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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

THAILAND

PRIVATE SECTOR IN DEVELOPMENT

PROJECT NO. 493-0329

PROJECT PAPER ANNEXES

APRIL 1983

Private Sector in Development  
Project Paper  
Annexes

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ANNEX I

PID APPROVAL CABLE

VZDZCES A350FSC681  
RR RUMTEK  
IF RUEHC #9830/01 3581505  
ZNR UUUUU ZZB 24 DEC 81  
R 2413107 DEC 81 TOR: 1506  
FM SECSTATE WASHDC CN: 01341  
TO AMEMBASSY BANGKOK 6810-11 CHARGE: AID 4  
BT INFO ECON CHRON  
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AIDAC

E.O. 12065: N/A

TAGS:

SUBJECT: PRIVATE SECTOR IN DEVELOPMENT PID (493-0329)

REF: BANGKOK 58699

1. SUMMARY. ASIA PROJECT ADVISORY COMMITTEE (APAC) MET ON OCTOBER 29 AND REVIEWED SO F T PID WITH REPRESENTATIVES FROM PRE, OPIC, COMMERCE AND OTHER OFFICES ATTENDING. APAC APPROVED THE PID, ALTHOUGH NUMBER OF QUESTIONS REMAIN. IN COMPLETING PP DESIGN USAID SHOULD:

(A) MAKE FULL USE OF RESULTS OF PRE RECONNAISSANCE TEAM VISIT NOW SCHEDULED FOR EARLY FEBRUARY.

(B) USE TO MAXIMUM EXTENT EXPERIENCE OF WSH PRIVATE SECTOR EFFORTS IN THAILAND AND AT OTHER AID COUNTRY POSTS; AND

(C) FULLY INFORM AID/W DURING DESIGN PROCESS ON STATUS OF ISSUES RAISED AT APAC AS WELL AS THOSE IDENTIFIED IN PID. BECAUSE OF NEWNESS OF PROJECT AREA AND COMPLEXITY OF SOME ISSUES, AID/W WILL NEED TO RETAIN PROJECT AUTHORIZATION AUTHORITY. END SUMMARY.

2. APAC APPLAUDS USAID'S, INITIATIVE IN PURSUING SO QUICKLY AND IN SUCH A DETERMINED WAY THIS ADMINISTRATION'S PRIVATE SECTOR EMPHASIS. WE ARE ALSO HEARTENED BY THE STRONG INTEREST SHOWN SO FAR BY DR. SNOH, NESDB DIRECTOR GENERAL, AND OTHER SENIOR RTG OFFICIALS IN NOT ONLY A GREATER ROLE FOR PRIVATE SECTOR IN NATION'S DEVELOPMENT BUT PARTICULARLY IN INCREASED U.S. PRIVATE SECTOR PARTICIPATION. PRE RECONNAISSANCE TEAM VISIT IN EARLY FEBRUARY SHOULD PROVIDE FURTHER IMPETUS IN THIS REGARD AND RESULTS SHOULD BE TAKEN INTO ACCOUNT IN EVENTUAL PROJECT DESIGN.

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3. APAC NOTED THAT USAID HAS WORKED RAPIDLY ON THIS NEW PROJECT PROPOSAL, AN AREA IN WHICH AID HAS ONLY LIMITED RECENT EXPERIENCE. AS A RESULT, PROJECT AS PROPOSED IN PID APPEARS TO BE MORE GENERAL AND PRELIMINARY THAN WHAT IS NORMALLY DESIRED. USAID WILL THEREFORE HAVE TO SHARPEN PROJECT GOAL AND PURPOSE IN DEFINING NATURE OF PROBLEM AND PRECISELY WHAT WE PROPOSE TO DO ABOUT IT, LIMITING PROJECT FOCUS TO WHAT THAIS ARE MOST INTERESTED IN (E.G. INDUSTRIAL STRATEGY, MANAGEMENT DEVELOPMENT) AND TO THOSE ACTIVITIES MORE MANAGEABLE IN TERMS OF WHAT AID CAN REALISTICALLY EXPECT TO ACHIEVE. IN THIS REGARD, WE ARE SURE USAID IS ALREADY CONSIDERING THIS BUT WE WISH TO EMPHASIZE VALUE OF LESSONS LEARNED FROM PRIVATE SECTOR EFFORTS IN THAILAND (E.G., ADAMS INTERNATIONAL, NIKE) AS WELL AS EXPERIENCE OF OTHER COUNTRIES (E.G. TAIWAN, KOREA) WHICH HAVE ALREADY PASSED THROUGH THIS STAGE OF DEVELOPMENT AND WHERE AID ASSISTANCE WAS VERY INSTRUMENTAL IN PROCESS OF PRIVATE SECTOR DEVELOPMENT.

4. WITH REGARD TO AID PROJECT FUNDING, WE STILL HAVE A PROBLEM WITH THE AVAILABILITY OF GRANT FUNDING (EVEN THOUGH RECENT APPROPRIATION REDUCES LOAN FLOOR TO THIRTY PERCENT). THEREFORE, USAID SHOULD HAVE NO ILLUSIONS THAT GRANT FUNDING CAN BE MADE AVAILABLE FOR THIS PROJECT AND USAID NEEDS TO CONTINUE USING AS TARGET, SAY, SEVENTY FIVE PERCENT LOAN FUNDING FOR OVERALL THAI PROGRAM.

5. IN ADDITION, AID/W IS CONCERNED THAT SINCE THE PROJECT PROPOSES TO INTERVENE IN OR FACILITATE PROFIT-MAKING VENTURES, THE COST OF THIS INTERVENTION SHOULD NOT BE SUBSIDIZED ENTIRELY BY USG. USE OF LOAN MONIES WOULD REQUIRE FINANCIAL PARTICIPATION BY RTG AND AT LEAST IMPLICITLY, SHARING OF THE COSTS OF SUBSIDIES. SINCE AID LOAN TERMS ARE HIGHLY CONCESSIONAL, APAC FELT THAT LOAN FINANCING WOULD BE USEFUL MINIMUM TEST OF RTG COMMITMENT TO PROPOSED PROJECT ACTIVITIES.

6. FOR YOUR INFORMATION, APAC REVIEW OF RECENT INDONESIA PID LED TO APPROVAL OF LOAN FINANCED PROJECT PROPOSAL WITH DOOR LEFT OPEN FOR POSSIBLE SMALL GRANT COMPONENT. THIS MAY BE OPTION IF USAID CAN PRESENT CLEAR JUSTIFICATION. THIS WOULD, OF COURSE, INVOLVE SPLIT FINANCING WHICH MAY OR MAY NOT BE PROBLEM AT MISSION LEVEL. IN ANY EVENT, USAID SHOULD BE EXTREMELY WARY OF DESIGNING PROJECT ON ASSUMPTION OF GRANT FINANCING AND MATTER SHOULD BE RESOLVED WITH RTG AND WITH AID/W PRIOR TO PP COMPLETION AND SUBMISSION.

7. REGARDING STAFFING, AS UASID KNOWS, AID/W HAS INCREASED POSITION AUTHORIZATION TO ADD ONE PROJECT DEVELOPMENT OFFICER WHO CAN WORRY ON PRIVATE SECTOR INITIATIVES. RECRUITMENT UNDERWAY AND WE WILL ADVISE ASAP.

8. TO ASSIST WITH PDS FUNDING NEEDS, PRE HAS GRACIOUSLY AGREED TO PROVIDE ONE-HALF OR DOLS SIXTY THOUSAND TO HELP FINANCE PROJECT DESIGN COSTS. WE WILL WORK OUT WITH PRE NECESSARY ARRANGEMENTS RE FUNDING AND EVENTUAL EXPERT VISITS TO THAILAND.

9. PROJECT DESIGN EFFORT SHOULD WORK OUT HOW TDP AND CPIC WHOSE ACTIVITIES APPEAR TO PARALLEL THOSE PROPOSED IN PROJECT, WILL BE COORDINATED. IN THIS REGARD USAID SHOULD INCORPORATE FINDINGS OF PRE TEAM VISIT AND SUBSEQUENT MISSIONS AND KEEP US ADVISED.

10. APAC APPROVES THIS PID. HOWEVER, GIVEN TENTATIVE NATURE OF SOME ASPECTS OF PROJECT AND FACT THAT WE ARE STILL WORKING OUT SOLUTIONS TO MANY OF THESE ISSUES IN THIS NEW AREA OF ACTIVITY, WE WISH TO MAINTAIN CONTINUING DIALOGUE WITH PERIODIC STATUS REPORTS FROM USAID DURING PROJECT DESIGN PROCESS. USAID SHOULD ALSO CABLE ASAP SCOPE OF WORK FOR PDS/PRE FUNDED CONSULTANTS. FINALLY, PLEASE ADVISE OF ANY ASSISTANCE NEEDED FROM BUREAU AND PRE THROUGHOUT DESIGN OF THIS PROJECT. HAIG

BT

#9230

Response to Issues Raised in PID Approval Cable,  
and Other Communications from AID

1. Need to Sharpen Project Objectives and Focus on  
Priority That Concerns More Manageable by AID - Cable,  
Paragraph 3

The Project's focus has been narrowed to emphasize assisting the RTG attract business ventures to priority development sectors, particularly agroindustry outside the Bangkok area, strengthening the dialogue between the Thai private-public sectors, and facilitating U.S.-Thai private sector linkages. This latter effort has been simplified to build on a PRE initiative. The Project outputs focus on encouraging business ventures to invest and apply business skills to resolving development problems, and the Project no longer includes downstream "hand-holding" for committed investors. Most private sector firms neither need nor desire such involvement by the public sector.

The Project's emphasis on front-end activities parallels the RTG's own perception of its primary role with respect to the private sector; to identify and promote appropriate business ventures, to provide necessary incentives for priority businesses, and to provide an attractive business climate through an appropriate and stable policy and regulatory environment.

Project inputs are limited primarily to technical assistance and associated surveys/studies and thus are quite manageable by the two full-time employees who will represent AID's interests on the Project.

2. Project Design Effort Should Be Coordinated with OPIC,  
TDP and PRE Activities, Cable Paragraph 9

Strong emphasis was placed on such coordination during Project design.

- (a) The OPIC mission during July 1982, was planned in conjunction with the Project's earlier focus on the Agribusiness and Electronics sectors and planning for this mission benefitted from the Project organizational structure on both the U.S. and Thai sides.
- (b) The regional TDP representative has been consulted regarding project design.

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(c) Much of the Project's framework was designed during the PRE reconnaissance team's visit during February, 1982, and PRE financed much of the consultant assistance to finalize his proposal. PRE and USAID bilateral efforts will be complementary. The revision of the PP further strengthens this relationship.

### 3. Project Complexity and Administration, Cable Paragraph 3

The Project has been revised to delete two elements earlier envisioned and to redesign one element to meld it with an ongoing AID activity (JACC). It is focused on agencies of the RTG that are central to the stimulation of private investment. It does not involve any construction or offshore goods procurement that often impose heavy burdens on implementing agencies. All necessary coordination may be done in Bangkok and not at regional, provincial and local levels as is necessary with many AID projects. Components are related but do not have to be implemented in close concert with one another except at a policy level. The administrative structure is compact and based on existing systems and patterns. The Project is eminently doable and has sufficient support from the highest levels of both the RTG and Thai private sector to succeed.

### 4. Nature of Project Constraints

The Project focuses on the reduction of constraints identified by numerous consultants to the Thai Government as restricting private sector involvement in achieving basic national objectives, i.e. regional development, increased employment, decreased trade deficits. Those constraints are as follows: (1) inadequate knowledge by foreign businesses of opportunities in Thailand and by Thai investors of sources of export markets, appropriate technology and expertise; this is particularly relevant in view of the intense competition for foreign investment within the Asian region; (2) economic policies that have favored formation of a comparatively inefficient, capital intensive, import substitution-oriented industrial base centered around the Bangkok area; (3) concentration of private sector wealth and power in a relatively small number of local business groups, tending to restrict the growth and entry of smaller entrepreneurs into key development sectors; (4) generally, poor communication between the public and private sectors which weakens any action to resolve other constraints and increases the uncertainty that private businesses must face in the business climate.

## **5. Impediments to Investment Outside of Bangkok**

There are numerous reasons why more investment doesn't take place outside the Bangkok area. The lack of skilled labor and easy access to markets and to necessary public and business services, inadequate transportation and safety considerations. However, some industries (e.g. fruit and vegetable canning) do tend to locate in area outside of Bangkok because of the nature of their raw material requirements. Moreover, there are opportunities for smaller industries particularly targetted on the local market and many of these industries are highly labor intensive. Such industries will be given priority consideration for promotion under this project whenever viable options are identified.

## **6. Justification of Costs Related to the Investment Analysis and Promotion Effort (BOI).**

The budget for this component of the Project has been thoroughly reviewed. The review resulted in an adjustment to costs earlier projected. An Annex has been added to the Project Paper to provide additional information on project costs.

## **7. Clarification of Policy Dialogue Component**

This component has been revised to more clearly explain the need for assistance in this area, the relationships of the organizations involved, and the relationship of new staff in these organizations to the policy dialogue. Coordinated public/private policy analysis and more in depth analysis will enhance informed decision making by the RTG. This is expected to result in policies and regulations which are more effective in expanding private sector operations. This expansion, coupled with structural adjustments in the economy, will increase the opportunities for rural employment. Financing under the project will promote not only better policies but also will support institutionalizing informed policy dialogue.

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

ANNEX II

Life of Project  
From FY 83 to FY 87  
Total U.S. Funding \$3.5 Million  
Date Prepared: JANUARY 11, 1983

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE FAS REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

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(REVISED)

Project Title & Number: Private Sector in Development, Project No. 493-0329

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><b>Project or Sector Goals</b> The broader objective to which this project contributes: (A-1)</p> <p>Structure Thailand's economic growth to reduce trade deficits as a percent of GDP and reduce unemployment, particularly outside Bangkok.</p>	<p><b>Measures of Goal Achievement:</b> (A-2)</p> <ol style="list-style-type: none"> <li>1. Trade deficit decreased from 8.2% of GDP to 4.5% of GDP.</li> <li>2. Manufacturing employment to expand by an annual rate of at least 165,000 persons (7.6 percent).</li> <li>3. Rate of growth of employment in areas outside of Bangkok area exceeds that of Bangkok area.</li> </ol>	<p>(A-3)</p> <p>NESDB and Bank of Thailand reports.</p>	<p><b>Assumptions for achieving goal targets:</b> (A-4)</p> <ol style="list-style-type: none"> <li>1. Imports of petroleum continue to decrease as other resources tapped.</li> <li>2. Free enterprise policies maintained with minimum government control.</li> <li>3. Government will continue to provide priority attention to efforts to improve investment climate and promote private investment.</li> </ol>
<p><b>Project Purpose:</b> (B-1)</p> <p>Increase private sector investment employment generating, export oriented, resource based ventures areas outside of Bangkok.</p>	<p><b>Conditions that will indicate purpose has been achieved:</b> End of project status. (B-2)</p> <ol style="list-style-type: none"> <li>1. Private firms of all sizes providing new investments for priority development sectors.</li> <li>2. Increased flow of technology, market linkages and management improvements from U.S. private sector to Thai private sector in priority development sectors.</li> <li>3. Improved investment climate reflected by better tax and incentive structure for businesses in priority development sectors.</li> </ol>	<p>(B-3)</p> <ol style="list-style-type: none"> <li>1. Bank of Thailand and Board of Investment reports.</li> <li>2. Project Evaluations.</li> <li>3. Board of Trade and Association of Thailand Industries reports.</li> </ol>	<p><b>Assumptions for achieving purpose:</b> (B-4)</p> <ul style="list-style-type: none"> <li>- Adequate numbers of attractive investment areas and potential investors available.</li> <li>- IBRD structural adjustment loan implemented as planned.</li> </ul>
<p><b>Project Outputs:</b> (C-1)</p> <p>Intensive promotional program directed at attracting private enterprise participation in priority development concerns.</p> <p>An effective policy analysis: report for Public/private sector linkages.</p> <p>Linkages between industry groups in Thailand and U.S. for joint industries.</p>	<p><b>Measures of Output:</b> (C-2)</p> <ol style="list-style-type: none"> <li>1. (a) Ten investment surveys conducted (b) Three investment campaigns conducted.</li> <li>2. Minimum of 20 studies being acted upon for private sector related policy</li> </ol>	<p>(C-3)</p> <ol style="list-style-type: none"> <li>1. Project reports/records.</li> <li>2. Evaluations.</li> </ol>	<p><b>Assumptions for achieving outputs:</b> (C-4)</p> <ul style="list-style-type: none"> <li>- RTG/private sector relations do not deteriorate.</li> </ul>
<p><b>Project Inputs:</b> (D-1)</p> <p>Technical Assistance Funds for investment and policy analysis targeted promotion campaign, staff support.</p>	<p><b>Implementation Target (Type and Quantity):</b> (D-2)</p> <p>(See PP Budget for details.)</p>	<p>(D-3)</p> <p>Project Records</p>	<p><b>Assumptions for providing inputs:</b> (D-4)</p> <p>(As related to inputs)</p>

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Annex III  
American Chamber of Commerce in Thailand  
Making Thailand More Competitive  
In Attracting Foreign Investments  
(1982)

Foreign investors do not form their opinions about Thailand's investment climate based on the Government's statements alone that foreign investment is welcome. They will also seek out the specifics of the business environment, and weigh the favorable against the unfavorable elements. In this regard, while some corrective actions have been taken in the recent past, there are still many areas where changes are required to improve the investment climate and thus attract more foreign investment:

1. Perhaps most importantly, the uncertainty under which private investors currently operate must be reduced

The evaluation of all investment opportunities incorporates an assessment of risk and uncertainty in light of the anticipated return on investment. Investors do not necessarily avoid risk but will compare the expected return with the assessed risk to determine whether an investment is feasible. This is not true of uncertainty, which in effect causes risks to be unknown. Most investors tend to avoid uncertainty wherever possible, and this is particularly true of those investing in foreign countries where the environment is not well known. In this regard, Government actions which frequently change the "rules of the game" or invest a high degree of discretionary decision-making authority in the bureaucracy are particularly causes for uncertainty.

2. A single Government policy toward foreign investment is required

The Government claims that it has a policy of welcoming foreigners and foreign investment. However, the application of law and regulations are administered by various Ministries and Departments works quite contrary to this stated policy. Until all echelons of Government pull together toward a common policy, and demonstrate that policy by their actions, the full potential for investment in Thailand will not be realized.

3. The Government needs to move more promptly in approving and promoting major business ventures

The reputation for this malaise in moving major project forward has seriously affected Thailand's reputation. Time is money. In many cases, by the time Government makes a decision inflation has caused projects to exceed the investment originally contemplated, and the feasibility study and details of the project have to be revised. If prompt decision is then not made, the same process of revision must be repeated. Investors involved with or witnessing this slow decision-making process may look elsewhere to invest.

4. Tax rates and other incentives must be competitive with other countries

Although there was role back of corporate tax rates in 1981, a further reduction of taxes is called for to be more competitive with rates charged by other countries in the area. Comparative tax rates and other investment incentives are prime considerations when potential investors weigh the merits of investing in competing nations.

5. Current Government efforts to eliminate corruption need to be intensified

The reputation of corruption does not help Thailand's investment climate. Many foreign investors, who find such corruption morally repulsive, wasteful of economic resources and a cause of additional uncertainty, will simply choose to locate their new investments in other countries rather than subject themselves to this potential risk.

6. Finally, Thai investment opportunities should be more actively promoted abroad

The existence and nature of investment opportunities must be communicated more actively to corporate decision makers outside the country. While the Prime Minister's trips to various countries in 1981 were a helpful start, a program for continuing and comprehensive follow-up is required, in order to generate interest by potential foreign investors.

