Trade (Thai)
CP's	Conditions Precedent
DTEC	Department of Technical and Economic Cooperation (Thai)
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Development Product
H.C.	Host Country
IBRD	World Bank
IMF	International Monetary Fund
JACC	Joint Agricultural Consultative Corporation
JSC	Joint Standing Committee for Commerce, Industry and Banking
LC	Local Currency
LDC's	Less Developed Countries
NERAD	Northeast Rainfed Agriculture Development (Project)
NESDB	National Economic and Social Development Board (Thai)
OJT	On-the-Job Training
OPIC	Overseas Private Investment Corporation (U.S.)
PID	Project Identification Document
PP	Project Paper
PRE	Private Enterprise Bureau (AID)
PSC	Personal Services Contract
PSCC	Public/Private Sector Consultative Committee
RTG	Royal Thai Government
SAL	Structural Adjustment Loan (IBRD)
SDR	Special Drawing Rights (IMF)
TBA	Thai Banking Association
TCC	Thai Chamber of Commerce
TDP	Trade and Development Program (U.S.)
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID/T	U.S. Agency for International Development, Thailand

Currency Equivalent: \$US1 = Baht 23

DRAFT PROJECT AUTHORIZATION

Name of Country: Kingdom of Thailand
Name of Project: Private Sector in Development
Number of Project: 493-0329

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, (the FAA) I hereby authorize the Private Sector in Development Project (the "Project") for Thailand (the "Cooperating Country") involving planned obligations of not to exceed Three Million Five Hundred Thousand United States Dollars (\$3,500,000) in grant funds over a four year period from date of authorization, subject to availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project will increase private sector investment in ventures which are primarily employment generating, export oriented, resource based and outside the Bangkok area. The project will fund long and short term technical and staff assistance, investment surveys, promotional campaigns, seminars, policy/planning studies, administrative support costs, office equipment, and evaluation costs.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the project shall have their source and origin in Thailand or in the United States, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the grant shall, except as A.I.D. may otherwise agree in writing, be financed only on vessels under flag registry of the United States.

PART I - RECOMMENDATIONS, SUMMARY, ISSUES AND FINDINGS

A. Recommendations

It is recommended that a grant of \$3.5 million be authorized for this Project.

B. Summary Description

This four year Project is designed to increase private sector investment in ventures, which are export-oriented, natural resource-based and labor intensive, particularly in the currently unindustrialized (non-central) regions of Thailand. Facilitating industries of this nature should contribute to Thailand's major objectives to reduce trade deficits and unemployment while accelerating growth outside of Bangkok.

The Project will aid in meeting the above objectives by: (1) providing technical assistance to the Board of Investment to undertake a selective analysis and marketing program to identify business opportunities consistent with Fifth Plan objectives and to attract appropriate private enterprise participation in these opportunities; (2) establishment of means for effective policy analysis by the private sector to analyze important issues and recommend appropriate policies to the RTG by financing staff and studies for the Joint Standing Committee for Commerce, Industry, and Banking; and (3) establishment of linkages between private sector associations in agribusiness in Thailand with counterpart organizations in the U.S. to encourage mutual cooperation, transfer of technology, and future business relations through staff support for the Thai counterpart of the U.S. Joint Agricultural Consultative Corporation.

C. Issues

There are no outstanding issues. The PID approval cable (Annex I) and/or other AID/W communications recommended that Project objectives be sharpened and priorities be established for activities, that lessons learned from other countries be considered, that design efforts be coordinated with TDP, OPIC and PRE, that the Project be simplified to the extent possible, that Project constraints be better defined, that constraints to investing outside of Bangkok be analyzed, that the budget for the investment analysis and promotion effort be better justified, and that the policy dialogue component be clarified in several respects. Annex I discusses the ways the Project addresses these issues.

D. Summary Findings

The analyses prepared for this Project indicate it is technically sound and should facilitate the achievement of the Royal Thai Government's Fifth Development Plan objectives, especially its structural adjustment targets. Direct economic impacts are difficult to estimate, but Project components have been chosen to have maximum impact at reasonable cost. Benefits should accrue primarily to smaller entrepreneurs, farmers and laborers and the Project should help facilitate dispersal of economic benefits to regions outside the Bangkok area. The Project meets all applicable statutory criteria as shown in the Statutory Checklist in Annex VI.

PART II - DETAILED PROJECT BACKGROUND AND DESCRIPTION

A. Background

1. Economic Growth and Structural Problems

Powered by a vigorous private sector, Thailand's economic growth over the past two decades has been impressive, and real GDP expansion has averaged 7-8 percent per year (4.5 percent per capita). Industrial growth has been particularly rapid, with manufacturing value added increasing from 13 percent of GDP in 1960 to more than 20 percent in 1981, about a 10 percent per annum growth rate. The growth rate in agriculture has been less than 5%, but because the agricultural base is large (about 24 percent of GDP in 1981) its contribution to the total economy has been very substantial. In absolute terms, an agriculture that was 50% of the economy in 1950 had expanded over three times by 1980.

However, Thailand's economic growth has not been without problems. The growth of industry and rapidly growing labor force (3 percent annual growth rate) has concentrated most new employment in the industrial sector centered around Bangkok and the central plain's region, which has not contributed to reducing a high unemployment rate in rural areas. This has worsened rural/urban and regional income disparities, caused large rural-urban migration flows, increased population pressures on urban services, and intensified pollution problems.

Until the mid 1970s most of Thailand's industrial growth was directed at import substitution. Export growth has not kept pace with the rapid increases in import costs for crude oil/petroleum products and capital goods. The Thai Government's earlier resistance to letting petroleum prices rise exacerbated the problem. This caused severe balance of payments problems leading to a devaluation of the baht in 1981. The rate of inflation increased rapidly during the 1970's until it reached a peak of almost 20 percent in 1980 before declining to 12.7% in 1981 and an estimated 5.5% in 1982. Thailand's external debt also increased markedly. The public sector's foreign external debt almost doubled between 1979-1980 to US\$4,542 million, although the public debt service still claims only 7.2 percent of export earnings.

The Government strongly responded to the above problems. It sharply increased the consumer prices of petroleum products, electricity and other utilities, increased many tax rates, and lifted ceilings on interest rates. In 1980 price controls were lifted on 29 of 36 categories of goods and import duties were reduced for many other goods. These measures have had at least a temporarily favorable effect as both the balance of payments

situation and inflation rate improved in late 1981. However, it should be noted that there are still several chronic problems in the Thai business environment that need to be addressed. These include problems related to taxation, price controls, uncertainty due to poorly defined regulations/laws related to business, and the general problems of delay and vacillation that are prevalent in many RTG agencies. These problem areas are described more fully in Annex III and IV-1. Moreover, the Royal Thai Government (RTG) realizes that the Thai economy's structural problems over the longer term will require even greater effort on the part of Thailand's public and private sectors and has accordingly embarked on a major program to cope with trade imbalances and the need to disperse economic activities and increase employment opportunities outside of the Bangkok area. The Fifth Economic and Social Development Plan (1982-1986) places particular emphasis on structural adjustment and improving economic efficiencies.

The role of the private sector in future development efforts will be especially crucial. The RTG has given a clear mandate to the private sector to expand its participation as a direct agent of change in the Fifth Development Plan and to participate directly with the public sector on planning and policy decisions. The RTG knows that vigorous private sector growth in development sectors will be necessary to provide jobs, mobilize required capital, provide management skills and technology, and supplement the efforts of the increasingly overburdened Thai public sector development agencies.

