

PD-AAZ-051

U N C L A S S I F I E D

0505

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

THAILAND
Trade and Investment Support
493-0347

Dated: September 26, 1990

U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE: **A** (A = Add, C = Change, D = Delete) Amendment Number: _____ DOCUMENT CODE: **3**

2. COUNTRY/ENTITY: **Thailand**

3. PROJECT NUMBER: **493-0347**

4. BUREAU/OFFICE: **Asia and Private Enterprise** **04** 5. PROJECT TITLE (maximum 40 characters): **US-Thai Trade and Investment Support**

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): **NOV DD YY 019 | 3 | 09 | 5**

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4):
 A. Initial FY: **1910** B. Quarter: **4** C. Final FY: **1914**

3. COSTS (\$000 OR EQUIVALENT \$1 = _____)

A. FUNDING SOURCE	FIRST FY 90			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total						
(Grant)	(200)	()	(200)	(175)	(25)	(200)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	200		200	175	25	200

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO- PRLATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)									
(2)	PS	840	820			200		200	
(3)									
(4)									
TOTALS						200		200	

12. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): _____

11. SECONDARY PURPOSE CODES: _____

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each):
 A. Code: _____ B. Amount: _____

13. PROJECT PURPOSE (maximum 480 characters):

The project purpose is to facilitate Thai private enterprise access to the free flow of investment capital, goods and services, and technical skills which will contribute to Thailand's continued growth and expanded income-earning opportunities for skilled and unskilled workers.

14. SCHEDULED EVALUATIONS: Interim **NOV YY 1 | 2 | 9 | 2** **NOV YY 1 | 2 | 9 | 4** Final **NOV YY 1 | 2 | 9 | 5**

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

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment):
Concur with methods of implementation and financing proposed herein

Thomas H. Reese III
 USAID/Thailand, Controller

17. APPROVED BY: **Thomas H. Reese III**, Mission Director Date Signed: **NOV DD YY 019 | 2 | 6 | 9 | 0**

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: _____

PROJECT AUTHORIZATION

Name of Country:

KINGDOM OF THAILAND

Name of Project:

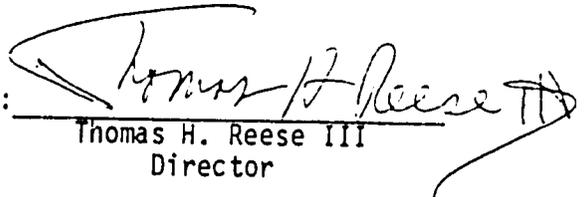
U.S.-Thai Trade and Investment and
Support Project

Number of Project: 493-0347

1. Pursuant to Sections 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the U.S.-Thai Trade and Investment Support Project (the "Project") involving planned obligations not to exceed two hundred thousand United States Dollars (\$200,000) in Section 106 grant funds, over a one-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, finance foreign exchange and local currency costs for pre-implementation activities of the Project. The planned life of the Project is five (5) years from the date of initial obligation.
2. The Project's goal is to promote self-sustaining economic growth in Thailand through that country's greater integration with the world economy. The project purpose is to facilitate Thai private enterprise access to the free flow of investment capital, goods and services and technical skills which will contribute to Thailand's continued growth and expanded income-earning opportunities for skilled and unskilled workers.
3. The funds authorized herein will be obligated through contracts for required professional services. Such agreements, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following terms and conditions, together with such other terms and conditions as A.I.D. may deem appropriate:
4. Source and Origin of Commodities, Nationality of Services
Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in Thailand or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Thailand or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on vessels under flag registry of the United States.

5. Waiver

Since it is anticipated that the recipient will contribute less than 25% of the costs of the project, a waiver is granted.

Signature: 
 Thomas H. Reese III
 Director

09/26/90
 Date

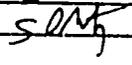
<u>Clearances:</u>	<u>Initial</u>	<u>Date</u>
PDS/PSI:JTGrossmann	<u></u>	<u>9/14/90</u>
O/PRO:GMDonnelly	<u>(draft)</u>	<u>09/21/90</u>
O/PDS:BDReese	<u></u>	<u>9/21/90</u>
O/FIN:RLeonard	<u></u>	<u>9/24/90</u>
DD:SPMintz	<u></u>	<u>9/25/90</u>
PSD:  :rm:jj		
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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ADC	Advanced Developing Country
AFL-CIO	American Federation of Labor-Congress of Industrial Organizations
A.I.D.	U.S. Agency for International Development
AID/II	A.I.D. headquarters in Washington D.C.
AMCHAM	American Chamber of Commerce in Thailand
AMP	Assistance Management Plan
ANPAC	Asia Near East Project Approval Committee
ASEAN	Association of Southeast Asian Nations
ATMs	Automated teller machines
BAHT(B)	Thai currency, approximately equivalent to US\$0.04
BMA	Bangkok Metropolitan Area
BOI	Office of Board of Investment, RTG
BOT	Board of Trade
CBT	US-ASEAN Council for Business & Technology, Inc.
CDSS	Country Development Strategy Statement
CTE	Center for Technology Exchange
CVD	Countervailing duty
DFI	Direct Foreign Investment
DEP	Department of Export Promotion, RTG
EC	European Community
DTEC	Department of Technical and Economic Cooperation, RTG
FAA	Foreign Assistance Act of 1961, as amended
EXIMBANK	Export Import Bank
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FY	Fiscal Year
FTI	Federation of Thai Industries
GATT	General Agreement on Trade and Tariffs
GNP	Gross National Product
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
IFC	Industrial Finance Corporation
IOC	Indefinite quantity contract
IPR	Intellectual Property Rights
JPPSCC	Joint Public Private Sector Consultative Committee
JUST	Joint U.S. Thai (Business)
HFA	Multifibre Agreement
MLR	Minimum Lending Rate
NESDB	National Economic and Social Development Board
NGO	Non-governmental organization
NIC	Newly Industrialized Country
OPIC	Overseas Private Insurance Corporation

PACD	Project Assistance Completion Date
PD&S	Project Development and Support Funds
PID	Project Identification Document
PP	Project Paper
PITO	Private Investment and Trade Opportunities Project
PRC	Project Review Committee
PSC	Personal Services Contract
RTG	Royal Thai Government
TDP	Trade and Development Program
T/I	Trade and Investment
SME's	Small and Medium Sized Enterprises
U.S. or US	United States of America
US&FCS	U.S. and Foreign Commercial Service
USACBT	US-ASEAN Council for Business & Technology, Inc.
USAID	U.S. Agency for International Development
US\$	US currency, approximately equivalent to 825.00
USG	U.S. Government
VRA	Voluntary Restraint Agreement

I. RECOMMENDATION AND SUMMARY

A. Project Title

U.S.-Thai Trade and Investment Support Project

B. Project Number

493-0347

C. Source of Funds

Development Assistance

D. Project Amount and Life of Project

While the budgets included in this document include a Life-of-Project (LOP) funding level of \$6.6 million (\$6.0 million grant and \$600,000 recipient contribution), only \$200,000 in grant funds will be authorized at this time pending final Congressional concurrence to the planned \$6.0 million LOP. Once final Congressional concurrence is obtained, the remaining \$5.8 million LOP grant funds will be obligated incrementally over a five-year period. The PACD will be September 30, 1995.

E. Terms

Grant

F. Grantee

The primary grantee will be JUST Business, a legally established, nonprofit, private sector organization. Other funds will be obligated by direct AID contracts.

G. Project Goal and Purpose

The Project's goal is to promote self-sustaining economic growth in Thailand through that country's greater integration with the world economy. The project purpose is to facilitate Thai private enterprise access to the free flow of investment capital, goods and services, and technical skills which will contribute to Thailand's continued growth and expanded income-earning opportunities for skilled and unskilled workers.

H. Project Summary

The principal means by which the Project proposes to achieve its purpose is the expansion of productive foreign direct investment in the Thai private sector, fostering competition, improving the technical capacity of the Thai economy through investment and trade

development and encouraging Thailand to participate more fully in the international economic system. This will be accomplished by: (a) facilitating the establishment and the expansion of U.S. investment particularly in areas which promise the transfer of U.S. technology and managerial skills; and (b) supporting programs of research and analysis into the legal, policy, and procedural obstacles to the free flow of capital, goods and services into Thailand.

The instrument through which A.I.D. assistance will be delivered is a private non-profit corporation established, with A.I.D. support, by private sector representatives from Thailand and the United States. The purpose of this institution is to draw the attention of private enterprise to opportunities for investment and development in Thailand. This corporation, Joint U.S.-Thailand Business, Inc. ("JUST Business"), will support the following activities.

- a sustainable information clearinghouse to identify and publicize opportunities for foreign direct investment in Thailand and, in particular, to identify U.S. investors or joint venture partners for Thai entrepreneurs seeking investment capital for local projects;
- a program of study, analysis and technical assistance, directed by local Thai and U.S. private sector representatives operating in Thailand, designed to (a) identify policy, legal and regulatory constraints to further Thai integration in the world economy and (2) mobilize opinion for policy dialogue with the RTG;
- technical assistance at the Thai Board of Investment to improve their capacity to encourage investment in economic sectors and provide assistance to U.S. investor; and
- acquisition of U.S. private sector expertise to transfer technology and management skills to Thailand.

The project will result in expanded private sector economic activity in Thailand, the transfer of skills and technology through investment, more open trade and investment regimes in Thailand and expanded employment opportunities for Thai workers.

The immediate beneficiaries will be private firms and their employees, primarily SMEs interested in new or expanded trade and investment ventures. These include women-owned and operated enterprises. Firms having the potential for expansion of agribusiness, agriculture, mining and minerals will also benefit from these activities.

I. Summary of Findings

The project is economically, administratively, and technically feasible, socially sound without negative environmental effects. The cost estimates are reasonable, and the project meets all applicable statutory criteria. The project's concept and strategy were reviewed and supported by an advisory group consisting primarily of key Thai and U.S. business leaders, supplemented by selected representatives of relevant Thai and U.S. Government agencies.

J. Statutory Criteria

The project meets all applicable statutory criteria and certifications. (See Annex A)

K. Waivers

Application of the recipient contribution requirement to provide at least 25 per cent of the entire costs of the program, project or activity.

L. Issues

The Mission's response to the issues raised during the PID review is in Section VII.

M. Recommendation

USAID/Thailand recommends approval and authorization of a \$200,000 grant for the U.S.-Thai Trade and Investment Support Project (493-0347).

II. BACKGROUND AND RATIONALE

A. OVERVIEW

Thailand is an Advanced Developing Country. A.I.D. believes its programs should address those possible constraints to Thailand's sustained growth which can be assisted by U.S. expertise and where little future A.I.D. or USG assistance is needed to continued a program intervention. The Trade and Investment Support Project is the first effort of USAID/Thailand to phase down its role in Thailand and to establish a mature economic partnership with Thailand.

The Thai economy requires further integration into the world economy to assure self-sustaining economic growth. At present, constraints to sustainable growth include inadequate domestic capital formation, an inadequate human resource base primarily affecting managerial and mid-level technical skills characteristically required by small and medium businesses, lack of a broad technology base, barriers affecting free trade and financial market development, and natural resource degradation.

To address these constraints, A.I.D.'s strategy for Thailand is based on the high correlation between the free flow of goods, services, capital, and success in the international marketplace with robust economic growth. Economic research leads to opportunities. Success is reflected in jobs, incomes and choice. It is also reflected in positive social indicators.

This success establishes the basis for mature economic partnerships based upon mutual interests; this transformation process is the "ADC" process. An ADC approach highlights the positive relationships among growth, international trade, and the alleviation of poverty in developing countries. The U.S. has a fundamental interest in sustaining the integrity and openness of the international trading system and helping ensure that ADCs become responsible players in this system.

Thailand's capacity to sustain its economic growth depends upon its further integration with the world economy. Indicators which measure integration with the world economy as well as the strengthen of Thailand's domestic social and economic performance which enable growth to continue, show the following:

Thailand has sustained an average growth rate of 7% or better since 1950;

By 1989, industry and services in Thailand accounted for about 83% of GDP; agriculture, about 17% of GDP;

Direct foreign investment in Thailand increased by more than four times between 1970 and 1988;

Life expectancy in Thailand is among the best in Asia;

Thailand's level of infant mortality is well below the A.I.D. target of 75 deaths per 1000 live births.

By 1987, primary school enrollments in Thailand were virtually universal.

In 1989, A.I.D. supported eight consultant research teams to review disparate areas which might impact on Thai growth. They concluded that continuing high levels of growth depend on the Thai capacity to maintain cost competitiveness in the international economy while moving up the product cycle.

Detailed analysis of Thailand's growth path pointed out three key constraints: They are: (1) mobilization of financial resources for infrastructure and other needed investments; (2) human capital development; and (3) environmental management. The additional trade and investment generated under the project can help Thailand meet these and other pressing development needs.

Thailand's level of gross domestic investment lags that of other Asian economies. Most Thai businesses continue to rely upon commercial banks for short and long-term financing. The bond market is dominated by the national government, and secondary bond markets are non-existent.

A.I.D. can facilitate the provision of U.S. financial expertise in areas that will broaden the diversity of financial instruments, improve the regulatory and due diligence processes, and expand the access of the private sector to equity resources. This, however, is a medium/long term process. To have an immediate impact, investment levels must be maintained, further integration with the world economy should continue, and Thai skills must continue to be upgraded.

Thailand's investment in human capital is remarkably low when compared to Korea or other countries. Only 30% Thailand secondary school age population is enrolled in school. Likewise, the percentage of Thai university students pursuing science and engineering skills is low compared to other countries. Such numbers illustrate severe constraints on Thailand's future capacity to move up the product cycle using its own intellectual power and the trainability and flexibility of its workforce. In addition to other A.I.D.-financed human capital development programs, the Trade and Investment Support Project can help Thailand to meet technical and professional skill needs through the transfer of technology (through new investment) and the transfer of management skills and training in new processes.

Thailand lags in all environmentally protective technologies. Through expanded trade and investment, Thailand can acquire experience, products, and investment which can improve environmental quality and protect resources for future generations.

By stimulating private sector U.S. investment with Thailand and establishing a forum for resolution of U.S.-Thai business issues, the A.I.D. program can help sustain Thailand's economic growth and its ability to thereby improve the quality of life of Thai citizens. This mutual interest, as the Thai see investment as the best way of transferring technology and business skills, can be met by interventions which compliment other private or public Thai and U.S. efforts.

B. TRADE AND INVESTMENT: U.S. INTERESTS

It has long been held that U.S. interests are best served in a community of nations which, among other things, work together in an open and equitable international economic system. U.S. policy in this regard is the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits, and the integration of developing countries into an open and equitable international economic system.

The provision of development resources must be adapted to the needs and capabilities of specific developing countries. U.S. policy to developing countries, other than the very poorest, is to provide assistance which generally consists of programs which facilitate access to private capital markets, investment, and technical skills. Such assistance should be carried out to the maximum possible extent through the private sector and should promote open and competitive markets.

To achieve these purposes, many A.I.D. activities encourage the free flow of international trade, foster private initiative and competition, and work to increase the efficiency of local industry. In so doing A.I.D. encourages the participation of the U.S. private sector through trade and investment activities, partnership, and exchange of ideas and technical support. These activities include (a) finding and drawing the attention of private enterprise to opportunities for investment and development, (b) establishing an effective system for obtaining information with respect to opportunities for non-governmental participation in the development process, (c) encouraging the free flow of private investment to development countries, (d) carrying out programs of assistance through private channels, and (e) improving the climate for new private investment.

The Thailand Trade and Investment Support Project is designed to carry out these objectives.

C. THAI DEVELOPMENT INTERESTS:

On July 12, 1990 the Office of Thailand's Prime Minister and A.I.D. signed a Memorandum of Understanding which described and identified areas where Thailand believes U.S. development cooperation will provide the most benefits for the continued economic growth of that country (see Annex B). A key factor in the ceremonial activity was the recognition of a change from donor-recipient relations to one of mutual benefit assistance programs. The Agreements stated the following:

- Promotion of broad-based sustainable growth;
- Deeper Thai integration with the international economy as the means of sustaining Thai growth;
- Drawing upon the expertise of the U.S. private sector in addressing problems which hamper prospects for future competitiveness in the international marketplace; and
- Expanding bilateral trade and facilitating the identification of specific investment opportunities in both countries.

The last objective, expansion of bilateral trade and investment for increasing the prospect of sustainable, broad based economic growth in Thailand, is recognition of the importance Thailand places on U.S. private sector participation in contributing to its growth. The Thai believe that U.S. industry transfers technology and management skills far more than is common in other countries.

In addition, the Agreement stated that the Parties will give attention to improving the policy and business climate for bilateral trade and investment, and to close cooperation between public and private sector representatives to expand the free flow of bilateral investment and trade. To this end, both parties agreed to facilitate the creation of organizations or mechanisms to promote these objectives.

The Trade and Investment Support Project is a reflection of Thai desire to expand the U.S. private sector involvement in Thai development.

III. PROJECT DESCRIPTION

A. GOAL AND PURPOSE

The Project's goal is to promote self-sustaining economic growth in Thailand through that country's greater integration in the world economy. The project purpose is to facilitate Thai private enterprise access to the free flow of investment capital, goods and services, and technical skills which will contribute to Thailand's continued growth and expanded opportunity levels for skilled and unskilled workers.

B. THE PROJECT INSTRUMENT AND MEANS

The Project is a pilot activity. The intent is to see if and how best U.S. private sector representatives abroad can work in concert with host country representatives on a voluntary basis to contribute to the development of a particular country and leave in place a self-sustaining institution to carry on these activities. The design approach is unique in that it involved a partnership with Thai and U.S. private and public sectors to formulate the project concept, purpose, and activity criteria. This partnership concept should ensure the project's relevancy to Thai needs for activities which serve to further integrate Thailand in the international marketplace.

The principal means by which the Project proposes to achieve its purpose is the expansion of productive foreign direct investment in the Thai private sector, fostering competition, improving the technical capacity of the Thai economy through investment and trade development and encouraging Thailand to participate more fully in the international economic system. This will be accomplished by:
(a) facilitating the establishment and the expansion of U.S.

investment, particularly in areas which promise the transfer of U.S. technology and managerial skills, and (b) supporting programs of research and analysis into the legal, policy and procedural obstacles to the free flow of capital, goods and services into Thailand.

The instrument through which A.I.D. assistance will be delivered is a private non-profit corporation established, with A.I.D. support, by private sector representatives from Thailand and the United States. The purpose of this institution is to draw the attention of private enterprise to opportunities of investment and development in Thailand. This corporation, Joint U.S.-Thailand Business, Inc. ("JUST Business"), is expected to support the following research, development, and technical assistance activities:

Research: Investigate Thailand's development needs in selected economic sectors and determine where U.S. expertise and comparative advantage can contribute to their resolution.

Development: Establish an information clearinghouse to identify and publicize opportunities for foreign direct investment in Thailand and, in particular, to identify U.S. investors or joint venture partners for Thai entrepreneurs seeking investment capital and technology transfer for local projects.

Technical Assistance: Establish a program of study, analysis and technical assistance, directed by local Thai and U.S. private sector representatives operating in Thailand, designed to (1) identify policy, legal and regulatory constraints to further Thai integration in the world economy and (2) mobilize opinion for policy dialogue with the RTG;

- Provide technical assistance at the Thai Board of Investment to improve their capacity to encourage U.S. investment in the important economic sectors; and
- Achieve utilization of U.S. private sector expertise to transfer technology and management skills to Thailand.

The Project will provide for continual evaluation of the relative success and costs of JUST Business activities and their contribution to fostering the objectives of this project. Of special interest is the extent of project impact on resolution of trade and investment issues affecting Thailand, the value of trade and investment which is facilitated, and the diversity of its composition and benefits. The project is expected to result in expanded private sector economic activity in Thailand, the transfer of skills and technology through investment, and support for private sector research into policy and regulatory areas which affect Thailand's ability to mobilize domestic and international resources for self-sustaining economic growth.

The primary beneficiaries will be private firms and their employees, primarily SMEs interested in new or expanded trade and investment ventures. These include women-owned and operated enterprises. Firms having the potential for expansion of agribusiness, agriculture, mining and minerals may also benefit greatly from these activities.

C. IMPLEMENTING ENTITY

The basic strategy for implementing the project is to supplement, where possible, existing private and public organizations. There is no single existing organization or agency in Thailand which could effectively implement this project. The Thailand business advisory group recommended that a private entity be established, managed, and operated by the private sector to promote the interests of the private sector. Therefore, the project will be implemented by the Joint U.S.-Thai Business (JUST Business) organization which will seek to support itself from several sources: fees charged for services, membership fees, corporate donations, and a grant from USAID. Management policy, guidance, and direction will be provided by a Board of Directors which will be composed of representatives from the U.S. and Thai private sectors. U.S. and Thai public sector agencies dealing with trade and investment will be ex-officio advisors to the Board. The Board of Directors is expected to equally divided and consist of the following:

- Three or four members of the U.S. business community operating in Thailand; and;
- Three or four members from the Thai business community, one each from Thai Federation of Industries, the Thai Chamber of Commerce, and Thai Banker's Association.

The ex-officio advisors will be

- One advisor each from the U.S. and Foreign Commercial Service and from USAID/Thailand;
- One advisor from the Thailand Section of the U.S.-ASEAN Council for Business and Technology, Inc (USACBT); and
- One advisor from the RTG Board of Investment of Thailand (BOI).

The Board of Directors will meet quarterly to review progress and financial reports and to reach decisions on organizational and functional activities for the future.

JUST Business will also have a Secretariat which will consist of an expatriate Executive Director, a Thai Deputy, and a small number of support personnel. The Executive and Deputy Directors will

report to the Board of Directors, but will also be responsible for providing quarterly progress and financial reports to USAID, and for maintaining project and financial records in accordance with approved policies and procedures.

The policies of JUST Business will be determined by the Board of Directors described above. Proposed activities will be subjected to a set of evaluative criteria, and must be approved by the JUST Business Board. Activities will be implemented primarily by existing public and private organizations in Thailand and in the United States. The JUST Business Secretariat will manage and monitor the activities approved by the Board.

JUST Business will complement not compete with or duplicate the work of existing public or private institutions. The success of JUST Business hinges on a high degree of cooperation among public and private sector organizations in both Thailand and United states. JUST Business will charge fees-for-services and raise funds from other sources, such as corporate donations, membership fees, etc. This will be essential to independence and sustainability.