## Specific Areas for Improvement

In addition to the general suggestions noted above, there are several specific areas in which the Government should take action to reduce uncertainty or other impediments to foreign investors:

### 1. Price Controls

Existing price controls and the ever present possibility of new controls or other artificial constraints on profits are a major deterrent to foreign investment. In the event that the Government determines that such controls are necessary, they should be temporary in nature, flexible enough to allow for prompt reflection of cost increases and established at levels to allow an adequate return on investment.

### 2. Income Taxation

Businessmen view with concern the revisions enabling penalties to be imposed under the provisions of Section 67 bis and ter of the Revenue Code, which provides for advance payment of corporate income tax on estimated earnings. The provisions are difficult to observe, create problems in interpretation and place dangerous authority in officials to impose penalties. If advance payments of taxes are to be made, they should be based on specific, predetermined formulas.

In addition, Sections 70 bis and 76 bis of the Revenue Code are vague, poorly defined and threaten retroaction application of tax liability. In the absence of a clear cut interpretation as to the application of these provisions, many potential foreign investors may look elsewhere to invest and initiate their operation.

### 3. Business Tax

The Revenue Department is empowered to reopen cases with retroactive effect. In the event that there is a bona fide difference of interpretation or the Revenue Department changes its interpretation, the period of retroactivity should be reduced.

#### 4. Legislation

In general, laws affecting businessmen (both Thai and foreign) are frequently passed without prior knowledge by the public. There is no opportunity to debate or discuss the merits or disadvantages of the bill. Once the law is passed, it must be observed even if it is bad legislation - until such time as the law can be changed - and this can take an unduly long term. It would be desirable for the details of proposed bills to be made known in advance and an opportunity be given for interested parties to make comments.

As an example of existing legislation, labor laws as written are confusing, general rather than specific in nature, and therefore open to a very wide range of interpretation. This has a tendency to confuse labor and cause industrial unrest.

An example of pending legislation, the upcoming social security bill should be carefully reviewed with private industry prior to enactment.

#### Customs

Under Custom regulations, transactions can be reopened retroactively with severe penalties being assessed. Reopening of cases where declarations have been made in good faith and accepted by Customs should have a time limitation. Also informers and Customs officials should not be permitted to participate in subsequent additional assessments/penalties unless there was criminal intent or false declaration. It should be possible to obtain from Customs, in advance, a decision as to what duties and other charges will be assessed on a transaction, with such a decision to be binding on Customs.

Customs Notification No. 15/2523 dated August 28, 1980 notified that Royalties or any similar remuneration is being regarded as part of price when assessing duty. In order to reduce importers' uncertainty, it would be desirable for Customs to issue revised regulations which strictly follow the Brussels Convention as to the inclusion of royalties.

Duties are generally assessed on the highest price that goods have entered the country. Discounts obtained or new, legitimate lower cost prices are generally disregarded. Customs officials may indicate

that the "assessable value" of articles can be accepted by submitting "reliable verification"; however, in practice, even obvious changes in world real values are not accepted by Customs.

Finally, protracted delays have been experienced in the past in obtaining refund of deposits eventhough assessments have been finalized. It is hoped that recently announced administrative changes will eliminate this problem.

#### 6. Alien Business Law

Clause 30 (2) of this Law, which limits the annual sales/production increases of certain foreign companies currently operating in Thailand, has been waived through 1982. To facilitate the long term planning of such companies, including reinvestment and new investment for the expansion of their facilities, action should be taken to provide continued long term relief from this provision.

#### Conclusion

In order to improve the investment climate, there is an urgent need to project a positive impression that the Government is prepared to accommodate and welcome foreign investors. To achieve such a positive impression, the Government should be able to demonstrate that good intentions can continue to be translated into action and the Government should be able to point to a lengthening record of corrective action taken. In turn, an increase in the level of investments - both Thai and foreign - should result.

Annex IV

Detailed Economic and Technical Analyses

- I. Detailed Economic Analysis
- II. Summary of Comparative Investment Incentives: East Asia Region
- III. Results of Agroindustry Survey of Investment Opportunities and Constraints
- IV. Summary Assessment of Agroindustry Investment Opportunities
- V. Summary of a Study of the Private Sector Agribusiness Development in Thailand
- VI. Initial Environmental Examination

Detailed Economic Analysis

A. Private Sector Environment and Characteristics

1. Introduction

As shown in Table 1, Thailand has enjoyed one of the best growth records among developing countries in the past two decades. Between 1960 and the oil price rise in 1973, its GDP grew at an annual rate averaging 7.8%. In the face of rapid population growth (3.2% p.a.), per capita income grew at 4.5% annually. Thailand also adjusted relatively well to the oil crisis, with the volume of exports increasing at 14% between 1973-78, twice as fast as in the earlier period. Despite growth in manufactures primarily directed at import substitution, imports also grew rapidly over this period, with import values rising especially rapidly after the jump in petroleum prices. The trade deficit grew over the period, especially after 1973 when the disappearance of foreign exchange earnings related to the Vietnam War reduced the off-setting surplus in the services account. With market restrictions inhibiting further growth in some of the leading exports of recent years, the current account deficit rising to 5% of GDP, high interest rates abroad encouraging an outflow of capital, and external debt rising rapidly in addition, the RTG has been forced to undertake a series of measures to adjust the economy. These have included devaluation of the baht in mid-1981 and the development of a broad range of tariff, tax and administrative policy changes, a program satisfying the rationalization norms that will enable Thailand to secure substantial general import financing under the World Bank Structural Adjustment Loan program.

What is especially important in this history, for the purposes of this Project proposal, is the central role played by the private sector during the entire postwar period of Thai economic development. The RTG has maintained a private enterprise, open market economy, with limited government intervention although there has been a long history at the same time of close involvement of senior government individuals, in their personal capacity (enhanced of course by their positions), in many private trading and manufacturing ventures. Conflict of interest and other aspects of the relations between political and civil service officials and the private sector are viewed quite differently in Thailand (as is the case in many developing countries) compared with the norms

Table 1

Growth Indicators 1968-78, % Per Annum

	<u>Thailand</u>	<u>Philip- pines</u>	<u>Malaysia</u>	<u>Egypt</u>	<u>Indo- nesia</u>	<u>Sri- Lanka</u>
Agricultural Value Added	4.8	4.6	5.0	3.1	4.2	1.9
Manufacturers Value Added	11.8	6.9	12.3	7.1	11.9	2.7
GDP	7.2	6.0	7.5	6.2	8.0	3.4
GDP Per Capita	4.1	3.1	4.6	4.0	6.1	1.6
Exports <u>1/</u> (Current Dollars)	23.2	17.9	12.8	11.8	40.8	9.8
Manufactured Export	35.8	37.5	25.0	12.1	37.4	42.1

1/ 1968-77.

Source: IBRD World Tables

in the U.S. That these norms in Thailand have not been seriously inhibiting factors to the expansion and operation of the private sector, occasional instances aside, is evident in the growth record of the Thai economy and the role the private sector has played in generating that growth.

The Thai Government's direct involvement in industry has been limited and diminishing in importance. The RTG began to establish light manufacturing enterprises in the 1930s. These firms were under the control of various ministries and had a history of losses that had to be covered by budget subventions. In the 1950s the RTG found itself in the position of having to bail out a quasi-public diversified manufacturing venture that was ill-conceived, the largest white elephant the RTG had encountered in its effort to move directly into industrial investment. Since then government has entered into very few enterprises directly, and has been declining in importance as a factor in industrial ownership. Current industrial policy includes guarantees against government entering into production of any items manufactured by firms receiving promoted status from the Board of Investment.

It is clear from the public policy papers of the National Economic and Social Development Board (NESDB) that the planning authorities have a sober view of the shortcomings in the generally satisfactory record of Thai economic growth, and of the measures that need to be pursued to correct some of these problems. With respect to the composition of private investment in recent years, NESDB has recognized that the investment promotion policies of the RTG, lacking a deliberate strategy appropriate to the country's factor endowment, resulted in the growth of import substitution manufacturing behind protective barriers. Such import substitution was in many areas uncompetitive at world market prices and was heading in the direction of saddling Thailand with high-cost production in items that, as protected inputs into export industries, would render the latter unable to compete without a whole system of export subsidies. Acting before this problem became a major drag on export growth, the RTG has begun to restructure the incentive system in a manner deliberately aimed at strengthening the export orientation of future industrial investment and its cost competitiveness.

## 2. Sectoral Characteristics

In 1960 the manufacturing sector contributed a minor portion of Thailand's GDP (only 13%) and employed only 3.4% of the labor force. It was largely devoted to the basic processing of agricultural commodities such as rice, kenaf and cassava among other products. Import substitution in light

consumer goods was the second major area of manufacturing investment, along with construction materials. While Thailand has long had a vigorous entrepreneurial class, until relatively recently it has focused largely on trading rather than manufacturing, with much of the manufacturing closely associated with the trading and export of agricultural commodities that required some initial stage processing to become tradable or exportable goods.

In the last decade and a half, manufacturing has grown faster than any other sector. As a result the share of manufacturing in GDP rose from 15% in 1968 to 20% in 1979, and from 2.2% of merchandise exports in 1960 to 39.8% in 1980. Until 1973 most of this growth was based on production for the domestic market, a natural import substitution process based not on high levels of protection, but on natural advantages of location and market knowledge. Partly in response to the balance of payments impact of the 1973 oil price rise, the RTG initiated a protective tariff and quota policy that encouraged import substitution further, including what otherwise would be unprofitable to manufacture in Thailand. This policy is being overhauled now under the realization that import substitution has run its course and that further investment behind a highly protective incentive structure would undermine Thailand's development in the long run. At the same time however, non-resource based manufactured exports have also been growing, a development based on competitive domestic labor costs and government encouragement. (See Table 2.) Fueling this vigorous performance was an apparent high level of investment in manufacturing. Private investment as a whole averaged about 18% of GDP during the 1970s.

Table 2

Composition of Merchandise Exports (%)  
(Current Prices)

	<u>1960</u>	<u>1970</u>	<u>1975</u>	<u>1980</u> a/	<u>1985</u> b/
Primary	97.8	80.5	77.3	60.2	47.3
Manufactures	2.2	19.5	22.7	39.8	52.7

a/ Preliminary

b/ Projected

Source: IBRD, SAL draft report 11/81.

At this early stage in the development of a modern manufacturing sector in Thailand, it still retains fairly specialized characteristics. As shown in Table 3, production closely related to primary products comprises nearly half of manufacturing value added, of which processed food, beverages and tobacco contribute 35%. The second most important group is

Table 3

Manufacturing Structure

	<u>Share in GDP (%)</u>	
	<u>1969</u>	<u>1978</u>
Processed goods, beverages, tobacco	42.9	
35.1		
Textiles, apparel	11.3	17.4
Chemicals, petroleum	13.6	12.2
Transport equipment	5.9	9.0
Leather, wood, furniture, paper, printing		8.8
6.5		
Machinery	1.9	1.5
Ed. equipment	1.4	1.8
Other	<u>14.2</u>	<u>16.5</u>
	<u>100.0</u>	<u>100.0</u>

Source: IBRD Background Papers.....

textiles and apparel which has benefited from the movement of textile investment from nearby countries that were blocked from further expansion of their exports to the EEC. Thailand now faces the same constraint. Much of the manufacturing consists of production of final consumer goods (including automobiles) is based on imported materials and intermediate goods. The capital goods and intermediate goods industries are still minor. Small and medium-scale enterprises make up a large fraction of the manufacturing sector, with 95% of all firms employing fewer than 50 people. Production of the small and medium-sized firms is said to be increasing faster than is the output of the larger enterprises. Manufacturing is highly concentrated in and around Bangkok - 72% of all manufacturing employment, and roughly three-quarters of manufacturing value-added (Table 4).

Table 4

Regional Distribution of Manufacturing 1976

	<u>Value-Added</u>	<u>Employment</u>
Bangkok	37.3	31.7
Central	44.6	40.8
North	6.7	11.1
Northeast	6.1	11.5
South	<u>5.4</u>	<u>5.0</u>
Total	<u>100.0</u>	<u>100.0</u>

Source: NESDB, Yearbook of Labor Statistics 1977.

Certain factors stand out as accounting for or characterizing the dynamic growth of manufacturing in the past few years and provide guidelines for the path of investment and manufacturing growth in the years immediately ahead:

(1) Forward linkages offer important opportunities for export and new entry into manufacturing; exports of processed agricultural commodities have been growing three times as fast as unprocessed exports, with many new entrants into processing coming from the pool of entrepreneurs engaged in the trading of the same items (e.g. feed mills have been integrating forward into poultry and other livestock).

(2) Thailand is not at the stage of exporting manufactured products under a Thai reputation, except for some special items like silk and jewelry. It is mainly exporting standard items or products sold to foreign buyer specifications for sale under the foreign brand (canned pineapple sold to U.S. supermarket chains as house brands is an outstanding current example). This is not surprising. It represents a duplication of the experience of Korean export growth.

(3) In virtually all potential manufactured exports, Thailand is still a small supplier, and should not be hampered by the quota problems that have restricted growth of some of its major agricultural commodities, such as cassava.

(4) While foreign investment has been important in some areas, it has been providing only about 7-8% of total private capital formation in manufacturing. Much of this investment has been in the form of loans rather than direct investment (nearly half of loans in 1975, two-thirds in 1978). It is interesting to note that this also parallels the experience of South Korea, where the direct investment

relationship with foreign firms has not been a major source of either industrial finance or the flow of technology. According to an IBRD study, the technology transfer process that has contributed to Korea's outstanding industrial growth record has relied more on the informal contacts between Korean suppliers and their export customers than on direct foreign management or the formal acquisition of technology through licensing arrangements.

(5) The economic advantages to the individual enterprise of locating in or near Bangkok have greatly outweighed the minor incentives the RTG has developed to lure investment into the rural areas. The advantages consist of proximity to the centralized market, finance, transportation and communication focus of the economy, and the location of RTG decision-making. The incentives have included small tax and interest rate concessions. (IFCT gives a 1% discount on the interest it charges on loans to projects located out of Bangkok, and several incentives that reduce profit taxes.) Production costs are generally much higher outside the Bangkok area estimated at 25% higher in Chiang Mai for example, so that enterprises that do locate in rural areas have been found to be those that derive substantial cost advantages by being close to their source of raw material. These enterprises have also tended to be owned by someone who resides in the local area.

### 3. Policy Framework

Judging by the record of private sector investment, employment growth, and manufacturing output and export growth described above, it is apparent that the policy framework for the private sector, broadly considered, has been very favorable. There have been exceptions in particular industries (e.g. slaughtering has been closed to private enterprises until very recently) and there have been problems in implementation of policy and procedures. But viewed overall, the Thai policy climate has been one of encouragement to private investment, including foreign investment, and compares favorably with many other developing countries. In terms of ease of entry for new firms, including foreign investors, Thailand ranks well above Average in the openness of the economy. To qualify for the tax and other benefits of "promoted status" granted by the Board of Investment, the potential investor must meet certain criteria; again, these are not restrictive by international standards.

Having said this, it is important to focus on the particular aspects of policy that the RTG itself has been dissatisfied with, areas that have been under study by various auspices, aiming at helping the RTG define a host of revisions

in policy to rationalize the framework, reduce distortions, and in general strengthen the incentive structure in ways that will improve the efficiency of resource allocation.

Investment in Thailand has largely involved processing domestic natural resource products. As a matter of deliberate policy the RTG is anxious to move Thailand into attracting investment in other labor intensive industries that are based outside of Bangkok wherever possible. The competition for securing such investments is intense in Asia. With labor costs rising in Korea and Singapore, and with both these countries and Taiwan attempting to change their industrial structures, shifting from lower-skill labor-intensive assembly to higher-technology skill-intensive products, Sri Lanka, Indonesia and Thailand hope to benefit as the next rank of low-wage cost countries to which labor-intensive industries will be attracted. Malaysia and the Philippines are also competing for these industries.

In some respects, Thailand appears less well situated than some of its competitors. Other countries in the region have either more predictable policies, or more efficient decision-processes for the granting incentives, or fewer problems securing land for manufacturing plants, and/or more consistent and coordinated actions of different government agencies bearing on a single project. However, Thailand also has some relative strengths. Its record of market-oriented development is long, with no history of ideology or practice favoring nationalization. Xenophobia is much less evident than in some other countries. Constraints on foreign equity ratios or management by expatriates are very limited.

Thailand has a strong comparative advantage over some countries in labor-intensive products. Manufacturing wages in Hong Kong, Singapore, Korea and Taiwan are 4-5 times higher than in Thailand. Wage rates in these industrially more advanced countries are almost certain to rise compared with Thailand, where the existence of a large and growing rural labor force will moderate any pressures for wage increases, and where domestic food costs are likely to remain low. In 1978, the combined manufacturing exports of Hong Kong, Singapore, Korea and Taiwan were 50 times that of Thailand. With these four relatively industrialized countries of this region shifting their industrial structure towards skill-intensive and capital-intensive products, the stage is being set for Thailand to gain substantially, if the RTG pursues appropriate policies.

On balance there is clear room for strengthening Thailand's attractiveness. The RTG has recognized this need and is taking very active steps to improve the incentive

structure and the effectiveness of RTG administration. While the process will take time and may not proceed with equal speed on all fronts, it contains one element - a public private sector Joint Standing Committee - that promises to ensure its continuation and that represents a real innovation in the manner in which the RTG approaches the whole general question of the role of, and its relations to, the private sector (See Annex V for description). This committee has facilitated the public-private sector dialogue process appreciably in recent months.

It has already been noted that the current structure of protection provides more incentive for domestic sale than for export, thereby increasing the cost of export production. This structure is being thoroughly overhauled. The tax rebate and exemption measures administered by the Board of Investment as part of its investment promotion function are also not very effective for boosting manufactured exports, nor is the administration of the whole range of BOI responsibilities (or the cooperation of other RTG departments with related authority) deemed efficient or competitive in timeliness and reliability with similar services offered in other countries. The problems of the BOI and its incentive system have been intensively studied by consultants to the Board (under a UNDP/IBRD project). The study contains detailed recommendations for strengthening the BOI and its operations, and the RTG is reviewing these for appropriate action.

As noted, the policy of encouraging location of new manufacturing investment outside of Bangkok and its immediate environs has had little impact and the incentives are seen to be inadequate. As the same time the RTG does not want to introduce artificial incentives that would seriously distort location decisions and result in enterprises that would be dependent on subsidies. The RTG has had great difficulty resolving some of the issues that will determine the development of growth poles outside Bangkok, including location of a second deep-sea port, and the relative stress on designated areas in various parts of the country in the face of the very large-scale development that would be involved in the Eastern Seaboard complex (including natural gas based industries). AID's interest in rural development coincides with RTG interest in decentralization and is reflected in this Project in the proposed focus on different aspects of agribusiness, especially since agriculture commodity-based industries often locate close to source of supply, thereby contributing to income generation for farmers and creation of employment opportunities in the rural areas.

The RTG has also expressed dissatisfaction with the employment generation record of past manufacturing investment. Study has shown that industries which are located in rural areas, small scale, and export oriented, tend to be more labor-intensive than industries producing for import substitution. These findings have reinforced the policy conclusion the RTG has come to, on general economic grounds regarding export orientation and the need to correct incentive distortions that favor capital-intensive, import substitution investment.