2. The RTG's Structural Adjustment Program

A major objective of the Fifth Development Plan is to better balance the country's future economic development so that import dependence will decline, exports will rise, employment rates will be higher and economic activities will be distributed to areas outside of Bangkok and the central region. Table 1 indicates some of the Plan targets in this regard. To quote from the Plan, this will involve, "Restructuring the manufacturing industry towards export industries by speeding up the transformation of primary processing industries into finished product export industries. Meanwhile, the government will develop a basic industrial complex on the Eastern Seaboard, particularly industries connected with natural gas, sponge iron industry, chemical fertilizer, soda ash, potash and petrochemical industries. Furthermore, the government will encourage the dispersion of manufacturing activities to outlying regions in order to increase rural employment and the use of local raw materials. The government will also promote conservation of energy in the

Table 1. Some Key Economic Objectives of the Fifth National Economic and Social Development Plan (1982-1986)

Date	$\frac{\text{Trade Balance}}{\text{GDP}}$	$\frac{\text{External Debt}}{\text{Export Earnings}}$	$\frac{\text{Budget Deficit}}{\text{GDP}}$	$\frac{\text{Export Industries}}{\text{All Industries}}$	$\frac{\text{Agricultural Production}}{\text{GDP}}$	$\frac{\text{Industrial Production}}{\text{GDP}}$	Dispersal of Industrial Base "Utilization of Labor and Domestic Raw Materials"
1981 (Actual)	-8.2%	8.5%	3.2%	15%	24.8%	21.1%	To be encouraged through policy and incentive structure when possible.
1986 (Target)	-4.5%	7.3%	1.1%	22%	22.5%	22.1%	

manufacturing production process and encourage local and foreign private investment. Price control measures will be avoided unless the structure of industry is monopolistic. Finally tax rates, the structure of investment promotion privileges, and industrial export promotion measures will be improved."

The RTG is very interested in having AID assist with this effort. Indeed, during October, 1981, when Prime Minister Prem visited the U.S. he requested we seek ways to more involve America's dynamic private sector in Thailand's development. The Prime Minister particularly stressed the importance of attracting foreign cooperative business ventures to provide Thailand with needed capital, technical assistance and marketing assistance to meet its ambitious development targets. Since that time Thailand was included in the list of ten priority countries for assistance by AID's Private Enterprise Bureau (PRE), and a PRE reconnaissance team led by AA/PRE Elise Dupont visited the country in February, 1982. Much of the basis for an AID private sector program in Thailand and the USAID/PRE roles in such a program was developed during the visit of the reconnaissance team and concurrent visit by project design AID consultants.

B. Detailed Description

1. Project Approach

One of the major findings of the PRE reconnaissance team was that while RTG policies to overcome the structural problems discussed above are generally sound, the implementation of these policies will be difficult without some assistance: "There is no need for drastic measures or changes of direction. The U.S. should refrain from implying that there is; but some developments can be encouraged, current and emerging weaknesses corrected, and potential problems averted by judicious action." This Project's approach has been to analyze the potential and existing problem areas, determine existing mechanisms that are dealing with them, and focus the Project on the most serious gaps that AID has a particular expertise in overcoming in the overall program to facilitate increased investment leading to more rural employment.

Table 2 summarizes the major structural adjustment problem areas inhibiting rural employment, what the general approach of the RTG's Fifth Plan is to address the problems, and how the Project plans to facilitate the Government's efforts. The Project will (1) help identify and analyze investment and other business opportunities that are

Table 2: Structural Adjustment Program Problem Areas

<u>Problems</u>	<u>Fifth Plan Proposals</u>	<u>A.I.D. Role</u>
1. Industrial Structure not export oriented and dependent on imports of raw materials/capital goods.	1. Promotion/incentives for export industries and industries less dependent on import requirements.	1. Technical assistance for promotion effort to identify opportunities for export and develop/implement promotional campaign.
2. Over centralized industrial base.	2. Incentives for decentralization.	2. Technical assistance for policy development, promotion, and establishment/expansion of appropriate industries outside Bangkok area.
3. Too much of the country's industrial investment has been capital intensive.	3. Promote labor intensive industries and develop labor intensive production techniques.	3. Help promote Thailand as appropriate location for labor intensive industries and identify viable industry options for Thailand.
4. Many industries not efficient and/or standards of quality inadequate for export.	4. Promote and control standards.	4. Assist mechanism for technical cooperation between U.S. and Thai private sectors.
5. Need to strengthen dialogue between public and private sectors on problem areas.	5. RTG will cooperate with the private sector in implementing policies.	5. Provide mechanism and technical assistance to private sector to analyze problem areas and policy options, and present recommendations to RTG.

consistent with the RTG's objectives to have a labor intensive, export oriented, decentralized industrial base that is not dependent on import of raw materials; (2) provide assistance to develop and carry out promotion campaigns to attract both local and foreign businesses (particularly U.S.) to participate in developing the identified opportunities; (3) provide technical assistance and partial funding to establish a policy analysis and planning capability for the private sector to carry out planning and policy analysis of key public/private sector issues; and, (4) provide assistance to develop linkages between the private agribusiness sectors in the U.S. and Thailand to facilitate the transfer of technical and management expertise.

These objectives are consistent with AID's policy to encourage private sector participation in development and they meet the strongly expressed desire of the RTG to increase private investment in Thailand's productive sector as a means of supplementing the Government's development efforts, relieving public sector financing requirements and reducing trade imbalances, and encouraging a modern production base for the country.

The Project approach will also have a direct impact on the implementation of the rest of the AID program in Thailand since it will focus promotional and policy development attention on rural industry and strengthen efforts to decentralize economic opportunities. Private sector participation is essential to provide market linkages for increased agricultural production and meeting the capital and technology needs of a modernizing agricultural sector. As such this Project clearly supports the AID strategy in Thailand by helping facilitate rural development generally. Moreover, during Project design special efforts were made to determine potential investment opportunities that would provide an increased market demand for crops widely grown by small farmers. This emphasis is directly related to several of AID's projects in Thailand (eg. NERAD, Lam Nam Oon, N.E. Small Scale Irrigation, Land Settlements). Efforts during Project design also focused on uncovering opportunities in the seed industry and this is consistent with the project approach under Seeds II. Opportunities in these key areas will be among the first beneficiaries of the business promotion program that will be financed under the Project because of the opportunity profiles and marketing surveys that have been carried out during Project design. (See Annex IV for results of surveys.) In addition, Project staff will be tasked to seek out opportunities to

effectively involve the private sector in AID's entire project portfolio whenever such involvement can help overcome constraints in the program or more effectively meet individual project objectives. Several such opportunities have already been discovered for the Lam Nam Oon and NESSI Projects and there are clear indications that a private sector emphasis is very timely for the AID project portfolio in Thailand.

2. Relation to Past AID Efforts

Coming at an important turning point in the evolution of Thai policies toward the role of the private sector, the activities envisaged under this Project represent a reentry of the U.S. assistance program in Thailand into an area where it already played a significant role at earlier stages of the country's economic development. As early as 1959, AID fielded a high-level private investment team that visited Thailand and presented a report that included policy and project recommendations for both the RTG and the U.S. assistance program. The report described basic attitudes and roles that are strikingly similar to the situation today, although the intervening years have seen substantial growth in the country's economy and institutional base.

The earlier USAID program of activities designed to help promote the Thai private sector also combined institution-building, policy formulation and direct promotion of U.S. and Thai investments in specific product areas. But coming at a much earlier stage in the development of infrastructure and of the complexity of the structure of manufacturing, these activities assisted with the actual initiation of several basic government services and the creation of some private sector capabilities. For example, the institution-building activities included provision of industrial policy advisors to NESDB, technical assistance to the BOI, technical and loan assistance to launch the IFCT, and feasibility surveys. By the 1970's the focus of the AID program shifted, and the USAID private enterprise division and its activities were phased out.

The key conclusion of the 1959 team, and of many subsequent policy analysts concerned with Thai development was that the private sector shows a high degree of dynamism in Thailand; is a major engine of growth and capital formation; and should be encouraged by government, rather than hampered by excessive interventions or over-regulation. Over the years the record of growth has justified the basic attitudes found earlier, and justifies the present confidence that successfully addressing the constraints and problems facing a more mature private sector in the economic environment of the 1980s, can

help ensure that the private sector engine of growth continues along with a full head of steam.

3. Relation to Other Programs

PRE has provided assistance to address related problem areas. Specifically PRE is focusing on (1) clarifying the management constraints within the private sector and financing a private sector management improvement project, (2) developing a senior seminar program for Thai officials on issues on private enterprise in development, (3) developing a program in the U.S. with an appropriate institution for senior policy makers to introduce them to the U.S. private enterprise model, (4) financing a program aimed at encouraging Thai banks to increase medium term lending for capital requirements of small and medium scale agribusinesses and, (5) providing partial financing for coordination between the U.S. and Thai agribusiness sectors. Close liaison exists between the USAID mission and PRE on the above areas as well as this Project.

Asia Bureau is also developing a project to provide Asian countries with technical assistance to facilitate private sector development. The USAID Mission and Asia Bureau have been discussing ways to have the regional project complement the proposed bilateral project, and have agreed that provision of a technical specialist in the agribusiness area to work with the Mission would best complement the promotional emphasis of the bilateral Project and the rest of USAID's project portfolio.