JUST Business will collaborate with and utilize the resources of the PITO (Private Investment and Trade Opportunities) project sponsored by ASEAN. The PITO project sets up a country-by-country information and referral network in the ASEAN region. Also, a comprehensive survey of alternative business networks in the United States and in Thailand to serve as source of leads for trade and investment will be undertaken.

JUST Business will develop cooperative linkages with different U.S. government agencies charged with trade and investment promotion - TDP, OPIC, Eximbank, etc., which are represented in Thailand by the U.S. Foreign Commercial Service.

JUST Business will support the establishment of a Business Service Center to assist U.S. businesses establish their operations in Thailand, particularly small and medium scale businesses. JUST Business will initially carry out a market survey to identify the sector(s) and target groups for its promotional activities. In addition, this Service Center will help Thai companies find U.S. joint venture partners and get established. The JUST Business Service Center is planned as a self-supporting, business enterprise.

It is anticipated that the Center will provide technical, legal, managerial, and clerical support to U.S.-based companies, assist them identify Thai joint venture partners, and as required, identify possible sources of equity and debt financing at favorable terms. The Center will ensure that current market information is made available, assist the entrepreneur evaluate the market, develop a preliminary marketing plan, and facilitate introductions, appointments, etc.

Also, the Center is expected to selectively assist Thai companies identify U.S. joint venture partners, develop comprehensible business strategies and plans which will be designed to be both a guide for the company's development as well as the document which will be presented to potential investors, joint venture partners and/or potential sources of finance. Each new venture which is formed under the Center's sponsorship will share common facilities and services in order to keep start-up costs at a minimum. The Center will assist the new business in preparing its application for BOI incentives, identify possible financing sources, if needed, and obtain legal, accounting, and other professional services.

Both Thai and American entrepreneurs involved in trade and investment believe a better understanding of policy, structures, constraints, and limits to flexibility which affect Thai integration in the international economy will benefit Thailand. JUST Business will support the preparation of position papers on generic or sectoral issues, and fora for their review and discussion, so that private sector advocacy groups will have the analytical base they need to support and justify requests for policy changes.

D. ACTIVITIES

JUST Business will initiate a program of research, development, and technical assistance which will help sustain Thailand's development by encouraging its further integration with the international marketplace. JUST Business intends to draw upon the resources of the U.S. private sector to achieve this goal. Specifically, JUST Business will encourage the transfer of U.S. management skills, technology, and capital flows to the Thai through a series of program interventions. The interventions are likely to include:

1. Research

- (a) Conduct market research into selected economic sectors;
- (b) Conduct research into needed product quality and standards for international acceptance;
- (c) Conduct in-country investigation of Thai firm capabilities;
- (d) Research constraints to investment in selected sectors of the Thai economy;
- (e) Arrange for company and plant visits in Thailand and the U.S.
- (e) Research constraints affecting capital inflow and technology transfer in selected economic sectors.

2. Development

- (a) Establish a Business Service Center to provide business support services on a fee basis to help U.S. firms become established in Thailand.
- (b) Conduct seminars, lectures, conferences, and workshops on specific opportunities by sector and industry.
- (c) Prepare facts and information on specific areas of the Thai economy for distribution.
- (d) Receive trade and investment missions from the U.S. and organize visits for Thai entrepreneurs to the U.S.

3. Technical Assistance

- (a) Provide political, economic, and cross-cultural information and training sessions for U.S. business personnel through AmCham-Thailand.
- (b) Conduct training programs for Thai business through the Federation of Thai Industry and the Thailand Chambers of Commerce concerning information requirements of U.S. business.
- (c) Screen specific trade or investment opportunities for Thai and U.S. entrepreneurs.
- (d) Help examine potential joint-venture partners.
- (e) Match opportunities with interested firms.
- (f) Computerize input needs of U.S. and Thai businesses and match with possible suppliers.
- (g) Help to negotiate agreements between Thai and U.S. firms.
- (h) Help establish agent or licensing relationships.
- (i) Assist businesses pursue possible support from international institutions.
- (j) Encourage banking institutions to consider financing specific investments and development projects.
- (k) Provide assistance at the Thai Board of Investment and the Department of Trade Promotion in the Ministry of Commerce by funding individual(s) to improve procedures related to the review and approval of investment applications and ensure the transparency of this process.

- (l) Develop cooperative linkages with different U.S. and Thai government agencies charged with economic expansion and integration.
- (m) Assist provincial chambers of commerce or other locally based organizations in carrying out their own programs to stimulate investment.
- (n) Track the progress of this experiment.

The actual activities must be determined by JUST Business.

E. ACTIVITY SCREENING CRITERIA

The activities mentioned above are illustrative of the kinds of interventions that have been identified as being appropriate for the Project to support. However, the JUST Business governing board will make the final selection of activities to be supported by the project. The following criteria will be provided to the JUST Business Board and used to screen and select project activities. The criteria may be modified as the JUST Business Board gains experience or as circumstances change.

To be selected for support, proposed activities should meet the following three sets of criteria:

1. Development Relevance

- Potential to promote self-sustaining economic growth through Thailand's greater integration in the world economy,
- Potential to facilitate the free flow of investment capital, goods and services, and technical skills which will contribute to Thailand's continued development,

2. Effectiveness

- Have a well conceived implementation plan and a "critical mass" of resources - financial, technical, and management.
- Represent "additional" initiatives targeted toward economic growth, not merely budget supplements for existing organizations.
- Be demonstrably cost effective.

3. Institutional Integrity

- Complement and not overlap activities of existing institutions, and develop Thai/U.S. institutional capacities and bilateral linkages.

- Have the potential for post-project sustainability.

F. TECHNICAL OUTPUTS AND INPUTS

1. Outputs

The following outputs are expected over the life of the Project:

- Private capital, investment, and U.S. technical and management skills provided to Thai firms.
- A series of actionable policy and regulatory analyses and position changes which would further Thai integration into the world economy.
- Development of an effective, non-governmental system for obtaining and providing information to U.S. and Thai investors.
- An information network(s) in Thailand and the United States to bring U.S. private sector expertise, technology, and investment to Thailand.
- A Thai-based technical support center, providing startup information and assistance to U.S. and Thai entrepreneurs.

2. Inputs

JUST Business will provide technical cooperation and assistance. The technical services include:

a. Trade and Investment Development:

- Technical support to U.S. and Thai business organizations.
- Technical support to U.S. and Thai government agencies.

b. Policy Analysis and Formulation:

- Technical assistance from Thai and U.S. experts, extended to U.S. and Thai business organizations, to analyze and seek solutions to policy, regulatory and administrative constraints which hamper Thailand's further integration in the world economy.
- During FY 1990 approximately \$200,000 will be obligated to finance project start-up costs such as: development of accounting and financial systems for use by JUST Business to provide accountability for the grant funds to be made available beginning in FY 1991; initial market research studies into areas of opportunity for business development

in Thailand with special emphasis on rural agricultural opportunities in the northeastern part of the country; and development of a business plan for the first year of the project implementation following the start-up period.

- The remainder of the \$6.0 million life-of project funding will be authorized and obligated at a later date. Almost all of these funds will be used to finance the project activities to be carried out by JUST Business.

G. END OF PROJECT STATUS

The project is experimental. Financial resources will be limited. More importantly, and of several contingencies, such as U.S. or Thai economic recessions, failure of the GATT Uruguay Round, regional political instability, exchange rate fluctuations, and so forth, could effectively negate the performance targets projected.

Indicators that would represent achievement of the project's objectives include the following:

- An increase in U.S. direct foreign investment in Thailand in sectors identified by JUST Business as having developmental impact on the Thai economy.
- A self-sustained mechanism (JUST Business) for providing business services to U.S. and Thai firms.
- Improved climate for Thailand trade and investment as a result of policy changes based on recommendations from analysis of issues and constraints hampering the free flow of goods and services between Thailand and the United States.
- A concrete set of collaborative working relationships among U.S. and Thai public and private agencies engaged in addressing problems affecting Thailand's sustained economic growth.

H. MONITORING AND EVALUATION PLANS

The Project will be implemented over five years and has a scheduled Project Assistance Completion Date (PACD) of September 30, 1995. The implementation plan presented herein covers those actions necessary to get JUST Business legally established and operational, after which it will undertake trade and investment promotion and policy analysis activities according to a work plan agreed to by the JUST Business Board of Directors and A.I.D.

IV. ADMINISTRATION

A. Administrative Arrangements

A Memorandum of Understanding will be signed with the RTG to record the agreement of the RTG to a trade and investment project in Thailand financed by direct assistance from USAID/Thailand to a private sector entity. USAID will execute a Cooperative Agreement with JUST Business to undertake trade and investment promotion activities in Thailand.

B. Project Disbursements

Disbursements to JUST Business will be under the periodic advance method with the initial advance based on their cash requirements for the first 90 days. Thereafter, JUST Business will submit monthly vouchers with the first voucher covering the first month of activity and projecting their cash requirements for the next 90 day period (second through the fourth month). Documentation and certification will be in accordance with the Standard Provisions attached to the Cooperative Agreement.

Contracting and payment by JUST Business to suppliers of goods and services will be in accordance with the standard provisions of the AID HB Cooperative Agreement. Expenditures under the Cooperative Agreement will be monitored through an internal accounting system established by JUST Business and approved by its Board of Directors and USAID.

The JUST Business Secretariat will prepare annual operational and financial plans which will be reviewed and approved by the Board of Directors prior to their submission to USAID for approval. USAID's approval will be determined by project progress as indicated through monitoring and evaluations and projected annual requirements. The Project will be incrementally funded in five obligations, subject to the availability of funds.

A portion of the project funds will be obligated through AID direct contracts. Disbursement under these contracts will be per the standard provisions applicable to such contracts.

C. Project Management

Management of the Trade and Investment Support Project will be carried out by the JUST Business Board of Directors, its Secretariat, and USAID. Responsibilities for each are described below:

1. JUST Business Board of Directors

The Board of Directors, as described in the Project Description, will be the governing body that will provide

overall policy guidance and oversight to the operation and management of JUST Business. It will meet at least quarterly and more frequently as required to review progress, financial reports and to decide on on-going and future organizational and functional activities of the organization. The Board will also be responsible for the recommendation and review of policy studies undertaken by JUST Business and for initiation and conduct of a dialogue with the U.S. and Thai public leaders to resolve issues affecting broader trade and investment between the two countries.

2. JUST Business Secretariat

The Secretariat will be the operational and implementing organization under JUST Business and will be responsible for managing the Trade and Investment Support Project. The JUST Business Board of Directors will recruit a President who will be the responsible officer to the Board for carrying out the goals and objectives of JUST Business. The President will also be responsible for the administration and management of the assets and personnel of the organization and for maintaining project and financial records in accordance with approved A.I.D. policies and procedures. The President will be an American expatriate and the Vice President/Treasurer will be a Thai citizen. In addition, the Secretariat will have a small support staff including a controller, accountant, administrative officer, executive secretary and a driver.

3. AID Management

The Mission's Private Sector Officer will be the responsible officer for managing and monitoring the project, reviewing and approving annual funding plans and initiating project evaluations. The Private Sector Officer will be an ex officio advisor to the Board of Director.

The Mission's staffing will be assessed prior to signing a grant with JUST Business. If additional Mission staff is required to manage the project, the Mission will hire a Project Coordinator under a Personal Services Contract for two years. The Project Coordinator will be the liaison between USAID and the JUST Business, providing advice to USAID and JUST Business on trade and investment, assist in the development and review of budgets and plans, and identify problems which contribute to implementation delays and recommend organizational, procedural and programmatic solutions.

The A.I.D. Regional Legal Advisor and Contract Officer, as well as the Mission's Controller, will provide administrative support to the Project. The Regional Contracts Office will administer the grant to JUST Business.

D. Procurement Plan

Procurements will be carried out in accordance with the Standard Provisions attached to the agreement. Policies and procedures are dictated by the Standard Provisions.

E. Evaluation Plan

Two interim and one final external evaluation to measure project performance and impact will be carried out over the life of the project. JUST Business will contract for the needed professional services to support these evaluations. USAID will approve the scopes of work and the selection of the contractors.

Given the fact this project will be a pilot, the first evaluation will be scheduled after the second full year of operation in order to ascertain progress toward meeting the project's objectives and to identify problems that need to be corrected during the early stages of operations. By the end of the second year JUST Business will have acquired operational experience that can be evaluated in terms of progress toward achieving its financial and institutional objectives. A second interim evaluation will be scheduled after the fourth year of the project, and a final evaluation carried out at the end of the project to assure the project to assure the project is meeting its goal and objectives.

The evaluations will focus on the effectiveness of JUST Business' marketing and promotion strategy as measured by:

- The number, kind, size, etc. of specific transactions or companies which JUST Business is able to attract and service;
- The level and nature of interaction and effectiveness of linkages between the U.S. and Thai public and private sector; and
- The policy issues dealt with and/or resolved as a result of the policy studies and position papers commissioned by JUST Business.

F. Implementation Schedule*

- | | |
|--|----------------|
| 1. Project Paper Approved: | Sept. 30, 1990 |
| 2. USAID contract for financial/control system: | Sept. 30, 1990 |
| 3. USAID contract for initial market research: | Sept. 30, 1990 |
| 4. Initial Ag sector market research completed: | Nov. 15, 1991 |
| 5. Subject fund availability, AID/W approval
to proceed with JUST Cooperative Agreement | Jan. 15, 1991 |
| 6. Board of Directors formed: | Jan. 31, 1991 |
| 7. Memorandum of Understanding with RTG signed: | Feb. 15, 1991 |
| 8. First year business plan: | Feb. 28, 1991 |
| 9. Initiate recruitment of Executive Director: | Mar. 1, 1991 |
| 10. Project Paper Amendent Approved: | Mar. 31, 1991 |
| 11. JUST Business incorporated in U.S.: | April 15, 1991 |
| 12. JUST Business registered in Thailand: | April 15, 1991 |

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13. Cooperative Agreement with JUST Executed:	April 30, 1991
14. First quarter budget approved and submitted:	May 1, 1991
15. First quarter funds released:	May 15, 1991
16. Executive Director contract executed:	May 15, 1991
17. Office leased and equipment purchased:	May 30, 1991
18. Administrative staff hired:	June 15, 1991
19. JUST Business operational:	Aug. 15, 1991
20. First financial control audit:	Aug. 30, 1992
21. Second financial control audit:	Aug. 30, 1993
22. First interim evaluation:	Dec. 30, 1992
23. Second interim evaluation:	Dec. 30, 1994
24. PACD;	Sept 30, 1995
25. Final evaluation:	Dec. 30, 1995

* Implementation schedule could be accelerated if congressional approval for overall project is obtained early in FY 91.

V. COST ESTIMATE AND FINANCIAL PLAN

A. Illustrative Cost Estimate

The total cost of the Project is estimated at \$6.6 million. A.I.D. will provide \$6.0 million over a five-year period to permit JUST Business to become fully operational, prove its worth to the U.S. and Thai business communities, and put into effect a financial self-sufficiency strategy. The grantee will be JUST Business, a private sector entity, managed and operated by the private sector to implement the project. An illustrative cost estimate and financial plan is set forth on the following page.

B. Obligation Schedule

The project will be supported by \$6.0 million grant which will be obligated incrementally over a four-year period as follows:

FY 90	\$0.2 million
FY 91	\$2.0 million
FY 92	\$2.0 million
FY 93	\$1.8 million

C. Disbursement Plan

The JUST Business Secretariat will initially prepare a work plan for the first quarter of the first year of operation and corresponding budget, which will be reviewed and approved by the Board. During this first quarter, JUST Business will hire the staff needed to develop the operational plan for the remainder of the year. For subsequent years JUST Business will prepare an annual plan and budget based upon a review of the previous year's activities and projected activities for the coming year. Annual funding levels will be determined by funding availability and progress as indicated through monitoring and evaluation and projected annual requirements.

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US-Thai Trade and Investment Support Project
Illustrative Cost Estimate & Financial Plan

	(\$ Thousands)					
	<u>1st</u> <u>Year</u>	<u>2nd</u> <u>Year</u>	<u>3rd</u> <u>Year</u>	<u>4th</u> <u>Year</u>	<u>5th</u> <u>Year</u>	<u>Total</u>
A. <u>JUST Business Cooperative Agreement:</u>						
1. Research, Technical Asst.						
a) Bus. Service Center	100.00	224.00	274.00	124.00	124.00	846.00
b) Market Info. Ser.	71.50	171.50	171.50	196.50	196.50	807.50
c) Thai-U.S. Outreach	145.50	246.50	246.50	246.50	246.50	1,131.50
d) Cross-cult. Act.	79.00	79.00	79.00	79.00	79.00	395.00
e) Board of Investment	149.00	174.00	174.00	174.00	174.00	845.00
f) Other Thai Progs.	0.00	150.00	125.00	75.00	75.00	425.00
2. Policy Analysis						
a) Consultants	0.00	100.00	100.00	100.00	100.00	400.00
b) Seminars/Workshops	0.00	50.00	50.00	50.00	50.00	200.00
3. Evaluation, Audit & Monitoring	<u>125.00</u>	<u>75.00</u>	<u>50.00</u>	<u>75.00</u>	<u>75.00</u>	<u>400.00</u>
Subtotal	670.00	1,270.00	1,270.00	1,120.00	1,120.00	5,450.00
B. <u>Other AID Direct Contracts:</u>						
1. Financial/Accounting System	25.00	50.00	0.00	0.00	0.00	75.00
2. Market Research	175.00	0.00	0.00	0.00	0.00	175.00
3. Project Liaison	300.00	00.00	00.00	0.00	0.00	300.00
Subtotal	500.00	50.00	00.00	0.00	0.00	550.00
Total AID Contribution	1,170.00	1,320.00	1,270.00	1,120.00	1,120.00	6,000.00
Total Just Business Contribution	<u>50.00</u>	<u>50.00</u>	<u>100.00</u>	<u>200.00</u>	<u>200.00</u>	<u>600.00</u>
TOTAL PROJECT	<u><u>1,220.00</u></u>	<u><u>1,370.00</u></u>	<u><u>1,370.00</u></u>	<u><u>1,320.00</u></u>	<u><u>1,320.00</u></u>	<u><u>6,600.00</u></u>

D. Methods of Implementation and Financing.

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Estimated Am't (US \$ 000)</u>
1. Accounting/Financial System (AID Direct)	Direct Payment	\$ 75
2. Market Studies/Business Plan (AID Direct)	Direct Payment	175
3. Cooperative Agreement: AID/JUST Business (AID Direct)	Advance/Reimbursement	\$5,450
4. PSC-Project Liaison Contractor	Direct Payment	<u>300</u>
Total Project		<u>\$6,000</u>

The methods of implementation and financing presented in this project paper do not deviate from the preferred methods identified in the Agency's payment verification policies.

Of the total project costs of \$6 million, approximately \$5.45 million will be obligated under a HB 13 cooperative agreement. The grantee will be JUST Business, a legally established, nonprofit, private sector organization which is in the process of being established. Prior to the first advance provided to JUST Business, USAID will contract with a local firm to install an accounting and reporting system, internal controls, a personnel system and contracting capabilities. The firm will periodically review JUST Business operations to ensure complete compliance with AID requirements. Funds will be included in the cooperative agreement for yearly financial audits.

The balance of project funds totalling \$550,000 will be obligated under AID direct contracts for project monitoring, services mentioned in the above paragraph and a contract with a U.S. firm for market studies and marketing plans. Audit coverage for these activities is not required.

E. ARDN (Sec. 103) FUNDS

One of Thailand's comparative advantages lies in its natural resources, including agriculture and aquaculture. Annex C-2 describes sectors where the U.S. has a comparative technical advantage; agribusiness is the first on the list. On the basis of the major role agriculture plays in Thailand and the importance of increased value-added to agricultural products, USAID/Thailand believes Section 103 (ARDN) funds are appropriate for JUST Business activities. \$500,000 in ARDN funds is contemplated to assist JUST

Business further investigate natural resource opportunities in Thailand for the expressed purpose of stimulating investment in these areas.

Agribusiness is a natural sector for U.S. investors. Thailand's agricultural sector, which employs over half of the Thai labor force, is already integrating in the world economy. Only a tiny fraction of the population depends on subsistence agriculture. Nearly all Thai farmers grow cash crops, and many of the cash crops are grown for export.

The RTG does not generally intervene in agricultural pricing. In addition, the amount of productive land in Thailand cannot be expanded. Any combination of lower commodity prices and farm productivity will result in lower rural incomes unless:

- New technologies are employed for the production of higher value commodities, or
- Rural labor moves into off-farm employment industries.

USAID/Thailand has for years encouraged higher value agriculture. Its Agriculture Technology Transfer Project led to four U.S. hybrid seed firms investing in Thailand to produce hybrid tomatoes and melons for export. Similar USAID support is expanding opportunities for other new high value products, e.g., poultry and swine, dairy products, tiger prawns, seaweed products, mushrooms, and tropical fruits. Agriculture related biotechnology issues are one of three substantive focal areas of the Science and Technology for Development Project.

JUST Business can help many U.S. agribusiness firms seriously consider Thailand for investment with favorable results for Thailand's farming communities. JUST Business is expected to submit a work plan for funding which includes agribusiness. Upon receipt and approval of that work plan, USAID/Thailand will utilize the ARDN funds reserved for this.

VI. CONDITIONS AND COVENANTS

1. Conditions Precedent to Award of a Cooperative Agreement to JUST Business.

- Proof of the incorporation of JUST Business in the U.S. and registration of its representative office in Thailand.
- Evidence of mutual agreement between the USG and the RTG concerning the proposed activities under the project.

2. Conditions Precedent to Initial Disbursement to JUST Business

- Names and specimen signatures of each official representative of JUST Business who will have authority to sign implementing documents under the project.
- Acceptance and establishment by JUST Business of a basic accounting and financial control system approved by AID that will provide accountability for grant funds.

The initial disbursement to JUST Business will provide grant funds to meet JUST Business initial cash requirements for the first 90 days. This will include the funds to hire its key personnel, lease office space, purchase office furniture and equipment, and initiate the preparation of its overall strategic plan, and the operational and financial plan for the remainder of FY 1991.

3. Condition Precedent to Additional Disbursement to JUST Business

Prior to subsequent disbursement, JUST Business will furnish to USAID an annual work and financial plan, describing each project activity to be undertaken during the year and the estimated cost of each activity. The workplan and budget will be reviewed and approved by the JUST Business Board of Directors prior to submission to USAID.