This report has noted that the RTG is embarked on a major overhaul of a whole range of policies and administrative processes that shape the climate, the ease of doing business, and the return of investment. The overhaul is clearly aimed at strengthening Thailand's ability to facilitate investment and other business involvement targetted on developmental concerns and the rate of investment expansion undertaken by the private sector within this policy framework. The RTG is anxious to strengthen business relations with the U.S. and is hoping that AID can assist in more actively involving the private sector in development and in contributing to private sector development generally. The Project activities should be designed to build on this interest, including ways that contribute also to the Mission's overall program objectives in Thailand. At the same time, AID's new profile in this perspective will be useful in drawing attention to some of the general problems of the private sector in Thailand, and can continue to provide the basis for dialogue with the RTG on these issues.

#### 4. Policy Implementation

As noted above, RTG policy has been steadily moving toward rationalizing the incentive system and shifting the focus from import substitution to export promotion. Implementation of these policies, however, will be affected by the traditional problems of the Thai bureaucracy - slow decision-making, scattering of responsibilities, poor coordination among departments having related responsibilities, autonomous ability of department heads to deviate from established policy or set their own course. These problems have already affected several areas related to new investments including import and corporate taxation, plant regulation, granting and administration of incentives. Most recently, the American Chamber of Commerce has been most concerned over instances of retroactive reinterpretation of tax regulations that resulted in imposition of revised higher levels of tax assessment for past years. In general the business community complains about the unpredictability of individual department implementation of regulations and the uncertainty this

introduces into business calculations. Dissatisfaction with the manner in which the Board of Investment carries out its tasks is widespread and openly expressed by senior RTG officials. The supposed "one-stop" operation at BOI in fact offers very limited service and does not begin to approach the one-stop investor information service run by the Government of Singapore. The BOI is also supposed to be empowered to grant numerous concessions, whereas in practice the departments ministries responsible for administering the laws to which exceptions are being granted by BOI will not release any authority to BOI, and require the investor to work his way through the complete network of the numerous offices involved. The private sector has also complained about the process of government policy formation in areas affecting commerce and industry. Laws are normally processed through the legislature and regulations promulgated without benefit of any systematic public review process that would enable the private sector to react to proposed changes and give government the benefit of its views before the laws or regulations are issued.

Underlying these particular complaints of poor interaction processes between government and the private sector is a long tradition of mutual suspicion. Despite the personal connections referred to above, there has been a general assumption in the bureaucracy that the private sector is essentially exploitative, and the role of government is to protect the general public against price manipulation and other unfair practices. Apparently these lingering suspicions have not been strong enough to deter the RTG from adopting an open-market development strategy and a policy framework broadly encouraging to private enterprise. But they are reflected in the manner in which some of the regulations are implemented and in the attitudes of some senior officials.

Fortunately, the public and private sectors recognize the need to improve the implementation of government policies that affect private sector growth in support of development priorities. Key factors that bear on implementation of these policies relate to dialogue between the public/private sectors and on the effectiveness of the institutions concerned. These factors are discussed in detail in Annex V.

## B. Socio Economic Impact of the Project

### 1. Feasibility of Objectives

Comparing the RTG goals for the manufacturing sector in the Fifth Plan period with past performance, one might conclude that the Plan targets are not only achievable but perhaps even modest. The target rate of growth for

manufacturing output is 7.6%, while actual growth in the decade 1968-78 averaged 10.6 a year. Similarly, manufacturing employment rose by 10% between 1970-77 (6.3% between 1960-77), compared with the target of 7.6%. The average annual growth in volume of manufactured exports between 1968-78 was 20% compared with the 15% target for the next period.

A broad assumption of continued domestic economic vigor is not enough however to sustain these broad aggregates. The current account deficits of the past few years, judged "unsustainable" by IBRD, will have to be reduced through a combination of increasing exports and restrained expenditure (and resulting import levels), the latter certain to be a drag on expansion of manufacturing output. Increasing diversification and growth of exports itself is bringing increased interdependence with external economic conditions. While the likelihood that real oil prices will not rise much in the next few years (political supply interruptions aside) is a favorable factor compared with the strain placed on the economy during this past period of excellent manufactured growth performance, the outlook for sluggish revival of the OECD economics could hit precisely at the targets this project is designed to help achieve. Taking this sluggishness into account, and its possible implication for protectionist pressures in Thailand's major markets (not to mention the short-run problem of high world interest rates and their effect on private capital movements and investment) and for the growth of demand in those markets, RTG planners have forecast targets that are more realistic achievement levels that would be the case if past performance were merely extrapolated.

Working in a positive direction will be the restructuring of the export incentive system and other policy shifts under the structural adjustment program. Forecasting in a situation where powerful external factors cannot be known, and where the domestic "rules" are being changed, is clearly very difficult at best. In the judgment of the IBRD analysts following the prospects of the Thai economy most closely, the Plan targets are achievable but only if the RTG carries through the adjustment program; if this program were to be delayed or only very partially pursued, the Bank foresees a balance of payments problem developing to the point where growth would be very seriously damaged.

There is little doubt that maintenance of satisfactory manufactured industry growth in the face of difficult external conditions will require both the structural adjustment policy changes underway and the more vigorous market identification and promotional activities this project is designed to encourage. In the longer run maintenance of the past growth

rates will become more difficult as an arithmetic matter; as the base of the Thai manufacturing sector and its production and export volumes grows, the absolute amounts of increase that translated into large percentage increases on small beginnings will decline as relatives, and the pace of relative growth will become more difficult to sustain reflecting the very success of past efforts.

This Project also aims to support RTG goals to accelerate the dispersal of industry. The share of the regions outside Bangkok and the Central Region in manufacturing output has been dropping as manufacturing investment has continued to concentrate heavily near the Gulf of Thailand and the main transportation and communication hub of the country, even if the diseconomies of location in Bangkok itself have begun to induce more location outside the city proper. (Between 1968-78, the share of Bangkok and the Central Region in total manufacturing value-added rose from 76% to 82%). As stressed elsewhere in this paper, the major incentive for investment in the outlying regions must be in the economics of location, where clear cost advantages are obtained by citing processing facilities near sources of supply of low value-to-volume commodities. The stress of this Project on agrobusiness, and on the assistance to BOI to strengthen its promotional activities in this sector, will therefore be important for this objective. Given present knowledge of the resource base of these areas, there is little likelihood that regional diversification can develop to any significant extent through any other route. The difficulty of achieving the target is illustrated by the fact that the rate of real growth in manufacturing value-added in the Northeast during the period 1973-78 was roughly 3% a year. It would take more than a doubling of that performance for the Northeast equal the Bangkok-Central region if the economy as a whole (and thus primarily the Bangkok area) achieves the overall target of 7.6%. This objective will require strong promotional and policy support if it is to be achieved.

## 2. Economic Impact

The nature of this Project does not lend itself to standard qualification projections as in the case of direct capital expenditure projects, or specific technology transfer and development activities with expected values of increased agriculture yields or other forms of measurable productivity changes. Needless to say, relative ease of quantification (e.g. in irrigation projects) is in itself no guarantee that a readily quantifiable project has a higher probability of achieving demonstrable economic impact than the kinds of activities proposed for this Project.

Nevertheless the routes by which the proposed activities are expected to generate economic results, and the potentially strong leverage of these activities, are clear enough to be spelled out with some specificity.

The most readily foreseeable economic impact from the Project will accrue from the investment promotion component of the Project. This component will comprise a market survey element to assess export potentials, an investment opportunity element to determine the potentials for new and expanded industries in Thailand that meet RTG/AID policy objectives, surveys to identify businesses in Thailand and the U.S. that can avail themselves of the identified opportunities, promotion element to alert and convince these businesses to apply their particular brand of acumen to business opportunities in Thailand for the greater profit of all.

The market surveys will be designed to avoid the pitfalls that have often caused such surveys in the past (in Thailand and elsewhere) to produce nil results. The proposed surveys will be highly product-specific rather than covering a broad range of product groups, and they will be tied to the direct promotional activities proposed for the BOI.

To facilitate early project implementation one survey on the market potential for certain fruits and vegetables has been proposed for Asia Bureau financing. The survey technique will itself be alerting the potential buying firms (the house brand retailers) to the potentialities of Thai supply of the commodities involved. The strategy follows the demonstrated success of the pineapple house-brand approach. The surveys are designed to comprise a fully vertically integrated examination of the entire chain of functions - from potential end-sales back to location-specific production - and identification of missing links and of investment and marketing arrangements, and other requirements. This type of information was identified by many local entrepreneurs as an important requirement and present gap for business expansion for export-oriented industries.

In the case of pineapples, local entrepreneurs were able to follow the path laid out by Dole in Thailand. Except for tomato products and bananas, other processed fruits and vegetables largely comprise smaller individual product markets, less easily identified and developed, and thus more effectively addressed for Thai entrepreneurs and U.S. buyers by a deliberate market survey and related promotional campaign.

Mission confidence in the basic economic feasibility of pursuing this product grouping, and the ability of Thai growers and processors to seize opportunities clearly defined, is supported by preliminary work in this sub-sector performed for the BOI and by the IBRD (Report 2804a-TH, August 1980; Background Papers to the Report "Industrial Development Strategy in Thailand"; Chapter IV, Processed Food Export, by David Loevner).

Successful market penetration and/or expansion of share by Thailand, or development of markets for local tropical fruits or vegetables not yet imported by the U.S., would contribute to achievement of the goals of the 5th Development Plan supported by this Project, viz. employment generation, export growth, and industrial decentralization not requiring extensive additional import of intermediate goods. Even among the generally labor-intensive technologies of existing Thai agriculture, fruit and vegetable production is among the most labor-absorbing activity compared with cassava at one end (requiring almost no attention between planting and harvesting) and rice at the other end, (very labor-intensive for short periods, but increasingly involving machinery in irrigated areas). The major employment impact of course would be on the supplying farms rather than in the processing and canning facilities.

The potential link between agroindustry and the Northeast irrigation projects would be a most welcome outcome for the RTG and the donors involved. The economics of these underutilized irrigation systems has thus far been extremely disappointing, with low if not negative returns to the very large sunk capital costs involved. There is general agreement that the key weakness has been the lack of established markets for the off-season production of the commodities that can be grown in these systems. Absent such markets, farm family labor has largely continued its traditional off-season patterns of migration to regional urban centers, Bangkok, or other areas offering temporary wage labor without the risks of investment of time and inputs into home production of commodities with very chancy returns. Putting the irrigation systems to greater use could turn around the economics of these major investments. The actual impact on the benefit-cost arithmetic depends on the volume of production induced, the values of the commodities involved, and the length of time over which these benefits developed. Response time to Thailand is typically short, after entrepreneurs and farmers have identified reasonably good opportunities. Depending on the commodity, the private sector has already demonstrated its ability to provide farmers with the necessary seed, inputs and information, where such is required and unavailable from government services

already developed in the irrigation project areas. It will be the function of the surveys to identify commodities with volume market potential and the links in the chain needing strengthening. Any illustrative arithmetic attempting to carry net returns of hypothetical crop mixes back into the original benefit-cost models of these projects, would be as academic as the original work justifying these projects and is not considered worth the considerable effort that would be required. The Mission is confident however that the potential linkage with these projects aims effectively at their demonstrated critical weakness, and that the approach involved offers a feasible - perhaps the only feasible - method for putting the economics of these big investments into the black.

**SUMMARY OF COMPARATIVE  
INVESTMENT INCENTIVES: EAST ASIA REGION**

<b>SUMMARY OF COMPARATIVE INVESTMENT INCENTIVES</b>	<b>Hong Kong</b>	<b>Indonesia</b>	<b>Korea</b>	<b>Malaysia</b>	<b>Philippines</b>	<b>Singapore</b>	<b>Taiwan ROC</b>	<b>Thailand</b>
<b>Basic Rights and Guarantees to Investors</b>								
Guarantee against expropriation	X	X	X	X	X	X	X	X
Guarantee against losses due to:								
a. nationalization	-	X	-	X	-	X	-	X
b. damage caused by war	-	X	-	X	-	-	-	-
c. inconvertibility of currency	-	X	X	X	-	X	-	X
Remittances of foreign exchange earnings and payments	X	X	X	X	X	X	X	X
Repatriation of capital	X	X	X	X	X	X	X	X
<b>Protection Schemes and Priorities Given to Investors and Aliens</b>								
Employment of aliens	X	X	X	X	X	X	X	X
Patent protection	X	X	X	X	X	X	X	X
Preference in the granting of government loans	-	-	-	X	X	X	X	X
Protection against unjust competition								
a. Import competition	-	X	X	X	X	-	X	X
b. Government competition	-	-	-	-	X	-	-	X
c. Local competition	-	X	-	-	X	-	-	X
Real estate ownership by alien investors	X	-	X	X	-	X	X	X
<b>Exemptions from Taxes and Tariff Duties</b>								
Capital gains tax	X	-	X	X	X	-	X	-
Corporate income tax	X	X	X	X	-	X	X	X
Taxes on imported capital goods	X	X	X	X	X	-	X	X
Taxes on imported raw materials	X	X	X	X	X	X	X	X
Taxes on royalties	X	-	X	X	-	X	X	X
Withholding tax on interest on foreign loans	X	-	X	X	-	X	X	X
Other taxes and fees	X	X	X	X	X	X	X	X

<u>SUMMARY OF COMPARATIVE INVESTMENT INCENTIVES (CONTD.)</u>	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan ROC	Thailand
<b>Deduction from Taxable Corporate Income</b>								
Accelerated depreciation allowance	X	X	X	X	-	X	X	X
Carry forward of capital allowance during the relief period	X	-	-	X	X	X	-	-
Carry forward of loss	X	X	X	X	X	X	X	X
Export allowances/deductions	-	-	-	X	X	X	X	X
<b>Deduction of organization and pre- operating expenses</b>								
a. Organization expenses	-	-	X	X	X	-	-	X
b. Preoperating expenses	X	-	X	-	X	-	X	X
Reinvested profits	-	-	-	-	X	-	X	-
Investment allowance	-	X	-	X	-	X	-	-
<b>Tax Credits (Direct Reduction from Corporate Income Taxes)</b>								
Investment tax credits	-	-	X	X	-	X	X	-
Tax credit on domestic capital equipment	-	-	X	X	X	-	-	-
Other tax credits	-	-	X	X	X	-	X	X
<b>Extension of Incentive Availment Period</b>	-	-	-	X	-	X	-	-
<b>Special Incentives</b>								
To multinational companies	-	-	-	-	X	-	X	-
To exporters	-	-	X	X	X	X	X	X
To offshore banking units	-	-	-	X	X	X	X	-
Other laws granting benefits to foreign investors	X	-	-	X	X	X	X	-
<b>Assistance to Investors</b>								
Joint venture brokerage	X	X	X	X	X	X	X	-
Technical assistance	X	-	X	X	X	X	X	X
Processing of application and other requirements	-	X	X	X	X	X	-	X

Results of Survey of Agroindustry  
Investment Opportunities and Constraints

(May, 1982)

## I. SUMMARY AND CONCLUSIONS

### A: Projects Identified as Attractive

1.00 - Respondents to this survey of Agro-industry Investment Opportunities and Constraints nominated a total of eighty-two different projects or products (the terms are used interchangeably in this report) as attractive. Based on the number of times each was nominated, the rankings (as relatively attractive) of each and our analysis of the constraints each faces we have selected the following products as particularly attractive.

1.01 - CORN AND SORGHUM SEEDS: These two related products clearly have an excellent long term future in Thailand. Hybrid seeds offer the opportunity to significantly increase yields and thus revenues and Thai farmers are known to respond well to economic incentive. The major constraints facing the expansion of the use of hybrid seeds are farmer acceptance and the relative prices of inputs and outputs. The increasing liberalization of export policy gives reason to believe the corn prices will be better than in the past.

1.02 - Another factor is the relative cost of hybrids to the alternate seeds available to the farmer. While yields when using hybrid seeds are higher they require a cash outlay while when using presently available varieties (even the improved strain - Suwan I) the farmer can use seeds retained from his previous harvest. The risk of drought may deter the farmer from making that cash investment.

1.03 - Nevertheless, improved prices for corn and sorghum and promotional programs will encourage increased use of hybrid seeds.

1.04 - PIG FARM: Even though the overall consumption of pork will not increase rapidly, upcountry the prospects are brighter because of increasing incomes. In addition the conversion ratios and lean meat to fat ratios of improved varieties of hogs are so much better than village raised hogs that the commercial raising of these varieties is attractive.

1.05 - The major constraints related to the commercial raising of pigs pertain only to exports. The presence of foot and mouth disease and hog cholera effectively preclude the export of both live animals and pork. Our respondents indicated that, presuming the problem of disease were solved, exports of pork would only be possible if were undertaken by the private sector because they would use modern abattoirs with the required sanitary standards. However, the unrealistic export requirements established for Board of Investment promotion privileges make any investment uneconomic.

1.06 - SHRIMP AND PRAWN FARMS: The depletion of fish and crustaceans in the Gulf of Thailand, the high prices and large domestic and export markets for shrimp and prawn make these products very attractive. The constraints on the development of these products are the technical difficulties of raising shrimp commercially.

These include protection against predators, appropriate feed levels and water supply and quality.

1.07 - TRACTOR PARTS: The growth of the mini-tractor industry has led to an increased demand for parts. A number of manufacturers have reached the point where they are no longer interested in being self-sufficient and have expressed an interest in buying-in parts. It is more in the production of parts than the assembly of the final product that economies of scale are possible.

1.08 - The constraints on this growth of the parts industry are the lack of commonality between tractor manufacturers and the general problems of the mini-tractor industry, e.g. low purchasing power of the farmers.

1.09 - HERBICIDES/PESTICIDES: We believe these products are attractive because of growing acceptance by Thai farmers of the use of agricultural chemicals, both because of government extension work and promotional efforts by the private sector. It is expected that the development of modern agricultural techniques during the remainder of the decade will further this trend.

1.10 - The major constraint on these products is that raw materials are not available locally. This constraint may be alleviated or eliminated when the planned petrochemical complex comes on stream and provides some or all of these.

1.11 - TROPICAL FRUIT COCKTAIL: This product appears to have a good long term future as an export item due to the growing familiarity with tropical fruits in western countries. In addition, since it does not contain fruits produced in temperate countries it is less likely to face tariff and other barriers.

1.12 - The major constraints on the export market are the supply and quality of raw materials, their high cost and seasonality. Still, as an exotic item, development will take time and promotional efforts.

1.13 - CASHEW NUT PROCESSING: Respondents believed that the large market in the U.S. for cashews presented a good opportunity for exports from Thailand.

1.14 - The major constraints are the limited supply of cashew nuts, the seasonality of supply and their quality. However, with a consistent demand, output should gradually increase. Quality problems may be reduced through the introduction of better varieties.

1.15 - PACKAGING: Among the inputs nominated as not available in Thailand in suitable quality and quantity packaging is the most attractive, particularly for paper packages for liquids. Rapidly changing consumer tastes and the high cost of presently available systems present an opportunity for an investor with the appropriate technology.

## B. Major Constraints Identified

1.00 - By combining all the responses constraints in all phases of production we have identified five constraints or groups of constraints as major. By this we mean that they are mentioned by respondents in several sub-sectors and rated often as critical or very important.

1.01 - Clearly the most important constraint relates to raw material supplies in general. Specifically the problems are the poor quality, high cost, limited quantities, seasonality and fluctuating prices of raw materials available including

fruits and vegetables, animal feed ingredients and parts for agricultural equipment. This type of constraint was nominated by respondents 37 times of a total of 253 nominations (or 14.2% of total nominations).

1.02 - Government regulations, in Thailand and abroad, were the second largest group of constraints. Under this general heading are included regulations in Thailand concerning health and product registration (particularly concerning foodstuffs and chemicals for domestic and export markets) and foreign tariff and non-tariff barriers. Including restrictions in importing countries in this heading gives a total of 34 nominations (or 13.4% of total nominations).