Other USG agencies that are expected to participate in activities related to the Project include the Trade Development Program (TDP) and Overseas Private Investment Corporation (OPIC). Discussions between the USAID Mission and TDP representative in Hong Kong have provided a base for future cooperation through USAID providing information on possible U.S. investments to TDP and TDP helping finance feasibility studies for interested investors where such investments could result in increased U.S. exports. OPIC is expected to assist in setting up investment missions to Thailand similar to the mission which took place in July, 1982 in conjunction with the Project's promotional program. The FY 1982 OPIC investment mission was requested by the RTG to quickly respond to the Prime Minister's visit to the U.S. and PRE reconnaissance team visit before Project activities commence.

The design of this Project was done in very close association with other U.S. agencies, particularly the Foreign Commercial Service, Embassy Economics Counselor, and Agricultural Attache. The American Chamber of Commerce in Thailand was also very active in these efforts and the President of the Chamber was a participant in the PRE Reconnaissance Team. Coordination among all these agencies will be maintained during Project implementation so that a truly integrated U.S. private sector initiative will continue throughout the Project's life.

It should be noted that the Project conforms closely to the proposed private sector role of AID sketched-out by Michael Samuels, V.P. of the International Division of the U.S. Chamber of Commerce during his February 25, 1982, appearance before the House Foreign Affairs Committee: AID should act as a catalyst to stimulate private sector involvement by addressing policies unfavorable to the free market and by reaching out to small and medium sized U.S. firms that lack the outreach of larger multinationals; as an intermediary to help identify local private sector needs and matching these with available resources; and as an educator for host governments on the benefits accruing from a private enterprise approach to development.

4. Other Donors

In addition to assistance from AID and other USG agencies, the RTG has sought budget support assistance from the IMF and IBRD that will contribute to the structural adjustment program. Agreement was reached with the IMF on a major standby program which covers a two-year period starting in April, 1981, and amounts to SDR 814.5 million. Moreover, in July, 1981, the IMF provided Thailand with SDR 186 million under its compensatory financing facility. The IBRD has also agreed to provide a series of Structural Adjustment Loans (SAL) and the first loan for \$150 million was signed in early 1982. Other loans are expected to be negotiated in the future to help meet requirements for external capital and to encourage policy changes consistent with a rational structural readjustment program.

Under UNDP financing, the IBRD provided consultant assistance in 1980-82 to the Board of Investment (BOI) to develop investment opportunity profiles and to prepare an action program for the BOI to improve the RTG's investment promotion program. The UNDP expects to pursue the consultant recommendations at the Government's request beginning in 1983 to help in the reorganization and institutional development of BOI.

AID's proposed Project is designed to complement the efforts of the IBRD and UNDP by providing immediate assistance to the country's effort to promote private sector participation in development, while changes in the organization and policies of BOI are effected. The AID financed assistance will also be closely targetted on involving the U.S. private sector in these efforts and as such will supplement the more broad-based IBRD/UNDP efforts. Moreover, should the longer term institutional assistance from IBRD/UNDP not materialize, this Project may well establish a precedent for future contractual assistance to the Government for investment promotion.

5. Project Components and Targets

a. Goal: At its highest level the Project will contribute to the RTG's Fifth Development Plan structural adjustment objectives of improving Thailand's balance of trade and reducing unemployment problems, particularly in areas outside of Bangkok.

Specific Fifth Plan targets related to these objectives are (1) manufacturing output and employment expanding by at least 7.6 percent per annum, (2) industrial growth in areas outside of Bangkok and surrounding area exceeding growth rate within that area, (3) trade deficit decreased from 8.2% of GDP to 4.5% of GDP.

Meeting these objectives will depend on oil prices and the speed with which Thailand is able to exploit its own oil and gas resources. Thirty percent of Thailand's import expenditures were for petroleum products in 1981. It is likely that this percentage will decrease markedly with Thailand's offshore gas reserves now being tapped; the Fifth Plan objective is to decrease the volume of oil imports by three percent per year on average during the Fifth Plan period, a target that appears feasible. This will assist Thailand in its efforts to decrease overall import requirements. Goal attainment is also dependent on a favorable investment climate and political stability. The AID Mission has no reason to believe the present favorable climate and the country's long stability will change for anything but the better in the future.

b. Purpose: The Project's purpose over a four year period is to increase private sector investment in employment generating, export oriented, resource based ventures in areas outside of Bangkok. It is expected that a number of new investments and other business arrangements will be made in export oriented, labor intensive, and natural resource based industries as a direct result of the surveys, promotional program, policy dialogue,

and U.S./Thai agribusiness linkages benefitting from assistance provided under this Project. In addition the relationship established between the private sectors in Thailand and the U.S. should stimulate a steady flow of information on markets and new technology between the two countries. The improved policy analysis and planning capability established under the Project to address private sector related issues should result in realistic policies and regulations that will steadily improve the investment climate for industries particularly in priority development areas.

c. Project Outputs and Inputs.

The Project has three components:

1) Investment Analysis and Promotion. This component will provide technical assistance to the BOI to (1) help identify and analyse investment and technology licensing or contracting opportunities that will contribute to Thailand's structural adjustment objectives; (2) assist in designing promotional campaigns that would help alert local businessmen to opportunities as well as help obtain necessary investment, market linkages and technology from developed countries' (particularly the U.S.) private sectors to address the identified opportunities; (3) help carry out the promotion campaigns by preparing necessary materials, identifying target investors/licensors/contractors, programming media, providing personal follow-up service to attract investors to Thailand; (4) help arrange business missions/seminars (for potential investors and bankers) in the US and in Thailand to facilitate the investment process and match up joint venture partners; and (5) help train BOI personnel (OJT) in the U.S.

The analysis and promotion effort will focus on investment which has the potential to be employment generating, export oriented, resource based and lying outside the Bangkok area. Considerable effort was made during the design of this Project to identify business opportunities and constraints that could be addressed during implementation. Annex IV provides a summary of the opportunities that will be used to focus the early promotional efforts of the Project and allow it to get underway quickly. All of these opportunities are in the agroindustry area since this sector appears to offer the most promise for rapid development under the Project and for contributing the most to Thailand's resource based, rural employment generating objectives. Constraints identified in these surveys are also summarized in Annex IV and these are expected to be addressed under the other Project components.

It is planned that five-ten additional surveys will be carried out during the life of the Project to determine good business prospects in a range of subsectors which meet the Government's structural adjustment criteria. After screening, particularly attractive opportunities would be incorporated into one of the three planned promotion campaigns that are expected to be carried out under the Project and aimed particularly at U.S. businessmen. A different campaign is planned for each Project year after year 1 and each campaign will focus on a clearly identified target audience followed up by personal contacts and investment missions arranged for interested business groups. Project consultants in conjunction with BOI will also assist potential investors to locate local business partners and provide survey and other available materials to them upon request. None of the above services are currently being provided systematically by BOI although some investment survey/prefeasibility material is available on an ad hoc basis. Some mailing campaigns are also conducted by BOI's overseas offices.

This type of promotion approach will primarily attract firms which are less experienced than the big multinationals in identifying international opportunities -- primarily firms in the Fortune 500-1,000 range, divisions of highly diverse and larger companies, or firms primarily in retailing or wholesaling that need to secure supplies. At the same time, it will aid the small and medium sized Thai firms without the resources to contact American firms and expand the range of choices for the larger Thai groups.

The key benefits of this analysis/promotion effort are expected to be increased investment in rural areas, and increased direct and indirect employment in new or expanded operations. To further the likelihood of actual investment, BOI is streamlining approval procedures and intends to improve incentives for investment in rural areas.

The promotion component will be implemented by the consultant firm but as a supplement BOI's own efforts to promote investment for priority development sectors. BOI currently does not have the capability to carry out such an ambitious promotion program and is not likely to obtain this capability until a major reorganization with staff/budget increase, and extensive training take place. The project will be coordinated with the expected UNDP assistance to BOI. However, even without the expected IBRD/UNDP program the Project will serve as an example of what an effective promotional program can accomplish whether it is done internally or is contracted out. Either option would be possible in Thailand and the choice will depend on the

Government's success in developing the BOI as a viable institution as well as on the results of this Project. (See Annex V for a more extensive discussion of BOI.)