VII. SUMMARY

A. Financial Analysis

This project is a pilot activity, and its implementation strategy differs from traditional AID projects in that it is oriented toward assisting the private sector directly, unlike typical government-to-government projects, and will be managed by private sector entity which will have considerable latitude to decide what activities will receive resources under the project.

In view of the unique nature of the project, the application of standard forms of cost/benefit analysis would not be productive. Specifically, it would be difficult to determine direct, quantifiable casual relationships between policy analyses or promotional activities and actual increases in commercial trade and investment. Efforts in the past to apply such measures as "promotional dollars spent versus job created" have not only been conceptually flawed, but also have created biases in the way in which trade and investment projects have been implemented. The project will create benefits to Thailand and the United States in the form of greater trade and investment, but these gains are primarily the result of decisions made by business executives reacting to more favorable environments for commercial ventures.

B. Funding/Sustainability Strategy

JUST Business is intended to be a non-profit, independently chartered organization created to promote U.S. Thai bilateral trade and investment. While JUST Business will be a private entity with its own by-laws and management structure, it represents a relatively unique form of public/private cooperation. The Board of Directors will consist of both private business executives and ex-officio representatives from U.S. and Thai government agencies.

Initially, JUST Business will be financed by a grant funded by USAID/Thailand. The basic financial goal for JUST Business is to devise and implement a plan to secure or generate funds to support progressively larger shares of the organization's core expenditures. AID's contribution in the out years may decrease as funds are obtained from other sources or generated by the Business Center. The amount of AID's contribution will be determined annually based on a review of JUST Business' fiscal performance.

The funding strategy for JUST Business will be based on the premise that the value of the organization and its work is of sufficient value to warrant its continued existence. However, some of the services suggested for JUST Business might be considered public goods required to promote U.S. trade and investment in Thailand. Therefore, any funding plan should be recognized as highly experimental.

(a) Funding Principles

Efforts to achieve funding for JUST Business, like those for any similar organization, will by necessity depend heavily on circumstances associated with alternative sources. In other words, a fund raising strategy should be "entrepreneurial" in seeking out reliable sources of money to support the organization's existence and activities. However, in order to direct the funding strategy without unduly constraining the range of alternatives, it is important to establish certain principles to act as guidelines. A proposed set of guidelines is presented below, along with a brief discussion of their intent and operational implications.

- (1) The JUST Business Board and management should take direct responsibility for taking all necessary courses of action to assure the long-term viability of the organization.

Clearly the primary responsibility for the JUST Business' future existence rests with its internal and external management. Accordingly, this management is directly accountable for undertaking those steps necessary to assure that sufficient funds are obtained. These actions include but go beyond the task of fund raising. The foremost is creating and maintaining a high degree of credibility for JUST Business in the view of both the private sectors and

governments of Thailand and the United States. Equally important is guaranteeing a high level of competence and performance in the organization's staff, activities, and services. In addition, there are clear pledges to undertake aggressive fund-raising efforts, assure prudent fiscal management, and marshal institutional and program resources carefully. These actions are necessary to indicate to outside sources that their funds are being well spent.

(2) Funding should to the maximum extent possible be derived from recipients of benefits from JUST Business activities and services.

This principle simply indicates that costs should be borne by beneficiaries to the extent possible. A specific segment of beneficiaries includes the prospective investors and traders that directly receive JUST Business services. These individuals and companies should be willing to pay for these services.

A second category of recipients to which JUST Business should look for funds consists of the U.S. and Thai business communities, since increased trade and investment provide new income opportunities for them. In addition, since the activities of JUST Business benefit the economies of both Thailand and the United States, government agencies represent a valid source of funding.

(3) Funding activities should not alter JUST Business' role of providing information and services objectively and in a non-discriminatory fashion.

A danger faced by any organization seeking to raise funds is that it might be forced to change its basic role or actual identity to accommodate the interests and demands of primary funders. This problem is particularly acute for nonprofit organizations experiencing chronic or acute cash flow shortfalls, since their managements must achieve acceptable accommodations between organizational goals and funder requirements.

A specific implication of this principle is that funding should not force the organization to extend preferential treatment for its advice, information and counsel to prospective investors. Such a development would imperil the integrity of JUST Business and undermine its chartered purpose. In a practical sense this sometimes runs counter to the idea that contributors "want to see something" in return for their money.

(4) All financing and fund-raising activities should be designed and implemented in a fully transparent manner to assure the highest standards of legitimacy.

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For any organization located in any country, achieving adequate financing requires the development of a high degree of trust between the organization and its funders. No one will be willing to provide money to an organization if overall sources and uses of funds are in any way suspect of impropriety. Therefore, the funding strategy for JUST Business should be clearly visible to all interested parties.

(b) Funding Strategy

(1) Objective

The objective of JUST Business' funding strategy is to be financially self sustaining by the end of year five of the project by obtaining funds from a variety of non-AID sources which support JUST Business' institutional mission. The term "non-AID sources" is defined to include all possible private and public funders.

(2) Considerations

In assessing financial sustainability three considerations are paramount.

First, some of the illustrative activities fall under the heading of general information dissemination (e.g. the Mini Ambassador Program, funding an American at the BOI Office). This type of information, as noted earlier, has the character of a public good. Providing the information to one firm does not preclude its use by any other firm. It may be more efficient for the public sector to make such information widely available than for each individual firm to expend resources to acquire the information on its own. A valid economic rationale exists for public intervention to facilitate the flow of general information.

Second, JUST Business' decision making process will be run by a U.S. -Thai private sector dominated board of Directors. Neither USAID nor other USG or RTG agencies will be voting members of the Board.

Third, the Board will be tasked initially to develop a financial plan in order to achieve its financial objectives. Certain activities, which the informal advisory board indicated would be very worthwhile in promoting trade and investment such as placing a person at the BOI, may not be financially attractive.

Given the above three considerations, during the preparation and review of the JUST Business financial plan, USAID and the Board will consider the funding requirements for proposed activities like the general information dissemination activities, establishing a U.S.

interests section at BOI, etc. While these activities can be justified on economic grounds, they may lessen the prospects that JUST Business will become financially self sufficient because they may not generate sufficient revenue to cover costs, much less generate a positive stream of income. In other words, from a commercial point of view the JUST Business Board will have to consider if these activities are in the best interest of JUST Business or AID. If the latter, then a decision will have to be made as to how the costs are to be shared or not shared.

The illustrative activities and budget must be viewed as just that -- purely illustrative. The Board will have the flexibility to adapt programs to potential donors, members and revenue generating activities as they are identified. To limit flexibility would cripple the Board's objective of financial sustainability.

(3) Sources of Funds

The project will be market driven subject to the limitations set by the objectives agreed to in the grant agreement. Potential sources of funding, given the parameters of the project that USAID has identified are as follows:

- Membership dues from the Thai and U.S. business communities;
- Receipts from a JUST Business commercial service registry;
- Grants from or contracts with the U.S. and/or Thai Governments;
- Core or program support from non-AID donor agencies.

A tailored fund-raising program would be developed for each of these candidates. Realistically, a certain degree of funding will have to be achieved from each source in order to reach the overall objective.

In addition to the core funding sources, JUST Business would also seek to obtain a certain amount of money from two additional activities: User fees for JUST Business services, and efforts to elicit financial and in-kind donations from individuals and corporations. However, these latter two components cannot be expected to raise material levels of funding.

The funding campaign structure includes three important rules. Each is intended to provide for the flexibility, incentives, and "entrepreneurship" that are needed to enhance this highly experimental initiative.

- While the overall strategy is to cover the targeted amount annually, any excess funds raised in any given year will be placed in an "endowment" account, to earn interest and be credited against following year targets.
- All gross receipts of funds from non-AID sources will be credited against the annual target, regardless of their source or use.
- Any reductions in established "core" costs as defined above will automatically reduce the annual funding target. That is, if JUST Business' management eliminates or consolidates any of the staff positions identified, this will trigger a concomitant reduction in the funding target. This provides an incentive for the JUST Business to maximize the organization's efficiency and to reduce the overall funding burden.

(4) Detailed Description Of The Funding Bases.

- Membership Dues. To remain viable as a private sector organization, JUST Business needs to demonstrate that it has the material support of the U.S. and Thai private sectors. The method to be used for manifesting this support is the assessment of annual dues for membership in a JUST Business Council. The Council could consist of both corporate and individual members, with corporate members being assessed higher dues than individual members.

Clearly the optimum strategy is to encourage local business executives to become corporate members of the council. This obviously provides higher amounts of funding. In addition, it reduces the need to seek funding from a much larger number of individual members. However, certain funders will not be able to join as corporate members for a variety of reasons, and so this structure allows them to contribute their own funds. Since JUST Business is to be incorporated as a nonprofit entity and may also be considered a charitable entity under U.S. law, a tax deduction may be available under U.S. law for dues payments

- Corporate/Service Registry. A second funding base for JUST Business could be a service directory or registry. The registry would provide a service to current and prospective investors, and represents a money making enterprise for JUST Business. JUST Business would first advertise locally that it plans to publish a registry. It will solicit "placements" in the registry from a variety of local business establishments. This would include local large

manufacturers, potential joint venture partners, law and accounting firms, real estate companies, consulting companies, utilities, and other firms seeking the business of current and new investors/traders. The placements will include a pre-determined set of information (products, services, joint venture interest, addresses, etc.) that will be collected on a form.

A standard fee will be charged for placements of equal size. An option for advertisements (using camera ready copy) will be considered for additional fees. Another option is to "sell" differentially sized space in the registry, similar to "Yellow Pages" telephone directories.

- Government Grants or Contracts. The overwhelming if not universal experience of trade and investment promotion organizations of any reasonable size and duration has been that their basic operating costs are covered by their governments. Encouraging new investments is in the public good and accordingly should be seen as worthy of public support.

As a consequence of this conclusion, the Thai and U.S. Governments should be approached to provide at least partial financial support for JUST Business. The strategy to be followed is to present JUST Business as a public/private partnership, and to seek funding from the governments on an approximate matching basis with private sector support. In this regard, private sector support would be defined as JUST Business receipts from membership dues and from the corporate registry.

- Non-AID Donor Grants and Project Funds. The final major funding base for JUST Business to develop is the solicitation of grants and project funds from donors other than AID. Many trade and investment promotion organizations obtain funds from both bilateral and multilateral donors. While AID has taken the lead internationally in funding such projects, other donors are now following suit and providing grants to institutions involved in trade and investment promotion. Among the "universe" of donor agencies, the following hold the greatest promise at least in the near term: The World Bank, the IFC, the Asian Development Bank, and U.S. private foundations.

- Other funding sources. The sources and mechanisms identified above constitute the most likely means of obtaining material thresholds of funding for JUST Business. In addition, however, several additional

funding opportunities should be pursued rigorously, even though they are not likely to yield major amounts of money.

It is clearly appropriate for JUST Business to seek fees for certain services rendered to specific users of those services. These include the provision of informational brochures and business development assistance, participation in JUST Business-sponsored seminars, and attendance at trade and investment shows. While at best any fees collected can only represent partial cost recovery (e.g., printing and mailing costs, trade show registration, seminar honoraria, etc.), they do represent a cash inflow and therefore should be credited against JUST Business' overall core funding target.

Another source of potential funding is outright donations -- financial or "in kind" by individuals and corporations. These can include, for example, the provision of services (travel by airlines, telephone, etc.) or goods (e.g., computers, audio-visual machinery, etc.) by various "friends of JUST Business." Appropriate steps would be taken to assure that such donations would be tax deductible. The strategy would simply be for JUST Business to identify specific cost items (current and projected) and then seek targets of opportunity for donations.

A final source of possible funding is derived as a culmination of all other fund raising efforts -- the establishment of a JUST Business endowment account. If in any year JUST Business succeeds in exceeding its core cost funding target, the excess would be placed into an interest-bearing account. The principal and interest of this account would then be credited against future year targets.

- RTG Contribution. A host country contribution is not required when the assistance is given to a private institution, per AID Handbook 3, Appendix 2G. The project funds will be utilized solely by JUST Business, a private entity. Accordingly, the foregoing exception applies and no host country contribution is required. However, the RTG does make a sizeable expenditure annually to specifically promote U.S. and Thai trade relations. The BOI sends two trade missions a year to the U.S. These are usually targeted to specific cities and industries. Baht 2.0 million is budgeted annually for this purpose. In addition, BOI maintains a New York office staffed by two Thai and one American. This office is responsible for trade promotion activities and

coordinating Thai/U.S. investment opportunities. Baht 6.6 million are budgeted for this purpose annually. These activities have been discussed with the BOI and will be coordinated with JUST Business and jointly carried out when practical. At the request of BOI, the project will provide one advisor who will be located in BOI and be responsible for coordinating U.S./Thai trade promotion activities and for assisting U.S. investors get established in Thailand through the BOI procedures. BOI will provide office and related support to this advisor. The contribution will amount to Baht 60,000 per year. So while the RTG is not making a contribution directly to the project, it will indirectly contribute Baht 8,660 per year. Over the life of the project this amounts to approximately \$1.75 million.

3. Implementation Strategy

Implementation of the fund raising strategy will require a major level of effort by JUST Business, and specific tactics will be determined for each funding component. At the general level, however, a series of implementation rules and procedures will be applied to provide overall guidance.

(a) A Financial Development Committee of the Board will be established to oversee fund raising activities and monitor results.

(b) The Chairman of the Board and the President of JUST Business will assume functional responsibility for the implementation of the fund raising plan.

(c) Specific decision points, actions and milestones will be determined on an annual basis, in conjunction with the development of annual strategic plans.

(d) Quarterly progress reports will be issued and will include financial and substantive information.

(e) All receipts of funds will be deposited into a special bank account and credited to the core funding target. The account will be subject to rigorous fiduciary controls, and all withdrawals will be used only to support identified core costs.

(f) A comprehensive set of financial accounts will be developed according to accepted accounting principles and made available to institutional sources of funds.

(g) A summary financial statement will be issued annually to members of the Board.

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4. Conclusion on Sustainability

In the final analysis, the sustainability of JUST Business is not guaranteed. However, the JUST Business Board will be made up of experienced business persons drawn predominantly from the U.S. and Thai private sectors who will be expected to run JUST Business like a small business. AID, as an ex-officio advisor to the Board, will have a say in the decisions, but the Board will be expected to operate with considerable independence. There is enough preliminary evidence to warrant the undertaking of a small pilot project with the expectation that JUST Business, with a well thought out business plan, financial strategy and good management, will succeed in becoming financially viable. The sustainability of JUST Business will not be judged or evaluated on whether it becomes self-financing or not. It will be evaluated on the contribution it makes to the expansion of U.S.-Thailand trade. JUST Business will be considered successful if it results in new joint ventures, in trade opportunities for both U.S. and Thai firms, and if its studies and project papers result in policy changes that increase trade flows.

Although the sustainability of JUST Business is not guaranteed, it is reasonable to expect that JUST Business will produce sustainable benefits and revenues to Thailand and the U.S. in the form of increased investments and trade. These benefits are the result of improved collaborative working relationships and more favorable climate for trade and investments that JUST Business will help to form through its investment promotion activities and the policy recommendations resulting from the position papers and policy studies commissioned by JUST. Estimates of the magnitude of these benefits in terms of the average size of the investments or the resulting level of trade flows would be speculative at best. However, certain indicators that are appropriate measures of the contributions made by JUST Business to increased levels of U.S. and Thai business activity include the following:

- the number of inquiries and initial contacts regarding potential trade or investment opportunities in Thailand are expected to increase as a result of promotional activities carried out under JUST Business. A baseline for the current level of inquiries will be established during the first year of the Project;

- an increase in inquiries and contacts is expected to result in an increase in the level of investments by small and medium sized U.S. companies in Thailand. The level of investments will be measured by Board of Investment data (for manufacturers) and U.S. Dept. of Commerce statistics for other forms of investment, as well as trade flows between Thailand and the U.S. It is expected that 50 to 75 new joint ventures by small or medium sized U.S. firms will be achieved over the life of the project. JUST Business will establish baseline data to measure the economic impact of all commercial operations which can be directly attributable to JUST's promotional activities.

C. Economic Analysis

Since 1987, the Thai economy has experienced the strongest boom in its modern history. While the economic surge was most directly attributable to the favorable external environment (including the depreciation of the dollar, rising cost pressures on Asian NICs and Japan, buoyant commodity prices and strong demand for Thai commodity exports, and lower oil prices), sound economic conditions magnified the domestic impact of changes wrought by the convergence of favorable conditions in the international economy. Thailand's prudent fiscal management, competitive exchange rate policy, political stability, enterprising private sector, and gradual shift in the incentive regime toward exports have strengthened investor confidence in the Thai economy. Aided by large inflows of foreign direct investment, especially from nearby Asian nations (notably Japan, Taiwan, and Hong Kong), private investment has risen at historically unprecedented levels, improving economic opportunities and standards of living.

International trade has made enormous contributions to Thailand's recent economic development. The export sector in particular has acted as the leading "engine of growth" and has closely tracked, and in fact spearheaded, growth in the nation's overall domestic productive capacity and economic development aspirations. This expansion of domestic output was supported by imports. In general, Thailand's import composition tracks the economy's comparative advantages and is consistent with an appropriate long-term development strategy. As Thailand's economy has strengthened, the country's participation in worldwide trade has grown dramatically, increasing by an average of almost 12% annually from 1950 to 1987. In 1988, Thailand's two-way trade expanded by a staggering 47%. Exports rose 36.8% to \$16.0 billion equivalent and imports leapt 57.0% to \$20.3 billion. Thailand continues to rely heavily on Japan and the U.S. as its major trading partners, with Japan as the major supplier, and the U.S. as the major market.

Many analysts believe the Thai economy is poised for a period of accelerated and sustained growth provided policy actions are taken to further strengthen the competitiveness of the economy. One need only compare Thailand to Taiwan or South Korea to conclude that Thailand's future success at retaining and improving competitiveness depends on its ability to further improve trade and industrial policy and macroeconomic management, e.g., tariff structure, investment incentives, and export promotion schemes require further rationalization to remove biases against some sectors or certain types of firms. Financial markets need to be reformed. Infrastructure, especially ports, roads, electricity and telecommunications networks, need urgent upgrading and/or expansion to keep up with the accelerated pace of industrialization. The education system should be transformed in order to be responsive to

present and future manpower needs. However, economic indicators reflect confidence in Thailand's ability to effectively take the required actions needed to maintain and strengthen its competitive position.

It is generally perceived by RTG policymakers that an increase in U.S. commercial activity in Thailand could serve to diversify Thailand's geographic composition of supplies, markets, and financial flows and reduce the risk of excessive dependence on any individual foreign country. In addition, expanding commercial relations between the U.S. and Thailand carries with it positive economic and political benefits. Considerable improvement in each of these functional areas is thus deemed to be critically important to Thailand's long-term development strategy, as well as to U.S. strategic interests in Thailand. (See Annex C for Economic Analysis)

D. Social Soundness Analysis

The direct beneficiaries of the project will be the private sector firms and their employees who engage in bilateral trade and investment ventures. However, as the previous economic analysis indicated, overall social conditions are improved as a direct consequence of increased economic activity through trade and investment. For example, the Thai Development Research Institute (TDRI) found that a 1% increase in export earnings will lead to a 0.46% increase in government revenue which can be used for public services. Similarly, it has also been demonstrated that most of the recently promoted direct foreign investment (DFI) projects (1986-1988) involved relatively labor-intensive activities which will lead to the employment of about 300,000 persons - a number that is more than twice that of the cumulative total up to 1986 - mostly for low-skilled and semi-skilled workers. A recent study by TDRI indicated that trade and DFI's contribution to Thailand's economic growth has increased the income of all classes but has benefited the higher income classes more than the lower income classes. The primary reason for this is that there has been a general decline in the export prices of the major agricultural exports which has kept incomes in the agriculture sector from increasing as fast as the incomes in other sectors. In sum, increased trade and investment is expected to provide significant benefits to a large segment of the population of Thailand. Also, over the next decade, labor productivity in Thai agriculture must increase and the levels of living of former members of the agriculture force will improve through their obtaining jobs in industry and services.

Services provided by JUST Business are demand driven and will be accessible to all individuals regardless of gender. Project benefits will accrue to women entrepreneurs as well as men in view of the access that women have to business opportunities in Thailand. Project monitoring systems will be designed to provide gender specific information for reporting purposes.

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E. Institutional Analysis

1. Summary

In order to determine the most appropriate organizational strategy to administer the project's initiatives, alternative organizational approaches were examined. (The results of this analysis are presented in Annex C-6.)

The key characteristics of the desired implementing organization for the project include the following:

- the organization's charter and operational outlook should support expanded participation by U.S. firms in Thai economic growth and enhanced US/Thai commercial relations.
- the organization should possess a governing board and membership that represents the interests of the private sectors of both Thailand and the United States and U.S. economic/commercial interests in Thailand.
- the organization should enjoy a high degree of respect from and cooperation with both private and public sector entities operating in Thailand in the area of trade and investment, and not be perceived as a competitor to existing institutions.
- the organization should be actively interested in and administratively capable of implementing an A.I.D.-funded trade and investment project.
- the organization should offer a high probability prospect of becoming self-sustaining once A.I.D. funding of the project is complete.

A number of existing organizational candidates for project management were explored in the interest of avoiding the need to create a new institution. Serious consideration was given to enlisting the American Chamber of Commerce in Thailand (AmCham) as the implementing institution. The Joint Public/Private Sector Consultative Committee (JPPSCC) was also considered, since it represents a successful mechanism for seeking cooperation between the public and private sectors in Thailand. Consideration was given to expanding USAID's role with Thai business associations, such as the Federation of Thai Industries (FTI), the Thai Chamber of Commerce, and the Thai Bankers Association. The possibility of identifying an existing organization in the United States that might establish an office in Thailand and provide linkages back to the United States was also examined.

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For a variety of reasons (See Annex C-6) it was concluded that none of the existing organizations could carry out the mandate envisaged for the implementing entity for the project. Accordingly, a new organization, Joint US/Thai Business, Inc. (JUST Business) will be established.

2. Composition, role and responsibilities of the Board of Directors

JUST Business and its staff would be responsible to the Board of Directors. Board members would include three U.S. business members and three members from the three major Thai private sector organizations (the Thai Chamber of Commerce, the Federation of Thai Industries, and the Thai Bankers' Association). The ex-officio advisors to the Board will be one advisor each from the BOI, Thailand Section of the U.S.-ASEAN Council for Business & Technology, Inc. (USACBT), the U.S. and Foreign Commercial Service and USAID. The Board will elect a Chairman for a specified term.