1.03 - The third largest group of related constraints concerns the high effective labour costs, the low technology used in production and the scarcity of suitable labour. That these problems are inter-related is indicated by the fact that companies which nominated one of these constraints tended to nominate the others as well. This type of constraint was nominated by respondents 17 times (or 6.7% of total nominations).

1.04 - Credit and collections, generally from middlemen, was the next most nominated constraint. This constraint was nominated by respondents 12 times (or 4.7% of total nominations).

1.05 - The low purchasing power of farmers, the next most often nominated constraint, was reported as a constraint by producers or manufacturers of all agricultural inputs. This constraint was nominated 11 times (or 4.3% of total nominations).

The attached tables summarize some of the results of the survey.

**Table 1 - Project Nominated : New vs Expansion**

	<u>New Products or Projects</u>		<u>Expansion Products or Projects</u>		Total
	%	N		E	
Processed Food	85.7	30	14.2	5	35
Agricultural Machinery	75.0	18	25.0	6	24
Processed Food By-Products	100.0	1	-	-	1
Animal Feed	50.0	3	50.0	3	6
Livestock	85.0	17	15.0	3	20
Agricultural Chemicals	100.0	11	-	-	11
Livestock By-Products	100.0	4	-	-	4
Tobacco Processing	0.0	-	100.0	1	1
Seeds	100.0	17	-	-	17
TOTAL	-	101	-	18	119
AVERAGE N/E	84.9	-	15.1	-	-

Table 2 - Projects Nominated With Export Potential

	Rankings					Rank by Rankings
	1	2	3	4	5	
Corn Seeds	3	-	-	-	-	1
Prawns/Shrimp	2	1	-	-	-	2
Fruit Juice	1	2	-	-	-	3
Sorghum Seeds	-	3	-	-	-	4
Power Tillers	2	-	-	-	-	5
Pork	1	1	-	-	-	6
Rambutans - Canned	1	1	-	-	-	6
Tropical Fruit Cocktail	1	1	-	-	-	6
Duck Meat - Frozen	1	-	-	1	-	7
Longans - Canned	-	1	1	-	-	7
Coconut Milk	-	1	1	-	-	7
Canned Corn (Creamed & Other)	-	-	2	-	-	8
Mini Tractor	1	-	-	-	-	9
Chicken Meat	1	-	-	-	-	9
Green Pepper Corn	1	-	-	-	-	9
Rabbit Meat	1	-	-	-	-	9
Tobacco	1	-	-	-	-	9
Water Pumps	1	-	-	-	-	9
Baby Corn	1	-	-	-	-	9
Frozen Vegetables	1	-	-	-	-	9
Herbicide	1	-	-	-	-	9
Emulsifiers	1	-	-	-	-	9
Plows	1	-	-	-	-	9
Tomato Paste	1	-	-	-	-	9
Parquet	1	-	-	-	-	9
High Fructose from Tapioca	1	-	-	-	-	9
Snails	-	1	-	-	-	10
Tomato Seeds	-	1	-	-	-	10
Duck Feathers	-	1	-	-	-	10
Pineapple - Canned	-	1	-	-	-	10
Rice Bran Meal	-	1	-	-	-	10
Dehydrated Fruits & Vegetables	-	1	-	-	-	10
DDVP (Vaprona)	-	1	-	-	-	10
Canned Bamboo Shoot	-	1	-	-	-	10
Aochol from Tapioca Machinery	-	1	-	-	-	10
Cashew Processing	-	1	-	-	-	10
Squab Breeding Stock	-	-	1	-	-	11
Leucaena	-	-	1	-	-	11
Glucose Powder Machinery	-	-	1	-	-	11
Peanuts	-	-	-	1	-	12
Oyster Sauce	-	-	-	1	-	12
Sunflower Seeds	-	-	-	-	1	13
Rice Flour	-	-	-	-	-	-

**Table 3 -No. of Jobs Created**

	<u>Employment Created (Persons)</u>	<u>Rank by Employment Created</u>
Chicken Products - Integrated	4,000	1
Poultry Processing	1,600	2
Broiler Raising	500	3
Rabbit Raising	400	4
Cashew Nut Processing	250	5
Rice Starch Machinery	190	6
Canned Chicken	150	7
Power Tiller	150	7
Feedmill	135	8
Canned Fruits and Juices	129	9
High Fructose Machinery	95	10
Veterinarian Drugs	63	11
Paraquat Formulation	60	12
Canned Snails	60	12
Simple Diesel Engines	55	13
Corn Seeds	50	14
Prawn Farm	40	15
Frozen Vegetables	40	15
Corn Seeds	40	15
Duck Breeding Farm	26	16
Integrated Shrimp/Catfish/Pig Farm	25	17
Fish Farm	13	18
Tomato Paste	10	19
	10	19

**Table 4 - Projects With High Employment**

<b>Product/Project</b>	<b>Investment (1) (Baht,Mill.)</b>	<b>Employment Created (Persons)</b>	<b>Investment per Job (Baht,000)</b>	<b>Ranking</b>
Tomato Seeds	Neg.	10	n.a.	1
Canned Snails	(2)	55	109	3
Poultry Processing	25(E)	1,600	16	2
Rabbit Raising	45	400	113	4
Cashew Nut Processing	+30	250	120	5
Integrated Shrimp/Catfish/Pig Farm	-20	13	154	6
High Fructose Machinery	10-15ADD	95	158	7
Canned Chicken	25	150	167	8
Feedmill	25	135	186	9
Simple Diesel Engines	10	50	200	10
Rice Starch Machinery	40	190	211	11
Veterinarian Drugs	14	63	222	12
Broiler Raising	150	500	300	13
Paraquat Formulation	18	60	300	13
Chicken Products - Integrated	1,500	4,000	375	14
Corn Seeds	15	40	375	14
Corn Seeds	10	26	385	15
Power Tiller	100	150	667	16
Duck Breeding Farm	17	25	680	17
Prawn Farm	30	40	750	18
Fish Farm	8	10	800	19
Paraquat Formulation	65	60	1,083	20
Frozen Vegetables	45	40	1,125	21
Canned Fruits and Juices	250	129	1,938	22

Notes: (1) Building, Plant and Equipment only

(2) Small investment in equipment in addition to existing plant

**Table 5 - Projects With High Local Content**

	<b>Pct. Imported vs Sales Value (%)</b>	<b>Ranking by Local Content</b>
Duck Breeding Farm	0	1
Corn Seeds	Neg.	2
Tomato Seeds	Neg.	2
Corn Seeds	Neg.	2
Chicken Products - Integrate <sup>d</sup>	5	5
Cashew Nut Processing	5	5
Canned Snails	6	7
Prawn Farm	10	8
Integrated Shrimp/Catfish/Pig Farm	10	8
Fish Farm	10	10
Rabbit Raising	10	10
Frozen Vegetables	15	12
Veterinarian Drugs	20	13
Power Tiller	25	14
Canned Fruits and Juices	35	15
High Fructose Machinery	35	16
Rice Starch Machinery	40	17
Paraquat Formulation	45	18
Paraquat Formulation	55	19
Simple Diesel Engines	80 (1)	20
Canned Chicken	n.a.	-
Broiler Raising	n.a.	-
Feedmill	n.a.	-
Poultry Processing	n.a.	-

**Notes: (1) Reducible to 65%**

Table 6- Projects Located Outside of Bangkok

<u>Product/Project</u>	<u>Amphur</u>	<u>Changwad</u>
Paraquat Formulation		Karnchanaburi
Power Tiller	Muang	Ayudhya
Simple Diesel Engines	(1)	
Canned Fruits and Juices	n.a.	Chonburi
Frozen Vegetables	Cha-Am	Petchburi
Canned Snails	Mahachai	Samut Sakorn
Prawn Farm	Muang	Cha-Choeng-Sao
Fish Farm	Nong-Chok	Cha-Choeng-Sao
Feedmill	Sampran	Nakorn Prathom
Poultry Processing	Sriracha	Chonburi
Chicken Products - Integrated	Om Noi	Samut Sakorn
Chicken Products - Integrated	n.a.	Nakorn Rajasima
Corn Seeds	Pak Chong	Nakorn Rajasima
Corn Seeds	Phra-Bhudda-Bart	Saraburi
Cashew Nut Processing	n.a.	Any South Thailand Province
Tomato Paste	Baan Phai	Khon Kaen

## SUMMARY ASSESSMENT OF AGRO-INDUSTRY INVESTMENT OPPORTUNITIES

By: Donald Leeper, Agri-Food Systems  
International, Inc.

The terms of reference of the work were the review and analysis of a number of previously identified agro-industry investment opportunities for American companies, the selection of a limited number of the most promising and the drafting of Investment Opportunity Proposals for those selected. The work was to be coordinated with that of another consultant with the same mission. A total of ten (10) working days in Thailand was available for performance of the work.

The overall impression of the writer is that the climate for U.S. agro-industry investment and business in Thailand is good, better than in most developing countries with which he is familiar. There is a capable and active private sector, government intervention is relatively limited, and farmers are competent producers. There is a significant potential for more agricultural development in Thailand and it is particularly well-situated for supplying the Mideastern and Asian markets. American companies are welcome and substantial investment incentives are available for approved agro-industries.

Principally, opportunities exist for agro-industry companies which can provide technology, continuing technical assistance and marketing help. Thai companies recognize their need for these. However, contrary to the situation in most developing countries, neither enterprise management in general or funding for viable projects of the size and type considered here do not appear to be problems. These general impressions, if accurate, tend to indicate that the AID private investment promotion program for Thailand should emphasize technology and marketing "investment" or other arrangements and not be limited to investment in the traditional sense of providing capital investment and financing. The foregoing comments also may provide clues as to why specific, fully defined and analyzed investment opportunities had not been previously identified and few were located while in Thailand. It appears that if a project has reached that stage, the Thai businessman has mobilized what he needs and has done, or is doing it already.

In addition to the opportunities to be reported on by the cooperating consultant, two specific, investment opportunities which appear to be attractive for American investors were identified. Both are in their formative stages and have not been fully defined or analyzed; full technical and economic feasibility studies are needed.

### I. VEGETABLE SEED PRODUCTION AND PROCESSING

The opportunity is a joint venture or other arrangements with Adams International Ltd. This company is a joint venture between an American company and Thai interests which produces oriental tobacco in North-East Thailand and markets worldwide. It has effectively mobilized a large number of small producers. The company is seeking to diversify into other crops, is currently producing some hybrid tomato seed and is considering a broader vegetable seed program.

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Currently practically all vegetable seeds are imported in bulk and repackaged for distribution to Thai farmers. Estimated vegetable seed demand in the country exceeds 147,000,000 farm-sized seed packets annually. There may also be a substantial regional export demand for Thai-produced seeds. Vegetable seed production development is a priority in the national development program. An ongoing AID-supported field crop seed program has recently been expanded to cover vegetable seed production, processing and marketing.

## II. FRUIT/VEGETABLE PROCESSING

The opportunity is a joint venture or other arrangement with Thai Fruit Canning Corp., Ltd., a pineapple-canning company seeking to diversify into the canning, freezing, dehydration or processing of other crops. Crops to be processed, and form of processing, have not been definitively established as yet. A market survey to determine the regional and U.S. market potential for processed fruits and vegetables is currently being initiated by AID. Effective establishment of a reliable supply of raw material for processing will be an important factor.

Numerous other agro-industry activities were considered during the course of the work. Potentially attractive investment opportunities could be developed in a number of these areas. They are export of fresh fruits and vegetables, cold storage of vegetables, dehydration, spices and essential oils, cut flowers for export, pork and duck meat, and stevia (a natural substitute for saccharine production and processing). In addition to the potential opportunities, Section F of this report summarizes what data and analysis is required to confirm and develop the opportunities.

Other agro-industry activities were initially considered but not pursued during the course of the work. Due to the short time available, the number of activities which could be investigated was limited. Included were: agricultural chemicals, dairy operations, beef/buffalo, broilers and animal and poultry feed. Fish and seafood products were considered by the cooperating consultant.

SUMMARY OF A STUDY OF THE  
PRIVATE SECTOR AGRIBUSINESS DEVELOPMENT  
IN THAILAND

By: Donald M. Taylor

Introduction

The Consultant was retained by the Bureau for Private Enterprise, U.S. Agency for International Development, to identify specific private sector agribusiness investment opportunities in which PRE might offer active assistance. Due to the inter-related nature of the PRE program and others of a similar nature being considered by the AID Mission in Thailand and others, the Consultant extended his investigation and terms of reference to include consideration of the over-all AID approach to agribusiness development in Thailand.

Conclusions and Recommendations

The Consultant concluded that although there is already a very well developed Thai agribusiness sector which does not particularly need direct development assistance, there are two areas where this sector does need help. This consists of introduction to new technology, products and processes; and assistance in more effective international marketing. There are many opportunities and few constraints involved in Thai agribusiness investment. In fact, the Consultant considers Thailand to be the leading ASEAN country in terms of over-all agribusiness investment potential. The Consultant recommended that PRE and AID/Thailand concentrate on promotion of U.S. investment in Thailand and on assistance to the Thais in international marketing.

The consultant also observed that the high level of U.S. government sponsored activity relating to private sector agribusiness development in Thailand is rapidly becoming counterproductive since it is beginning to be perceived by the Thais as "all talk and no action". Therefore the Consultant recommends that this activity be curtailed and a limited number of projects be selected for immediate implementation in order to show some actual accomplishment in the shortest possible time.

The Consultant also selected six specific enterprise opportunities for further PRE consideration including cotton ginning, fish canning, peanut oil extraction and refining, cashew nut processing, seed reproduction and vegetable processing and a decentralized food processing enterprise. The Consultant also outlined a suggested AID private sector agribusiness development program for Thailand.

Agribusiness Opportunities in Thailand

In addition to the six enterprises listed above, the Consultant also suggested follow-up investigations of a number of other potential enterprise opportunities including seed development, industrial products from commercial crops, fruit and vegetable processing, beef cattle production, cotton production and processing, use of felled rubber trees for furniture manufacture, palm oil processing and refining, shrimp aquaculture, corn and chocolate based confectionaries, high fructose from maize or cassava, sweet corn production for

processing and export, pepper and cardamom, rubber products manufacture, wine and liquors including rum from sugar, and straw mushrooms.

#### AID Agribusiness Investment Promotion Programs/Thailand

The Consultant recommended establishment of an integrated PRE/AID Bangkok program aimed at promoting increased U.S. agribusiness investment in Thailand; and at assisting the Thais to more effectively promote and market their food and agricultural products in world markets. The mechanism for doing this would be use of a U.S. consulting firm to set up Investment Promotion Centres including Product Promotion Centres in the U.S. and Thailand, attached to Board of Investment but semi-autonomous. PRE would provide various financial support services for the Centres.

#### Thai Agribusiness Investment Background

The Consultant points out that the goal of the Thai Government is to move to higher technology modern agroindustries as one means of increasing trade opportunities. The Thais are looking to the U.S. private agribusiness sector as the best source of technology and marketing expertise in this area. U.S. agribusiness unfortunately has not responded particularly enthusiastically to the Thai overtures as yet. PRE can be of great benefit to both countries if it can encourage more U.S. agribusiness investment in Thailand.

INITIAL ENVIRONMENTAL EXAMINATION

PROJECT LOCATION: Thailand  
PROJECT TITLE: Private Sector in Development  
FUNDING (Fiscal Year and Amount): US\$3.5 Million Grant - FY 83  
LIFE OF PROJECT Four (4) Years  
ENVIRONMENTAL ACTION RECOMMENDED: Negative Determination per Regulation 216.2(c). Further environmental analysis, if necessary, will be carried out by the Thai National Environmental Board.  
CONCURRENCE:

Robert Halligan  
Robert Halligan  
Director  
USAID/Thailand

11 Jan 83  
Date

DECISION:

Robert F. Sluend  
Chief of Energy, Forestry and Environment  
Bureau for Asia

January 23 1983  
Date

Approved

Disapproved

Environmental Statement

The components of this project are all of a nature not normally requiring environmental analysis: (1) policy analysis; (2) promotion; (3) feasibility analysis and tech assistance; (4) facilitating communication between Thai-US business communities. However, a short discussion of environmental concerns is included here in that one indirect result of the Project is likely to be increased manufacturing in rural areas of Thailand, a subject of obvious environmental concern. The concern is not with this goal itself - overwhelmingly expert opinion is in favor of it - but rather how such enterprises can be set up so as best to protect the environment. Monitoring these concerns is the responsibility of the National Environmental Board. Under USAID technical assistance, guidelines have been established and monitoring capability enhanced, and it is expected that NEB's expertise would be brought to bear on RTG decisions regarding investments with the potential for a significant environmental impact.

Annex V

Institutional Analysis and Background Material

- I. Private Sector Institutional and Cultural Environment in Thailand and Suggestions for Facilitating Private Sector's Role in Development.
- II. Concentration of Ownership in Thai Business and Implications for AID.
- III. Action Plan of the Board of Investment - Status and General Outline.
- IV. Association of Thai Industries: Policies and Objectives

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The Private Sector Institutional and Cultural  
Environment in Thailand and Suggestions  
for Facilitating Private Sector's Role  
in Development

by

Wilson Brown  
Professor of Marketing  
Northern Illinois University

## **I. Institutional Framework**

### **A. Background**

Historically, Thai government and business elites have been separate. In the mid-Nineteenth Century, the Thai Crown encouraged Chinese and Western merchants to handle Thailand's domestic and foreign trade. The Crown's aim was to harness the entrepreneurial skills and connections of traders, while yet protecting the Thais from abuse from the often considerable economic power of the merchants. As Crown changed to State, and the merchant became industrialist, there were a number of changes, but none of them basic. The Chinese intermarried and became very Thai in religion, culture, and language and government leaders were given positions on the boards of major businesses. Nonetheless, government career paths and the intellectual climate within the bureaucracies has remained quite separate from business attitudes and careers. (The government, for one thing, tends to be hierarchical with lifetime employment in one ministry. Thai business tend to be small or confederated, with limited hierarchy and much switching of jobs.)

A government which seeks to harness the power of private enterprise yet prevent that enterprise from abusing its power seems ideal. In practice, however, the regulations and their administration tend to "rein-in", rather than merely harness private enterprise. The reasons for this pattern are two: (1) There is a lack of "shared culture" between business and government officials. Government officials have little idea of the actual impact of their decisions on businesses or the business climate. When laws are promulgated, for instance, there are no hearings on the bill or the law's administration before it becomes law. In recent case, the government re-assessed a tariff decision made some ten years before and is attempting to collect the additional revenue from the company for ten year's worth of imports. While to a typical American or European government official, this would seem absurd or highly dangerous in a private enterprise economy, it apparently does not to Thai tax authorities, who probably view the company as somewhat guilty (though not legally) for its actions and have little concept of the implications of such a move on the business climate; (2) Thai bureaucracies are highly centralized and ministries and departments guard their "turf" vigorously. Decisions involving coordination between ministries must come "from the top" because there is little communication (and no reward) for cooperation between ministries at lower levels. Since regulations concerning business necessarily involve several ministries, the business firm can expect at best delays and at worst to find itself held a hostage by one ministry struggling in some internal bureaucratic battle with another.

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If Thai regulations and bureaucratic conflicts rein-in the Thai private sector, they certainly don't hobble it severely or draw it to a stop. Business International's assessment of the Thai regulatory climate is positive, stating that laws as a whole are administered fairly and that corruption is not a serious problem. Foreign investor's satisfaction varies, of course, and there are a number of well-publicised incidents of trouble, including the retroactive tariffs mentioned before. The overall impression of investor satisfaction, however, is positive, as Ambassador Dean indicated in a speech on investment given on April 19th, 1982. Moreover, any analysis of Thailand's economy notes that its vigorous economic growth and quick response to changing economic conditions is based on private, not public, enterprise response. It remains a private enterprise economy, less regulated in many senses than the American, though the regulators are less understanding than the American in the pursuance of the regulations.