Thailand needs the kind of marketing program summarized above if it is to accelerate investment and technology into target areas of its economy. Thailand has traditionally not been aggressive in such efforts and has depended largely on domestic savings to finance private investment (more than 95% of gross fixed private capital formation since 1975). As a result Thailand's ASEAN neighbors have done considerably better at attracting foreign business and investment and most have very active and effective investment promotion programs, despite the fact that actual investment incentives vary little in the region (See Annex IV for summary of comparative investment incentives). It should be noted that a recent comparative study of selected LDC's investment promotion programs published by the U.S. Chamber of Commerce indicated that Thailand's policies were if anything more attractive than most other Asian countries. Indeed, many businessmen in Thailand with experience elsewhere are convinced that Thailand has one of the most attractive climates for investment in the world, and that a well run investment promotion program that publicizes Thailand's attractions for business will by itself result in a major influx of investors, especially if such a program were conducted in conjunction with a program to address existing constraints.

Inputs needed to carry out the above program include, (1) a long term investment promotion specialist and an industrial development consultant to help implement BOI's action plan, and particularly to identify opportunities, coordinate appropriate investment promotion campaigns and help respond to investor inquiries (at least one of the consultants should have substantial experience in Thailand); (2) services of a firm(s) to provide the necessary support for selective promotional campaigns and associated investment missions, seminars, direct follow up with potential investors and surveys to determine possible joint venture partners and campaign results; (3) several short term local consultants to do planning studies, investment opportunity surveys, market surveys and other analyses necessary to provide technical (subject matter) support for promotional campaigns. As noted elsewhere, the proposed Asia Bureau Project to provide a full-time Agribusiness Consultant to Thailand will complement this component.

The above inputs would be managed under a single contract with appropriate US and Thai firms. Many firms have expressed interest in participating in this component. It appears that the best arrangement may be a joint venture

consisting of a large public relations or marketing firm in conjunction with a local Thai consulting firm. Such an arrangement would provide the necessary strength in international marketing with the local backstopping capability and knowledge of the public and private sectors in Thailand.

(2) Strengthen Private Sector Analysis Capability and Dialogue with RTG

Under this component the project will finance professional staff for the representative private sector organizations which play a leading role in current dialogue with the RTG. In addition the project will finance a series of studies on issues surfacing in this dialogue.

In the past, the relationship between Thailand's private and public sectors has been one of mutual suspicion alleviated by short periods of arms length collaborations on a personal basis. There was seldom movement of personnel between the two sectors even at senior levels. In addition, within the private sector, cooperation has been extremely limited with even the creation of many industry associations, a development of only the last decade.

Recently there have been major changes in these relationships. The RTG clearly perceives the benefits of cooperation between the public and private sectors and of the participation of private business in the administration of Thailand's economic activities and in the promotion of jobs and alleviation of poverty. Not only has the role of private business been included in the Fifth Social and Economic Development Plan, but to facilitate cooperation to harness the resources and capabilities of the private sector, the Government established in mid-1981 the Public and Private Sector Consultative Committee (PSCC). This Committee is chaired by the Prime Minister and is composed of key public and private sector individuals who meet monthly to explore and make recommendations to the Cabinet on economic and finance issues affecting the private sector.

The private sector has responded enthusiastically to this initiative. Three major private sector organizations, which are represented on the PSCC, the Thai Chamber of Commerce, Association of Thai Industries, and the Thai Bankers Association, have formed their own Joint Standing Committee (JSC) to explore and develop complementary positions on issues to come before the PSCC.

A Secretariat composed of representatives of the PSCC and JSC coordinates staffing work for the monthly PSCC meetings.

Annex VIII provides a fuller description of the PSCC and its importance.

The project will strengthen this quite new and innovative relationship by financing for a limited period three Thai professional staff and studies on specific problems the private sector organizations and the PSCC will address. Additional staff support costs and study support will come from the private sector. This minimal support will help to institutionalize the recently improved dialogue between the public and private sectors, and by adding to analytical capability, should result in more informed policy discussions and coherent policies and regulations.

These analyses would deal with such issues as current RTG tax policy and its application, RTG regulations and policies affecting imports and exports of key commodities, Thailand's policy and procedures for encouraging foreign investment and decentralization, and policies and procedures for encouraging transfer of technology to Thailand. (See Annex III for examples of issues which may be addressed.)

Specifically, the project will provide:

(a) A full-time Thai analyst/planner (and necessary funds for administrative support, facilities and equipment) to assist the senior private sector committee in Thailand, the Joint Standing Committee for Commerce, Industry and Banking (JSC) and the PSCC/JSC Secretariat.

The function of the analyst/planner will be (i) to assist in identifying issues to be analyzed, (ii) to see to it that the association designated to conduct the analysis and formulate recommendations receives needed USAID resources, (iii) to arrange for consideration by the JSC of the association's recommendations, (iv) and to arrange for the transmittal of the JSC recommendations to the Joint Public/Private Sector Committee of the RTG.

A total of \$80,000 is provided for the salary of the analyst/planner for three years and \$10,000 for administrative support, facilities and equipment.

(b) To enable the associations to build their capability for conducting such analyses the project will provide an analyst/planner for each of the two associations that will carry out the analyses needed - the ATI and the Thai Chamber of Commerce.

These analysts/planners will become part of the staffs of these associations. They will recruit individuals or consulting firms to carry out the research, oversee the conduct of the research and present the results for approval by the leadership of the association.

A total of \$120,000 will be provided for the salaries of the analyst/planners in the two associations, i.e., \$60,000 for each association. This will support each analyst/planner for three years.

(c) To finance the analyses of issues to be made by the associations, \$200,000 will be made available by AID. The value of support for the study program from the private sector is expected to equal this amount.

(d) A fund of \$50,000 to be administered by the NESDB to support special initiatives of the PSCC.

It is planned that JSC give priority to agroindustry problems. This focus is consistent with the concern that is reflected throughout this Project and it conforms with the RTG's priority emphases on this sector. Moreover, it responds to the recommendations of the Thai private sector to the U.S. Agricultural Mission to Thailand in May, 1982 to assist in the establishment of an autonomous agricultural institute to address impediments to agricultural development. The Asia Bureau Project's provision of a full-time Agrobusiness Consultant to Thailand will support studies undertaken in this sector.

This emphasis on agroindustry in the early analysis of issues should not restrict work on key and broader tax and policy issues. Many policy issues have widespread impacts. The emphasis that is planned, however, would serve to focus initial efforts and make this component supportive of other Project elements.

(3) Facilitate Linkages Between US and Thai Private Sector Organizations

The objective of this component will be to provide a basis for informal technical cooperation between Thai agroindustries and U.S. agroindustries. Such cooperation would supplement and facilitate normal commercial relations of several kinds, such as joint ventures with debt and/or equity participation, licensing for Thai use of proprietary technology, marketing of Thai exports/sale of U.S. exports to Thailand, and management or technical assistance contracts. It is also expected that informal linkage may well lead to normal commercial relations in many cases. Expanded business in the area will have a direct impact on rural employment and income through direct employment in industry and expanded markets for agricultural production.

An informal linkage is important because there are limits to how much business and technology transfer can be expected to flow from normal commercial relationships between enterprises. Only a relatively small number of Thai firms will ever be involved in direct, joint-manufacturing activities. Management contracts will be limited to large-scale operations and will probably always be few in number. Licensing will certainly grow as Thai industrial capability spreads to more sophisticated products. The flow of technology and management advice through contacts with US importing firms requiring products manufactured to precise specifications and standards is likely to be a major source of contribution from US enterprises, if the experience of Korea provides a model for Thai industrialization, a not unlikely scenario. A recent IBRD study of the sources of Korean industrial competence showed that informal contacts between foreign buyers and Korean suppliers was by far the most important transmission belt for foreign technology (much of which is non-proprietary) and management advice, compared with direct foreign investment, which played a minor role. Of course, for this transmission to take place, a firm must be in contact with a potential or actual business partner abroad.

Drawing on past experience of AID (and predecessor agencies), this Project proposes to replicate this type of informal relationship between American and Thai firms in the same line of business. Under the Marshall Plan, so-called "productivity teams" of senior technical and managerial personnel from US firms visited European enterprises in the same line of business, bringing the latest in US production technologies to their European counterparts, through an informal process of plant visits and discussions. A similar arrangement during the 1960s and 70s brought leading experts from the US electric power generation and distribution sector

to India where they reviewed a broad range of Indian power problems and gave the Indian authorities the benefit of their views on future power policies, programs and technology choices.