The private sector composition of the Board should ensure that decisions are oriented toward business interests. At the same time, the advisory role of Thai/U.S. government officials ensures that project activities will be carried out collaboratively rather than competitively with existing government agencies and that the concerns of the U.S. and Thai private sectors are effectively communicated to selected public sector organizations.

The Board of Directors would be responsible for setting policies, determining the nature and scale of activities, and overseeing the operations of JUST Business. The Board would meet periodically to review ongoing activities and decide on initiatives presented in an agenda developed by the secretariat.

3. Size, operational scope and reporting responsibilities of the JUST Business Secretariat

JUST Business will have a small and efficient staff or secretariat that monitors the making of sub-grants or contracts to existing organizations (e.g., AmCham, BOI, FTI, NESDB, etc.), individuals or firms to carry out activities. The JUST Business staff will consist of an Executive Director, a Deputy Executive Director, and a small support staff. The Executive Director will coordinate specific project activities, communicate with USAID, and serve in a government liaison role. Given the important role for the U.S. private sector in JUST Business, our current view is that the Executive Director should be an American. The Deputy and other staff should be Thai.

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The project will fund a five-year lease for the JUST Business offices, and provide the organization with furniture and office equipment. Funds will also be extended for project activities, which would be developed as separate functional and financial subcomponents. The Executive Director will report to the JUST Business Board of Directors, to whom quarterly progress and financial reports will be submitted. In addition, the Executive Director will be responsible for maintaining accurate financial records, submitting quarterly progress and financial reports, and coordinating project activities in accordance with A.I.D. policies and procedures.

4. Institutional linkages between JUST Business and other relevant organizations

Inasmuch as JUST Business is intended to supplement and extend the capabilities of existing organizations, concerted efforts are required to put into place collaborative relationships with existing organizations. Important linkages will be provided through Board membership. The secretariat will work closely with the US&FCS Board ex-officio advisor to develop cooperative linkages with USG agencies such as US&FCS, TDP, OPIC, and Eximbank. The secretariat will also arrange for complementary relationships with the A.I.D.-funded ASEAN Trade and Investment project (PITO). Similar linkages with RTG agencies will be developed through the BOI Board member. Similarly, close working relationships with business communities will be organized through AmCham and Thai business association Board members. The Board of Directors will reject any activities which are deemed competitive with or duplicative of activities carried out by existing public and private sector organizations.

The activities proposed for consideration by the JUST Business board are either not undertaken by or will be complementary to the activities of existing U.S. public or private organizations. While the U.S. & FCS office maintains industry profiles for certain sectors, these profiles are woefully out of date and, according to local U.S. businessmen, are not adequate to meet their needs. JUST Business can provide support for short or long term consultants to update and provide better and more compete sector/industry profiles and support a targetted marketing campaign for dissemination to potential investors and to the business community.

Although the U.S. & FCS. office has linkages through its trade offices in the U.S., commercial officers in Thailand and elsewhere readily admit that these offices are severely understaffed and cannot be fully responsive to the demands placed on them. JUST Business will retain the services of existing networks and linkages to promote U.S. business

interests in Thailand, such as, for example, IESC's Trade and Investment Services Group (TIS), and S&T Bureau's programs with the National Association of State Development Agencies (NASDA). Additionally, it is anticipated that specially directed efforts for the promotion of identified trading and investment opportunities will be conducted through an individual or consulting firm contracted by JUST Business on a retainer basis, to scout interested buyers or potential investor for specific sectors and targets of opportunity. These linkages will complement the U.S. & FCS's limited U.S. network.

It has been observed that investor assistance from the Thai Board of Investment (BOI) is inadequate and contributes to many U.S. firms losing interest in developing a potential venture in Thailand. Other governments, such as Japan, Germany, and Belgium, have representation at the BOI to provide support to their nationals seeking BOI investor assistance. Although the local U.S. & FCS office and the AMCHAM in Thailand heartily endorse the concept of an American investment promoter at the BOI, no existing agencies or organizations are in a position to fund an American to devote full time services to U.S. business persons seeking BOI assistance. JUST Business will provide funding support for a BOI promoter to fill this void.

With a few exceptions, members of the American Chamber of Commerce in Thailand admit that their contacts with Thai business organizations and Thai government officials are almost non-existent. JUST Business will open up channels for contact and provide a forum for airing concerns from all quarters, i.e. U.S. and Thai, private and public sectors. Currently there is no source of funds for policy studies or position papers to the U.S. private sector in Thailand from any government or non-government agencies. The TDP program provides funding for capital project specific feasibility studies, but not for general industry policy issues. JUST Business will provide the private sector with a means to enter into a credible dialogue with the public sector by enabling them to commission professionally researched and prepared policy studies and position papers. Through the membership of the JUST Business Board of Directors, the AMCHAM will have direct contact with key Thai business leaders and be able to coordinate activities and programs with Thai business organizations. Currently there is no channel in place for this type of contact.

5. Legal status of JUST Business

It was originally suggested that JUST Business be formed as a foundation because this would allow the organization to accept a grant and carry out activities on a not-for-profit basis. The informal advisory group suggested that JUST Business be

established as an association because this would allow for the same legal benefits as those extended to foundations. In addition, it would provide for the possibility of having associate memberships and charging fees for services rendered.

In consultation with a local American attorney, a preliminary conclusion was reached that the appropriate legal structure for JUST Business is a non-profit U.S. corporation with a representative office registered in Thailand. A for-profit corporation registered in Thailand would be formed as a subsidiary of the U.S. non-profit corporation and would be the entity through which revenue generating activities would be conducted.

JUST Business
(U.S. Non-profit Corporation)

JUST Business Rep. Office/Thailand
(non-revenue generating)

Business Center/Thailand
(revenue generating)

Illustrative Activities

- JUST Business Secretariat
- U.S. Interests Section at BOI
- AmCham Mini Ambassador Program
- Business Networks
- Coordination & Collaboration

Illustrative Activities

- Services to assist US businesses establish operations in Thailand, and joint venture promotion.

This structure was selected in lieu of other alternatives because (1) further examination of the foundation and association legal forms led to the conclusion that given the nature of the activities in which JUST Business was likely to engage the characteristics of these forms did not fit; (2) the concept of a not-for-profit corporation does not exist under Thai law; and (3) most importantly, there was a significant likelihood that if the grantee were formed under Thai law, whether an association, foundation or corporation, the AID grant would be subject to Thai taxation.

A local American attorney has been engaged to take all the necessary steps to bring JUST Business into legal existence. All of such steps will be taken prior to project authorization.

F. Environmental Analysis

There are no expected negative impacts for this project. Where appropriate, any activities or policy analyses supported under the project will take environmental factors into consideration.

VIII. RELATIONSHIP WITH OTHER PROGRAMS, POLICIES AND ACTIVITIES

A. Relationship with RTG Strategy and Programs

Expanded external trade and investment play a central role in the Royal Thai Government's strategy for sustaining rapid economic growth in the decade of the 1990s. Continuing high levels of foreign direct investment are an important component of that strategy.

High levels of foreign direct investment are valued as an addition to domestic savings, an important source of technology necessary for competitiveness in international markets, as well as a source of access to foreign markets. RTG agencies, such as the Board of Investment and Department of Export Promotion, are active in investment and trade promotion. The RTG also seeks to provide an environment conducive to foreign investment by engaging in policy dialogue with private sector business communities through such mechanisms as the Joint Public Private Sector Consultative Committee (JPPSCC), the National Economic and Social Development Board (NESDB), and contacts with foreign chambers of commerce through the Thai Board of Trade (BOT).

Important elements underlying this project, including reliance on the private sector and focus on mutually beneficial commercial transactions, are well understood and are supported by the RTG. A statement by Thailand's Ambassador to the United States, Vitthaya Vejjajiva, presented at an American Chamber of Commerce meeting in August 1988, reflects this support:

"Although Thailand is still far from the NIC status, we have reaped and will continue to reap handsome returns from the open international market place. But as we become increasingly visible, we will also be asked to conform. I believe that the first challenge for Thailand is to recognize this pressure on us to examine the extent of our responsibilities and obligation towards the international system. It would be a fallacy to believe that such an effort can be undertaken solely by the Government.

It is not the Government but the private sector that has built up the enormous mutual interests to which the trade and investment figures attest. Thus it would only be logical that the private sector, both American and Thai, play the central role in creating such a network of Thai friends in the United States."

B. Relationship to the ADC Strategy

USAID/Thailand's emerging Assistance Management Plan will outline a new and different mandate for an AID presence in an ADC. Specifically,

- it will recognize that a continued AID presence in Thailand serves U.S. as well as Thai interests;
- it will explicitly encourage Thailand to play by the rules of an open international market, and to participate in resolving emerging problems in these areas;

- it will explicitly encourage Thailand to act as a responsible member of the international community on issues of global concern, e.g. global environmental issues, anti-narcotics and anti-AIDs concerns, etc.; and
- it will support the creation of new and expanded pathways through which U.S. ideas, policies and products can compete successfully against those of other nations, in corporate corridors as well as in government councils.

IX. PID REVIEW ISSUES AND COMMENTS

The project PID was submitted to A.I.D./Washington for review, and a series of questions and issues emerged during and after the ANPAC review. This section responds to the comments made in the PID review cable, and discusses briefly actions taken or decisions made to address each issue.

Issue 1: The ANPAC felt that the project purpose and end of project status were not clearly defined or supported.

Discussion: The purpose, and consequently the end of project status, have been modified as a result of an in-depth study that examined the basic rationale of the project. Also, a full-day workshop attended by a large number of local private and public sector leaders was held to review the project's concept, goal, purpose, etc. The outcome of the study and workshop was an agreement that the project's goal and purposes were appropriate. Also, the goal and purpose is consistent with the emerging Mission's AMP (Assistance Management Plan).

Recommendation: This issue has been satisfactorily addressed.

Issue 2: The ANPAC noted that substantial additional analyses are needed to justify the proposed interventions. In particular, the ANPAC noted the need to describe more fully the constraints to achieving the project's objectives.

Discussion: An analysis of trade and investment constraints facing Thailand was prepared. (Annex C-1) Constraints affecting U.S.-Thai bilateral commercial relations were examined. (Annex C-2) Bilateral policy conflicts and issues were identified. (Annex D) Also, a 1988 study undertaken in connection with the design of ASEAN'S PITO project looked at constraints to U.S. trade and investment. The study concluded that the primary constraint to increased U.S. trade and investment in the ASEAN countries is lack of knowledge and interest by U.S. firms regarding investment opportunities in such countries. Another survey was carried out in 1988 by the University of Michigan which indicated that 55% percent of the international business firms surveyed perceived the investment opportunities in Thailand to be very limited or they lacked the necessary information to make a decision. The ASEAN and the University of Michigan studies concluded that the U.S. and ASEAN governments should make efforts to increase the supply of information about investment opportunities, improve the utility of such information and enhance

its dissemination. Discussions held with the project's informal advisory group of U.S. and Thai business and government leaders also concluded that the lack of information and promotion were the constraints to increased U.S. trade and investment in Thailand. In order to address this constraint, this group suggested more proactive promotional and assistance services to stimulate the interests of potential U.S. investors.

Recommendation: Substantial analyses have been undertaken to identify the constraints to the declining rate of U.S. investment and trade with Thailand and the project's interventions have been justified.

Issue 3: The ANPAC felt that the PID should describe in some detail the lessons learned from similar projects and activities undertaken elsewhere.

Discussion: An analysis of lessons learned was undertaken, and is Annex F to the report.

Recommendation: This issue has been adequately addressed.

Issue 4: The ANPAC review highlighted the need for the project to seek integration of A.I.D.'s role with those of other USG agencies in the promotion of trade and investment.

Discussion: A number of direct and indirect linkages between the project, other USG agencies and ASEAN have been identified. In addition, the criteria for screening activities will ensure the activities are coordinated those of other agencies/organizations and do not compete with or duplicate the activities of those agencies/organizations.

Recommendation: This issue has been satisfactorily addressed.

Issue 5: The ANPAC stressed the need for selection criteria to facilitate a clearer focus from the start.

Discussion: Criteria have been prepared for functional relevance, effectiveness, and institutional integrity and were reviewed by the project's informal advisory group. There was unanimous consensus that the criteria should be recommended to the Board of JUST Business. In keeping with the project's concept, the JUST Business Board may modify the criteria or adopt other criteria for screening proposed activities for project support. However, since the informal advisory group has already approved the criteria and the group is representative of the members of the JUST Business Board, it is unlikely the criteria will be significantly modified until considerable experience has been gained in the review and approval of project activities. The criteria recommended by the informal advisory group are described in Section III and in Annex C-4.

Recommendation: This issue has been adequately addressed.

Issue 6: The ANPAC suggested a "narrowing" of the scope for JUST Business, beginning with a more modest scope than was initially envisioned, that could be expanded once initial project success was achieved.

Discussion: The scope of the activities to be undertaken initially by JUST Business has been substantially scaled down and more narrowly focused. The informal advisory group strongly endorsed the principle that the activities to be undertaken by JUST Business be very limited in the beginning and expanded only after JUST Business has demonstrated its capacity to carry additional functions.

Recommendation: That this issue has been satisfactorily addressed.

Issue 7: The ANPAC concluded that a strong economic justification was needed for undertaking the project.

Discussion: A comprehensive analysis of the economic rationale (See Annex C-3) was carried out and concluded that trade and investment has been the engine of Thailand's economic growth and will be extremely important if Thailand is to sustain its present high levels of growth. This conclusion was also supported by a recent study by TDRI called Thailand in the International Economic Community.

Recommendation: That this issue has been adequately addressed.

Issue 8: The ANPAC noted that to succeed, the project and JUST Business would require substantial private sector support.

Discussion: To measure U.S. and Thai private sector support, the Mission organized a workshop to review the project's proposed concepts. The majority of non-AID participants were U.S. and Thai business leaders who expressed strong support for the initiative. There was a consensus that a private sector entity like JUST Business was needed to implement the project. The participants were leaders from the Thai and U.S. private sectors and represented a good cross section of modern sector industry, services and commerce. (The list of participants is in Annex B)

Recommendation: That this issue has been adequately addressed.

Issue 9: The ANPAC raised concerns about the size of the project and the implications on the Mission's mortgage and recommended that the life-of-project amount be reduced.

Discussion: The life-of-project amount has been reduced from \$33 million (\$24.5 AID and \$8.5 other) shown in the PID to an estimated \$6.6 million (\$6.0 AID and \$.6 other).

Recommendation: This issue has been satisfactorily addressed.

Issue 10: The ANPAC expressed a concern about the Mission's ability to manage the project and questioned if only one PSC would be adequate to provide project oversight.

Discussion: The project has been scaled down considerably, and a significant share of the project's administrative burden has been shifted to the JUST Business secretariat. The Mission's Private Sector Officer will provide Mission oversight and no additional Mission staff will be required to manage the project.

Recommendation: That this issue has been satisfactorily addressed.

Issue 11: The ANPAC noted that A.I.D. has a mixed experience in industrial estates.

Discussion: This project subcomponent has been eliminated.

Recommendation: Issue resolved.

Issue 12: The ANPAC stated that this bilateral project should be coordinated with the ASEAN regional PITO project.

Discussion: The project's design has been closely coordinated with the PITO project. An ASEAN representative will be an ex-officio member on the JUST Business Board to ensure that JUST Business' activities are coordinated with those of the PITO project.

Recommendation: Issue resolved.

Issue 13: The ANPAC expressed the need for greater attention to sustainability.

Discussion: JUST Business is intended to be a non-profit, independently chartered organization created to promote U.S. Thai bilateral trade and investment and operated like a commercial enterprise. Initially, JUST Business will be financed by a grant funded by USAID/Thailand but the financial goal for JUST Business is to secure or generate funds to become financially self sufficient within five years. The funding strategy for JUST Business will be based on the premise that the value of the organization, its work and the services it will provide are of sufficient value to warrant its continued existence. However, the experimental nature of the project recognizes that some of the activities proposed for JUST Business may be considered public goods and may not be suitable for sale by a private entity. For example, whether or not U.S. business interests are willing to pay for information, the services of a facilitator at the Board of Investment, policy analyses, etc. remains to be seen. The information and services could be considered public goods which are essential to achieve the objective of increasing U.S. trade and investment in Thailand.

During the preparation and review of JUST Business financial plan, USAID and the Board will consider the funding requirements for proposed activities like the general information dissemination activities, establishing a U.S.

interests section at BOI, etc. While these activities can be justified on economic grounds, they may lessen the prospects that JUST Business will become financially self sufficient because they may not generate sufficient revenue to cover costs, much less generate a positive stream of income. In other words, from a commercial point of view the JUST Business Board will have to consider if these activities will generate resources. If not, the JUST Business Board, in consultation with AID, must decide on what basis these activities are to be undertaken, at what costs and for whose account.

The sustainability of JUST Business cannot be guaranteed. However, there is enough preliminary evidence to warrant the undertaking of a small pilot project with the expectation that JUST Business, with a well thought out business plan, financial strategy and good management, will succeed in becoming financially viable.

Recommendation: That the issue has been satisfactorily resolved

Issue 14: The ANPAC suggested that the interim document show how "impact, benefit incidence and the development of institutional capabilities will be included in the monitoring and evaluation plan in order to measure project performance."

Discussion: Two interim and one final external evaluation to measure project performance and impact will be carried out over the life of the project. Given the fact this project will be a pilot, the first evaluation will be scheduled after the second full year of operation in order to ascertain progress toward meeting the project's objectives and to identify problems that need to be corrected during the early stages of operations. By the end of the second year JUST Business will have acquired operational experience that can be evaluated in terms of progress toward achieving its financial and institutional objectives. A second interim evaluation will be scheduled after the fourth year of the project, and a final evaluation carried out at the end of the project to assure the project is meeting its goal and objectives.

Recommendation: That the issue has been satisfactorily addressed.

Issue 15: The ANPAC expressed a concern that the project might finance joint ventures in which intellectual property rights might be created.

Discussion: To the extent that JUST Business becomes involved in promoting joint ventures, the Board will be particularly sensitive to any possible intellectual property rights issue.

Recommendation: That this issue has been addressed.

U.S.-THAI TRADE AND INVESTMENT SUPPORT
PROJECT NO. 493-0347

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(b).
Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? No

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.)
If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant

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sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INCSR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013.
 (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec. 481(h), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs;

- a) Thailand has been defined as a major illicit drug-producing and/or drug transit country but in 1971 entered into a bilateral agreement with the United States regarding illicit drugs; this agreement is still in force; Thailand is also a party to several multilateral agreements concerning drug trafficking and production.
- b) The President, in Presidential Determination 90-12 dated February 26, 1990, certified that Thailand is fully cooperating with the United States or has taken adequate steps on its own sufficient to satisfy the requirements for certification under Section 481 (h)."

No

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(b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies; (b) the debt is not denied or contested by such government; or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? No
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No
6. FAA Sec. 620(a), 620(f); 620D; FY 1990 Appropriations Act Secs. 512, 548. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient? No

- country from international communism, or
 (b) removed a country from applicable
 restrictions on assistance to Communist
 countries upon a determination and report to
 Congress that such action is important to the
 national interest of the United States?
 Will assistance be provided either directly
 or indirectly to Angola, Cambodia, Cuba,
 Iraq, Libya, Vietnam, South Yemen, Iran
 or Syria? Will assistance be provided to
 Afghanistan without a certification, or will
 assistance be provided inside Afghanistan
 through the Soviet-controlled government of
 Afghanistan?
- None of the listed
 countries will receive
 assistance under this
 Project.
- No
7. FAA Sec. 620(j). Has the country
 permitted or failed to take adequate
 measures to prevent the damage or
 destruction, by mob action, of U.S.
 property?
- No
8. FAA Sec. 620(l). Has the country
 failed to enter into an investment
 guaranty agreement with OPIC?
- No
9. FAA Sec. 620(o); Fishermen's Pro-
 tective Act of 1967, as amended, Sec.5.
 (a) Has the country seized, or imposed any
 penalty or sanction against, any U.S.
 fishing vessel because of fishing
 activities in international waters?
 (b) If so, has any deduction required
 by the Fishermen's Protective Act been
 made?
- No
10. FAA Sec. 620(q); FY 1990 Appropriations
 Act Sec. 518 (Brooke Amendment). (a) Has the
 government of the recipient country been
 in default for more than six months on
 interest or principal of any loan to
 the country under the FAA? (b) Has the
 country been in default for more than
 one year on interest or principal on
 any U.S. loan under a program for
 which the FY 1990 Appropriations
 Act appropriates funds?
- (a) No
- (b) No
11. FAA Sec. 620(s). If contemplated
 assistance is development loan or from
- N/A

the Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) Thailand is current in its payments.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or otherwise supports international terrorism? No
15. FY 1990 Appropriations Act Sec. 564. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? (a) No
(b) No

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state or, if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) To our knowledge no such event has occurred.
19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on September 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) Thailand was not represented at such meeting.
21. FY 1990 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No
22. FY 1990 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes
- B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY
1. Development Assistance Country Criteria
- a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

- b. FY 1990 Appropriations Act Sec. 535.
 Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No
2. Economic Support Fund Country Criteria
- a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A
- b. FY 1990 Appropriations Act Sec. 569(d).
 Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? N/A

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This Section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only; B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP-TO-DATE? Yes.

HAS STANDARD ITEM CHECKLIST
BEEN REVIEWED FOR THIS PROJECT? Yes.

A. GENERAL CRITERIA FOR PROJECT

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified? This project was included in the FY 1990 Congressional Presentation.
2. FAA Sec. 611(a). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes; such information is included in the Project Paper.
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? No legislative action is required in order for project to proceed.
4. FAA Sec. 611(b); FY 1990 Appropriations Act Sec. 501. If project is for for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A

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5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No; objective of project is specifically to stimulate Thai-US trade and investment linkages.
7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and 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. (a) An objective of the project is to stimulate trade flows and to generally enhance the attractiveness of Thailand's investment climate; these efforts should increase overall international trade; (b) by enhancing the investment climate in Thailand and providing more opportunities for commercial relationships with U.S. businesses, project should stimulate both Thai and US private initiative and competition; (c) no significant impact; (d) by making more US companies aware of commercial opportunities in Thailand and encouraging US-Thai linkages, more companies will enter the Thai market and diminish the possibility of monopolies; (e) by stimulating the competitive environment, companies will be forced to improve their technical efficiency to remain competitive; (f) no significant impact.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). The specific objective of the project is to stimulate US trade with and investment in Thailand by making US businesses more aware of commercial opportunities in Thailand.
9. FAA Secs. 612(b), 636(h). 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 U.S. are utilized in lieu of dollars. Because assistance is being provided directly to a private entity under a grant, the host country contribution requirement does not apply; therefore AID will be financing local currency as well as foreign exchange costs of the project; to the extent US-owned currency is available, it will be used.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No
11. FY 1990 Appropriations Act Sec. 521. 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
12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807", which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? Assistance for activities of this type will be precluded.