#### B. Current Institutional Framework

There are seven governmental entities which have major impacts on industrial policy and investment.

1. The Ministry of Finance, which controls taxes and tariffs.
2. The Bank of Thailand, which controls credit both broadly and selectively, possessing special rediscount facilities for some selected industries or functions (e.g. exporting)
3. The Ministry of Commerce, which can ban imports or exports, can establish price controls, and maintains an Export Service Center to help the Small exporter.
4. The Ministry of Industry, which issues licenses to build factories and has several institutions attached -- the Thai Management Development Center and the Small Industries Finance Office.
5. The Industrial Finance Corporation of Thailand, a private development bank, dependent on some government funds and responsive to government wishes.
6. The National Economic and Social Development Board, an economic planning commission, an organization with principally an advisory role.

7. The Board of Investment, charged with stimulating investment, deciding which among a number of proposed investments should be given special investment incentives, determining the extent of those subsidies, and assuring that the industry complies with what it promised.<sup>1</sup>

There are, then, five powerful, centralized, hierarchical line organizations and two basically "staff" organizations with only the authority to persuade. The NESDB, through its intellectual abilities, its access to foreign donor organizations, and its access to the prime minister, can bring pressure and influence rewards. The BOI lacks any of the NESDB's power sources.

The RTG has been keenly aware for a number of years of the role of foreign direct investment. Because Thai savings are relatively high and until recently, the balance of payments not a serious problem, the government's interest has been less in the capital aspects of investment and more in the associated technology, marketing skills, and market access. Thais prefer joint venture arrangements and are less happy with fully-owned operations or straight licensing and contracting. (Indeed, if the recommendations of the IBRD on licensing are accepted, foreign companies will be even less willing to use licensing without associated control.)

Foreign investment is regulated on the Alien Business Law, last revised in 1972. Essentially, the law regulates the percentage of ownership foreigners can have on an industry-by-industry basis, as illustrated in Table 1. In addition, only Thai citizens can normally own land, so foreign companies have to lease land.

To stimulate foreign direct investment, Thailand established in 1954 and Investment Promotion Law. In 1960, it founded the Board of Investment. Both the law and the BOI have been revised a number of times. Basically, the BOI is charged with stimulating investment, through its Investment Services Center. At the same time it is to stimulate investment, it is also to screen, on a case by case basis, proposals for investment to deem which of them are worthy of BOI approval, and hence the benefits of the Investment Promotion law. In a

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<sup>1</sup>This listing is from John D. Shilling, "Industrial Growth and Structure in Thailand," Industrial Development Strategy for Thailand, Background Paper, August 1980, IBRD limited circulation.

Table 1

## RESTRICTED BUSINESS ACTIVITIES UNDER THE 1972 ALIEN BUSINESS LAW

**CATEGORY A (requires majority Thai ownership)****Section 1—Agricultural Businesses**

- (1) Rice farming
- (2) Salt farming, including salt mining, except rock salt

**Section 2—Commercial Businesses**

- (1) Internal trade of local agricultural products
- (2) Trade in real estate

**Section 3—Service Businesses**

- (1) Accounting
- (2) Law
- (3) Architecture
- (4) Advertising
- (5) Brokerage or agency
- (6) Auctioning
- (7) Barbering, hairdressing and beauty salons

**Section 4—Other Businesses**

- (1) Building construction
- (2) Mining

**CATEGORY B (new investments require majority Thai ownership; established foreign firms may continue under restrictions)****Section 1—Agriculture Businesses**

- (1) Farming, except those in category A
- (2) Orchard farming
- (3) Animal husbandry, including silkworm raising
- (4) Timbering
- (5) Fishing

**Section 2—Industrial and Handicraft Businesses**

- (1) Rice milling
- (2) Flour milling from rice or other crops
- (3) Sugar milling
- (4) Production of beverages, with or without alcohol
- (5) Ice making
- (6) Mfg. of pharmaceuticals
- (7) Cold storage
- (8) Lumber milling or processing
- (9) Mfg. of gold, silver, hollowware and stone inlaid products
- (10) Mfg. or casting of Buddha images and Jims Luang
- (11) Wood carving
- (12) Production of lacquerware
- (13) Mfg. of matches
- (14) Mfg. of white cement, portland cement and ceramic products

- (15) Stone quarrying
- (16) Mfg. of plywood, veneer wood or chipboard
- (17) Mfg. of garments or footwear except for exports
- (18) Silk spinning, weaving or silk fabric printing; Mfg. of finished products from silk.

**Section 3—Commercial Businesses**

- (1) Retail trade, except as listed in category C
- (2) Trading in mineral ores, except as listed in category C
- (3) Sale of foods and beverages, except as listed in category C
- (4) Trade in antiques, old objects or works of art

**Section 4—Service Businesses**

- (1) Tourist agencies
- (2) Hotel, except hotel management
- (3) Businesses governed by the laws on entertainment places
- (4) Photographic studio, photographic processing and printing
- (5) Laundry
- (6) Tailoring or dressmaking

**Section 5—Other Businesses**

- (1) Domestic land, water and air transport
- (2) Operation of printing establishments
- (3) Newspaper publishing

**CATEGORY C (majority foreign ownership allowed with restrictions)****Section 1—Commercial Businesses**

- (1) Wholesale trade, except as listed in category A
- (2) Export trade
- (3) Retail trade in machinery, engines and tools
- (4) Sale of foods and beverages to promote tourism

**Section 2—Industry and Handicraft Businesses**

- (1) Mfg. of animal feed
- (2) Extraction of vegetable oils
- (3) Production of textile and knitted products, including yarn spinning and dyeing and fabric printing
- (4) Mfg. of glassware, including light bulbs
- (5) Mfg. of food cups, bowls and plates
- (6) Mfg. of stationery and printing paper
- (7) Rock salt mining

**Section 3—Service Businesses**

- (1) Any business not listed under categories A or B

**Section 4—Other Businesses**

- (1) Construction, except that listed under category A

Source: Business International, Thailand, 1982

sense, the BOI pleads for investment, then has the investor plead with it to get incentives, then in turn the BOI pleads for the investors at other ministries to assure that the investor gets what it was promised.

Basically, BOI approval grants the "promoted entity" the following privileges:

Table 2

Promoted entities are usually granted the following guarantees and privileges:

- (1) The state will not engage in a competitive industry (other than those it already operates).
- (2) The state will not nationalize any promoted industrial activity.
- (3) A promoted business may own land required for its operations, provided it is a limited company registered in Thailand.
- (4) A promoted business may freely remit foreign currency to cover repatriation of capital, profits, interest and principal on foreign loans, royalties or other like obligations, unless the economic situation requires temporary preservation of foreign exchange.
- (5) A promoted business may export its products if such export is not contrary to the security and economic interests of Thailand.
- (6) Entry of foreign experts, technicians, staff and their dependents will be permitted in such numbers and for such periods as fixed by the BOI (12.07). The BOI is empowered to secure visas and work permits for these aliens.
- (7) A promoted enterprise may be exempted from import duties and/or business taxes on machinery required for its business, provided comparable machinery is not available locally.
- (8) A promoted business may be exempted from corporate income tax on net profits for three to eight years. The exemption may be extended to income derived from the sale of by-products and semifinished products. Any losses incurred during this period may be carried forward and deducted from profits for up to five years after the tax holiday.

(9) A promoted enterprise may be exempted from up to 90% of the import duties and business taxes on raw or essential materials imported for production, provided that comparable materials are not available locally.

(10) Fees for goodwill, copyright or other rights may be exempted from income tax for five years from the date the promoted firm first derives income from the promoted activity.

(11) The recipients of dividends derived from promoted firms granted a tax holiday are exempted from tax on such dividends during the tax holiday period.

Additional incentives are available to firms that locate in designated promotion areas and to firms that export (13.06)

Source: *ibid.*

Note that items 1-6 involve no expenditures and nothing that cannot be found in existing Thai policy, with the exception of the land-ownership clause. These items are important in giving the investor, particularly the foreign investor, reassurance. They are also important because in a highly centralized bureaucracy like Thailand's, lower level officials can block important licenses and permissions. (Item 3 deals with the Ministry of Industry, #4 with the Bank of Thailand, #5 with the Ministry of Commerce, and #6 with Immigration.) The more substantial items are the relieve from tariffs on imported machinery and raw materials, and the tax exemptions.

The provisions given on Table 2 are those of 1977. The tendency over the last decade has been to broaden the law and increase the depth of its provisions. The amount of tax and tariff exemptions and the length of time they are in effect were lower in the 1972 Act. The 1977 act also increased incentives for locating outside of Bangkok.

The BOI is also supposed to be a "One Stop Shopping Center" where the investor, once having secured BOI approval, can go to get the proper licenses from the various ministries involved. In itself, this has been a time-consuming operation and can take more than a year. Tables 3 and 4 show the operation and subject its complications. Theoretically, the BOI's Investment Services Center can just ask for all these licenses and give them to the company. As a matter of fact,

the BOI has been almost powerless to get any of these licenses outside of the immigration ones.<sup>2</sup>

On paper, the BOI looks powerful; in practice, it is not nearly so strong. This weakness can be demonstrated in several ways:

1. The secretariate in practice has rarely been able to help "promoted entities" get licenses, permissions, etc, from any ministry other than immigration.

2. The Secretariat has been unable, on several occasions, to protect its promoted entities from negative moves of other ministers. In a case currently in the press, the BOI, cognizant of the small market, allowed only one firm to make compressors for refrigeration units. Despite the "no competition" guarantee, one of the rejected firms persuaded the Ministry of Industry to give it a license to operate. The BOI blocked that move by having the Ministry of Commerce ban the import of components for the rebel company, but after some months, a new Minister of Commerce, relaxed that ban.

3. The Secretariate, in its dealing with the Board, has frequently been unable to carry its arguments and has experienced delays, sometimes to the point where the foreign partner pulls out.

4. The Secretariate views its role more as a grantor of favors than a stimulator of investment. The basic appearance of the offices and demeanor of staff is most unwelcoming, particularly to the inexperienced international investor. The staff, moreover, appears demoralized.

5. The Board itself, despite its power, is really in no position to make a series of decisions on what are often small investments. What has happened is that the Board has been loaded for "power", but none of the members have the time to spend on a series of individual decisions. The tendency in recent years has been for caution to rule and the Board sends back proposals for more and more information, cuts back incentives, and generally remains unenthusiastic about Secretariate proposals.

### C. Structural Considerations

Thai business firms are small. Of the manufacturing establishments less than 1% employ over 300 people, 5% over 50.<sup>3</sup> Growth has been most vigorous in the 50-300 group.

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<sup>2</sup>See IBRD/UNDP "Action Plan of the BOI" draft, January 1982.

<sup>3</sup>Benjamin Cukok, "Industrial Policy and Administration" same source as Shilling.

In agriculture there are very few plantations (and most of these employ less than 200); in retailing perhaps only the largest department stores in Bangkok, and in services only the largest hotels, employ several hundred people. As a whole, each business has a relatively simple hierarchy with the owner/manager and professional specialists in engineering, accounting, or marketing working directly under him. Only occasionally, as in banking, with national branches, are there geographically dispersed units, with a fair degree of autonomy.

The number of firms and their ownership are different matters: frequently a number of small firms are under the same ownership, or there are interlocking directorates. The better organized more modern Thai firms are gathered together in "groups", and act almost as divisions or profit centers would in large American firms. Rather than forming a single large corporation, Thai businesses prefer to create a series of separate businesses. Their reasons are several.

1. Theoretically, separate incorporation gives the group certain tax advantages since profits taxes may be lower, because profits taxes are progressive, according to the size of the profit up to 30%. So in the early years when profits are not high, the separately incorporated units will pay lower taxes. Access to capital for the group as a whole is greater when it is divided into smaller firms is greater because banks are required to ration their lending to large firms. Countering these tendencies is the turnover tax, which applies whenever one company sells to another company in the Group, but would not apply under a single incorporation. These factors alone are probably not decisive.

2. Thai managers stress the independence that managers prize, the need to reward entrepreneurship and keep good managers, and the ability to test the manager in an independent setting. These are much the same reasons cited in the U.S. for establishing profit centers and highly independent divisions.

3. Labor relations are also better when employees are under direct supervision of operating managers, who can handle most problems on the spot. As noted, vertical relationships are very important in Thai society and smaller units allow strong or, though shorter vertical ties much more than large ones do.

4. Lastly, Thai managers feel that the structure helps diversify risk by making it easier to drop a losing unit and occasionally by spreading the ownership of a single unit with non-group occasionally foreign, partners.

In contrast to the Thai bureaucracy, Thai corporate structure is very "flat", having little hierarchy and few people in group headquarters as compared to those in the operating companies. One large group stated that its greatest depth was four levels (e.g. Seed production manager reports to Seed company president who reports to Agricultural Sub-Group manager, who reports to Group Chief Executive, and less than 1% of its employees were in the Group headquarters.

Thai group structure may have developed out of the old Chinese pattern of operation -- the lending of seed capital to family members giving advice if needed, but a "hands-off" attitude so long as the loans were paid back on time --, but it has some very modern, very Western components. The modern Thai corporation can be very sophisticated, its headquarters sprinkled with doctorates in engineering and business and economics. (Something like 77% of Thai business leaders have at least college degree 28% post-graduate work.)<sup>4</sup> The structures devised look more like General Motors or ITT than like a Chinese family operation.

Among the sophisticated firms, those dealing with mainly one product group, such as Saha/Union, at textile group, or Siam Cement, tend to have uniform guidelines across the group's companies (e.g. a standard percentage of sales to be spent on advertising or research) while those with greater diversity, such as the agricultural and transportation based conglomerate, Chareon Phokphand, have more flexible and necessarily more sophisticated systems. Again, this is similar to the pattern in the U.S., with the more diversified companies using more flexible controls.

The structure and operation of Thai firms suggests that the owners themselves have limited control; as in American firms in the first half of this century, actual control and the great bulk of the decision-making is being turned over to a group of professional managers, whose numbers, and combined income and influence far exceed that of the owners. Scholars of Thailand have been concerned for a number of years about the ownership base; in fact, the American ownership base is far narrower than most people believe and participation in and support for private enterprise derives heavily from the professional managerial class.

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<sup>4</sup>Suthy Prasartset, Thai Business Leaders, Men and Careers in a Developing Economy (Tokyo, Institute of Developing Economies, 1980) #19, p. 58.

The typical foreign investment is a joint venture. These may be with an established group member or independent Thai firm, or with a newly created entity initiated through banks or existing groups. It is almost never created by having the foreign partner sell shares on the sickly Thai stock market. While for many years American investors dominated the foreign direct investment scene, in recent years Japanese interests have grown greatly.

The Thai government on the highest level recognizes (or has recognized since the 1950s) that it must depend on private enterprise (some of it foreign) for growth -- but it is deeply ambiguous about that role. To a large extent, it views itself as granting permission for the private enterprise to exist (and not just watching that it does not abuse its power). Licenses and permissions, rather than being "pro forma" require approval from the highest levels (e.g. a permit to subdivide a tract of land into ten lots of more in Chiang Mai must be approved in Bangkok, 800 kilometers away). Some have argued that this is a characteristic of hierarchical structures, and it is certainly well built into the Thai structure. Others, however, have argued that decisions can be made on lower levels, but that lower level people are afraid to stick their necks out. Hence those who have the most knowledge of a local situation pass the decision on to the superiors who have less knowledge and are overwhelmed by the numbers of decisions to be made. One way around this standard hierarchical problem is for the superiors to carefully define the criteria for making a decision and letting the subordinate judge if those criteria have been met; this is not widely used.

There appears to be little dialogue between government and business, and little understanding in the government of legitimate business needs. Just to cite some examples:

1. Government officials express little concern over the delays in getting permission to operate and this can irritate potential foreign investors.
2. The Ministry of Finance has on more than one occasion gone back five or ten years and reassessed higher tariffs on imported goods and materials retroactively.
3. Law are promulgated without any discussion with the business community about unexpected effects.

Thailand has lacked the powerful "business voices" prevalent in many countries, even other less developed

countries. In Peru, as a contrast, the Lima Chamber of Commerce and the National Agrarian Society virtually ran the country for years -- not albeit, with conspicuous success for the mass of Peruvians, but not badly for themselves. The Peruvian situation developed from an oligarchy the like of which does not exist in Thailand; the small size of most Thai businesses and their role as supplicants (and indeed, "outsiders" in the early years) have slowed the development of representative institutions. Consequently, business does not present the government with its own programs, studies, or even opinions. If there is comment, it is more likely to be from the American or Japanese Chambers of Commerce, the IMF or IBRD than from Thai interests.

In June of 1981, the Thai prime minister appointed a Joint Commission of Government and Private Sectors for Solving Economic Problems" (hereafter known as the Joint Commission) The Commission includes members of the Thai Chamber of Commerce, the Thai Bankers Association, and the Association of Thai Industries, as well as the Economic Ministers of the government. This group has begun to address a variety of problems in the area of taxation, export of manufactured goods and site facilities. Nine of twenty question brought up on taxes have been rectified, there is some work on export problems, and sites issues. Private groups are at last beginning to go beyond questions of strictly individual firm interest and into the policy area. To this point, however, the efforts are still unorganized and, as with the tax questions, not far from short term interests.

#### D. Participation in Private Enterprise

Studies over a number of years have indicated a concentration of corporate ownership and finance in Thailand. The same group of families have interests in the major banks and a number of major Thai corporations or groups. There are interlocking boards of directors, particularly since banks can have representatives on the boards of companies. Banks, moreover, appear to be key to the supply of both debt and equity capital, serving as brokers and/or underwriters for equity issues.<sup>5</sup>

The implications of this concentration are difficult to figure. For one thing, there is little comparative data and

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<sup>5</sup>Suthy Prasartset, pp 25-31. See also Frederick Riggs, Thailand: The Modernization of A Bureaucratic Policy (Hawaii, East-West Center, 1966).

the bulk of the work has been done by scholars who have been highly concerned with ownership in a more or less Marxist or Populist sense; they have assumed political control, conspiracy, and price and wage manipulation would necessarily arise from such ownership patterns, a point which has yet to be convincingly demonstrated. The overall pattern of Thai economic growth, for instance, has shown a sharp reduction in poverty (from over 60% of the population in 1950 to less than 30% today) and a wide distribution of wealth (a very respectable gini coefficient). Other indicators of a more even distribution of income, or at least a better situation for the poor, are the higher level of universal education, increase in life expectancy, (from 51 to 61 years), and declining birth rate (which characteristically declines with better income distributions, although the causal relationships are unclear.) Moreover, it is hard to connect ownership patterns with one of the key factors in Thai income inequality -- regional disparity.

In a narrower sense, it is difficult to find a mechanism by which ownership leads to control. (1) The picture of Thai business that emerges is one in which managers have a great deal of discretion so long as they produce profits. Administratively it is virtually impossible for boards of directors to control even moderately diversified companies in any other way than by checking key statistical data; in Thailand this data is almost exclusively "bottom line" financial data; (2) The political mechanism is lacking for the families to do other than handle occasional ad hoc and short term concerns -- a price, a contract, a license, can be arranged through political and familiar connections -- but there is not evidence overall policy is developed or even influenced very much by businesses; indeed, the vast bulk of the evidence points in quite the opposite direction.