AID and the U.S. private sector have already made a significant start on the linkages this component will assist by support provided to the U.S. Joint Agricultural Consultative Corporation (JACC). JACC is a non-profit organization established to supply staff and other administrative support services to individual country agribusiness committees. Its purpose is to assist in the transfer of technology from the U.S. to developing countries as well as to promote U.S. investment in them. JACC assists the developing country agribusiness community to link with the U.S. agribusiness community. The chairman of JACC is Orville Freeman. JACC's experience to date is primarily in Nigeria. Seventy U.S. firms belong to the JACC Committee for Nigeria where a counterpart committee consists of forty Nigerian firms.

JACC has received a grant from AID through the Bureau for Private Enterprise to enable it to establish two "secretariats" in Washington, D.C. One secretariat serves Thailand, Indonesia and Sri Lanka.

JACC's Chairman, President, and President of the JACC Committee for Thailand traveled to Thailand recently to establish relationships with the Thai agribusiness community. As a result, the Thai agribusiness community is forming a counterpart committee.

The project will provide a total of \$75,000 to fund a small office staff for the Thai/JACC Committee for three years. This funding should facilitate rapid initiation and expansion of linkages between agribusiness interests in the two countries. All other support for JACC in Thailand will come from the Thai private sector.

PART III - PROJECT ANALYSES SUMMARIES

A. Technical Analysis

1. General Constraints

This Project is designed to relieve constraints identified by various studies and consultancies which restrict the private sector from participating fully in the country's development efforts. These constraints can be placed in four groupings as follows:

a. Information Gaps

(1) Thai firms lack access to technology, managerial techniques, and market information which would enable them to operate more efficiently, maintain better quality control, take advantage of domestic investment opportunities, and be more competitive on international markets. As a result the Thai private sector is not doing as much as it could to increase domestic investment and generate new employment opportunities.

(2) American businessmen have poor knowledge of Thai business opportunities. This problem appears to be caused principally by the small scale and resources of many Thai enterprises, the American businessman's misconceptions and lack of contact with Thailand, and the weak promotional efforts of the Thai government.

(3) Thailand faces intense competition for a limited number of investments by a number of nearby countries, most of whom have more vigorous and more effective investment promotion programs. Malaysia, the Philippines, Indonesia, and Sri Lanka all are pushing for labor-intensive industry and a number for agricultural-based ones. South Korea, Taiwan, Hong Kong, and Singapore, while in a somewhat later stage of development, still are important competitors for many types of investment.

(4) RTG policy makers generally lack adequate information for making key policy decisions that affect the private sector.

Each of these problems (as well as most other problems discussed below) especially affect smaller and rural enterprises. Results of AID's Rural Off-Farm Employment Project (a joint project of Kasetsart University, Michigan State, and Ohio State) indicated the major constraints to the growth of rural industries included misguided Government regulations affecting the price and marketing of raw materials, technical problems that rural businessmen don't know how to resolve, and problems developing and maintaining market linkages.

b. Institutional Environment

While the Thai business climate is reasonably good, some comparatively small changes could make it much better and more attractive for both local and foreign businessmen. For example:

(1) The Thai Board of Investment has had problems adequately promoting investment in Thailand, welcoming incoming investors and handling their problems, and in dealing with other Thai ministries and agencies.

(2) The Thai private sector has had difficulty in dealing with the government; businessmen and civil servants are mutually suspicious, despite considerable commonality of goals.

c. Policy Environment

The Thai industrial base, while increasingly export-oriented, still retains many rather weak import substitution operations which are relatively capital-intensive and highly concentrated in the Bangkok area. The causes of this include the government's liberal use of tariff exemptions on imported machinery and raw materials as investment incentives and a general policy, maintained through the early 1970s, of import substitution protected by tariffs. Tax and other Government policies and regulations affecting the private sector appear in many instances to overly restrict or distort private sector expansion in various other areas. Enforcement of regulations has been uneven and application inconsistent in some instances (see Annex III for examples).

d. Narrow Participation in Industry

Participation in the modern business sector needs to be widened by providing:

- (1) a broader base of ownership;
- (2) better growth opportunities for small and medium sized firms not connected to major investment groups;
- (3) more professional management positions.

2. Project Interventions

The Project uses a variety of means to overcome these constraints. A main thrust is to close the information gap, but in such a way that the Thai economic and social aims will

also be furthered. At the same time, the Project will address problem areas which make investment in Thailand less competitive with its neighbors -- the weak investment promotion program, the problems in the policy environment and weak communication between the public and private sectors that adversely affect government-business relations. The new ventures the Project stimulates will help fulfill Thailand's economic and social aims.

a. The Information Gap

The Project addresses the information gap by generating pertinent information and making it available to potential business ventures. It is basically a three-part process: (1) Analysis is done in Thailand on investment opportunities, indicating the general feasibility and potentials for doing business in Thailand. Actual corporate feasibility studies are expected to be done by the corporations themselves, starting with the information the Project provides. (2) A search is done of the U.S. market for corporations that have the skills, market information, or market access to help (and profit by) the Thai economy in the fields already researched in Thailand. Contact is made with these firms (through limited industrial advertising, direct letters, and personal approaches), which are then persuaded to investigate the Thai opportunity further. (3) When the foreign investor comes to Thailand, representatives of the BOI, in coordination with the AID-financed advisor to the BOI, meet them, and help them deal with potential Thai partners and government agencies.

This is a highly selective marketing process. Its activities are well within the abilities of public relations firms, certain consultants, or universities. It also will keep the number of inquiries and groups coming to Thailand to a number that can be managed by the Board of Investment and to those which have the highest probability of success. The Project favors this approach over broader, more extensive schemes aimed at large numbers of businessmen, because of difficulties and expense necessary to handle a large number of inquiries, because it is unnecessary to achieve large numbers if the success rate of small numbers is high, and because the Project can concentrate on those industries most likely to increase employment and rural economic activity.

(A more detailed look at the BOI itself and its limitations is contained in Annex V.)

The Project, through its marketing of Thai investment opportunities, will increase Thailand's competitiveness to attract businesses to areas in which Thailand has clear advantages, such as agriculture, against some of its Asian neighbors. Moreover, the more selective, "go and find the investor" approach will identify many investors who are not already searching for Southeast Asian opportunities. As students of international investment have long noted, the process by which foreign direct investment occurs is rarely one involving a systematic search for opportunities, but is highly idiosyncratic, and is not (and for the most part cannot be, because of information shortages) a country-by-country comparison. In such situations, the country coming forward with information which reduces the cost of investment searches and demonstrates the comparative advantage of specific investment opportunities, will have a significant advantage over other countries, no matter how attractive their foreign investor services are.

Such a plan assumes that Thai-U.S. investors, once brought together, will be able to make a business arrangement that is satisfactory and profitable -- i.e. there are opportunities that are not being taken advantage of only because information is lacking. The various Project design teams have confirmed the high potential of Thailand for investors (see Annex IV).

None of this does any clear good for the country unless the particular investments made contribute to Thailand's structural adjustment objectives including increasing rural employment. The Government has already made considerable progress in removing economic penalties for exporting and the IBRD suggestions for the BOI and recent BOI policy all provide greater support for export operations. The Project has to depend on continued RTG support for the Government's stated aims through its fiscal, monetary, and regulatory policies. What the Project principally does is to seek out and promote business opportunities that will satisfy the bulk of the criteria on the assumption they will also be viable ventures, particularly if given BOI incentives. In addition, the linkages between private sectors in Thailand in the U.S. should help firms, whether joint ventures with foreign firms or not, to be more efficient and thus provide greater support to the nation's goal for a better structured and efficient industrial base.

b. Improving the Institutional Environment

(1) Helping the Board of Investment

As accompanying material suggests, the BOI does need assistance in its operations. Indeed, of its three functions, attracting investment, judging and monitoring investments to be given BOI approval, and securing compliance with its wishes from other ministries, it is only the middle one, the judging, that it appears able to address adequately. It is also apparent that Thailand cannot wait for the BOI to be built up if it is to meet its Fifth Plan development objectives. The Project proposes to do for the BOI what it has been unable to do for itself -- handle a proper marketing campaign for investment in Thailand and provide the follow-up for those activities. The BOI knows that it is not performing these functions, given its present funding and staff, and is anxious for help. As indicated, there should be no problem in finding personnel or organizations to provide the marketing and investment survey work.