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?
- Given the project's focus, no assistance will be provided for the listed areas.
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 (either dollars or local currency generated therefrom)?
- N/A
15. FY 1990 Appropriations Act, Title II, under heading "Agency for International Development." If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?
- N/A
16. FY 1990 Appropriations Act Sec. 537. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?
- N/A
17. FY 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?
- N/A

18. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State I./T and A.I.D. LBS within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision.)
- Since planned life of project funding is less than \$25 million, this reporting requirement is inapplicable at this time.
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?
- To the maximum extent feasible, metric measurements will be included in procurements, grants and other project activities.
20. FY 1990 Appropriations Act, Title II under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?
- No specific project activities are directed at women-owned business, either in Thailand or the US; however, efforts will be made to ensure project activities are widely publicized so that interested women and women owned businesses can participate.
21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D.: (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local
- N/A

currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? N/A

Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? N/A

If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FY 1990 Appropriations Act Sec. 546. (as interpreted by conference report for original enactment). N/A
- If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or

produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

- b. FAA Sec. 107. Is special emphasis on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small business, and small incomes of the poor)?
- This project does not involve providing technology.
- c. FAA Sec. 281(b). Describe extent to which the activity recognizes particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental processes essential to self-government.
- Project activities are not directed to these areas, however, Thai business persons and governmental officials will be directly involved in the project. In addition, the project is intended to be flexible so as to be responsive to current and evolving needs of Thai private sector.
- d. FAA Sec. 101(a). 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?
- Yes; establishment of strong trade and investment linkages between the U.S. and Thailand and the general improvement of its investment climate should have significant effects on Thailand future economic growth and more complete integration into the world economy as a full participant.
- e. FAA Secs. 102(b), 111, 113, 281(a). Describe the extent to which activity will: (1) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment 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 appropriate U.S.
- (1) project activities are not directed at the poor or local areas; however, stimulation of trade and investment linkages with the US may stimulate employment opportunities and investment in businesses outside the Bangkok area; (2) no significant impact; (3) project activities will support Thailand's efforts to become

institutions; (2) 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; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

a fully participating member of the world economy; (4) no direct impact; (5) given project's focus of stimulating US-Thai linkages, no significant impact.

- f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used? Yes.
- g. FY 1990 Appropriations Act; Title II, under heading "Sub-Saharan Africa, DA." Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U.S. Government? N/A
- h. FAA Sec. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? Because assistance is being provided directly to a private entity through a HB 13 grant, the host country contribution requirement does not apply.

- i. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? The poor should benefit from increased employment opportunities and a stronger economy that should result from increased investment in and trade with Thai businesses.
- j. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. No
 Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?
- Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations? No
- Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization? No
- Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, information about access to, a broad range of family planning methods and services? N/A
- In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? N/A
- Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

- k. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
- l. FY 1990 Appropriations Act Sec. 579. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? Project activities do not lend themselves to a set-aside for procurement since most of procurement will be local. Efforts will be made during project implementation to identify opportunities for socially and economically disadvantaged entities.
- m. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested Yes; a categorical exclusion is applicable to this project under Regulation 16.

watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (11) utilize the resources and abilities of all relevant U.S. government agencies?

- n. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (2) take full account of the environmental impacts of the proposed activities on biological diversity? N/A
- o. FAA Sec. 118(c)(14). Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an (1) No

- environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? (2) No
- p. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (3) the colonization of forest lands; or (4) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? (1) No
(2) No
(3) No
(4) No
- q. FY 1990 Appropriations Act Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A
- r. FY 1990 Appropriations Act Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources? N/A

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank and Development Assistance Committee of the OECD.

Given the focus of this project's activities it will have no significant impact on any of the listed areas.

- s. FY 1990 Appropriations Act, Title II under heading "Sub-Saharan Africa, DA." (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) being provided, when consistent with the objectives of such assistance, through African, United

N/A

States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (4) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisting policy reforms, the need to protect vulnerable groups; (5) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the renewable natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

- t. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote: (4) natural resource management, (5) local conservation programs, (6) conservation training programs, (7) public commitment to conservation, (8) land and ecosystem management, and (9) regenerative approaches in farming, forestry, fishing and watershed management. N/A
- u. FY 1990 Appropriations Act Sec. 515. If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? N/A
2. Development Assistance Project Criteria (Loans only)
- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, 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 or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A

- c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

3. Economic Support Fund Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A
- b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? N/A
- c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Limited procurement will occur; US procurements will be advertised in accordance with AID policy.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A
4. FAA Sec. 604(e). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? No
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes; Yes.
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes
9. FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Such a provision will be included in all AID direct contracts.
10. FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? N/A
11. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause To the maximum extent feasible, metric measurements will be included in all procurements, grants and other appropriate project activities.

significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

12. FAA Secs. 612(b), 636(h); FY 1990 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services. AID owns no local currency.
13. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No
14. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
- B. CONSTRUCTION
1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Through AID monitoring, audit rights and restrictions on use of grant funds for agreed upon purposes.
4. Will arrangements preclude use of financing:
 - a. FAA Sec. 104(f); FY 1990 Appropriations Act under heading "Population, DA," and Secs. 525, 535. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? Specific provisions to preclude use of funds for the listed restrictions will not be set forth in the Grant Agreement. Instead, Agreement will provide that funds can only be used for agreed-upon purposes; AID will also monitor implementation and use of funds and retains right to request refund for impermissible uses.
 - b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

- c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?
- d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?
- e. FAA Sec. 662. For CIA activities?
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?
- g. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel?
- h. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues?
- i. FY 1990 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1990 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1990 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

1. FY 1990 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

5. FY 1990 Appropriations Act Sec. 574. Yes
Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

6. FY 1990 Appropriations Act Sec. 582. No
Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

MEMORANDUM OF UNDERSTANDING
ADVANCING MUTUAL INTERESTS IN A RAPIDLY CHANGING
INTERNATIONAL ENVIRONMENT

The Government of the United States of America and the Royal Thai Government recognize the bonds of friendship created in the course of forty years of economic and technical cooperation on behalf of Thai development. It is their mutual desire that these bonds of friendship be strengthened over the decade ahead, through continued cooperation on the resolution of emerging Thai development issues. Such continued cooperation will build on the remarkable social and economic progress achieved over the last several decades through a dynamic, export-oriented private sector and with the Royal Thai Government continuing to play a key role as supporter and facilitator of economic growth. Cooperation can now be implemented in ways consistent with the maturity of bilateral political and economic relations, a broad range of mutual economic, development and technical interests, and a shared desire to expand the range of private as well as public linkages between our two nations.

Resolving to undertake new efforts to further these broad goals, the Government of the United States of America and the Royal Thai Government have agreed as follows:

1. Objectives

Henceforth, programs of the U.S. Agency for International Development (AID), administered in cooperation with the Royal Thai Government's focal point and appropriate representatives of the Royal Thai Government and the U.S. and Thai private sectors, will support the following objectives:

A. Promote sustainable, broad-based and environmentally sound Thai economic growth;

B. Broaden and deepen Thai integration with the international economy, as a primary means of ensuring the sustainability of economic growth (in particular, encourage expanded linkages with the U.S. economy);

C. Drawing on the experience and expertise of the U.S. public and private sectors in the resolution of similar problems, cooperate closely in addressing specific problems of the Thai economy which hamper prospects for future competitiveness within the international marketplace;

D. Encourage cooperation between U.S. and Thai public and non-governmental institutions in strengthening the capacity of Thai representative institutions to conceive, enact and administer economic development programs reflecting the will of the popular majority;

E. Expand bilateral trade and facilitate the identification of specific investment opportunities in both countries;

F. Expand avenues of mutual cooperation on global issues of bilateral concern, e.g. environmental protection, narcotics and AIDS.

2. Areas of Cooperation

Sharing a commitment to the principle of free markets, supported and sustained by democratic institutions, and recognizing the valuable contributions of their respective public sectors in establishing a framework for pursuit of economic growth objectives, the Parties agree to encourage and facilitate greater cooperation between their respective business communities and associations, governmental agencies and non-governmental organizations as an integral element of program activities in the following areas of mutual interest to the U.S. and Thailand:

A. Human capital development, particularly as it relates to Thailand's need for adequate labor force skills and capacity to identify, acquire, adapt and develop technologies needed for sustained economic competitiveness. In this connection, the Parties will place particular emphasis on facilitating linkages between U.S. and Thai universities for programs relevant to Thai participation in the world economy, as well as on links between U.S. and Thai training organizations engaged in the expansion of labor force skills.

B. Technological development, particularly as it relates to Thai commercialization of technology through close relations between the U.S. and Thai private sectors. In this connection, the Parties will place emphasis on the sustainable institutionalization of the Science and Technology Development Board as a vehicle for promoting Thai technological development through public/private collaboration and expanded U.S.-Thai private sector linkages.

C. Expansion of Thai capital markets, particularly to meet emerging national infrastructure and social service requirements. In this connection, the Parties will give attention, inter alia, to: developing an adequate legal and regulatory structure for effective capital markets; improving the quantity, quality and timeliness of financial market information; broadening and deepening bond markets for infrastructure finance; and the introduction of new investment forms attuned to the provision of health care and other social services required by Thailand's changing demographic profile. The Parties anticipate that expanded linkages between the U.S. and Thai private sectors will be particularly relevant to these programs.

D. Environmental management, particularly in relation to prospects for continued sustainable, broad-based economic growth. In this connection, the Parties will give attention, inter alia, to the development of appropriate institutions, policies and human resources required for effective environmental

management by both the Royal Thai Government and private sector, as well as to biological diversity and other natural resource degradation and depletion concerns relevant to Thailand's future economic growth prospects, particularly in the urban, industrial and tourism sectors. The Parties anticipate that U.S. expertise and technologies will be particularly relevant in addressing these concerns.

E. Strengthening representative institutions, particularly the professional capacity of national and local representative bodies and non-governmental advocacy groups representing the interests of broad segments of Thai society. In this connection, the Parties will give attention, among others, to developing the capacity of the Thai Parliamentary Committee system, municipal governments and the community of non-governmental organizations to represent the economic interests of various groups within Thai society.

F. Infrastructure expansion, particularly in the areas of energy, telecommunications, water and sewerage and transport. In this connection, the Parties anticipate increased involvement by the U.S. public and private sectors in the conduct of feasibility studies or the provision of other technical services related to the expansion of Thai infrastructure in targeted sectors.

G. Law and institutional development, particularly as they relate to modernization of the Thai legal system and

supporting institutional structure. In this connection, the Parties will give attention, among others, to those aspects of the legal system which protect transferable property rights and efficient commercial transactions, and to building the capacity of the public sector to regulate selected aspects of the Thai economy in a manner consistent with the best economic interests of Thailand and its trading and investment partners.

H. Expansion of bilateral trade and investment, particularly as a vehicle for full maturation of the economic partnership, and for increasing our mutual prospects for sustainable, broad-based and environmentally sound economic growth. In this connection, the Parties will give attention inter alia, to improving the policy and business climate for bilateral trade and investment, and to close cooperation between our respective public and private sectors on measures to expand the flow of trade and investment between our two nations.

I. Expanded cooperation on a range of global concerns of particular interest to the U.S. and Thailand, e.g. environmental issues such as global climate change, AIDS research and narcotics concerns.

J. Expanded cooperation in engaging Thailand's technical expertise and training institutions as a resource for third-country economic development programs.

K. Any other focal areas on which the Parties may mutually agree.

3. Criteria for Future Cooperation

Recognizing Thai economic and social accomplishments and the growing maturity of Thailand's public and private sector institutions, and desiring to establish a program framework which supports the interests of both Parties in the years ahead, the Parties have established the following criteria for the selection of areas of future cooperation:

A. It should be in areas of critical importance to the Thai economy which Thailand cannot effectively address alone;

B. It should be in areas where the United States has a comparative advantage;

C. It should be assistance which is relatively short-term or otherwise cost-effective, but which has high strategic and catalytic value; and

D. It should be in areas in which the Parties have clear mutual interests.

4. Program Mechanisms

The Parties share a commitment to continued, effective

implementation of on-going Agency for International Development projects in Thailand, and are confident that many of the themes outlined herein can be addressed within these projects.

The Parties also recognize that effective pursuit of the objectives outlined above requires the introduction of new, more flexible program mechanisms to support, sustain and expand U.S.-Thai development and economic cooperation over the longer term. The Parties hereby agree to facilitate the creation of such organizations or mechanisms as may be required to promote these objectives, and to provide such support as each may deem appropriate. Some examples of mechanisms the Parties believe would be effective in accomplishing shared objectives are:

A. Creation of a self-sustaining organization to help enhancing Thai development efforts as well as to promote U.S.-Thai trade and investment objectives;

B. Creation of a self-sustaining institution to nurture a broad range of bilateral linkages by matching Thai problem-solvers with U.S. sources of expertise; and

C. Development and implementation of a new AID program mechanism, tentatively titled the "Friendship Fund", to be administered by the two Governments in a manner consistent with the objectives and criteria outlined in this Memorandum of Understanding, and to support activities in such fields as human resource development, law and development, financial markets, and other areas as may be mutually agreed by the Parties.

In witness whereof, the undersigned, the duly authorized representatives of their respective Governments have signed this Memorandum of Understanding.

Done this 12th day of July, 1990 in Bangkok.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA

FOR THE GOVERNMENT OF THE
KINGDOM OF THAILAND

Ronald W. Roskens
AID Administrator

Anuwat Wattanapongsiri
Minister of the Prime
Minister's Office

TRADE AND INVESTMENT IN THAILAND'S DEVELOPMENT

Thailand now possesses one of the strongest national economies in perhaps the most dynamic region of the world economy. The countries of Southeast Asia, and particularly members of the Association of Southeast Asian Nations (ASEAN), face prospects of considerable economic growth. Following a protracted period of worldwide economic stagnation and financial crises, particularly the early 1980s era of sluggish trade growth and generalized lack of interest in new foreign investment, international corporations have re-emerged to become aggressively engaged in international business opportunities.

This renewed interest in international transactions coincides with restored momentum in the process of restructuring global production to accommodate shifts in comparative wage structures, exchange rates and effective market demand. With their large markets, natural resource endowments and abundant pools of productive, low wage labor, the nations of Southeast Asia are viewed as a major hub of growth for the foreseeable future.

Thailand is well positioned to take advantage of these developments. At a size of \$57 billion in 1988, the Thai economy ranks as the second largest in ASEAN (after Indonesia) and the 17th largest in the world. The nation's average annual growth rate of about 7.0 percent in real terms over the past 30 years has allowed Thailand to develop its resources and improve living standards. This growth is expected to continue at over 6.0 percent per year on average for the remainder of the century. Thailand's resource base and cost structure, especially for labor, has attracted the strong interest of international investors, especially from nearby Asian nations (Japan, Taiwan, and Hong Kong). This has given rise to a major surge of direct investment inflows since mid-1986, largely targeted at developing Thailand as an export "platform" for labor-intensive manufactures for sale to the United States and other industrial countries.

International trade and investment have played central roles in Thailand's recent development, and will continue to do so in the future. In fact, Thailand is serving as a strong counter example to the argument made by many economists that the world economy is incapable of absorbing new export-oriented, "newly industrialized countries (NICs)." The burgeoning growth of ASEAN has soundly refuted this view, which ignores or downplays two critical factors. First, world markets are not fixed in size or in composition, and so expansions or new entrants introduce new opportunities. Second, as specific nations (or regions) rise up the economic "ladder" -- in terms of effective demand, wage and other cost structures and technological capabilities, they allow other nations to move up to the rungs they recently vacated. These two developments have fueled the recent growth of Thailand and ASEAN as a whole.

A. The Foundations for Trade and Investment in Thailand

Thailand's recent success in expanding exports and attracting investment occurred neither by happenstance nor overnight. Instead, this success rests on the culmination of a series of basic approaches and strategies, taken over the course of nearly four decades, that collectively formed a solid foundation for trade and investment.

1. Socio-economic integration and equality. Most nations in Southeast Asia consist of an amalgam of indigenous populations and immigrant groups, with the latter composed of ethnic Chinese, Indians and others who have moved to seek economic opportunities and avoid political repression at home during various periods in the past. Entrepreneurial immigrant groups often control trading and commercial activities, thereby eliciting the enmity of indigenous groups. Ethnic rivalries over economic power have resulted in serious tensions, open conflict, and legislated or common law discrimination against particular groups throughout the region.

As early as the late 1950s, the Royal Thai Government (RTG) adopted the principle of national economic unity. This brought immigrant ethnic groups (many of whom had lived in Thailand for years or generations) into the domestic economy as full partners with ethnic Thai citizens. The result has been the infusion and dispersion of capital and entrepreneurial talent, and the relative absence of many of the latent or overt conflicts that have plagued other neighboring countries.

2. Economic role of private enterprise. The governments of many developing countries have for a variety of reasons not resisted the temptation to contain the scope and flexibility of the private sector and to allow government entities to assume unnecessarily large roles in the economy. Perhaps because Thailand was not subjected to colonial domination by an outside power and the wake of a vacuum of capital and managerial talent upon independence, the Thai Government by and large did not succumb to the desire to proscribe private enterprise activities. After a period in which government enterprises proliferated but were generally unable to operate efficiently and profitably, the RTG adopted an explicit strategy in the late 1950s to empower the private sector to serve as the principal engine of growth for the economy, and to limit the Government's role primarily to national defense, infrastructure and public services.

3. Investment promotion. The RTG has for nearly four decades consistently welcomed foreign direct investment. Most importantly, the basic "rules of the game" have remained unchanged, thereby providing investors with a high degree of policy stability. In addition, Thailand was one of the first nations to initiate an investment promotion program, and this effort has grown consistently over time.

4. Prudent economic management

The most important contribution governments can make to support trade and investment is to adopt sound monetary and fiscal policies which provide a stable economic environment. The Thai economy has been ably managed, particularly in the 1980s and in comparison to many other developing countries, thereby positioning the country to take advantage of trade and investment opportunities arising from global economic recovery. Thailand encountered a number of macroeconomic problems during the first half of the 1980s after the onset of the second oil crisis, including a buildup of external debt. However, the RTG responded sooner than many countries by containing government expenditures. The government pursued a conservative monetary policy to contain inflation and attract deposits and investments. Foreign borrowings were also limited, thereby limiting a further buildup of external indebtedness and future debt servicing requirements. The Thai Baht was devalued twice to maintain export competitiveness and restrain imports, and has been kept at parity with the U.S. dollar during the recent period of dollar depreciation.

B. Thailand's Export-Led Growth Strategy

International trade has made enormous contributions to Thailand's economic development. First and foremost, the export sector has acted as the leading "engine of growth." Merchandise exports as a share of Gross Domestic Product (GDP) have risen from 11.7 percent in 1970 to 16.0 percent in 1983, and to as much as 24.0 percent in 1987. A rough estimate incorporating a number of simplifying assumptions indicates that about one third of Thailand's overall GDP growth over the 1983-1987 period can be attributed directly to rises in exports. This share is probably much higher when indirect multiplier effects are taken into consideration. Merchandise exports grew by an annual average of 8.7 percent over the 1965-1986 period, and for the two years of 1987 and 1988 have expanded at an average rate of 30.0 percent annually. At the macroeconomic level, export increases have represented a driving force behind Thailand's economic growth.

Disaggregating into economic sectors, the impact of Thailand's long-term export drive has been the development of sectors in which Thailand possesses major comparative advantages. Initially the focus was on agriculture, the mainstay of the economy. In the early 1970s, the agricultural sector dominated the Thai economy, accounting for 25.9 percent of GDP in 1970. By the beginning of the 1980s, however, manufacturing overtook agriculture, and by 1987 agricultural production accounted for only 15.9 percent of GDP compared to 24.1 percent for manufacturing.

The structural transformation of the Thai economy was accompanied if not driven by changes in the composition of exports. Thailand's early composition of exports was dominated by agriculture, in line with the nation's domestic economic structure. The first step toward transformation was the addition of exports of resource-intensive services (tourism) and manufactured goods (from

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agriculture, forestry, fishing, and mining), all of which continue to play an important role in the domestic economy. These latter manufactures include canned fruits and vegetables, wood products, processed fish, cut gems and jewelry, and latex and rubber products. In this period, domestic value was added to exports from these sectors via downstream processing.

In the current phase, the nation's rich labor resources have been added to Thailand's export composition in the form of labor-intensive manufactures. Gradually new products utilizing Thailand's ample and productive labor supply have been added -- these include textiles, leather products and integrated circuits and electronic components.

Strategies for Thailand's future development are focused on moving both "upstream" (e.g., goods with greater domestic content, or those using Thailand's feedstocks of resources such as petrochemicals) and "downstream" (end products with higher technological inputs). As a result, Thailand's export sector has closely tracked and in fact spearheaded the nation's overall domestic productive capacity and economic development aspirations.

Although the share of agriculture in overall output has declined steadily, the importance of this sector must not be overlooked. Thailand is one of only five net food exporting nations in the world, and the only such country in Asia. In addition, roughly two thirds of the country's population is dependent upon agriculture, directly or indirectly, as their principal source of livelihood. Major crops include rice, maize, tapioca roots, sugarcane, rubber, tobacco and jute. In recent years agricultural output has been diversified into nontraditional items such as fruits and vegetables, pulses, cashews and groundnuts, oil palms, soybeans and cotton, in efforts to reduce the problems associated with low and fluctuating prices of Thailand's traditional crops. In addition, livestock, fisheries and forestry products, which are exported as well as sold domestically, are playing an increasingly important role in Thai agriculture.

While the export sector has contributed significantly to Thailand's expansion of domestic output, this growth was supported by imports. The largest share of imports is held by capital goods, especially electrical and non-electrical machinery. This is followed closely by raw materials and intermediate goods which are not available locally, such as chemicals, iron and steel, and textile fibers. Imports of vehicles and other consumer durables and nondurables have increased in recent years, but fall far behind purchases of capital goods. Thailand imported increasing amounts of foreign oil and fuels through the mid-1980s to meet increasing demand, but Thailand has reduced its dependency on fuel imports by 40 percent in recent years through development of its own oil and gas reserves. In general, Thailand's import composition tracks the economy's comparative advantages and is consistent with an appropriate long-term development strategy.