A less ideological view of the ownership question suggests the following: (1) Access to capital probably is limited because banks consider the risk lower of lending to familiar customers. These firms are trying to make money, but to do it securely; they are not in business to extend the family's power. The following paragraph

from "Issues in Banking and Finance in Thailand, 1975-1980": While large enterprises have ready access to funds with reasonable rates of interest, small industries that form the backbone of the manufacturing sector have to scramble either for more expensive funds that are left over or resort to the unorganized money market. Commercial banks have in the past been reluctant to undertake small enterprise financing more extensively for a number of reasons. The cost of processing and supervising small loans is, on average, much higher than for large loans, making the former less attractive to

banks. Small entrepreneurs who apply for bank loans usually have neither tangible security nor suitable guarantees, frequently not even book-keeping records. In most cases the equity capital of the loan applicant is too small in comparison with existing loans and loan applications, (p. 40)";

(2) Wider ownership of Thai industry and easier access for outsiders to debt capital would further root the private sector in the Thai political economy; (3) Many Thais believe that the narrow base of ownership is actually or potentially dangerous politically, in a sense, making the issue of control real. A spreading of ownership would diminish this perception.

## II. Encouraging Wide Ownership and Participation in Private Enterprise:

To this point two characteristics of Thai corporate ownership have been identified: (1) a continued concentration of ownership, with the overall trend unclear, and (2) a sharp increase in professional managers and in corporate structures which allow considerable decentralization. Together, the two suggest a diffusion of power and income, regardless of the change in actual ownership. It also is apparent that existing bank customers and the larger firms are lower risks than new customers or smaller firms, thus access to the credit market is limited.

Given the information available, my personal judgment is that the ownership question is not in itself a serious one, certainly not a critical one. Thailand has been growing too quickly and diversifying too rapidly for a narrow group of owners to maintain effective control or prevent a dilution of ownership. Studies on the subject have been pieced together (necessarily) out of fragments and look very much like studies done of the U.S. in the first years of this century. Moreover, they have had an ideological base, either Populist or Marxist, which has drawn inferences not necessarily there. There would be room for a careful examination of this question by someone who understands management and has a good sense of business history.

Whether the problem is serious or not, it exists. Regardless of whether the current ownership base is very narrow or moderately narrow, strong or weak in the degree of control, wider ownership and more opportunities for smaller firms or groups to grow are important for the long run social viability of Thailand and for creating a strong political base to support private enterprise. Moreover, many Thais think the issue is important, giving it a reality, whether or not there are the facts to back that sense of reality. The Thais, however, have to make difficult choices -- if it is a question of increased

employment and rural employment against one of ownership (as, for instance, a broiler firm in the U.S. joining with a large Thai agricultural group), the ownership issue is surely not going to be a significant constraint. This may be one reason why, although both the Fourth and Fifth Five Year Plans mention the ownership problem, there has been little specific attempt to do anything about it.

From AID's standpoint, it seems that what is important is not so much whether individual projects have a certain component of ownership, but whether the kinds of aid any project gives will enable "outsiders" to grow and newcomers to establish themselves in the Thai economy. Rather than berating the Thai banks for not lending or lending at high rates to marginal customers, it is better to help the customers lower their riskiness. Rather than complaining that the large businesses have access to decision makers and the small ones do not, it is better to help the private sector develop policy out of representative groups, because policy can be examined publicly and is applied in a more or less uniform manner. The present ad hoc system must necessarily favor those who are closest to the government. Instead of bemoaning the fact that many large firms can go to the U.S. to find joint venture partners, it is better to give the smaller firms that ability. The solution, it appears to me, is not to handicap the best horses, but to lighten the load on and strengthen the weaker.

A frontal assault on the Thai corporate ownership structure is neither appropriate nor wise. There are some very skilled, very good local firms who may be the most logical and fruitful joint venture partners for American firms and will most effectively carry out Thai government aims. There are, nonetheless, a number of areas in which the Project should try to aid new investments especially for smaller Thai companies that are targetted on priority project objectives, such that the thrust of the program will be to spread participation. These are:

1. To help identify new investment opportunities and joint venture partners in order to allow the smaller Thai firms to replicate the activities only the largest can now afford.

2. Provide advisory assistance to BOI to help make the search for new partners more objective and more public, and less likely to be influenced by existing social and financial networks.

3. Provide some assistance for training, trouble shooting and feasibility studies for smaller firms, unable to presently afford such. This should provide increased access to credit and a sounder technical approach to new ventures.

4. Help move Thai business from seeking individual favors to suggesting policy, through aid to policy groups such as the Joint Commission.

One area that the Project should probably not address is assistance to develop the capital markets. Stock markets are rarely successful in LDC's, and Thailand's is no exception. An attempt to subsidize capital to specified lenders does not in itself seem particularly promising, being more likely to lead to wasteful capital use and difficult administrative decisions on eligibility. The creation of new lending institutions is possible, but Thailand already has a small business lending institution, which does not work very well; given the other priorities there is little scope remaining for this area. A more logical approach would be to aid small and medium sized businesses to improve their own operations to lower their risks for bankers. The subsidy, in a sense, is some managerial aid and appropriate studies to lower the risk perception, or raise the potential profits. Since Thailand already has private institutions willing to work in this area, this seems a logical thing to do.

The Project should attack the institutional constraints on discussed above on two fronts: (1) by supplementing and perhaps to some extent replacing, the BOI's research, promotional and contact activities, and (2) by helping Thai business organizations develop their own policy voices.

As accompanying material suggests, the BOI is not a very impressive institution. Of its three functions, attracting investment, judging which investment is to be given privileges and monitoring those, and securing compliance from other ministries, it is only the middle one, the judging, that it performs reasonably well. It is also apparent that Thailand needs to make the foreign investment contacts soon and cannot wait for the BOI to be built up.

The Project's approach to these problems could be structured in two ways: (1) finance an interim program, filling gaps while the BOI increases its capacity, and at the same time helping to train the BOI to do the job; or (2) finance a pilot project for privately-run promotional activities which the Thai government itself could finance after the Project expires. The Project would be effective, whichever route the Thai government chooses.

At present, the Thai government is in favor of strengthening the BOI's vigor and it seems very likely it will accept the IBFD's recommendations on the criteria and manner of

selecting firms for BOI privileges. How successful the RTG will be in improving the BOI's service functions is, frankly, questionable; it has been tried before without success. An encouraging sign is a 35% increase in the BOI's FY 1982 budget, including provision for new offices. The RTG's other alternative is basically to do very little to improve the BOI's service capabilities and turn those over to the private sector. Such action would be consistent with the RTG's propensity to use the private sector when it can. There is nothing inherently "public sector" about the service and promotional functions of the BOI, though there is on the granting of privileges, and this is necessarily a public sector activity. In such a case, the Project's work with the BOI should train its people to recognize when effective marketing and servicing is being done, important in monitoring and contract, even if budgetary and constraints prevent the BOI from actual doing the marketing itself.

The Project should function in essentially a brokerage, rather than a direct-aid approach to aid the private sector in Thailand. There is an apparent information gap and "externalities" of this nature are most easily covered out of public funds. Moreover, the investment climate in Thailand is good, so that once the information gap is closed, investment should be forthcoming. It does not appear in the Thai case that most investment itself need be subsidized beyond the point of generating information, and providing a brokerage function, except for the smallest ventures, as described above.

For many firms, BOI privileges are not essential for profitable operation in Thailand. The principal fiscal stimuli, the five year tax holiday and the exemption from import duties, are not always decisive. A firm may take five years to be profitable and may import very little. The profit tax rates are modest by international standards (20-30%) anyway. Many of the criteria the Project applies are to attract industries which are based on local materials and export (upon which any import duties on materials used in exports will be refunded), and are labor-intensive, so little capital would be imported. The import privileges, accordingly, are of only marginal value, the tax holiday a questionable bonus. Long run viability for most of the Project-inspired investment should not, and will not, be dependent on the BOI's granting of privileges, nice though they might be.

The Project, accordingly, should focus on having the BOI and/or its hired public relations and research firms, broker the joint ventures (or other) relation between Thai and American firms. A certain number of these contacts will not receive BOI approval, perhaps because, as the IBRD study

suggests. they do not need it, but so long as investment is made, the failure to receive BOI approval will not invalidate the Project's work.

The marketing aspect is critical to promoting private investment. Business and Economic literature is increasingly sensitive to the problems of blocked information flows. The various mission observers of Thailand have been impressed with its opportunities, but those American firms which would most benefit (often those not in the Fortune 500, are not looking systematically and many Thai firms are too small to find U.S. partners; moreover, the cost of generating the information needed to establish the viability of a project may be beyond either partner. The Project, then, should generate studies of specific opportunities, research the U.S. market for firms interested in providing the technology, managerial, and market information needed, contact them, and get discussions going with the interested Thai partners.

The marketing approach should be selective -- it need not include the broad scope "Invest in Thailand" type of advertising literature often inserted in business magazines. Many observers most certainly feel there would be a place for this type of approach because many potential investors are very poorly informed about Thailand, considering it an island off China, rebel-filled, or about to topple into the Communist camp. However, a broad promotional campaign for Thailand could be expensive and it might generate too many false leads where research follow-up would be impossible. Moreover, the Thai bureaucracy would have problems handling such a scheme and there already exists a fairly precise idea of the type of investment wanted. There is no need to generate a list of additional possibilities -- at this point. Following a selective approach, the Project can more clearly zero in on those industries which best fit the desired economic and social criteria.

#### Aid to The Joint Commission

There are a number of ways the rather vast problem of private-sector public-sector relations could be dealt with. The vaster projects such as decentralizing Thai administration are quite beyond the scope of AID's projects and only half-seriously entertained by the RTG. More narrowly, there are options such as putting some modern business studies into the education patterns of the Thai civil service, seminars for public officials, or even deliberate attempts to change the image of business among the Thai in the form of public relations campaigns. All of these approaches are plausible, although difficult to control and/or uncertain success. The educational route takes too long, the seminars probably miss

the real decision makers, and even a successful public relations campaign takes quite a bit of time to change people's minds. Moreover, if handled poorly, public relations can backfire.

A better approach would be to try to move private sector issue analysis and policy suggestions from the ad hoc basis to something more systematic by establishing an institutional base and endowing it for quality research and analysis. Perhaps the best base for such an endeavor would be the Joint Private Sector Commission, described elsewhere. Private Enterprise has its important input there, and the government representatives would give any actions derived from the AID-sponsored studies more weight. Several Thai business felt, too, that quality studies would enable the Joint Commission dialogue to be more effective and take place on a higher plane -- both intellectually and politically. In this way, the Project would help policy formulation without suggesting any particular policy.

**Annex V - Concentration of Ownership in Thai Business  
and Implications for AID**

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**Manufacturing Industries**

Growth of manufacturing industries is a recent phenomena in Thai history, as the Thai economy has until recently been dominated by a large agricultural sector. The Thai manufacturing sector grew rapidly in the last two decades. Its share in gross national products rose from 11 percent in 1959 to about 20 percent in 1979. As the manufacturing industries are basically capital intensive and the domestic market is relatively small, they tend to be characterized by a high degree of concentration. M. Merhav (1969) has shown that this tendency can be the case in any developing countries with a high degree of technological dependency.

A high degree of concentration in manufacturing industries in Thailand is shown in Table 1. This is especially the case in tin smelting, petroleum, fertilizer, cement, glass, aluminum and castor oil. Many other products also have a high degree of concentration such as motor vehicles, tire, textile, canned pineapple, condensed milk, beer and etc.

In some industries with a large number of firms, such as textiles, only four or five groups of companies are virtually in control of the industry. In such a situation, the degree of concentration tends to be greater than that indicated in Table 1. Krirkkiat Phipatseritham (1982, pp. 131-33) points out that there are four major groups of companies in the textile industry as follows:

- i) Bothiratanangura Group. This is the largest textile group which is under the control of the Bothiratanangura family. This group is composed of 12 companies with a total asset of 7,217 million baht. Some large companies of this group are joint-venture businesses with Japanese firms.
- ii) Luckytex Group. This group comprises six companies with the total asset of about 3,474 million baht. However, this group is mostly under the control of Japanese firms: Toray Industries and Nonthaburi Ginning Mill.
- iii) Saha Union Group. This group has a total asset of about 2,623 million baht. It is composed of companies in the control of the Darakanont and Chokewattana families. This group is supported by Bangkok Bank with financial facilities.
- iv) Thai Teijin Group. This group used to be very large, but recently it is composed of medium-size firms, with an asset of 2,000 million baht between them. Companies in this group are usually formed as joint-ventures between Thai and Japanese investors. The Thai sides include such families as Srifuengfung, Panichiwa, Adireksarn and Assakul.

Table 1 - Concentration in Principal Manufacturing Industries, ca. 1978

Industries	Number of Firms		Capacity	Asset %	Sale %
	Total	Largest			
1. Tin smelting	3	1	99.0	...	...
2. Petroleum	4	1	...	46.0	34.6
3. Cement	3	1	...	...	82.5
4. Steel and Metal Products	7	1	...	...	25.8
		2	...	...	43.6
5. Fertilizer	1	1	100.0	...	...
6. Tyre	3	1	42.1	...	...
7. Condensed Milk	4	1	...	49.3	45.2
8. Canned Pineapple	14	1	33.1	...	...
		3	71.2	...	...
9. Motorcycle	4	1	37.3	...	...
10. Beer	3	1	...	84.7	...
11. Glass	1	1	100.0	...	84.4
12. Monosodium glutamate	2	1	...	76.0	83.0
13. Zip and button	2	1	68.9	...	...
14. Ceramics and Mosaics	10	1	...	42.1	...
15. Textile	45	5	...	49.2	...
16. Bottle Cap	2	1	...	75.0	...
17. Aluminum	1	1	100.0	...	...
18. Castor Oil	1	1	100.0	...	...
19. Motor Vehicles	5	1	...	...	46.8
		2	...	...	72.2

Source: Mainly from Krirkkiat Phipatseritham (1982), p.143; Pramote Ongsriees (1979)

In summary, owing to the relatively small domestic market size and the capital-intensive nature of the technology used in the manufacturing sector, the structure of this sector tends to be highly concentrated. Some industries may have some export outlets such as textile, but this does not constitute a sufficiently important factor making for less concentration. Another important factor in the concentration of manufacturing industries is the tendency of firms to form into a business group, usually under a leading business family. This brings about relatively concentrated structure of Thai business as a consequence.

### Structure of Thai Business Groups

Looking at Thai business from the point of business grouping, we will immediately recognize a similar pattern of concentration in the bank groups. This is consistent with the predominant role of banker families in the economy. A recent study by Kirkkiat Phipatseritham (1982) has testified clearly that the asset of the 12 Bank Groups in all business groups accounts for about three quarters of the total of asset of leading companies, as the following figures will show (Table 2):

Table 2: Distribution of Large Business Groups by Size of Asset, 1978/79  
(Mn. Baht)

Asset Size of Groups	No. of Groups	No. of Companies	Asset	Percent
1. Bank Groups (2,500 upwards)	12	398	308,598	73.41
2. 3,000 - 10,000	12	382	63,359	15.07
3. 2,000 - 2,999	6	82	14,366	3.42
4. 1,000 - 1,999	16	159	20,525	4.88
5. 500 - 999	19	136	13,538	3.22
Total	65	1,152	420,386	100.00

Source: Kirkkiat Phipatseritham (1982) p. 328

The above figures indicate that the 12 Bank Groups are involved with 398 companies, dealing in financing, trading and manufacturing. The bank exercises its control over these affiliated companies by appointing its members of the board of directors and/or senior executive as board members of the latter. In this way, there has been a high degree of interlocking directorate among leading members of the bank and other businesses. Kirkkiat Phipatseritham has summarized these findings on business grouping as follows:

"... the commercial bank groups are most powerful and their power and influence is not limited within the financial circles, but extends to trading and manufacturing activities as well. ... Large

and middle business corporations have formed themselves into large business groups or conglomerates, and the commercial bank usually plays an important role as the core of such a group. Moreover, apart from exercising their economic power, these large corporations also exercise their influence over policy formulation and decision-making in government circles." (p. 365)

Apart from the 12 Bank Groups, there are other 12 largest groups of manufacturing, trade and other businesses, each with an asset between 3,000 and 10,000 million baht. These 12 groups are composed of such families as the Laohatai, the Boonsoong, the Bothiratanangura, the Chckewatana, the Darakanont, the Pornprapa, the Rojanasathien, the Sithi-Amnuay (PSA group), the Srifueng-fung, Jianvanon (C.P. Group), the Osothanukrao, the Peopairat and Taephisitphong. In addition, there are another 22 groups, each with an asset from 1,000 to 2,999 million baht. Still, there are 19 more groups with an asset ranging from 500 to 999 million baht. All are among the relatively large firms in Thailand.

The bank groups and other groups of manufacturing, trade and other activities are linked with one another by both the interlocking directorates and equity holding. Usually the bank group forms the core of such links by interlocking directorates and equity holding. Apart from interlocking directorates among a bank group and other groups of businesses, there are also close interlocking directorates within the bank groups themselves.

In summary, it will be obvious that the organization of Thai business is characterized by a high degree of concentration in large business groups with a bank as the core of the group. Companies with some form of linkage to a bank often have good access to credit facilities. On the other hand, with the control of credit facilities, the bank can exert some degree of control over the company concerned.

#### Implications for U.S. Investors

- a) U.S. investors should be encouraged to establish contacts with small-medium sized firms in Thailand:

As the structure of Thai business is highly concentrated in big business groups, the type of Thai firms the U.S. investors should be encouraged to establish business contacts of some form or other is the small-medium business groups. A small-medium business group can be roughly defined as having a combined asset of less than 500 million baht. This recommendation is consistent with one important objective in the Fifth National Economic and Social Development Plan, i.e. to reduce the concentration of economic power in the hands of few big business groups in order to bring about better income distribution and social welfare.

There has been strong pressure for Thai firms to recruit more professional managers for further growth of the firms. It seems that in small-medium sized firms both groups of owner-managers and professional managers are in a transitional stage towards modern management system. A number of owner-managers have recognized the limitation of the family-business system. In such a situation, participation with a foreign partner should contribute towards more rapid transition of Thai firms to modern management system based on economic

rationality and technical efficiency. There has been a positive sign that small-medium sized business firms are ready to improve their management system, especially those under the leadership of a new generation of businessmen.

b) Establishment of joint-ventures with Thai partners:

Thai ITCs are facing problems of limited number of suppliers of good quality products for overseas markets. The U.S. firms can contribute towards developing joint-ventures with local firms producing for international markets. This is possible if the joint-ventured firm can agree to developing (importing and adapting) a set of appropriate technology for local production. Production of certain products can be made by establishing plants in outlying regions. This will serve three objectives of the Fifth Plan in that it contributes to dispersion of manufacturing activities away from Bangkok, to increased rural employment and use of local raw materials.

This is an important area in which new business can be established in an export-oriented production. In this type of venture, participation of small-medium sized U.S. firms, rather than the multinationals, will be useful if the joint-venture arrangement is made on more equitable terms. Literature regarding unfavorable arrangement with the multinationals for the host countries can be cited with long lists (Prasartset, 1981), but the coming to Thailand of small-medium sized U.S. firms is expected to contribute towards better arrangements for Thai partners.

The U.S. firms can be instrumental in helping establish contact with U.S. markets, both for local producer firms and for Thai ITCs. Although those firms operating as ITCs are relatively very large by Thai standard, some forms of cooperation with the smaller local producers can help boost the bargaining power of these smaller firms vis-vis Thai ITCs. In addition, this will upgrade quality of Thai products through appropriate technological arrangements.