The Project's proposal can be viewed in two lights: (a) as an interim program, filling a gap while the BOI increases its capacity, and at the same time helping to train the BOI to do the job; and (b) as a pilot project for more extensive privately-run promotional activities which the RTG itself could finance after the Project expires. Present indications are that the RTG is going to build up the BOI despite a very tight national budget. The BOI's budget for activities in Thailand was increased by 25% between 1981-1982, and another 17% between 1982-1983, (See Annex V) and new offices are to be built. It may, as a number of other countries in the region are doing, continue to use a public relations firm to supplement its operations for the foreseeable future.

The success of the Project is not dependent on either dramatic improvements in the BOI (although that would improve the investment climate) nor the granting of BOI privileges to all potential contacts. The use of independent organizations for marketing and contact with investors supplements the BOI and could be continued by the RTG. Secondly, BOI privileges are not necessarily decisive for the viability of firms; many Thai and foreign private sector operations are doing extremely well without any BOI privileges. In a sense, the BOI privileges are more a "marketing tool" to attract investment than a decisive factor in the viability of that investment. Like an automobile rebate, the buyer doesn't buy unless he expects the automobile itself will function well and the rebate is only decisive when there are a number of close decisions.

There is a training effect from having consulting organizations work with the BOI. Should the BOI itself take over all marketing operations, the training would have to be stressed more. Should the BOI continue to use some independent services, it must be shown how to judge those services. At least in the initial stages, the training is much the same for both purposes.

(2) Improve Private Sector Capability to Affect RTG Policy/Planning

The Project seeks to improve the dialogue between business and government to move it from being an ad hoc, "favors and penalties" operation to one in which the business community articulates some consistent policy in a sound enough way that the government accepts at least some of it in its own policy formulation. Heretofore most Government policy has been set without formal or broad based dialogue with private sector interest. The Project effort is modest, but more vigorous tactics are unlikely to be fruitful in the current fragile environment.

The Project's grant to establish such a capability will meet a felt need and will help the business sector formulate policies. This is being done with the participation of the public sector because in the Thai context it is good to (a) have the effort be one of cooperation rather than confrontation and (b) to give the results greater credibility and support in order to gain political effect. The expectation is that sound policy studies will lead to higher level, policy-oriented discussions that feed into both private sector and business sector activities. The Government would retain its watchdog and policy setting role, but will be better informed on the implications of its key policy decisions.

The Joint Public/Private Sector Committee will be an early beneficiary of the Project. The committee has had a promising start, and the businessmen who have participated have felt that there was dialogue that could result in better legislation and administration, especially with sound inputs which have heretofore been uneven. Government members are senior enough that their decisions carry considerable weight. The analysis work under the Project should enable the Committee to make more informed decisions and strengthen its viability as an institution.

Various other alternatives to get at the problem of poor communication between the sectors were considered, including seminars, educational changes, and public relations campaigns. None seemed to have as strong or lasting

an effect as this proposal which strengthens existing institutional arrangements while providing a new base for more effective private sector input into the country's policy and planning.

(3) Widening Participation

The Project encourages a wider equity base in several ways: (a) by turning the search for opportunities and for foreign and domestic partners into a more technical, formal, and public process, (b) by encouraging ventures outside the Bangkok area, and (c) by promoting joint ventures, which increases smaller firm's credit ratings and opens more bankers' doors. The Project does not envisage restricting investment contacts to only small or "new" ventures because a number of larger Thai groups have important managerial and technical skills; moreover, the larger firms' political and moral support is needed to sustain the program; and backward and forward linkages of large operations can have a significant impact on employment.

3. Other Problem Areas

It should be noted that the proposed Project interventions will not be able to address all the problem areas apparent in the private sector environment, but they will address many of the major constraints that appear to be ripe for resolution. No effort was made in the Project to address the whole area of "management" in the private sector because of its complexity and the need for more work to more precisely define the problems, and various options for addressing them. The PRE Bureau is following up on this area, and plans to do an assessment of the management sector as soon as possible. Concurrent activities in the management training area are taking place from centrally funded (PRE) sources under another project.

Most foreign businessmen complain that "red tape" and bureaucracy are problems in doing business in Thailand. Many reasons for the slow and complicated RTG approval process for necessary licenses, privileges, etc. have been cited in the literature including the long mutual distrust and poor communications between the public and private sectors; an overburdened and complex bureaucracy that has limited resources and expertise to respond to policy direction; and historical/cultural characteristics that produce strong respect for authority figures such as traditional bureaucrats and produce strong patron client relationships that tend to constrain coordination among government agencies. As Gerald Sentell indicates in his study of the BOI (separately available

from this PP), "It is sometimes difficult to determine whether a project is delayed because of red tape, simple inefficiency, political influence, or some combination of the three."

Clearly, this Project can do little to address many of these problems which are endemic to LDC's, and indeed are as much manifestations of under development as they are constraints to development. It should be noted, however, that despite these problems, there are many successful foreign and Thai businessmen who have prospered in Thailand. With the proper assistance from a local partner, consultant or shrewd staff member many of the above hindrances can be relegated to minor annoyances. In the meantime, the RTG is doing what it can to address these problem areas and this Project may well serve as a catalyst to the process.

B. Socio-Economic Analysis

1. General Benefits

This Project does not lend itself to standard quantification of expected benefits. The detailed analysis in Annex IV illustrates, however, the potential impact in general terms based on reasonable assumptions for the various components. The investment/market surveys-cum promotion component has the potential for the most immediate and tangible economic effects. In the top priority agribusiness area, for example, a well-targetted promotional program can produce specific product-oriented investments, create new production capacity and employment in the processing and handling of the product, provide incremental farm employment and income from production of additional export supply, and help alleviate Thailand's balance of payments deficit. A recent PRE-financed study (see Annex IV) indicated that a number of very interesting potential investments are ready for development. These include cotton ginning, fish canning, peanut oil extraction, cashew nut processing, seed reproduction, and vegetable processing and canning -- all rural, labor intensive, and in need of private support for capital, technology, and market access. In addition, the study and related surveys indicated a large number of other agribusiness opportunities including further processing of agricultural products, fruits and vegetable processing and export, cattle and pig production, coffee processing, and numerous others. It should be noted that the simple existence of opportunity will not necessarily cause contact to be made between Thai and U.S. firms. The vice president of one of Thailand's most vigorous (and heavily agricultural based) firms, one with several U.S. partners, commented that U.S. firms did not appear to be aggressively

looking for foreign opportunities, and his company had to identify potential investors, hunt them down, and persuade them to invest. He could not see a small Thai firm affording that kind of operation. The potential linkage with Northeast production development efforts, especially off-season production in presently underutilized irrigation projects, offers the added impact of helping these investments raise the level of benefit above their current levels.

In the case of other labor intensive industries, such as the electronic industries, it may be argued that besides the employment that would flow from inducing these labor-intensive industries to locate in Thailand, focusing on them under the Project will have a spread effect by helping attract other firms of labor-intensive, export oriented manufacturing operations. This would contribute to achievement of the RTG objective of moving Thailand into the small group of economies that will benefit from the next rounds of international investment as Singapore, Korea, Hong Kong and Taiwan shift towards more capital and skill-intensive industries, opening up the field for countries able to aggressively seize the labor-intensive ground. The detailed analysis indicates that for a number of economic and policy reasons, Thailand is well situated to achieve this objective.

The economic impact of the Thai-U.S. industry linkage component, and of the component designed to help strengthen the policy dialogue between the Thai government and private sector, cannot be specified except in general terms. The analogy between the interindustry linkage activity proposed and the earlier experience in Korea, India and Europe (under the Marshall Plan) that served as effective transmission belts of technology, is discussed elsewhere. The policy dialogue support activity will be helping the Thai private sector and RTG policy makers to more systematically and effectively determine how effectively the country seizes the opportunities for commercial and industrial growth that will arise in the next few years. Drawing on the RTG Fifth Plan, various IBRD studies, and the analyses behind the structural adjustment loan, the economic analysis section in Annex IV indicates the critical role that the current reshaping of Thai policy with respect to the private sector will have in the country's development in the 1980s, and the importance of continuing to improve the public-private sector dialogue on this policy for strengthening the investment climate. Thus the proposed assistance to the RTG-private sector dialogue process could have very substantial economic impact and influence on government-business relations in Thailand.