As Thailand's economy has strengthened, the country's participation in worldwide trade has grown dramatically, increasing by an average of almost 12 percent annually from 1950 to 1987. During that time, Thai exports grew from

\$215 million to \$11.5 billion, and imports from \$206 million to \$13.3 billion. Like many developing countries, Thailand continues to run "structural" trade deficits, with shortfalls in the trade account being financed by inflows of foreign capital.

Until the 1980s, manufactured goods played an insignificant role in the export sector, being limited to traditional small-scale, labor-intensive industries. Tariffs, installed in the 1960s to protect domestic producers, had the effect of directing most investment toward import substitution industries. In the 1980s, the government has altered its policies to encourage the development of an export-oriented economy. While import substitution policies have not been abandoned, measures have been introduced to reduce anti-export biases. The exchange rate has been adjusted to avoid overvaluation, and exporters are provided exemptions from or reductions in duties on machinery and other inputs to export production. In addition, investment incentives have been targeted increasingly toward attracting foreign investment geared toward export markets.

One highly beneficial effect of these trade trends and policy shifts is the increasing introduction of competitive forces based on market prices and signals. Production for exportation must be efficient in order to cope with international competition. In addition, expansions of export sales allow for economies of scale, which also improve efficiency. Gains achieved from greater efficiency accrue not only to exporters in the form of revenues and income, but also to domestic consumers who can purchase products of higher quality and/or at lower prices. The economies of many developing countries have stagnated because of built-in distortions aimed at protecting domestic producers, who accordingly have little incentive to reduce costs or improve product quality. Like other export-led economies, Thailand is gradually dismantling these distortions in order to expand exports. The entire economy will benefit as a result.

Thailand's international trade has grown by almost 17 percent annually from 1983 to 1988. Exports grew at an annual rate of 20.2 percent and imports by 14.5 percent over this period. In 1988 Thailand's two-way trade expanded by 47 percent, perhaps the highest annual increase on record. Exports rose 36.8 percent to \$16.0 billion and imports jumped 57.0 percent to \$20.3 billion. Industrial products continue to dominate the commodity composition of Thailand's imports, accounting for almost 90 percent of total imports in 1988. On the export side, the share of manufactured goods has increased steadily, from a share of 42 percent in 1983 to 65 percent in 1988.

Thailand continues to rely heavily on Japan and the United States as its major trading partners. These two nations accounted for a combined 40 percent of Thailand's trade, a share that has increased by 4 percent since 1983. However, while the bilateral two-way trade levels with Japan and the United States are roughly equivalent, the equality breaks down when one disaggregates into exports and imports: Specifically, Japan is the major supplier, and the United States is the major market. Japan captured 29 percent of total Thai imports in 1988, and the United States ran a distant second at slightly more than 13 percent.

On the other side, the United States absorbed 20 percent of Thailand's total exports, increasing its share by roughly 5 percent over 1983. About 16 percent of Thailand's exports are sold to Japan, a share that has varied by only a few percentage points over the past five years. In addition, the majority of Thai exports to the United States are in the form of manufactures, whereas most Thai sales to Japan are in primary commodities. The rest of Asia and Europe each have generally accounted for about 20 percent of Thailand's international trade since 1983. In comparison with most developing countries, Thailand's exports are highly diversified in terms of both destination and commodity composition.

The outlook for Thailand's trade continues to be bullish. Two-way trade grew by 35.0 percent (exports by 32.5 percent and imports by 36.9 percent) in the first quarter of 1989 over the same period in 1988. While agricultural goods sales grew at a high rate, manufactures continued to capture an increasing share of exports, accounting for at least 68 percent of the total in the first quarter of 1989.

Recent developments indicate that Thailand's export-led growth strategy has clearly taken hold, and the economy is climbing the export "rungs of the ladder" being gradually vacated by the East Asian ADCs. This trend closely tracks the nation's overall economic transformation, as well as Thailand's development aspirations. However, one risk associated with this shift is an inevitable increase of Thailand's dependence on exports as a primary engine of growth, and a rise in the nation's vulnerability to changes in externally-determined international conditions and to possible reductions in degrees of access to Thailand's major markets.

C. The Impact of Direct Foreign Investment (DFI)

A major economic objective in most market-oriented economies is the attraction of foreign direct investment inflows which bring with them "bundles" of assets which are desired but not locally available in sufficient quantities. These assets include financial and physical capital, management capabilities, technologies, access to markets, sources of supply and even labor. The economic goal must then be balanced against other, "non-economic" objectives, such as desired degrees of overall autonomy, preferences for particular local/foreign ownership mixes in specific industries, or strategic considerations.

National governments have the right and responsibility to set the parameters and conditions for foreign investment activities in their countries. Degrees of openness vary widely, from the near-laissez faire approach of Hong Kong and Singapore, to the autarchic, closed economies of Burma and "pre-liberalized" China. Experience has shown that countries which welcome foreign investment have a better chance of achieving accelerated growth than countries which do not. Nevertheless, the approaches of such nations as Japan and South Korea in earlier periods have also indicated that development success is not necessarily dependent on a high degree of openness.

As noted previously, Thailand has pursued a strategy to supplement its own economic resources with those offered by private foreign investors. Initially an emphasis was placed on capital and on production technologies oriented toward developing oil and other mineral resources, taking advantage of agricultural potential and supplying local markets domestically instead of through imports. In recent years, Thailand has placed an increasing priority on investments which bring management, technology and market access needed to expand exports of manufactures. Efforts to provide special incentives to firms willing to site facilities outside of the greater Bangkok area have to date yielded limited success, but may take hold in the near future.

The origins of investment promotion in Thailand can be traced to 1954, when a Board of Industrial Promotion was created to grant fiscal incentives to projects deemed important to the nation's development objectives. Investment incentives were increased in 1958 and again in 1960. In 1965, the Office of the Board of Investment for Industry became a permanent government body reporting to the Office of the Prime Minister.

The Investment Promotion Act of 1977 serves as the current legal basis for the Board of Investment (BOI) and the provision of investment incentives, which consist primarily of income tax holidays, import duty exemptions or rebates and the streamlining of legal and administrative barriers to prospective investments. Incentives are directed toward priority areas (export industries, import substituting industries, investments in underdeveloped regions, ventures introducing or transferring new technologies, etc.). The BOI and its secretariat, the Office of the Board of Investment (OBOI) are responsible for both administering investment incentives and designing and implementing investment promotion campaigns.

The activities of the BOI and OBOI have assumed a prominent role in Thailand's economic development, and reflect the government's commitment to promoting both foreign and domestic private investment. The high level of participation (the Prime Minister serves as statutory Chairman of the BOI) and the major visibility of BOI/OBOI activities have established a strong momentum for increased investment in Thailand.

Foreign investment ventures in Thailand have combined foreign and domestic resources to create economic benefits in the form of employment, income, foreign exchange earnings and tax revenues to the benefit of the Thai people. Thailand has consistently welcomed foreign investment, and unlike in many developing countries, foreign firms have not experienced a period of virulent anti-investment sentiment and nationalizations or expropriations.

It is estimated that between 80-90 percent of foreign investment is granted investment incentives by the BOI. Interest on the part of foreign investors has increased dramatically during the last few years. The number of applications for incentives for projects with foreign participation increased from 207 in 1986 to 1,271 in 1988, a six-fold increase. The number of applications increased by over 200 percent in 1988 over 1987.

Changes in investment promotion policies (a tightening of incentives granted), announced in 1988 but taking effect in January 1989, distort the 1988 figures in that investors rushed to submit applications before promotional privileges available to firms in the Bangkok metropolitan area were reduced or eliminated. Applications during 1989 are running at a much lower rate -- a total of 277 applications involving foreign participation were received through May 1989, amounting to an annualized rate of 665 applications, or slightly over one half the level experienced in 1988.

The number of foreign projects receiving investment privileges has increased in line with applications. From January 1986 through May 1989, a total of 1,421 projects involving foreign equity have received investment promotion approvals. During that period, however, only 366 projects have initiated operations. It is difficult to assess the success rate of promotional privileges without examining each firm individually due to time lags between approval and startup and to differences in privileges granted to ventures. Many projects do not come to fruition for a variety of reasons, and others are put through the approval process for "speculative" reasons. That is, firms might attempt to obtain preferential status in advance of potential competitors in specific industries, even though the companies applying might not be prepared to go forward with the ventures.

According to the BOI, the registered capital of foreign projects commencing operations in 1986 totalled \$608 million. This amount fell to \$473 million in 1987. New investments began to rise in 1988 when foreign projects with a registered capital of \$551 million began operations. This growth should continue in 1989; in the first five months of the year, the registered capital of foreign projects starting operations totalled about \$261 million, which if annualized would total \$627 for the year. However, while the flow of new investments is rising, reflecting the surge of interest and applications experienced in 1987 and 1988, the backlog of applications "in the queue" has fallen, indicating that the rise in new actualized investments will plateau or even decline in the future.

Japanese firms have been the most active with regard to foreign investment in Thailand. From 1986 through May 1989, a total of 119 BOI-promoted projects involving Japanese equity started operations with a combined registered capital of approximately \$940 million. The United States ranks a distant second, with registered capital during the same period totalling roughly \$288 million. Hong Kong runs third with about \$200 million and Taiwan fourth at about \$130 million during the same time frame. Rankings according to numbers of investments differ due to variances in the average size of ventures. Taiwan leads with 125 projects, followed by Japan (119), the United States (43) and Hong Kong (38) from 1986 through the first five months of 1989.

The Japanese should continue to dominate as Thailand's leading source of foreign investment, given the number and registered capital of projects which have received BOI approval. Between 1987 and May 1989, 501 Japanese projects

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with a total registered capital of almost \$6.2 billion have been approved. Taiwan is close in terms of project number (499) but a distant second in terms of value (\$1.4 billion). The United States ranks third with 168 approved projects with registered capital of \$1.1 billion, and Hong Kong is fourth with 145 projects to be capitalized at \$700 million.

It is important to realize that official statistics on registered capital are misleading indicators of foreign investment inflows, in that they reflect the capital of all investors, including Thai nationals, in any project involving foreign equity holders. One must therefore examine the actual inflow of direct foreign investment into Thailand, using Bank of Thailand figures, to evaluate the capital inflow of foreign investment properly.

The new inflow of DFI increased rapidly from 1985 to 1988. In 1985, the new inflow of foreign investment totalled \$162 million, and in 1988 reached a staggering \$1.1 billion, a three-fold increase over 1987. Foreign investment rose substantially in all economic sectors in 1988. The most significant growth has occurred in industry. In 1985, DFI channelled toward industry totalled \$50 million, representing 30.1 percent of total investment inflows. By 1988, DFI in industry reached \$646 million, almost 13 times greater than in 1985 and accounting for 57.8 percent of total investment inflows.

The Japanese have consistently been the leading source of DFI in Thailand since 1986, and have ranked in the top two national source category in every year in the 1980s. Most Japanese investment is directed towards industry, trade and construction. In 1988 alone, Japanese investment jumped by 446 percent over 1987, to \$577 million. The United States has been among the top two sources of investment (measured according to new capital inflows) since 1983. Since 1986, however, investment from the United States has lagged far behind that from Japan. In 1988, investment from the United States totalled \$126 million, less than one fourth of flows from Japan. Hong Kong has been a major source of capital for most of the 1980s, and Taiwan has recently stepped up its investment activities in Thailand. In 1988, Taiwan and Hong Kong accounted for \$125 million and \$121 million, respectively, of investment inflows into Thailand. The declining share of new U.S. investment has resulted from the rapidly increasing activity of East Asian investors.

Over the period 1984-1986, net foreign investment-related capital inflows were equivalent in amount to about 5 percent of private domestic investment (fixed capital) in Thailand. While this figure by itself is not insignificant, one could conclude that foreign investment does not play a major role in capital formation in Thailand. However, the statistic understates the contribution of foreign firms in that the inflow statistics do not take into account reinvested earnings. In addition, it includes neither the domestic equity contributions to joint ventures nor the funds borrowed locally and from foreign sources for joint ventures that might not otherwise have been undertaken, although the local capital and borrowings could have been used on other activities.

Foreign investment has been and will continue to be channelled toward Thailand's most dynamic sectors and industries, thereby marshalling resources in relatively high growth activities. Over all, foreign investment is perceived correctly as representing a catalyst which serves Thailand's long-term development goals.

D. Recent Development Gains in Perspective

Thailand is now being hailed as an emerging NIC or "advanced developing country (ADC)," and as having adopted a strategy which yielded an economic performance which ranks among the best in the world in recent years. Thailand now enjoys a robust economy based on diversified sources of growth, including agriculture, mining, light manufacturing and tourism. In each of these sectors, Thailand produces output which is increasingly competitive in world markets in terms of both quality and price. This competitiveness is in turn based on the country's rich resource base of fertile land and ample rainfall, abundant and low cost labor, mineral deposits and other economic assets.

The growth rate of the economy, averaging over 7.0 percent in real terms over the past 30 years and as high as 11.0 percent in 1988, is the envy of all but a handful of nations, primarily other East Asian NICs. The overall growth of the economy, in concert with effective strategies to limit population growth, has translated into an average expansion of per capita income of as high as 4.7 percent over the decades of the 1960s and 1970s, before declining to 3.2 percent over the 1980-1986 period. As a result, the incidence of absolute poverty fell, and Thailand's per capita income has expanded to a current level of about \$1,000. An unprecedented boom in investment, tourism, exports and construction is now under way, improving economic opportunities and standards of living.

These and related indicators support the conclusion that Thailand boasts one of the world's most successful economies and enjoys bright prospects in the future. However, this rosy picture masks several sobering realities which must be acknowledged to avoid complacency and to stimulate concerted efforts to achieve additional progress.

1. Thailand's need for economic development is far from fulfilled.

The attainment of an average per capita income level of approximately \$1,000 is a major accomplishment, but does not represent a status of advanced development. Comparable figures of per capita income amount to about \$20,000 for the United States, \$23,000 for Japan, \$9,500 for Singapore, and \$6,000 for Taiwan. In addition, the overall figure of \$1,000 for Thailand disguises the fact that the nation's wealth and income are limited largely to the Bangkok metropolitan region, where incomes are about two to three times the national average.

In many of the poorer, populous outlying regions, annual per capita incomes average only about \$300. The need to extend the depth and breadth of

recent economic gains is clearly acknowledged by the government, which places a major priority on regional development. Achieving this goal -- improving income-earning opportunities and standards of living in rural areas -- is heavily dependent on the continuation of overall economic growth. In short, no objective assessment from either a national or comparative international perspective can conclude that Thailand has reached an economic status that can support a sufficiently high standard of living for the nation's overall population.

2. Thailand's recent economic boom is only three years old and faces numerous constraints, vulnerabilities and uncertainties.

It is often difficult to avoid the temptation of assuming that recent experience will continue uninterrupted in the future. Thailand's explosive growth performance since mid-1986 is clearly impressive, and trends in exports and investment inflows suggest that the current boom will continue in the near term. However, serious bottlenecks have emerged to suggest that the period of "easy growth and profits" may soon come to an end. Thailand's basic infrastructure, especially ports, roads, and electricity, are over-extended and incapable of meeting projected growth in demand.

The nation's pool of skilled labor, particularly middle-level management, engineers and other technical personnel is fully engaged, leaving limited options for new ventures. Some are now even calling into question the assumption of virtually unlimited resources of unskilled and semi-skilled labor. In addition, investors are encountering major delays in setting up operations due to lack of available architectural services, construction materials and utility hookups. Most of these shortages are frictional in nature and will abate over time as supplies rise or demand falls, but will nevertheless act to restrain levels of growth in the near term.

Other factors pose more serious threats to Thailand's long-term development. Environmental despoliation in the form of water and air pollution and soil contamination not only reduces the quality of life and endangers public safety, but also places productive sectors at risk. Tourism, one of the country's major economic sectors, is threatened by increasingly polluted beaches and by almost permanent traffic "gridlock" and air and noise pollution in Bangkok. Fishery and timber resources have been very seriously depleted. Agricultural cropping and production methods have reduced soil fertility. These and other environmental problems are relatively standard characteristics of rapidly growing economies, but nevertheless indicate that the short-term profit motive has predominated and led to insufficient public and private investment in infrastructure and environmental protection.

Another set of domestic economic forces could combine to erode Thailand's international price competitiveness. To date, Thailand has benefitted from low prices (particularly wage rates) relative to other East Asian producers of light manufactures. If extended too long, the current-felt characteristics of an overheated economy -- shortages of labor in certain skill categories, bottlenecks in transportation infrastructure, distorted land prices resulting

from speculation, and inadequate utilities capacity (e.g., increasing prospect of interruptions, insufficient hookups, etc.) -- could collectively converge to raise the overall price structure. This in turn will increase unit costs and reduce the relative attractiveness of Thailand as a production site.

It is virtually impossible to conceive of Thailand losing its competitive price edge vis a vis Japan and the East Asean NICs in labor-intensive export production. The immediate true threat comes from other members of ASEAN, especially Indonesia, but also Malaysia and the Philippines, which have similar resource bases and wage rate structures. Each is moving vigorously, albeit from different starting points and at varying paces, to promote investment in similar sets of activities. Over the longer term, India and China represent potentially formidable competitors if they are able to put their political, economic and business policy houses in order. In addition, Bangladesh, Sri Lanka and neighboring countries in Indochina offer low wage costs for producers of labor-intensive products. The degree of international price competition has increased dramatically, in part due to the entry of new players (e.g., Hong Kong, Korean and Taiwanese foreign investors), and prospective investors carefully scrutinize current and projected price structures.

Thailand's recent growth performance has been spurred by the convergence of favorable conditions in the international economy. Buoyant commodity prices have been coupled with falling oil prices. Market demand for Thailand's principal exports (agricultural commodities, light manufactures and tourism) has been strong. Currency realignments, especially the depreciation of the U.S. dollar and the appreciation of the Japanese yen, have led to a revived interest in international investment, and Thailand is viewed as an attractive low-cost production site. This trend has been reinforced by rising wage rates and costs in East Asia and by political uncertainty in Hong Kong. While no one predicts a major reversal of these trends, the highly conducive conditions enjoyed by Thailand are subject to uncertainty, and may be unravelled by any of a number of contingencies.

In "Thailand: Prospects and Perils in the Global Economy" (a draft paper to be delivered for the Thailand Development Research Institute's 1989 year-end conference on "Thailand in the International Economic Community"), David Dapice and Frank Flatters critically examine a series of potential vulnerabilities faced by Thailand. They conclude that the prospect of a major, prolonged world-wide depression is highly limited. Industrial-country protectionism poses a clear threat, but not a significant one if proper policies are adopted. Commodity price swings are always subject to volatility, but Thailand's diversification now makes the economy more insulated than many other developing countries. Exchange rate volatility could raise Thailand's input costs (as has occurred with Yen appreciation) or reduce export competitiveness (through relative appreciation of the Baht against currencies in major markets). However, Thailand's diversity of sources and markets should tend to dampen such affects.

In sum, Thailand should by all means take advantage of existing circumstances, and consolidate and build upon the achievements made in the recent past. However, domestic constraints and international vulnerabilities will test the nation's ability to secure sustained growth.

3. From the standpoint of institutional infrastructure for trade and investment, Thailand requires a considerable amount of additional development.

Discussions on ascension to NIC/ADC status or on various forms of "graduation" typically revolve around levels of output, income, exports or other quantitative indicators. It is legitimate to examine statistics for this purpose, but the exercise should be supplemented by an assessment of the presence and capacities of institutions which not only support but often actively promote sustained economic development. From a general development perspective, these include such wide-ranging areas as health and education delivery systems, agricultural extension services, and policy analysis and planning structures.

In the area of trade and investment, one can identify a series of institutional needs and requirements that are typically lacking in countries at low levels of development, and present in industrial countries or even ADCs. These include the following:

- Trade and investment promotion
- Business information
- Managerial, technical and production line personnel training
- Investment financing
- Technology access and adaptation
- Business service support and infrastructure
- Business policy analysis, dialogue and implementation

In each of these fields, all of which are critical inputs to private sector activities, the United States, Japan and European nations enjoy a wide range of institutional capabilities. NICs such as South Korea, Taiwan, and Brazil also possess major institutions and capacities in most of these areas, although at more limited levels of breadth and depth. Some are found in or are funded by the private sector, and others are sponsored by government entities. The tendency in the United States is to prefer that, to the extent possible, these institutions and services be sponsored by private enterprises and organizations, although certain tasks classified as public services are legitimately administered by the government.

Thailand possesses institutions that cover most if not all of the areas identified. However, there is a general consensus that Thailand's "trade and investment infrastructure" will have to be extended and deepened to meet the needs of an increasingly competitive world market. This is particularly true as the nation moves to a new threshold of more sophisticated activities. The

depth of capabilities in most areas and the range of alternatives (organizations and individuals) available should be increased. One need only compare Thailand to Taiwan or South Korea to conclude that Thailand's future success at retaining and improving competitiveness depends on its ability to improve institutional capabilities in the areas of technology, labor and management training, information, capital markets, and policy formation.

No foreign assistance project can hope to address all of the institutional bases noted above, since the effort would be prohibitively expensive and excessively complex. The enhancement of institutional capabilities in these areas is the culmination of long-term development, not simply an output of specific interventions.

Accordingly, the proposed project seeks to address Thai institutional development needs identified by government and business leaders alike as having a high priority -- policy development, trade and investment promotion, and technology transfer through training. In each of these areas, Thai and U.S. leaders indicated a felt need to assist existing institutions to enhance their capabilities. Thailand possesses highly competent individuals and institutions capable of carrying out policy analysis and formulation. However, the number of individuals and organizations involved is limited, and hence true experts are over-committed, and many institutions (primarily private sector business groups) are unable to effectively articulate their views on policy issues.

In the area of trade and investment promotion, which includes the provision of information and initial assistance to prospective investors and traders, the range of "proactive" promotional and assistance is constrained by both financial and technical resource shortages. A particularly urgent need expressed by public and private sector leaders is enhancement of the quality and quantity of promotion targeted toward U.S. businesses. Finally, a universal consensus was voiced on the requirement for the technological upgrading of Thai industries, which in turn rests on training Thai labor and management in skills involved in technology-intensive products and processes. Considerable improvement in each of these three functional areas is deemed to be critically important to Thailand's long-term development strategy, as well as to expanded bilateral commercial ties between Thailand and the United States.