Sub-contracting for a large distributor such as department stores in the U.S. is another form of potential area for cooperation between medium-sized Thai firms with small-medium sized U.S. firms. But, it is important to stress a long-term nature of such arrangement, otherwise Thai resources will be trapped in a fixed investment with only temporary outlets. (This is further elaborated in sub-section).

c) Bringing in capital:

Literature regarding economic development often stresses that a developing country lacks enough capital for investment in national projects. This may be true to some extent, especially for smaller groups of companies. The capital market in Thailand may be said to be virtually controlled by a few of the biggest groups of business, especially those in close cooperation with bankers and industrialists families. The financing of large business groups in Thailand is basically made by overdrafts from commercial banks. In general, only those business firms affiliated with the so-called commerce-finance-industry groups will have easy access to substantial amounts of loans. Smaller firms are usually outside this credit network.

In such a situation, participation with small-medium sized U.S. firms will be paramount in meeting capital shortages for smaller firms in Thailand, if these firms can bring in capital for fixed investment in various projects.

With U.S. participation, the joint-ventured firms can be more credit worthy in the eyes of banking circles, so that their operating funds can be secured locally.

d) Establish linkages between U.S. and Thai trading associations:

There is an increasing role of Thai trading associations in influencing government policies. While some associations are quite influential such as the Association of Thai Industries, many are still less so. However, there are several other associations with some degree of sophistication and controlled by new generations of businessmen. This latter group includes a number of small and medium sized firms as its members, notably Small Industries Association. Associations of similar nature in both countries should be encouraged to meet and discuss joint programs of actions, especially in promoting joint ventures, licensing, technological and marketing arrangements.

e) How the U.S. partners can help in implementation of Thailand's long-term export-oriented policy:

From the above discussion and suggestions, it seems that we are quite positive in going for export-oriented production which is also the Thai Government's policy of restructuring its' economy. This is not only beneficial to Thailand alone, it is also beneficial to foreign investors with smaller and medium sized capital. In the present long wave of economic recession in advanced industrial countries, most of the smaller and medium sized firms will be hard pressed as they are relatively more labor intensive which is very costly to operate in the home country. It is therefore justifiable that these firms should seek overseas investment outlets, which have long been dominated by the multinationals. In the long run, these smaller firms from advanced industrial countries will migrate to operate in the less developed countries.

While the investment of these smaller firms in a less developed country can contribute significantly to promotion of export-oriented production of light industrial products, it will definitely integrate a host country's economy with that of the investing country more intensely. A long-term arrangement for an equitable integration should be made also in both investing and host countries:

- 1) The investing country should also restructure its economy, especially in phasing out smaller and labor intensive firms in order to provide markets for products from the host country. In doing so, the government of the investing country must have a political courage to do so as this will invite opposition from vested interests such as "small-scale producers associations" or labor unions of smaller firms. Failure of a simultaneous restructuring of both the investing and the host economies will only bring about jeopardy for the host country and the overseas investors of the investing country because their products will not find markets in the advanced industrial countries due to pressures for protectionism from various vested interests. If such a situation should occur in the future, it will be a great waste of resources for a host country such as Thailand where resources are already very limited. It will not be a wise policy to tie one country's resources in a venture that will become a deadlock in the long run.

ii) The host and investing countries should arrange for an appropriate transfer of technology. In this case, the smaller firms from the investing country are in better position than the multinationals which often bring highly capital intensive technology to the host country, mainly owing to the imperative of technological requirements. In this situation, establishment of an appropriate technical training center would be helpful for Thai partners.

iii) In the light of i) and ii) above, export-oriented policy for Thailand should be very selective. It should be limited to branches of industries which have a long run market in advanced industrial countries in order to bring about an equitable integration or in other words a new international division of labor which is beneficial to both partners. This is the area in which U.S. investors can help Thai partners identify such types of business opportunities. Of course, the Thai partners will be in a more disadvantageous position to understand concrete business conditions in the investing countries. The establishment of linkages between U.S. and Thai private trade associations will be instrumental in identifying business opportunities with long-term potential. Many types of activity mentioned by the Thailand - U.S. Private Sector in Development Project would serve this purpose so well.

Action Plan of the BOI  
Status and General Outline

1. A draft "Action Plan of the BOI and General Guidelines" was prepared by Vallentine Laurie & Davies Consultants and submitted to the OBOI in January 1982 as a component of the UNDP/IBRD Technical Assistance Project to the Office.

2. Since then, the OBOI has reviewed and formulated its own action plan for further action which will be more consistent with NESDB Plan. Main development plans and projects, together with supportive justification and objectives, timing, budget and/or technical assistances needed were submitted to the Office of NESDB for consideration and support. All proposed projects and plans were approved in principle by NESDB while provision of budgets and technical assistances still need to be settled with the Budget Bureau and Department of Technical and Economic Cooperation.

3. Main development plans and projects proposed include:

- Investment opportunity studies
- Public relation campaign and marketing of investment opportunities to the target audiences
- Revision of investment promotion law
- Reorganization of the BOI and Office
- Plan to set up a unit responsible for screening and directing foreign investment and technology
- Construction of a new OBOI Office
- Setting up an efficient investment information system
- Development and training of OBOI officials

4. Action being taken by BOI include:

- Setting up a sub-committee for the purpose of reviewing the criteria for investment promotion and protection. The work done is expected to be completed by December 1982.
- On a continuing basis the BOI will:
  - (a) Conduct research and studies to identify
    - investment opportunities
    - problem areas where structural adjustment is required
  - (b) Embark on a marketing campaign for active investment promotion to general and target audiences

- (c) Build up an efficient investment information system
- (d) Upgrade the Investment Service Center in order to expand the scope and improve the quality of services provided to investors
- (e) Strengthen the technical capacity for
  - project appraisal
  - investment opportunity research and prefeasibility studies
  - investment promotion planning and strategy
- The BOI will enter two new areas of activity as follows:
  - (a) The drafting of new legislation to incorporate
    - changes in the form, level and applicability of investment incentives
    - redefinition of the BOI's power
    - provisions for the direction and registration of all foreign investment and technology and setting up a responsible unit.
  - (b) In addition to the incentives currently under review, the BOI will also propose the use of other non-fiscal incentives.

## Office of the Board of Investment

Budgets, 1981 - 1983

Unit : Baht

Categories	1981 Budget	1982		1983 (Tentative)	
		Budget	Increased (Decreased) %	Budget	Increased (Decreased) %
Salary	13,101,900	13,515,000	3.2	16,091,800	19.1
Wage : Permanent	869,900	917,200	5.4	1,075,200	17.2
Wage : Temporary	1,305,400	1,751,500	34.2	1,972,000	12.6
Compensation	2,044,200	2,050,000	0.3	2,100,000	2.4
Ordinary	3,308,600	4,735,700	43.1	5,648,000	19.3
Utilities	1,315,000	1,425,000	(19.0)	1,600,000	12.3
Materials	2,759,000	3,060,000	10.9	2,582,000	(15.6)
Structures	344,200	425,600	23.6	637,000	49.7
Land Building Materials	-	1,304,000	-	5,000,000	283.4
Subsidy	-	-	-	-	-
Others	650,000	2,746,000	322.5	650,000	(76.3)
<b>Total</b>	<b>25,698,200</b>	<b>31,930,000</b>	<b>24.2</b>	<b>37,356,000</b>	<b>17.0</b>

1982 - Main increase 1. Land building materials  
2. Other expenses 322.5%  
3. Ordinary 43.1%

- Main decrease 1. Utilities 19.0%

1983 - Main increase 1. Land building materials 283.4%  
2. Ordinary 19.3%  
3. Salary 19.1%

- Main decrease 1. Others 76.3%  
2. Materials 15.6%

Office of the Board of Investment

Staffing Pattern

31 May 1982

(a) By level

Position Classification Division	PC 9-1		PC 6-8		PC 3-5		PC 1-2		Total	
	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled
1. General administration and Office of the Secretary	3	3	3	3	21	19	12	10	39	35
2. Project Control	-	-	4	3	26	15	2	2	32	20
3. Information & Promotion Services	-	-	6	6	21	13	2	2	29	21
4. Planning	-	-	3	2	22	13	2	1	27	16
5. Project Development	-	-	3	3	19	7	1	-	23	10
6. Project Analyses	-	-	5	5	31	19	1	-	37	24
7. Incentive Supervision	-	-	4	4	28	19	-	-	32	23
8. Investment Services Center	-	-	5	3	27	11	3	2	35	16
<b>Total</b>	<b>3</b>	<b>3</b>	<b>33</b>	<b>29</b>	<b>195</b>	<b>116</b>	<b>23</b>	<b>17</b>	<b>254</b>	<b>169</b>

Note: Filled position excludes 10 clerks and chauffeurs categorized as permanent employees

Staffing Pattern

31 May 1982

(b) By education

Division	Degree				Non-Degree	Total
	Sci. & Tech.		Soc. Sci			
	Bachelor	Post Grad.	Bachelor	Post Grad		
1. General administration and Office of the Secretary	-	3	8	2	22	35
2. Project Control	10	2	1	1	6	20
3. Information & Prom. Services	2	3	6	5	4	20
4. Planning	-	-	9	4	3	16
5. Project Development	-	1	5	2	2	10
6. Project Analysis	3	-	12	6	3	24
7. Incentive Supervision	10	5	-	1	8	24
8. Investment Services Center	3	1	5	1	6	16
<b>Total</b>	<b>28</b>	<b>15</b>	<b>46</b>	<b>22</b>	<b>54</b>	<b>165</b>

V-III-4

Note: Excluding 10 clerks and chauffeurs categorized as permanent employees

The Association of Thai Industries:  
Policies and Objectives

The Association of Thai Industries brings together the top Thai industrial decision-makers for democratic action aimed at building up the industrial, economic and trade sectors' role in the overall socio-economic plans of the Thai nation.

The Association concerns itself with issues which affect Thai industry on local, regional and global questions. It takes a leading role, whenever possible, to an advisory role aimed at complementing the Thai Government's efforts in socio-economic development and attempts to supply the appropriate authorities with pertinent cost production, systems, technology and manpower needs for attaining the desired national development goals.

To attain these objectives, the Board of Directors divided the Association's policies as follows:

1. The Government Sector

To cooperate with the Government in order to help Thai industries reach international standards and be competitive at the world market level.

To conduct research to identify problem areas and to formulate alternative policies and guidelines for presentation to the Government in order to strengthen both short and long term industrialization.

To serve as an intermediary between the Government and the private sector.

2. Member Sector

To promote Thai industries so that they receive fair and equal treatment and benefits from organizations both within and outside the country.

To advise Thai industries on matters pertaining to local and international markets.

To organize exhibitions to introduce locally made industrial products.

To distribute industrial and trade news and data reflecting market trends.

To provide short course seminars for the executives and senior employees of the members.

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### 3. General Sector

To cooperate with the Chambers of Commerce, banks and other financial and business institutions in order to promote the economic security and stability of the nation.

To cooperate with the ASEAN, EEC and other international organizations to promote the interests of local industries.

To encourage members to observe business ethics and social responsibilities.

Membership in the ATI is divided into three categories.

Ordinary Member is a corporate body that engages in any type of industry in Thailand and has been registered according to Thai law.

Individual Associate Member is an ordinary person engaged in either industrial enterprise or in the commerce of industrial products.

Corporate Associate Member is a corporate body that engages in an industrial enterprise, but has not registered under Thai law, or that is engaged in the commerce of industrial products but is not entitled to become an Ordinary Member.

To carry out the objectives of the Association, administration is in the hands of a Board of at least 25 elected members plus the representative from each of the "Industry Clubs." The President is Chairman of the Board. Ordinary Members engaged in the same branch of industry can hold no more than one-fourth of the Board memberships. The Board is elected for two-year terms.

Within the body are 18 "Industry Clubs" grouping together the members in one industrial sector, each with its own administrative committee, and each holding regular "club" meetings.

The 18 Clubs currently comprise of the following

1. Agricultural Machinery Manufacturers Club
2. Air-Conditioning and Refrigerator Industry Club
3. Auto Parts Industry Club
4. Automotive Assembly Industry Club
5. The Thailand Fellowship of Cement Manufacturers
6. Ceramics Industry Club

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7. **Chemical Industry Club**
8. **Electric, Electronic & Allied Industries Club**
9. **Food Processing Industry Club**
10. **Furniture Industry Club**
11. **Thai Glass Manufacturers Club**
12. **Iron & Steel Industry Club**
13. **Non-Ferrous Metal Industry Club**
14. **Pulp and Paper Industry Club**
15. **Rubber Based Industry Club**
16. **Pharmaceutical Industry Club**
17. **Leather-based Industry Club**
18. **Packaging Industry Club**

PRIVATE SECTOR IN DEVELOPMENT  
CHECKLIST OF STATUTORY CRITERIA  
PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1. Continuing Resolution (Unnumbered;  
FAA Sec. 653 (b); Sec. 634A.

(a) Describe how Committees on Appropriation of Senate and House have been or will be notified concerning the project.

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

2. FAA Sec. 611(e)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the United States of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

A. GENERAL CRITERIA FOR PROJECT

1(a) Congressional Notification will be forwarded to Committee.

1(b) Yes.

(a)(1) Financial and technical analysis have been prepared. See Part III Project Paper.

(a)(2) No further legislative action required.

4. FAA Sec. 611(b); Continuing Resolution Sec. 501. If for water or water-related land resource construction, has the project met the standards and criteria as per the Principles and standards for Planning Water and Related Land Resources dated October 25, 1973? N/A.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A.
6. FAA Sec. 209. Is project susceptible of execution as part of a regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; encourage development and 601(a) The project is directly targetted at accelerating the investment of private sector capital and technology which will result in incentives for development of export industries. The project will also provide a mechanism for technical cooperation between U.S. and Thai private sectors.

use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

to improve efficiency of industries and to improve the standard of quality of products for export.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

601(b) The project will identify and promote investment opportunities in the private sector and will establish linkages between U.S. and Thai private sector organizations.

9. FAA Sec. 612(b); Sec. 636(n) Continuing Resolution Sec. 508 Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

612(b) The Royal Thai Government contribution to the project will exceed 25% of total requirements.

10. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

612(d) There are no U.S. owned local currencies available for this Project.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A.

13. FAA 118(c) and (d). Does the project take into account the impact on the environment and natural resources? If the project or program will significantly affect the global commons or the U.S. environment, has an environmental impact statement been prepared? If the project or program will significantly affect the environment of a foreign country, has an environmental assessment been prepared? Does the project or program take into consideration the problem of the tropical forests?

The Project will have no significant impact on the environment, natural resources or global commons, and will not affect tropical forests.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A.

B. FUNDING CRITERIA FOR PROJECT  
1. Development Assistance  
Project Criteria.

B. FUNDING CRITERIAL FOR PROJECT

a. FAA Sec. 102(b); 111; 113; 281 (a). Extent to which activity will: (i) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and

(i) Project will promote Thailand as attractive location for labor-intensive industries thus creating employment opportunities for rural poor. Relationships established between the private sectors in Thailand and U.S. will

the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (ii) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (iii) support the self-help efforts of developing countries; (iv) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (v) utilize and encourage regional cooperation by developing countries.

stimulate flow of information on new technology. The project will also assist in policy development and promotion of appropriate industries in order to decentralize economic opportunities.

- (ii) No direct effect planned.
- (iii) Project will accelerate investment promotion in areas of agro-industry in order to benefit the small farmer and will strengthen efforts to decentralize economic opportunities.
- (iv) No differential effect on women is foreseen.
- (v) N/A.

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes.

- c. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived under Sec. 124(d) for a "relatively least-developed" country)? **Yes.**
- d. FAA Sec. 110(b) Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing or is recipient country "relatively least developed?" **N/A.**
- e. FAA Sec. 231(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual development; and supports civic education and training in skills require for effective participation in governmental and political processes essential to self-government. **231(b) The project is consistent with the RTG's own development plans and will assist the RTG in increasing private investment in Thailand's productive sector.**
- f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? **122(b) Yes, economic growth will increase as a result of identification and development of viable industry options for Thailand and as a result of increased employment opportunities.**

2. Development Assistance Project  
Criteria (Loans Only)

(a) FAA Sec 122(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects. N/A

(b) FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

3. Project Criteria Solely for  
Economic Support Fund

(a) FAA Sec. 531(a). Will this assistance support or promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102? N/A.

(b) FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities? N/A.

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Department of State

INCOMING  
TELEGRAM

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ACTION AID-00

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ACTION OFFICE ASDP-02

INFO AAAS-01 ASEM-01 ASPT-02 ASDP-02 FM-02 ASTR-01 RELO-01

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AIDAC

EO 12350: NA  
SUBJ: PRIVATE SECTOR IN DEVELOPMENT PROJECT  
NO. 493-0329

USAID HAS RECEIVED OFFICIAL REQUEST FOR SUBJECT  
PROJECT. TEXT OF LETTER DATED FEBRUARY 1, 1983 FOLLOWS:

DEAR MR. HALLIGAN:

I WISH TO THANK YOU FOR YOUR LETTER OF JANUARY 19, 1983,  
CONCERNING THE REVISED PROJECT PAPER "PRIVATE SECTOR IN  
DEVELOPMENT" FOR NESDB'S CONSIDERATION.

THIS REVISED PROJECT, AS NESDB HAS REVIEWED THROUGH IT,  
STILL RETAINS THE PRIMARY OBJECTIVES AND MAJOR WORKING  
SCHEMES OF THE ORIGINAL PROJECT WHICH WERE APPROVED BY  
THE JOINT PUBLIC-PRIVATE CONSULTATIVE COMMITTEE ON  
AUGUST 18, 1982.

BY THE VIRTUE OF ITS NATURE, WE, THEREFORE, WOULD LIKE  
TO REQUEST FROM USAID A GRANT OF US \$ 3.5 MILLION FOR  
FUNDING ASSISTANCE TO THIS REVISED PROJECT.

IT WOULD BE VERY MUCH APPRECIATED IF YOU WOULD GIVE A  
KIND CONSIDERATION ON OUR REQUEST AT YOUR EARLIEST  
CONVENIENCE. WE ALSO LOOK FORWARD TO WORKING CLOSELY  
WITH YOU AND YOUR STAFF FOR A SUCCESS OF THIS VERY  
IMPORTANT PROJECT. SINCERELY YOURS, SIGNED SNOH UNAKUL,  
SECRETARY GENERAL, NESDB. DEAN

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## Consultative committee

## Working together at last

MARKING the first anniversary of the formation of the Public and Private Sector Consultative Committee in early September, Prime Minister Prem Tinsulanonda, at the committee's chairman, wrote: "The growth and development of Thailand's economy, which we have witnessed over the last two decades, can be attributed to the perseverance of the Thai people as a whole and to the nation's ample natural resources. Furthermore, the Thai people's traditional commitment to personal freedom—in particular in the matter of making a living—has provided a firm base for the private sector's important contribution to national development."

"My Government clearly perceives the utility, and indeed the necessity, of the participation of private business in the administration of the nation's economic activities. It has therefore included the development of the role of private business in Fifth Social and Economic Development Plan and is determined to realize the objectives stated in it. In mid-1981 my Government established the Public and Private Sector Consultative Committee, the chief objective of which is to coordinate the activities of the two sectors. My Government is well aware that though they play different roles, their ultimate objective is the same; the well-being of the nation and the prosperity of the Thai people."

"To talk about cooperation between the public and private sectors is easy; to effect that cooperation is a highly complex task that requires mutual trust and a deep understanding of each side for the other. Furthermore, it is of the utmost importance that the public should be made aware that our cooper-

One of the greatest obstacles to development in the past has been lack of cooperation between public and private concerns. The formation of the Public and Private Sector Consultative Committee has made a dramatic difference, promoting cooperation and encouraging the civil servant and the businessman to help, not hinder each other.

ative efforts are truly in the national interest and beneficial to all.

"In its first year of activity this committee has made its mark, both here in Thailand and internationally. A greater degree of trust and cooperation between the sectors has been achieved than under earlier administrations, thanks to the self-sacrifice and determination of all concerned. Having set out on the right footing we may now reasonably predict that greater achievements lie ahead."