2. Social Impact

The Project contributes to the overall Thai effort to reduce poverty and income disparities through encouraging labor-intensive, raw-material based industries, particularly those that lie outside the wealthier Bangkok region. It makes these contributions on both macro and micro levels.

The marketing and the private-sector dialogue components are designed to encourage both domestic and foreign ventures in target areas of opportunity, while at the same time helping rationalize the price, tax, and incentive structure to (among other things) favor exports and labor-intensiveness. Thai exports, it should be noted, are generally labor-intensive -- e.g. textiles, clothing, rice, pineapples, rubber, maize tobacco. As the Thai economy is presently being restructured, most successful new industries should help exports and employment. In the process of selecting particular industries for marketing, the Project will "narrow the information gap" on precisely those industries which will have a large effect on employment and income levels. Two such industries are agribusiness and electronics.

The economics of many Thai agribusinesses favor locations near the source of supply whenever the costs of production compensates for any additional communications/transport costs. Employment is drawn largely from the rural or nearby small city areas. The vast majority of agribusiness firms use small farmers for some or all of their supplies. Large plantations are few and have generally been unsuccessful. A good example of an agribusiness based on small farmer supply is Adams Tobacco, a joint venture between Thai and U.S. interests, which has introduced a Turkish-style tobacco to 50,000 small farmers in the Northeast and is now utilizing many of these farmers to grow hybrid tomato seed.

The income effects of each wave of agroindustry investment that Thailand has experienced in the past twenty years have reached even into previously remote and mainly subsistence areas, as entrepreneurs responding to emerging market opportunities in export of maize, cassava, kenaf, and other commodities, have scattered processing plants over large rural areas, and created new markets for very large numbers of the country's overwhelmingly small family farm units. The Project is designed to hasten the further development of this process.

The Project's emphasis on finding U.S. partners for ventures in Thailand reflects its interest in creating vertical marketing systems in which the U.S. partner would develop export markets while helping with technical concerns within Thailand. The planning and coordination that would occur between partners (whether joint venture or just good trading partners) would help alleviate problems of low farm prices or of sporadic supplies of highly irregular quality.

Some consultants (e.g. Daniel Hefler of A.D. Little) have suggested that the electronics area in Thailand could benefit from additional study and/or vigorous promotion effort, partly because there is a lot of interest from international investors in Southeast Asia, and partly because of its employment effects. The equity effects of any one electronics industry investment will depend on the labor-intensity of the manufacturing process employed, where the plant is located, extent of its backward-linkage effects, the real rate of protection (if any) and how long that lasts, the nature and distribution of ownership and the disposition of profits. What matters in this case is the setting in motion of more efficient processes through which Thailand is enabled to capture a greater share of international electronics investment (based essentially on wage costs/quality comparisons, as long as technology in parts of the electronics industry remains highly labor-intensive) and the development of international recognition that Thailand has become another member of that small group of (mainly Southeast Asian) countries where labor-intensive industries can most profitably locate. The choice of electronics was made by the RTG. It is a sensible area for Thailand to go for in this international competition for foreign investment, but it is the development of the ability to attract industries of similar economic character that is the underlying objective that, if attained, will bring sustained investment benefits to the country and contribute significantly to its replicating the "Gang of Four" (Korea, Taiwan, Hong Kong, Singapore) model. The powerful equity impact in this growth model is not found so much in the redistribution of income shares among population groups, as the aggregate effect on overall growth of the economy, and on the absorption of the labor force into full employment with consequent assurance that wage rates will rise along with general growth, and the absolute levels of the lowest income deciles will rise along with the middle and higher levels.

There are a number of other industries which have significant potential to contribute to both AID and RTG objectives: handicrafts, bamboo and rattan furniture; pottery and tile, for instance, are all labor-intensive, up-country industries with international potential.

3. Absorptive Capacity for Foreign Investment

Given the present moderate relative size of foreign investment to total private capital formation (only 2% from 1975-1979) and the moderate ratio of U.S. investment flow into Thailand (15% of the total in 1980), and the long-standing favorable attitude of the RTG towards U.S. investment, there are no foreseeable reasons why even a substantial rise in U.S. investment should encounter any barriers.

4. Environmental Concerns

Annex IV contains a request for a negative determination. No significant negative environmental effects are expected from the Project.

5. Role of Women

No particular effort has been made under the Project to especially involve women in any of the activities, however, it is expected that they will benefit at least as much as men from the employment opportunities that should result from the Project. It is planned that the Project evaluations will include an analysis of differential impacts on men and women, (if any exist) and attempt to ensure women adequately benefit under the Project.

C. Financial Analysis and Plan

1. General

The total costs associated with this four year Project are estimated to be \$5.5 million, with \$3.5 million contributed from the grant, \$1.57 million from the Royal Thai Government, and \$0.44 million from the private sector.

Considering only the AID/RTG portion of the grant financed components, AID will finance 69 percent of estimated costs and the RTG will finance 31 percent of costs. The private contribution represents 8 percent of the estimated total cost of the Project. Costs for each component are described below, and shown in Tables 3 and 4. Annex IX amplifies on these tables.

Table 3 - Estimated Project Costs¹
(\$000)

Project Component	AID Grant		RTG	Thai Private Sector	Total
	FX	LC	LC	LC	
1. <u>Investment Analysis and Promotion</u>					
(a) Two consultants for three years	538	143	-	-	681
(b) Local investment survey	-	200	-	-	200
(c) Thai promotional support program	-	500	-	-	500
(d) U.S. based investment promotion effort	1,000	-	-	-	1,000
(e) Contract coordination and administration support	170	-	-	-	170
(f) BOI program and support	-		1,500	-	1,500
Subtotal	1,708	843	1,500	-	4,051

1/ Annex IX amplifies on this table.

Table 3 - Estimated Project Costs (Contd)
(\$000)

Project Component	AID Grant		RTG LC	Thai Private	Total
	FX	LC		Sector LC	
2. <u>Strengthen Private Sector Dialogue with RTG</u>					
(a) One local program analyst/planner	-	80	-	-	80
(b) Two studies directors	-	120	-	-	120
(c) 40 studies	-	200	-	200	400
(d) Admin support	-	-	60	60	120
(e) Facilities/equipment	-	10	-	100	110
(f) PSCC initiatives	-	50	-	-	50
Subtotal	-	460	60	360	880
3. <u>US/Thai Private Sector Linkage</u>					
(a) Office staff	75	-	-	-	75
(b) Support	-	-	-	75	75
Subtotal	75	-	-	75	150
4. <u>Evaluation</u>	50	15	10	-	75
Subtotal	50	15	10	-	75
Total all components	1,833	1,318	1,570	435	5,156
Contingency (11%)(2/)	202	147			349
Grand total	2,035	1,465	1,570	435	5,505

Note: Inflation of 10 percent per year was considered in developing the above cost estimates.

(2/) The LC contingency was rounded up by \$2,000 resulting in the AID grant total equalling \$3.5 million instead of \$3.498 million.

Table 4 - Annual Financial Summary - AID Contribution
(\$000)

Project Component	Year 1	Year 2	Year 3	Year 4	Total
1. Investment Analysis and Promotion	240	890	946	475	2,551
2. Strengthen Private Sector Dialogue	68	148	174	70	460
3. US/Thai Private Sector Linkage	12	25	25	13	75
4. Evaluation	-	30	-	35	65
5. Contingency	-	47	150	152	349
6. Total	320	1,140	1,295	745	3,500

2. Investment Analysis and Promotion

This component includes one full-time expatriate consultant (promotion) and one full-time Thai (industrial development) for a three year period; 10 local investment surveys by quality local firms; the services of a local consulting firm for domestic investment promotion, including one full-time person to help develop local business contacts, local office support for the two consultants, seminars for investment missions, media coverage and newsletter; a U.S. based investment promotion effort, including the equivalent of one full-time consultant to develop potential investors/business contacts for Thailand, computer time to locate and screen potential investors, organizing 3 investment missions (transportation), seminar program for U.S. bankers and business people on opportunities in Thailand (3 seminars), plus expenses for transportation and communications; and for contract administration by a senior management representative of the consulting firm to provide supervision and counsel on all aspects of the program.