ECONOMIC RATIONALE FOR TRADE AND INVESTMENT INTERVENTIONS

In recent years, trade and foreign direct investment (DFI) have increased very rapidly in Thailand. Between 1984 and 1988, net DFI rose some 174 percent while imports and exports increased 96 percent and 115 percent respectively. Despite these impressive growth rates, we believe that a sound case exists for public intervention to strengthen the market's performance.

The essential thrust of our analysis is that a number of important market failures and externalities can be identified and that these act to raise social returns above private returns. The disparity between social and private returns constitutes a net surplus that accrues to the benefit of Thailand. In what follows, the rationales for promoting DFI and trade are examined separately, though the two activities are interdependent.

A. Foreign Investment: Social versus Private Returns

If all markets functioned perfectly, Thailand would not benefit from policy measures aimed at attracting additional DFI: The increase in Thai output would be exactly offset by extra payments to foreign capital. Thailand stands to gain from DFI only if market failures and/or policy distortions result in foreign capital being paid less than its contribution to total domestic output. This may occur for a variety of reasons. We discuss below the main factors that might cause the social and private returns to DFI to diverge and, where possible, attempt to establish empirically their relevance for Thailand.

1. Labor Market Distortions

The allocation of labor is inefficient when some sectors harbor surplus labor or wages differ across sectors for labor possessing the same skills. There is some disagreement about how well the labor market functions in Thailand, but in our view both types of inefficiency exist. According to labor force surveys conducted for 1981-1985, the seasonal unemployment rate has ranged between 18 percent and 28 percent, with rates of 30-40 percent being observed in the rural northeast. This conclusion has been questioned by a recent World Bank study which contends that much of what is called seasonal unemployment instead reflects seasonal fluctuations in labor supply (mostly by the young and by women) and that the growth of traditional industries and seasonal migration absorbs a large part of the labor released during slack periods of the agricultural cycle. Further studies by Chalongphob, however, have found that seasonal underemployment remains a serious problem in many rural areas. More recent labor market surveys also suggest that seasonal underemployment is still sizeable. Table 1 shows the fraction of employed individuals available to work more hours. In the low season (February), fully 16 percent of those employed in non-municipal areas desired more work. Underemployment rates were highest among prime age males (ages 20-49), who accounted for 72 percent of those seeking additional work. Somewhat surprisingly, even during the middle of the rainy season (August), there appears to be some surplus labor.

Table 1

Percentage of Employed Persons Available to Work More Hours

	<u>Municipal Areas</u>			<u>Non-Municipal Areas</u>			<u>Overall</u>
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Total</u>
Aug. 1986	5.7	4.1	5.0	9.6	8.8	9.3	8.5
Feb. 1987	6.7	5.5	6.2	17.6	14.2	16.1	14.4
May 1987	7.7	6.2	7.0	14.9	13.2	14.1	12.9

Source: Labor Force Surveys

Besides agriculture, surplus labor probably exists in some service sectors. The over-development of such sectors as transportation and retail trade arises for the same reason that fisheries tend to be over-exploited. The opportunity to claim some of the rents created by a public resource for which no fee is charged (i.e., the use of the roads) leads to excessive entry and the creation of excess capacity.

A second major source of underemployment is the payment of higher wages in the formal sector than in the informal sector for labor of the same type. With competitive behavior on the part of firms, the sectoral wage differential is generated by a matching differential in (marginal) labor productivity. The distribution of employment across sectors is thus inefficient: A reallocation of labor from the informal to the formal sector would both improve the distribution of income and raise national output.

The primary problem in quantifying sectoral wage differentials lies in obtaining data that control adequately for differences in workers' characteristics. We have two pieces of data that overcome this difficulty and which indicate that sectoral wage differentials are sizeable in Thailand. First, workers at all educational levels receive higher wages in large than in small firms (see Table 2). As the great majority of large firms belong to the formal sector, the large/small firm wage gap would be expected to correspond closely to the formal/informal sector wage gap. Second, we have acquired data from TDRI on blue collar wages in different sectors (see Table 3). These data reveal that the blue collar wage is 40-60 percent lower in agriculture than in manufacturing.

TABLE 2

Ratio of Wages Paid by Small Firms
to the Wage Paid by Large Firms*

Educational Level	Firm Size (Number of Employees)			
	1 - 5	6 - 10	11 - 20	21 - 50
Below Grade 4	.67	.80	.79	1.37
Elementary	.57	.78	.84	.85
Secondary	.65	.86	.86	.93
Vocational	.55	.71	1.00	.78
Teacher College	--	.54	.63	.67
University	1.16	.44	.49	.55

* Large firms are those having more than 50 employees

Source: Chalongphob, Sussangkarn, "The Thai Labor Market: A Study of Seasonability and Segmentation," 1987.

Table 3

Ratio of the Blue Collar Wage in Agriculture
to the Blue Collar Wage in Manufacturing

Educational Level*	Private Employees	Self-Employed	Own Account Workers
None	.70	.77	.61
Less than 4 yrs	.72	.38	.45
Elementary	.62	.42	.36
Secondary	.75	.81	.38
Vocational	.89	.96	.39
Others	.32	--	.30
Unknown	.77	--	.44
Total (all educational levels)	.61	.48	.36

* Not all educational levels are listed because some are not common to agriculture and manufacturing. For example, there is no data on the wages of university educated blue collar workers in agriculture. (Perhaps there are none.)

Source: Thailand Development Research Institute

The existence of surplus labor in some sectors and of sizeable sectoral wage differentials implies that the private return to DFI understates the social return. Being large and operating exclusively in the formal sector, foreign firms pay wages well above the national average. Hence, DFI confers a positive externality on the economy by drawing labor from low into high productivity activities. This gain is not taken into account by the firms themselves, who calculate the cost of labor according to the wage they pay and not as the output lost from hiring labor away from other sectors.

To get some sense of the quantitative significance of this externality, we have derived the partial equilibrium formula for the shadow capital rental. For constant returns to scale technologies, the social return on capital, r^S , is related to the private return, r^P , by

$$r^S = r^P[1 + (1-l)/L//K],$$

where l is the ratio of the marginal value product of informal sector labor to the wage paid by foreign firms and l/L and l/K are, respectively, the cost shares of labor and capital for foreign firms, taking the blue collar wage in agriculture as a proxy for the marginal value product of labor in the informal sector, $l = .60$. A plausible range of values for $l/L//K$ is $.3 - .7$. Thus, the favorable impact on employment raises the social return above the private return by 12-28 percent. This calculation is admittedly quite rough, but it suffices to demonstrate that the social dividend associated with reducing underemployment is not trivial.

2. Economies of Specialization

As Adam Smith observed long ago, specialization is one of the most important sources of increased productivity. In modern economies specialization requires a wide range of supporting, specialized intermediate inputs. Due to the need to spread fixed costs over a sufficiently large level of output, however, the variety of intermediates that can be produced is limited by the size of the market. This link between market size and specialization gives rise to an externality when capital accumulation takes place. The increase in demand for intermediates induced by capital accumulation enables a greater variety of intermediates to be produced and thus greater economies of specialization to be realized. The specialization gain is a pure social gain above and beyond the direct gain measured by the private return to capital.

The interaction between market size, capital accumulation and economies of specialization may be quite potent. Paul Roemer has shown in a class of simple models that capture these interactions that the aggregate production function for final goods Q takes the form:

$$Q = K + l/L,$$

where K is the capital stock; L is labor; l is the cost share of labor; and a hat denotes the percentage change in the variable. Because of the

accompanying gains from greater specialization, the elasticity of output with respect to the capital stock here is unity. By contrast, without gains from specialization, the output-capital elasticity is the share of capital in national income, a much smaller figure.

It is difficult to estimate how large the gains from specialization are and how much they boost the social return to DFI above the private return. Foreign firms do contribute to the demand for domestically-produced intermediates, since they purchase 37 percent of their total intermediates from local sources. There are also documented cases of foreign firms assisting subcontractors by providing advice on production processes and methods of improving quality control. Moreover, the potential efficiency gains from expansion of the intermediates sector may be considerable at present. (The government seems to recognize this and now emphasized the importance of strengthening the "support" industries.) Given Thailand's level of development, the intermediates sector is unusually small. In a 1984 survey of 304 firms, the IDE found that only 8 percent had subcontracting relationships. Similar surveys in Singapore and the Philippines produced figures of 43 percent and 37 percent, respectively. Perhaps the main factor discouraging subcontracting is the business tax, which penalizes inter-firm transactions. The scope for achieving economies of specialization should increase substantially in the near future when the business tax is replaced by the value added tax.

3. Tax Distortions

The taxes collected on the profits of foreign firms obviously increase Thai national income. In the absence of any other distortions, the percentage difference between the social and private return to DFI would exactly equal the corporate tax rate. While taxes are lower in Thailand than in any other ASEAN country, at 25 percent the corporate tax is still large enough to cause a significant divergence between social and private returns.

The tax holidays granted by the BOI diminish the government revenue gain, but only partially. Projects in the Bangkok Metropolitan Area (BMA) are ineligible for tax holidays and in other cases the holidays are fairly short (3-5 years). Furthermore, in the future all firms except those exporting more than 80 percent of their total output will pay the value added tax.

4. Growth Bottlenecks and the Government Budget Constraint

There was almost universal agreement among those interviewed by the project team that shortages of skilled labor and social infrastructure are the most important impediments to sustained high growth in Thailand. Higher government expenditure is needed to alleviate both of these bottlenecks. The public sector will assume a leading role in expanding the road system, port facilities and the telecommunications network. Higher government outlays will also be required to support the expansion of training institutes and to raise salaries of university faculty in the sciences and engineering, many of whom have recently been recruited into the private, profitmaking sector.

The speed with which the government attacks the skilled labor and infrastructure bottlenecks depends in good measure on the growth of government revenues. Chastened by the macroeconomic problems Thailand experienced in the early 1980s, the government is now intent on limiting expenditure growth to levels consistent with small fiscal deficits. This tight government budget constraint, combined with the skilled labor and infrastructure bottlenecks, raises the social returns on investment as any tax revenues generated by foreign firms command a social premium (i.e., an extra dollar of government revenue is valued at something more than a dollar). The spread between the social and private returns will therefore exceed the corporate tax rate. When no other distortions are present, the difference between the social and private return expressed as a percentage of the latter is:

$$(r^S - r^P)/r^P = t(g)/(1-t),$$

where t is the corporate tax rate and g measures the social premium attached to government revenue. In view of the considerable deficiencies in the supplies of skilled labor and social infrastructure in Thailand, one could justify assigning a value of 1.5 to g . This yields a spread between the social and private return of roughly 37 percent ($t = .20$ after adjusting for tax holidays).

5. Trade Taxes

Recently export taxes have been eliminated and tariffs slightly lowered. The trade regime, however, retains a moderate protectionist bias, with the average effective rate of protection in the import-competing sector being approximately 46 percent. The misallocation of resources induced by protection is partly but not entirely offset by the practice of giving rebates on duties for imported machinery and intermediates used by exporting firms. Private sector price signals still channel too many resources into the import-competing sectors at the expense of export and nontradables production.

When trade taxes do not correct for other distortions, the social return to a project is found by evaluating its impact on the value of output measured at world market prices. (This is the well known Little-Mirrlees border price rule.) The tariff-ridden prices faced by the private sector thus overstate the social return to foreign investment in the import-competing sector. Conversely, projects in the export sector yield a higher social than private return if they attract some resources out of the import-competing sector (quite likely) or indirectly raise consumption of importable goods (say by increasing the prices of domestic goods that are substitutes for consumer imports). These conclusions are strengthened when, as argued in the preceding section, government revenue commands a special premium. The social return to foreign investment in the import (export) sector is then further reduced (increased) by the loss (gain) in government tariff revenue.

6. Technological Spillovers

Foreign firms typically utilize more advanced technology than domestic firms. Over time the superior foreign technology becomes diffused throughout the industry. The transfer of technology to domestic firms, of course, benefits the home economy, but is viewed as an adverse development by foreign firms.

Little is known about the extent of technological spillovers, but some evidence attests to the phenomenon. Drawing on the technology of resident foreign firms, a Thai entrepreneur recently succeeded in breaking into the integrated circuit industry. In several industries domestic firms have also imitated the quality control programs of foreign firms.

7. Training

Training of domestic workers is widely cited as a major benefit of foreign investment. It is necessary, however, to distinguish here between firm-specific and general training. Training provided by foreign firms benefits the home economy to the extent that the wages of domestic labor increase. Firm-specific training raises wages little and produces minimal benefits. Since the skills acquired are of value only to the firm in question, workers are paid only a small wage premium sufficient to lower the quit rate and save the firm the costs incurred in retraining new hires. General training, on the other hand, is of potentially greater value as it increases a worker's productivity in a wide range of activities. The natural competitive pressures of the market strongly bid up the wages of labor having general skills, conferring a greater gain on the home economy.

Firms will not underwrite the costs of general training since the improvement in the worker's productivity is nullified by the higher wage that must be paid to retain the worker. Workers must pay for this type of training by accepting a below-average wage during the training period. Nonetheless, the opportunities for general training provided by foreign firms probably serve to correct a market failure. It is evident from the shortages of skilled craftsmen and technicians that private training institutes and the public education system are inadequate alternative suppliers of general skills. Nor, at the firm level, does the possibility of paying below-average wages ensure that all socially profitable training opportunities will be exploited. The uneven consumption path that is forced upon the worker can increase the cost of training (in utility terms) significantly. Indeed, the real wage cut required during the training period may be altogether too large for many workers to bear. One must keep in mind that the starting point for blue collar workers is a daily wage of \$3-4. These problems would not arise if workers could borrow to maintain consumption while receiving training. But Thai capital markets do not operate so efficiently. The banks' high collateral requirements make it difficult for many small and medium-sized firms to obtain credit, let alone individual workers who can pledge little more than their intangible, future human capital as security.

Direct measures of the extent of on-the-job-training and its division between general and firm-specific training are hard to come by. On-the-job training, however, is reportedly common and indirect evidence of its importance is provided by the experience/earnings profile. If on-the-job training did not occur or were limited to purely firm-specific training, the experience/earnings profile would be flat. In fact, labor market studies done for Thailand (Chalongphob, 1987) and other developing countries invariably find (as in the developed countries) a strong positive relationship between experience and earnings in the formal sector.

8. Some Final Evidence: Sources of Growth

We have argued that foreign investment generates a higher social than private return by:

- reducing underemployment;
- improving the general skills of the labor force;
- transferring technology;
- increasing government revenues; and
- fostering economies of specialization.

In some cases we have been able to marshal empirical support for the claim that an externality operates. In others, the assertion remains partly or wholly conjectural, particularly for technological spillovers and economies of specialization. As one final piece of evidence bearing on this issue, we briefly discuss some recent work done on the sources of growth.

Early studies of growth in the industrial countries came to the conclusion that increases in the supplies of primary factors (capital and labor) account for only a small fraction of total output growth. In a way, this finding is not surprising. If the social and private returns to capital coincide, the elasticity of output with respect to the capital stock should equal the share of capital in national income (about .30 in industrial countries versus .40 - .50 in developing countries). This implies that with an average capital/output ratio of 3, a gross investment rate of 20 percent would generate per capita income growth of only 1.0 - 1.5 percent.

More recent and refined studies argue that capital accumulation is considerably more important than previously thought. These studies (which cover a mix of industrial and developing countries) indicate that the elasticity of output with respect to the capital stock is on the order of .75 - 1.20. Elasticities of this magnitude cannot be explained unless the social return to capital far exceeds the private return. This provides further evidence that capital accumulation generally produces positive externalities -- there is **nothing** exceptional about invoking this argument for Thailand.

B. The Actual Versus the Perceived Private Return: Is There Under-Investment and Trade by U.S. Firms?

This analysis has concentrated so far on the potential development gain to Thailand of attracting additional foreign investment. The United States will benefit as well if investing in Thailand yields a greater (private) return than alternative investments. If true, this immediately raises the question as to why American firms are unaware of the superior investment opportunities in Thailand. In one sense, it is unconvincing and perhaps even insulting to claim that the behavior of U.S. firms is "suboptimal"; this is just a polite way of saying that American business executives are less knowledgeable than their foreign counterparts. A stronger argument is that certain market failures impede the flow of information about investment opportunities in Thailand.

A first point to note in this connection is that much of the information a firm needs to evaluate prospective foreign investments is information specific to that firm's operations. The costs of gathering specific information are one of the normal costs of doing business and there is no reason to think that firms will underinvest in the acquisition of such information. If private returns appear to be higher in Thailand than elsewhere this may reflect nothing more than that the costs of acquiring information about the Thai market and how to set up operations there are higher than for other nations or regions. It would be premature to conclude that there is clear evidence of suboptimal behavior.

The market for the provision of general information involves different considerations. Certain informational needs are shared by all firms (information pertaining to tax and employment laws, foreign exchange regulations, local business customs and so on). This type of general information has the character of a public good: Providing the information to one firm does not preclude its use by any other firm. Clearly, it is more efficient for the public sector to gather such information and make it freely available than for each individual firm to expend resources to acquire the information on its own. If left to its own devices, the market will generate too little general information and some profitable investment opportunities will remain unexploited.

In theory there is a valid rationale for public intervention to facilitate the flow of general information. However, we have not been able to determine whether, in practice, the costs of acquiring general information have been an important barrier to U.S. investment in Thailand. Those interviewed expressed diverse and contradictory views on this subject. Some felt that U.S. firms have been quick to respond once economic conditions were right. Others voiced the view that U.S. firms are ill-informed about opportunities in Thailand. To make matters more confusing, when lack of information was alleged to be a problem it was often not clear whether the interviewee had in mind deficiencies in the flow of firm-specific or general information.

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Notwithstanding this conflicting evidence, a review of existing literature and numerous discussions with business and government leaders indicates that American firms are missing out on substantial opportunities in Thailand. Much of this stems from the introverted nature of most U.S. businesses, particularly small and medium sized enterprises (SMEs). U.S. export activity, for example, is dominated by large companies. As much as 80-85 percent of total U.S. exports are sold by only 250 of the country's largest corporations. Of the estimated 250,000 manufacturing firms operating in the United States, only 10 percent engage in foreign trade. Furthermore, over 90 percent of non-exporting firms have never even considered selling abroad. These figures are disappointing in view of the fact that the U.S. Department of Commerce estimates that between 25,000 and 40,000 firms, mostly SMEs, manufacture products that would be competitive in price and quality in foreign markets, yet these companies do not attempt to market their products abroad.

Research studies indicate that executives of non-exporting U.S. firms often hold misconceptions regarding the relative costs, benefits and risks associated with export activity. Exporting is generally perceived to be more risky and less profitable to these executives than to those of exporting firms. These misperceptions form "psychological" barriers which prevent many companies from seeking out export opportunities. In fact it is estimated that between one third and one half of all initial exporting activities on the part of American companies are instigated by direct requests from foreign buyers and not as a result of international marketing efforts undertaken by the U.S. firms.

Even when presented with export opportunities, many American firms are unresponsive. In the Southeast Asia region, buyers often complain that they have to "beg" U.S. companies to quote on orders. Many U.S. corporations tend to view transactions in terms of short-term gains, refusing to offer attractive terms vis a vis competitors as part of market penetration strategies. For example, many U.S. executives residing in Thailand who have addressed business gatherings in the United States comment on the difficulty in convincing Americans that significant profit opportunities exist overseas, much less in Thailand. The low success rate of numerous general promotion activities undertaken in the United States is indicative of attitudes in U.S. firms which by and large are oriented toward the domestic economy.

The number of U.S. companies actively examining opportunities in Thailand is quite small. In a recent survey (previously conducted by Richard Smith of the project team) weighted heavily toward firms involved in international business -- 86 percent of the sample versus 10 percent nationwide -- only 30 percent carried out business in Southeast Asia. And only 17 percent of that latter group had commercial relations with Thailand. This implies that less than one percent (0.6 percent) of U.S. firms carry out business with Thailand. Three-quarters of those firms which are not active in the entire region cited limited or no opportunities, or the fact that they lacked the knowledge necessary to make a business decision.

Notwithstanding the general lack of interest in the region by U.S. firms, those with operations in Southeast Asia hold a highly positive outlook toward their current activities and future prospects. Nearly 87 percent of the firms involved in Southeast Asia in the Smith survey planned to expand their business activities in the region during the next five years. In a recent survey (September/October 1988) conducted by the American Chamber of Commerce in Thailand, 88 percent of respondents were optimistic about the business climate. Underlying this optimism were strong financial results -- some 91 percent of respondents reported increased revenues and 80 percent reported higher profits than the previous year. Over three quarters of the respondents planned to increase their investments in the six months following the survey. This evidence suggests that American management had not yet fully reacted to new opportunities emerging in Thailand. This suggests that some intervention is appropriate to make general information on Thailand more widely available in the United States. Although the main justification for the investment components of the proposed trade and investment project is that the development benefits for Thailand are potentially large, additional benefits would accrue to U.S. firms.

The problem of U.S. firms' relative lack of interest in international transactions has been fully acknowledged by U.S. officials, and several major efforts have been undertaken by the Department of Commerce and other agencies to address this concern. The results of these initiatives have been less than fully satisfactory.

One might be led to the conclusion that the issue of U.S. corporate interest in international transactions is global, and that efforts to stimulate interest in individual countries would be fruitless. This assumption is contradicted by the fact that U.S. firms are heavily involved in such countries as Taiwan, Mexico and Brazil, and strong linkages and networks have emerged to further those ties. Consequently, it might be not only appropriate but also preferable to seek to stimulate U.S. corporate interest abroad on a country-by-country basis, since the activities and required resources would be manageable and strategies can be pursued more coherently. Thailand represents a strong candidate for such an approach.

C. The Trade Dimension

Trade has been one of several important factors underlying the strong recent growth of the Thai economy. Through trade a country can specialize in the production of commodities in which it possesses a comparative advantage and rely on imports to supply those goods which would be costly to produce domestically. Taking this logic a bit further, the gains from trade tend to be greatest when trade accommodates a marked shift in the structure of production. This type of transformation now seems underway in Thailand. Between 1983 and 1988, the share of manufacturing output in GDP rose from 21.4 percent to 24.4 percent. During the same period, the share of manufactures in total exports rose from 43.4 percent to 66.1 percent.

The usual case for promoting trade emphasizes the static gains that are achieved by allocating resources according to the principle of comparative advantage. In less developed and semi-industrialized economies, there are also important dynamic gains from trade. A permanently higher level of growth ultimately requires an increase in the investment rate. Since even ADCs cannot efficiently produce many types of sophisticated machinery, high investment rates are inevitably accompanied by large increases in import demand. If capital inflows are limited by concerns about foreign indebtedness, higher export growth is required to sustain the greater flow of imports. An economy that cannot increase its exports rapidly enough will find itself unable to support export-oriented expansions in productive investment.