"As Prime Minister and chairman of the joint committee, I assure you that my Government is wholly committed to the speedy development of private institutions to mobilize intellect, skills and other resources in cooperation with the public sector for the progress and prosperity of the Thai people, today and in times to come."

The Premier's message, clearly shows the intention of the Government to promote cooperation and coordination with private business. The mes-

sage repeats the policy stated by Gen Prem on the formation of the committee in August 1981: "The establishment of the Public and Private Sector Consultative Committee clearly reflects the determination of the Government to cooperate closely with private business in seeking solutions for economic problems. The committee will act as a forum for both the Government and private sides to exchange views and to pool the resources needed to attain various objectives. Moreover, the Government fully intends to develop private institutions to such an extent that the Government may rely on them for assistance and that they themselves will discharge their various responsibilities to society in full and win the trust of the people as a whole, ready to cooperate with the Government in curbing impropriety, exploitation and other activities that go against the common good."

The establishment of the committee and the resulting cooperation between

governmental and private agencies are good signs for the future. Previously, the two sides appeared to be following paths that diverged, and showed deep distrust of each other.

The Government has, in the past two decades, fulfilled its role as indicated in the first four five-year plans, with massive infrastructural work. This proved adequate as a basis for national development in its initial stages, and public investment was matched by growing private effort almost everywhere, but there was little cooperation between the two sides. Had there been, the economic development of Thailand would have been more advanced than it is.

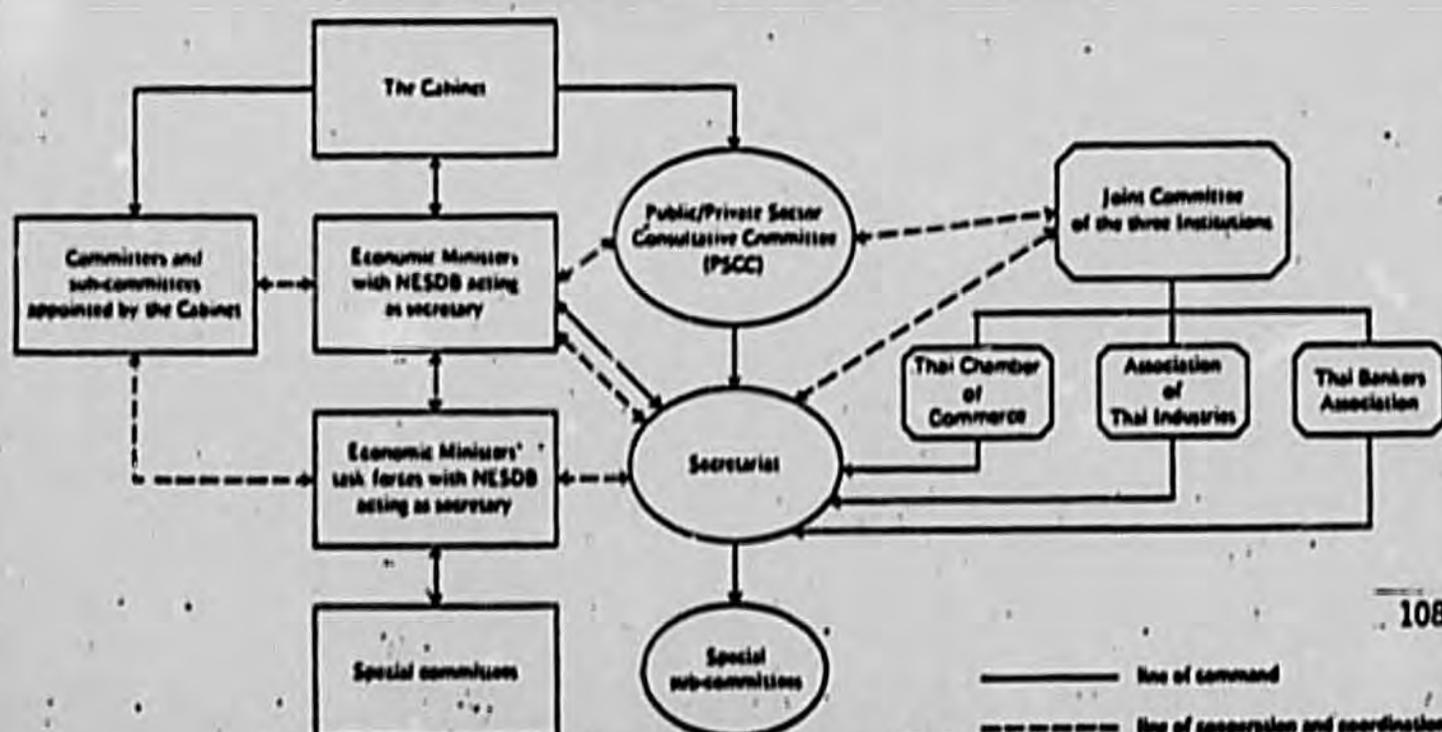
Private business in the early 1980s was at an experimental stage. Entrepreneurs were feeling their way and trying investments. Importers were tending to set up their own plants to manufacture local substitutes for foreign goods, and exporters of primary agricultural products were going into processing to add value to their merchandises. At the same time, financial institutions were developing new services and seeking new means to raise money, both locally and abroad, for investors.

Meanwhile, the Government was updating and improving its systems. Political stability and the existence of firm policy guidelines on development helped to increase efficiency. New legislation was introduced and new agencies created to promote development.

But cooperation between the two sides remained scanty and was personal rather than institutional. Organization of private business was still in its infancy and the role of private

Continued Page 32

## STRUCTURE OF PUBLIC AND PRIVATE SECTOR CONSULTATIVE COMMITTEE



The Government's determination, interest and good faith, have increased private companies' confidence that true cooperation is possible, and the businessmen's positive response has encouraged the Government to continue fostering the cooperative spirit.

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associations was poorly defined. As the years of the development plans passed, economic growth made production, trade and finance become much more complicated than they had been.

The task of providing private companies with a role in the Government's planning and decision-making began between 1967 and 1972 when the cabinet set up a committee consisting of leading businessmen and government officials. One of its achievements was the setting up of the Securities Exchange of Thailand. In industrial development, the Association of Thai Industries held seminars to gather information, identify problems and propose solutions in the Government. Later achievements included the setting up of industrial estates.

Representatives from private companies were also invited to joint committees formed by the authorities, such as the Industrial Standards Committee, the Board of Investment and the Food and Drug Committee.

Political and administrative changes took place rapidly after 1972. Due to a lack of government stability, policy became confused and both direction and momentum were lost. Day-to-day irritants and political machinations took precedence over the task of solving basic and structural problems. Private business was accused of being exploitive and morale fell very low. These onslaughts, however, induced private business to unite and to develop its own associations. At the same time, greater recognition was given to the need for private institutional involvement in the public administration of the economy.

The effort to establish an agency for cooperation between the Government and private enterprises in the making of policy produced several results, but none proved wholly satisfactory.

In the middle of last year, however, the Public and Private Sector Cooperation Committee was set up. The government side is represented by the economic ministers, and private business by the Board of Trade, the Association of Thai Industries and the Thai Bankers' Association (see Chart 1). The lessons of previous failures to achieve cooperation proved valuable in setting up a workable structure for the committee, which has established a joint secretariat to vet proposals and submit them for scrutiny by various agencies before they are sent to the committee for formal consideration. When the committee decides what action, if any, to take, the joint secretariat follows it up.

The creation of committee will have a great effect on the Thai economy. Mr Yuktas na Thalang, a committee member of the Board of Trade of Thailand, said: "The establishment of PSCC will allow both the Government and the private sector to get together and concertedly attempt to solve the country's economic problems. In such advanced countries as Japan and South Korea, where close cooperation between the public and private sectors takes place, industry, trade and the overall economy are being developed rapidly, with both government and businessmen showing a high degree of understanding for each other's problems and



Yuktas na Thalang: The creation of the committee will have a great effect on the Thai economy.

pooling resources to solve them."

The president of the Thai Bankers Association, Mr Somben Nandhapitwat, is highly optimistic, he said. "As has taken place in the past, commercial banks, the Bank of Thailand and the Finance Ministry have sat down together from time to time to discuss and seek solutions for their own particular problems. Of course, these three institutions still hold regular meetings, but the establishment of PSCC has greatly broadened the scope of commercial banks' participation in the development of the overall economy.

"New bankers are able to express their opinions and offer recommendations to the Government so that the latter may be able to make quick and timely decisions on various aspects of the economy and concerning measures to help solve problems facing not only the banking but also other sectors like trade, industry, fisheries, etc."

Mr Thavorn Pornprapha, president of the Association of Thai Industries, said: "Industrialists' decisions are greatly dependent on the Government's policy. They have to know clearly what the authorities' plans and objectives are before deciding to invest, while their decisions on the production and distribution of goods and services have to depend to a very large extent on the official policy in respect to both the present and future.

"As is generally known, we in the industrial sector were often left in the dark concerning the state's policy on various industrial aspects. It even appeared that many of our requests for clarification of certain matters were completely ignored, which greatly discouraged all of us.

"Since PSCC was formed, the situation has greatly improved. We are now able to discuss matters thoroughly with high ranking officials who are empowered to lay down or change policies. I have often told my colleagues that a new era has indeed dawned for Thai industry as well as for the country as a whole."

The joint committee is indeed worthy of such praise, so it is the most effective and active of all bodies of this nature ever created by the Government. Since its inception a year ago, it has met each month. The Prime Minister has made it his business to visit the headquarters of the three private as-

sociations involved and three times has called meetings of the committee on these associations' premises. These instances of the Government's determination, interest and good faith have increased private companies' confidence that true cooperation is possible, and the businessmen's positive response has encouraged the Government to continue fostering the cooperative spirit.

Though it is only a little more than one year old, the joint committee has been able to make a large contribution to the improvement of the nation's economy.

Over the last two decades Thai exports have grown at a highly satisfactory annual average rate of 10% and have also become greatly diversified. The potential for increasing exports remains great, and the current fifth Five-Year Plan set a high growth figure. The attainment of this high rate depends very much on the degree of cooperation that the public and private agencies can establish.

With increasing competition in foreign markets, however, the reduction of cost and the development of markets have become ever more vital to the success of the export trade. In view of this fact, the joint committee persuaded the Government to introduce legislation facilitating tax refunds to exporters. An Export Promotion Fund has also been established with 300 million baht from dues collected on imports. The fund comes under the control of the committee's three private associations.

The cooperation between the two sides has made possible the drawing up of rational and creative government policies on export promotion. Thanks to this cooperation, the Government has, since late 1981, reduced or abolished certain controls on exports and has lessened duty on items including rice, rubber, tin and frozen chicken. Though this has led to a slight drop in revenue, it has benefited the economy as a whole.

Tourism, an invaluable export, has also benefited from public and private cooperation. Income from tourism has risen to second or third among Thailand's largest foreign exchange earners. The role of private business in the development of the industry has increased more rapidly than the Government's, and strains have occurred in



Thavorn Pornprapha: A new era has dawned for Thai industry.



Somben Nandhapitwat: Banks can now participate more in the development of the economy.

the relationship between the two sides in their conduct of this rapidly-growing industry. As a result, meetings of government officials and private businessmen have been held and a joint sub-committee has recently been formed to tackle problems affecting tourism and related industries.

The tortuousness that businessmen experienced in their dealings with bureaucrats has long discouraged investment. The problem has been tackled by one administration after another, with little or no success. The joint committee, has sought the matter right, and the result has been the establishment of the Investment Service Centres — one at the Board of Investment for promoted concerns and another at the Industry Ministry for other ones. At these centres, permits to set up plants, to build and to operate may be obtained within 90 days of application.

Attempting to solve tax problems, investors identified two main obstacles: inappropriate rates and various interpretations of the written code and rulings on it. The joint committee has taken several cases to the Finance Ministry, and a number have already been acted upon while others have been reviewed. A good start at solving tax problems has been made and the spirit of cooperation has grown between the public officials and private businessmen as a result of the efforts of a joint sub-committee set up for the purpose.

Prime Minister Prem decided that government delegations on their visits to foreign countries should be accompanied by representatives of the Thai Chamber of Commerce, the Association of Thai Industries and the Thai Bankers' Association, which represent private enterprises on the joint committee. The presence of these representatives of private concerns helps government officials in the search for markets for Thai goods and for sources of investment funds, advanced technology and economic cooperation.

This concept was first put into action in October 1981 when a joint public and private delegation headed by the Premier visited the US the following month, another joint delegation visited Japan and South Korea. More such delegations will be sent abroad in future.

Close cooperation between public and private concerns has become essential to the success of our economic development. The Fifth Plan provides guidelines to show how that cooperation should come about. The creation of the joint committee marked a turning point in the relationship between the two sides. It now shows promise as a source of unity and means for faster and improved economic development for the whole country.

ANNEX IX

PROJECT COST ESTIMATES (AID)

1. Investment Analysis and Promotion	\$2,551,000
a. One U.S. Consultant for 3 years	538,000
- Salary and support - See Table IX	517,000
- Project car and shipment of same	9,500
- International travel for consultations (assume equivalent of four trips to U.S. including per diem)	12,000
b. One Thai consultant for 3 years plus local costs associated with 1a above	143,000
- Remuneration 35,000 x 3	105,000
- Driver for project car \$200 x 36 months	7,200
- Vehicle maintenance, insurance and operating costs	7,000
- In-country travel, per diem, and misc.	23,800
c. Local Investment Surveys	200,000
Assumes 10 investment opportunity surveys focused on rural employment generating industries based on natural resources producing primarily for export	
d. Thai Promotional Support Program	\$500,000
Includes offices and office support for U.S. and Thai consultant, full time person to develop local business contacts, organization and implementation of investment seminars, preparation and distribution of investment newsletter, assistance to BOI investment follow up.	
e. U.S. based investment promotion effort	1,000,000
Includes broad range of activities necessary to carry out a targetted investment promotion campaign such as analysis of current promotion efforts and effectiveness, use of computer to locate and screen investors, preparation and dissemination of promotional materials, seminars	

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## Annex IX

for Thais going to U.S. and for potential U.S. investors. Envisions equivalent of at least one full time U.S. professional.

f.	Contract coordination and administration support	\$170,000
	Overall contract administration by senior representative of consulting firm including estimated four trips to Thailand during life of project.	
2.	Strengthen Private Sector Dialogue with RTG	460,000
a.	Salaries of analysts/planners	200,000
	Two people x \$20,000/yr x 3 yrs.	
	One person x \$26,700/yr. x 3 yrs.	
b.	Policy and regulatory studies	200,000
	Assumes 40 studies will be carried out over life of project with equivalent support from private sector.	
c.	Facilities and Equipment	10,000
	Miscellaneous office furnishings and equipment	
d.	PSCC Initiatives	50,000
	A fund to support initiatives of the Joint Public Private Sector Committee beyond normal operating expenses such as seminars, workshops, speakers, regional meetings etc.	
3.	U.S. Thai Private Sector Linkage	75,000
	Staff for Thai JACC Office:	
	-Agribusiness specialist \$1,100/mo. x 3	
	-Secretary/Admin. Asst. \$550/mo. x 36	
	-Assistant \$433/mo. x 36	
4.	Evaluation	65,000
	U.S. and local expertise to carry out project evaluations, includes funding for in-country workshops.	
5.	Contingency	\$349,000

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## TABLE IX

Estimate of Costs for Private Sector Contract  
as of December 31, 1982

	<u>Cost Category</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Total</u>
1.	Salary	60,000	63,000	66,150	\$189,150
2.	FICA	2,131	2,131	2,857	7,119
3.	Post Differential	6,000	6,300	3,550	15,850
4.	Temporary Lodging	3,660		3,720	7,380
5.	Living Qtrs. Allow.	10,000	11,400	10,970	32,370
6.	Education Allow.	8,800	7,480	8,240	24,520
7.	Travel				
	International Tvl.	5,600		6,400	12,000
	Excess Baggage	200		300	500
8.	R & R (Hong Kong)	1,800	1,800		3,600
9.	Transporation/Stge				
	Air Freight - 700 lbs	1,750		2,100	3,850
	Sea Freight - 5,000 lbs	7,500		9,750	17,250
	Storage - 7,500 lbs	575	625	700	1,900
	Car shipment	2,500		2,800	5,300
10.	Insurance	200	200	200	600
11.	Physical Exams	400		400	800
12.	Communications	1,200	1,500	1,800	4,500
13.	Misc. Expenses	400	200	400	1,000
	Total Cost	<u>\$112,716</u>	<u>\$94,636</u>	<u>\$120,337</u>	<u>\$327,689</u>
	OVERHEAD	<u>60,000</u>	<u>63,000</u>	<u>66,150</u>	<u>189,150</u>
	YEARLY COST	<u>\$172,716</u>	<u>\$157,636</u>	<u>\$186,487</u>	<u>\$516,839</u>

Prepared by O/FIN -JWC  
1/4/83

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## Notes on Cost Estimate

1. Salary - Basic salary information supplied by Mr. J. Evans.
2. FICA - Based on FICA tables for CY 83/84/85. Cy 83/84 6.7% of basic salary to a \$31,800 limit; 7.5% to \$38,100 in CY 85.
3. Post differential - 10% of base salary to a limit of \$69,700 - limit prescribed by American Embassy Bulletin dated 12/28/82. Contractor will be stationed in Bangkok.
4. Temporary Lodging - Based on the assumption that contractor will have wife and two teen aged children. Two hotel rooms will be necessary. Therefore, \$49 a day for each hotel room plus \$24 (\$6 per person) for supplementary TLA equals \$122 a day times 30 days = \$3,660. Because of the increase in supply of hotel rooms budgeting \$50 a day for each hotel room on departure plus supplementary allowance of \$24 times 30 days or \$3,720.
5. Living Quarters Allowance calculated upon LQA in effect at the present time (Ref Standardized Regulations) plus an increase of 10% each year
6. Education Allowance budgeted on the basis of two teen age children at \$4,400 for the first year which includes a registration fee of \$900. Budget a 10% increase in basic tuition for years two and three.
7. Travel costs \$1,300 one way to Bangkok from the U.S. plus \$100 for the layover enroute to post. Cost on departure \$1,500 return ticket to U.S. plus \$100 for layover enroute to U.S. Excess baggage costs budgeted at \$200 for first year and \$300 upon departure (guesstimates).
8. Rest & Recreation costs budgeted based on four full fare economy tickets to Hong Kong in the first and second year. No home leave provided under the contract. Two R&Rs during a three year tour.
9. Review of current charges indicate that air freight costs \$2.75 a lb from the U.S while sea freight is \$1.50 a lb. These costs include packing and unpacking and shipping and delivery to the carrier. Costs of shipping a car from the U.S. are actual based upon B. Viragh and J. Conje charges. Storage charges based on estimates we have used in the past.
10. Costs slightly higher than \$175 that have been allowed in the past
11. Physical exams of \$100 a person.
12. Communications include telephone and telegraphic charges. Contractor will have to in communication with head office.
13. Miscellaneous expenses include inoculations, visas, passport costs and sundry expenses which may arise.

OVERHEAD expenses are calculated on 100% of base salary - see project officer's handbook for basis of this estimate.

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UNITED STATES GOVERNMENT

*Memorandum*

TO : Distribution

DATE: April 21, 1983

FROM : ASIA/PD, G. R. van Raalte SUBJECT: ASIA Project Advisory Committee (APAC) Meeting  
Burma Primary Health Care II PP (482-0004)

You are invited to attend the APAC meeting on Thursday, April 28 at 3:00 in the ASIA/PD Conference Room (enter through Room 3318).

The Issues Paper is attached for your review.

## Attachments:

- A. Issues Paper
- B. \* = Project Paper and Annexes

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