The BOI is estimated to have to provide virtually half of its operating budget for support of this accelerated program, or the in-kind equivalent of \$500,000 per year over three years. This includes program support for publications, analyses, and overall management and coordination of component.

3. Strengthen Private Sector Dialogue

This component will consist of \$80,000 for a top quality local analyst/planner for 36 months, \$120,000 for two studies directors for ATI and the Thai Chamber of Commerce for three years, 40 policy studies by quality local consulting firms; \$60,000 in-kind contribution from the public sector and a like amount from the private sector for salaries of staff who will be rotated through the JSC secretariate; plus \$10,000 from AID for locally procured office equipment and office support from the private sector valued at \$100,000; and \$50,000 from AID to support PSCC initiatives.

4. U.S./Thai Private Sector Linkage

This component will provide \$75,000 from AID for office staff for the Thai Joint Consultative Corporation liaison committee. Office space and support for the staff will be provided by the Thai private sector. Not calculated in this component are the costs that will accrue to the Thai and U.S. private sectors in supporting the joint JACC effort.

5. Evaluation

Two evaluations will be financed at a total cost of \$75,000 under the Project.

6. Financial Arrangements

It is expected that AID will directly disburse all grant funds to contractors hired under the Project, using standard AID financial procedures. For local procurement and studies as well as staff support, the concerned private sector organizations are expected to develop contracts/purchase orders in close coordination with AID and DTEC and AID will directly disburse funds against the approved documents.

PART IV - IMPLEMENTATION PLAN

A. Administrative Arrangements

The three project components will be implemented separately. Policy guidance and coordination will be provided by a Project Committee consisting of representatives of NESDB, BOI, ATI, TCC, TBA, and USAID. These organizations, except for USAID, are represented on the Joint Public Private Sector Coordinating Committee and on the PSCC/JSC Secretariat. This relationship will facilitate the Project Committee's work of coordinating different project components to strengthen each, monitoring the execution of components of the project by responsible implementing organizations, providing them guidance, and considering operational plans for implementing project activities.

The Board of Investment will be responsible for implementing the Investment Analysis and Promotion component of the project with assistance from USAID. Technical assistance to BOI will be provided by firm(s) under a host country contract. Local investment surveys will be carried out by the firm(s) or by Thai firms subcontracted to the firm(s).

The three analyst planners to be provided under the component to strengthen the private sector's dialogue with the RTG will fit into the ongoing relationships already established. The senior analyst planner will serve the Secretariat which serves as a liaison between the JSC and the PSCC. This person will be provided office space and support by NESDB but may at times be located at ATI or TCC depending on the nature of ongoing work. The other two analyst/planners will be located at and supported by ATI and TCC. The analyst/planner for ATI will also assist the Thai Bankers Association. The analyst/planner for TCC will also assist the Board of Trade.

The two analyst/planners will work with their organizations and the senior analyst to identify issues to be analyzed.

The senior analyst will present recommendations for studies through the Secretariat, to the JSC for consideration. The JSC will determine the organization which will sponsor the study (ATI, TCC, or TBA). The Secretariat will advise A.I.D. of the study to be undertaken, its scope, and costs. The analyst planner associated with the sponsoring organization will recruit individuals or firms to carry out the studies, oversee conduct of the studies, and present the results of the

studies to the leadership of the organization. When the JSC advises AID that the study has been completed, AID will pay the firm or individual for the study.

The appropriate analyst will arrange for JSC consideration of the organization's recommendation based on such studies and will assist in the transmittal of the JSC recommendation through the Secretariat to the Joint Public/Private Sector Coordinating Committee.

The senior analyst planner will be recruited by the Secretariat. The two analyst planners will be recruited by ATI and TCC with the concurrence of the Board of Trade and the TBA.

The staff of the Thai JACC Committee will be recruited by the TCC. AID will provide TCC with an agreed amount of funds to pay the salaries of this staff.

Within USAID, the Office of Private Enterprise will be responsible for the project. This office will consult with other elements of the US Mission and with the American Chamber of Commerce as appropriate during implementation.

B. Implementation Plan

The project will be carried out over a four year period beginning in FY 83. The following table illustrates major activities that will occur during this period for each component of the project.

<u>Implementation Plan Activities</u>	<u>Investment Analysis and Promotion</u>	<u>Private Sector Dialogue</u>	<u>US/Thai Linkage</u>	<u>General Admin.</u>
Year 1	Develop tors for consultant, solicit expressions of interest, review proposals, negotiate contract Consultant arrives. Develop scope for investment surveys & promotion campaign	Hire staff Procure office equipment Develop study plan Complete initial studies.	Hire staff First USJACC/TJACC meetings	Satisfy C.P.'s Collect base line evaluation data
Year 2	Complete first round investment surveys Initiate promotion campaign - First investment mission - Plan 2nd round investment surveys	Continue studies Develop study program for year 3	Major US/TJACC meeting	Year end evaluation
Year 3	Complete second round investment surveys Second promotion campaign - Second investment mission	Continue studies - Develop study program for Yr 3 - Deter- mination of private sector staff financing	Major US/TJACC meeting - Plan for private sector staff financing	
Year 4	Third promotion campaign Third investment mission Contract completion	Complete AID funded studies & staff financing	Continued US/Thai Contacts	Final evaluation

C. Monitoring and Evaluation Plan

In keeping with recent Asia Bureau guidance emphasizing the importance of planning for data collection during implementation for improved project management and subsequent evaluation, this evaluation plan will describe procedures for data collection for each component of this project as well as the questions to be asked for monitoring and evaluation purposes.

Component 1: Investment Analysis and Promotion

Question to be Asked

To what extent have the promotional campaigns carried out each year during the project life resulted in increased investment, market linkages, or new technology?

Indicators

Indicators for analyzing the nature and extent of new investment include:

- number and types of new industries initiated as a result of promotional campaign
- location of new industries (urban, rural)
- degree of labor intensiveness
- use of natural resources
- export orientation
- new direct employment provided
- expanded backward or forward linkages to other industries.

Procedures

The contract technical assistance to BOI will specify that work will include collection of data and maintenance of files in the areas indicated above.

Component 2: Strengthen Private Sector Analysis Capability
and Dialogue with RTG

Questions to be Asked

To what extent have the analyses undertaken through this component received full consideration by the Joint Public/Private Sector Committee of the RTG?

To what extent have they contributed to specific policy modifications?

Indicators

- number and types of studies undertaken
- information on relevance of these studies to private sector interests
- results of Joint Public/Private Sector Committee Review of each study
- information on subsequent changes in policy or regulations

Procedures

The Thai professional staff financed under the project (analyst/planners) will gather data and maintain files on the information indicated above.

Component 3: Facilitate Linkages Between U.S. and Thai
Private Sector Organizations

Question to be Asked

To what extent has this component resulted in increased informal technical and other cooperation between Thai and U.S. agroindustries?

Indicators

- number and type of joint ventures
- number and type of licensing for Thai use of proprietary technology
- marketing of Thai exports

- sale of U.S. exports to Thailand
- management or technical assistance contracts
- number of contacts made through TJACC office

Procedures

One of the conditions of AID support to the Thai JACC Committee and the TCC, the organizations responsible for implementation of this component, will be a requirement that data and information on the above indicators be collected and maintained by their staff.

The data and information collected through the procedures outlined above will be used during annual project workshops to assess project progress and performance. It will also be used as a basis for evaluating the project. Evaluations are scheduled for the second and fourth year of the project. During the 2nd year evaluation, if implementation has progressed sufficiently to have resulted in the initiation of specific investments, case studies of these firms will be undertaken to assess the degree to which these firms are export-oriented, natural resource - based and labor intensive and located in the unindustrialized regions of Thailand, as well as their contribution to direct employment and forward and backward linkages. These studies will be followed-up on in the fourth year evaluation.

D. Conditions Precedent

1. Initial Conditions Precedent.
 - a. Designation of Grantee's Authorized Representatives
 - b. Establishment of Project Committee.
2. Conditions Precedent to Disbursement for Specific Project Activities.
 - a. Strengthening Private Sector Dialogue.
 - Prior to financing staff costs, evidence that appropriate office space and support will be provided to the three analyst planners from other than AID funds;
 - b. Linkages between the U.S. and Thai Private Sectors.
 - Prior to financing staff costs, evidence that office space, equipment, and support will be provided from other than AID funds.