The principal challenge confronting Thailand in the years ahead is to control tensions with its major trading partners as it pursues its strategy of export-led growth. Policy studies and measures that generally strengthen Thai-U.S. commercial relations can help defuse these tensions to the benefit of both countries.

D. Does U.S. Trade and Investment Provide Special Benefits?

One rationale for increased U.S. commercial relations is the often cited Thai desire for U.S. firms to increase their interest and activities in Thailand. Thai officials and business leaders interviewed during the design of this and similar projects unanimously share this opinion, a general perception that trade and investment with the United States offers certain unique advantages and is therefore desirable. The following section explores the possible bases of this assertion.

Counterbalance to Japanese influence. The dominance of Japanese firms in both the trade and non-energy investment sectors worries Thai business executives and government officials, who are concerned that Japan may currently or eventually exert too much influence over the nation's economy. According to this view, an increase in U.S. commercial activity in Thailand could serve to diversify the geographic composition of trade and investment flows and reduce the risk of excessive dependence on any individual foreign country.

From a purely economic standpoint, a "host" country should be indifferent toward the national origin of trade and investment flows, unless clear differences exist between the commercial entities involved (e.g., systematic exploitation on the part of one but not the other). Apart from certain management characteristics discussed below, the project team was unable to verify any major behavioral differences between U.S. and Japanese firms.

Thailand's trade objectives. Thailand runs considerable trade surpluses in its trade with the United States, but deficits vis a vis most other countries, particularly Japan and other Asian ADCs. In addition, Thailand's exports to the United States have much higher shares of manufactures (and domestic value added) in comparison to total sales to Japan and others

countries in the region. While one can conclude that U.S.-Thai bilateral trade is in a sense more in Thailand's "interest" (balance and commodity composition), nations should seek to balance their overall trade rather than individual bilateral flows.

Access to U.S. technology. A commonly held perception in Thailand holds that U.S. firms often offer superior technology over companies from other nations, and that U.S. companies have a greater propensity to transfer that technology to Thai nationals and firms. There is no evidence to support the notion that U.S. technology is superior, or that U.S. firms are more likely to transfer proprietary technologies. However, anecdotal and survey results are sufficient to confirm that U.S. firms have a greater propensity to transfer "management" technology, in that U.S. companies tend to rely much more heavily than, say, Japanese firms on Thai nationals to fill upper and middle level management positions.

Access to U.S. markets. The United States is Thailand's largest market, and increased involvement of U.S. firms should help develop linkages which could provide Thailand with new channels of access to the United States market. While this assertion is essentially true, there is no reason why non-U.S. firms with strong market channels in the United States cannot provide this same benefit.

Access to U.S. capital. Assertions are made that U.S. firms tend to bring with them larger amounts of equity capital, and depend less on local debt financing, which draws liquidity away from local firms. While U.S. companies worldwide show a greater preference for wholly-owned U.S. ventures (as opposed to joint ventures), and in general are less leveraged than Japanese firms, there is no evidence that they provide greater equity capital than firms of other nationalities in Thailand.

Competition. A diversified foreign investment and trade structure could in theory result in greater competition within the Thai economy. Competition among firms from different nations could result in greater gains to Thailand as competitors "bid up" the price and conditions associated with transactions. Monopolists or monopsonists can accrue rents due to their positions. However, Thailand enjoys a relatively high degree of diversity in both trade and investment flows. In addition, competition can be achieved from the actions of competing firms from the same nation.

Reduced trade tensions. Increased U.S. activity in Thailand would benefit U.S. firms and strengthen ties between the two business communities. Increasing the base of mutually beneficial bilateral activities would raise the stake of both nations in resolving policy frictions. While this argument is generally true, expansions of bilateral flows do not prevent the emergence of trade disputes (witness U.S.-European problems on agricultural trade).

Reviewing the list of assertions put forward to support a preference for U.S. commercial relations over those of other nations, one can conclude that there is little direct evidence suggesting that U.S. firms offer unique advantages to Thailand. One major exception to this finding is the unanimous view that American firms provide more and better management training than do foreign investors from other nations.

Even if the comparative argument does not hold, the claims made provide two plausible cases for promoting U.S. trade and investment with Thailand. First, the goal of diversification of supplies, markets and financial flows makes sense for an economy such as Thailand. Second, expanding commercial relations between the United States and Thailand carries with it positive benefits, both economic and political.

U.S. INTERESTS IN TRADE AND INVESTMENT IN THAILAND

Why should the citizens, corporations and government of the United States hold a stake in U.S. trade and investment relations with Thailand? This is not a trivial question. A poll of individuals "on the street" would likely find that the overwhelming majority of Americans could not identify Thailand nor place it on a map. If they were able, they would probably incorrectly "tar it with the brush" of regional political turmoil and less than fond memories of "Indochina." Most U.S. corporate executives would cite the small market and great distance (the "jet-lag" factor) as effectively precluding any interest on their part. Numerous surveys indicate that Thailand is "off the radar screen" of even those few companies actively examining international profit or growth opportunities.

The large size of the U.S. market and relative ease of doing business in the United States has checked the interest of most American firms that could compete internationally from doing so. By comparison, firms in countries with smaller markets or more dependent on outside sources of supply show a much greater proclivity for seeking new commercial outlets through trade and investment ventures. In fact, many serious observers conclude that unless a larger share of U.S. firms become more "international" in outlook, the United States faces the prospect of an inevitable erosion in economic competitiveness and welfare. One can cite few countries which offer more opportunities and better conditions than Thailand for U.S. trade and investment. The extent of these opportunities are not lost on firms from other countries, which are now engaged in a virtual rush into Thailand.

A. Trading Relationships and Interests

Trade is clearly the most important area of Thai-U.S. economic relations. In 1988, the bilateral trade reached an all-time high of \$5.9 billion, an increase of almost 58 percent over the previous year and representing an annual average of 18.7 percent growth since 1983. Until recently, the United States consistently ran trade surpluses with Thailand. It was not until 1985, according to Thai statistics, that Thailand first ran a trade surplus with the United States. In that year, Thailand recorded a \$353 million trade surplus. By 1988, the surplus had grown to \$447 million, an increase of 27 percent. According to U.S. statistics, the U.S. bilateral trade deficit was as high as \$1.5 billion in 1988.

Thailand has relied increasingly on the United States as an export market. In 1975, exports to the United States totalled \$244 million, only 11 percent of the nation's total exports. By 1988, this figure had increased to \$3.2 billion, or 20 percent of Thailand's total exports. The composition of sales to the United States changed over time to reflect developments in Thailand's economy. In 1974, only 37.8 percent of Thai exports into the United States were manufactured or processed goods. By 1987 that figure had grown to roughly two thirds of total sales to the United States. During the same period, agricultural exports declined from 21.8 percent to only about 10.0 percent.

Thailand's major exports to the United States include textile and apparel products, canned tuna and pineapple, gems, artificial flowers, integrated circuits and rubber and latex products. In this flow of trade, the major U.S. benefits are directed toward American consumers, as well as manufacturers who use Thai-produced components. These individuals and firms receive products of internationally competitive price and quality. The interests of consumers are often given short shrift in trade discussions, because consumer groups are usually less well organized and vocal than producer organizations. Nevertheless, the economic literature is replete with analyses that prove that the consumer welfare gains achieved under free trade policies far exceed the producer gains reaped under trade restrictions.

The United States remains competitive in a number of important sectors and subsectors, including agribusiness, machinery and transport equipment, products incorporating sophisticated technologies, chemicals, and services. However, U.S. industry has lost its competitiveness in a wide range of product categories, particularly those which require labor-intensive production techniques, such as apparel, footwear and other leather goods, and consumer electronics. The only hope for many U.S. firms to retain or regain their competitiveness is to introduce labor-saving processes or to source the labor-intensive components of their final products in countries with low wage structures for relevant skill levels. U.S. electronics firms are pursuing such strategies, and have invested in Thailand to produce low cost, high quality components (e.g., integrated circuits). These companies have a major stake in maintaining open access to inputs through trade.

Thailand represents a major and growing market for U.S. exports goods and services. Major Thai imports from the United States include machinery and parts (electrical and nonelectrical), aircraft, chemicals, munitions, textile fibers, scientific and optical instruments, and food and beverages. Capital goods have become an increasingly important sector of U.S. exports to Thailand. In 1980 capital goods comprised less than 40 percent of total U.S. exports, whereas in 1988 capital goods accounted for approximately 61 percent of total exports to Thailand. Munitions have become less important during the same period, declining from 19 percent of total U.S. products sold in 1980 to 7 percent in 1988.

The U.S. gains associated with exports to Thailand include income and profits for American firms, productive employment for U.S. workers, tax revenues for the government, and foreign exchange earnings for the economy as a whole. Given the substantial differences in U.S. and Thai resource endowments, products are traded strongly on the basis of comparative advantage. Few foreign markets for U.S. exports are expanding as consistently and as rapidly as Thailand. If the United States is to bring its trade account into greater balance, U.S. firms will have to increase their market share in rapidly growing markets such as Thailand.

B. Investment Flows and Interests

U.S. corporations invest abroad for a variety of reasons: To supply local markets, to produce for export, to secure sources of supply of raw materials and low-cost inputs, and to establish a regional presence in corporate production or marketing strategies. American firms have established operations in Thailand for all of these reasons. The ultimate goal of U.S. and other foreign investors is the generation of profits, both in the near term through current production and in the long term through increases in market shares. Thailand's rapidly expanding market size (in terms of effective demand), resource base, and growing manufacturing capabilities have well served the interests of U.S. investors. An ongoing series of surveys conducted by the American Chamber of Commerce in Thailand (AMCHAM) confirm the U.S. business community's sustained confidence in the investment climate, as well as the high degree of Thailand's attractiveness to U.S. business.

The value of U.S. private investment is reported to exceed \$4 billion, accounting for about one third of total foreign investment in Thailand. According to the U.S. and Foreign Commercial Service in Bangkok, as of 1987 nearly one half of U.S. investment stock was in the energy sector. About one fourth was in banking, followed by about 18 percent in manufacturing and 7 percent in trading. Over the past four years (1985-1988), the services sector (finance, trade, construction, transport, tourism, etc.) accounted for well over half of total U.S. net inflows of investment into Thailand.

Investment flows from the United States are often difficult to assess in aggregate terms because of the preponderance of highly capital intensive investments in the energy sector, dominated by two American companies. Total direct investment flows from the United States, however, have been increasing steadily since 1986, when inflows of U.S. investment amounted to \$49.2 million. In 1988, the flow of direct investment from the United States totalled \$125.7 million, an increase of 78 percent over 1987 (\$70.6 million). Investment flows into the Thai industrial sector have risen steadily by an average of 35 percent annually since 1982. In 1988, U.S. industrial investments accounted for one third of total U.S. DFI flows into Thailand. Investment in the trade sector ranked second, accounting for 27.5 percent of total U.S. new investment, and the services sector was close behind with 21.4 percent.

The estimated \$4 billion stock of U.S. investment in Thailand represents a significant stake for U.S. firms. Unfortunately, even rough estimates of aggregate corporate profitability are impossible to calculate in the absence of disaggregated balance sheet data (e.g., local versus foreign ownership, debt/equity ratios, intercompany loan remittances, dividend remittances versus reinvested earnings, etc.). In addition, levels of profitability vary dramatically among firms and industries. Nevertheless, a cumulative U.S. investment stock of \$4 billion comprises a substantial level of profitmaking assets. For the sake of argument, if the average return on capital falls into the 15-20 percent range in Thailand (a conservative range by some estimates), the potential returns of U.S. investment in Thailand could run on the order of \$600-\$800 million.

C. Strategic Commercial Interests

As noted above, the most direct U.S. interests in trade and investment relations with Thailand consist of consumer gains, export sales and corporate profits. To this one must add a wide range of interests arising from activities which complement or supplement trade and investment. These include transportation, financial and other business services, exchanges of tourists and students, development of stable commodities markets, receipts from sales or licenses of technology and related commercial properties, and other economic transactions. Each of these activities generates benefits that can be identified and measured.

In addition, a number of broader strategic interests are served by U.S. trade and investment relations with Thailand. General U.S. interests are examined later in this report, but several strategic commercial interests are explored below.

The economy of Thailand is of increasing importance to the U.S. private sector. The size and growth of the Thai economy provide expanding profit opportunities for U.S. firms. The strategic importance of Thailand is fully acknowledged by the business communities of Japan, Europe and East Asian ADCs. U.S. companies should not concede the Thai market to competitors from these nations.

Thailand is at a stage of development where the first players in a specific market will enjoy significant advantages over newcomers. Even if current markets are not sufficiently large to fully justify investment, the future potential may warrant investing today as a means of preempting competition. Firms which lock up investment promotion privileges and move "up the learning curve" as quickly as possible will dominate their markets because subsequent entrants will face serious disadvantages. In Asian countries such as Taiwan, Singapore, South Korea and Malaysia, as well as in Thailand, most modern, "nontraditional" industry subsectors are dominated by a select number of firms which have made an early commitment to establish and maintain a presence in the local economy. For example, the establishment of productive ventures in Thailand often requires the development of close working ties and mutual trust with existing Thai businesses, which in turn entails the need for a permanent presence. Once these relationships are in place, new entrants typically find it difficult but not impossible to break the established ties.

Thailand is one of the major economies within ASEAN and greater Southeast Asia, and is emerging as a regional hub for the northern tier (Burma and Indochina) of the Southeast Asian region. Firms seeking to inaugurate an initial presence in this rapidly growing region would find Thailand to be a hospitable first site for operations. Intra-regional trade is not significant due to similar comparative advantages, and most established firms serve individual national markets from domestic operations. Nevertheless, corporations typically enter new regions with ventures in a specific country to "test the waters." Thailand could serve as an attractive initial base of activities in the region.

Many international corporations have already established Thailand as a site for export production, primarily for sales to industrial countries. Using Thailand's competitive cost structure, U.S. firms could establish ventures to penetrate Japanese, European and even Taiwan and South Korean markets. In addition, the recent growth of assembly operations has created an increasing demand for local suppliers, a niche that could be filled by U.S. companies. Due to the rising value of the yen, U.S. suppliers could even penetrate Thai markets directly through sales of U.S.-made inputs.

The examples given above are only suggestive of the range of strategic opportunities that are emerging for U.S. businesses in Thailand. However, the development of long-range profitmaking ventures requires a level of interest and commitment on the part of U.S. firms that to date is not clearly apparent.

D. Bilateral Commercial Policy Issues

As is evident from the preceding discussion, Thailand and the United States share a rich, mutually beneficial set of commercial relations. Flows of bilateral trade and investment should continue to expand over time. However, a number of policy frictions have arisen in recent years, and these problems could threaten the growth of business transactions. The issues in contention are described in detail in Appendix 1 of this report from the perspective of each side of the bilateral relationship. They relate to both trade and investment issues, including market access, subsidies, countervailing duties, investment restrictions, intellectual property rights, and eligibility for U.S. trade preferences.

Many of these frictions have been addressed and are in the process of resolution. While the overall relationship on commercial policy issues has "ebbed and flowed" in terms of tensions, many outstanding problems have yet to be resolved and others will certainly emerge in the future. It is therefore incumbent upon both the United States and Thailand to develop greater understanding, productive forms of policy discussion and negotiation, and ultimately effective means to find mutually acceptable solutions to commercial policy problems.

ANALYSIS OF EVALUATIVE CRITERIA FOR PROJECT ACTIVITIES

The proposed implementation plan for the U.S.-Thai Trade and Investment Support Project calls for an independent, private sector-led board to provide overall project guidance and supervision. This strategy is in consistent with the concepts presented above for dealing with activities of this kind in increasingly advanced developing countries. The proposed approach should include a plan to assure prudent management and to require that activities be made in accordance with predetermined parameters and guidelines. It is therefore recommended that all proposed project initiatives must meet a set of evaluative criteria or else be precluded from further consideration.

A. Project Component Screening Criteria

The study team considered a wide range of possible criteria and reached agreement on the set presented below. The team's objective was to develop a reasonable number of guidelines which can be used to screen initially proposed, alternative and future project activities. These criteria fall into three categories.

Criteria 1 through 4 focus on functional relevance.
 Criteria 5 through 8 relate to effectiveness.
 Criteria 9 and 10 deal with institutional integrity.

A brief discussion on the nature and intent of each criterion is presented, as well as a determination as to whether the test is necessary (must be met) or is supplementary (adds to the proposal's viability or relative priority).

To be included in JUST Business activities, proposed project components should:

1. Address one or more of the following functional areas: Policy analysis and formulation, trade and investment promotion, or technology transfer through training.

The three categories of activities to be included in the project have been selected for three reasons. First, they address needs unanimously identified by Thai and U.S. private sector leaders that should be filled to support Thailand's current development efforts and to nurture U.S.-Thai bilateral commercial relations. Second, they are areas in which A.I.D. has a proven record of success in projects and programs. Third, they represent initiatives in which private sector groups can and should become more involved, and hence provide an opportunity for the Thai and U.S. business communities to collaborate and develop their capabilities in Thailand. This is a necessary condition that must be met.

2. Lead either to increased U.S.-Thai trade and investment or strengthen the institutional/policy foundation for bilateral commercial relations.

The analysis and development of appropriate policies act to remove obstacles to commercial transactions, and improve the basis for stronger bilateral relationships. Promotional efforts lead directly to expanded trade and investment in both directions. Technology transfer initiatives, if targeted and administered correctly, provide a catalyst for both short-term and long-term economic exchanges. This test, which sets the functional parameters for the project, is a necessary condition that must be met by proposed components.

3. Cannot be addressed adequately by the private sector or by market forces.

The private sector is not in a position to carry out many activities that are in the public good. In addition, markets often fail to perform certain functions such as policy articulation, information dissemination and training, even in areas that directly affect private firms. This creates a need for interventions to correct such "market failures," since such interventions would ultimately enhance efficiency and provide benefits to the society.

Interventions which correct for market failures or promote activities yielding positive externalities deserve high priority. Such interventions enhance economic efficiency by bringing marginal economic benefits closer in line with marginal economic costs. The only risk is that the interventions might be carried too far, beyond the optimal point where social benefits balance marginal social costs. This is unlikely to be a serious problem in the proposed trade and investment project, which for the most part proposes modest interventions. In order to qualify, contemplated initiatives must meet either this or the following criterion, preferably both.

4. Promote trade and investment by raising corporate profitability.

The benefits of foreign investment and export production to the economy as a whole exceed private returns by a substantial margin, since trade and investment create jobs, income, foreign exchange and tax revenues. Any intervention that expands activity in these areas by raising private sector profitability also generates a gain for the entire economy. The economic gain is maximized when the differential between private and social returns is entirely eliminated.

The distinction between this and the preceding criterion has largely to do with the market specificity of the intervention. Interventions that meet criterion #3 directly address some market failure or are aimed at some particular social externality. Measures that satisfy criterion #4 operate in a more roundabout fashion. They promote foreign investment or trade and then

rely on the favorable market interactions that result to generate an economic gain. For example, a flat subsidy to foreign investment (some of the PID proposals can be viewed in this light) may improve economic welfare by shifting labor from the low productivity informal sector to the high productivity formal sector. In this instance, the source of the welfare gain is that foreign investment lessens the distortion in the labor market. The subsidy works through general market interactions and is not directly aimed at correcting the labor market distortion.

5. Have a proven track record of success.

The proposal for JUST Business is experimental from the standpoint of overall management, in that operational control is relinquished to a private sector entity. Experimentation intrinsically involves uncertainties. To reduce the level of uncertainty, this criterion holds that proposed specific activities should be supported by evidence of proven effectiveness elsewhere. The burden of proof falls on those proposing the interventions, including examples of success, and concrete plans for avoiding mistakes and problems encountered in similar activities. In theory, certain initiatives might succeed in Thailand where they have not proved effective elsewhere, due to unique circumstances. Other ideas might be innovative and tailored to the Thai environment. For these reasons, this criterion is supplementary rather than mandatory, but exceptions should be rare.

6. Have a well-conceived implementation plan and have available a "critical mass" of resources -- financial, technical and management.

New ideas or concepts might appear compelling when first presented, but their attractiveness breaks down when practical considerations are introduced. For this project, suggestions for activities must be accompanied by detailed implementation strategies which in turn must be subjected to careful scrutiny. In addition, a sufficient level of resources must be allocated for the activity, because too often initiatives fail because they attempt to accomplish "too much with too little." This criterion is a necessary condition that must be met.

7. Represent "additional" initiatives directly targeted toward trade and investment growth, and are not merely budget supplements for existing organizations.

In any project of this kind, there is a tendency for general funding requests to appear (from both private and public sector organizations) in the form of proposed project activities. Many of these disguised requests for general budgetary support may end up financing mostly consumption or supplementing organizational funds (e.g., vacations to Thailand or the United States, more general budgets for lodging, travel and meals, etc.) or exploration of highly speculative ventures. To minimize this problem, proposed activities should represent new initiatives which fall directly within the scope of JUST Business. This test is mandatory.

8. Be demonstrably cost effective.

To conserve scarce financial resources, individual project subcomponents should be shown to be cost effective. In addition, the aggregate list of proposed activities should be reviewed by JUST Business for the purpose of setting priorities, with those which offer greater benefits being assigned relatively higher rankings. This criterion is mandatory.

9. Complement but do not overlap activities of existing institutions, and develop Thai institutional capacities and bilateral institutional linkages.

U.S. and Thai officials and business leaders concur in their desire to avoid duplicating the work or mandates of existing institutions, and that the proposed activities of JUST Business should in fact seek to strengthen current organizational capacities. New entities which enjoy external funding and draw resources away from existing organizations typically encounter resistance and rivalry during their early periods of operation. The proposed interventions can fill organizational gaps, but should do so by engaging and assisting current institutions. This criterion is mandatory.

10. Have the potential for post-project self-sustainability.

A basic motivation behind this project is to develop and nurture a sustained capability for promoting long-term, U.S.-Thai commercial relations. Just Business should develop its own strategy for financial self-sufficiency, defined broadly as independence from USAID funds. Alternative sources might include membership dues and contributions, private sector donations from individuals, firms and organizations, funding from other donors, fees for services provided, corporate registry and other fund-raising activities, and even government donations. In addition, certain activities undertaken (e.g., promotional assistance to BOI) could be developed and eventually "spun off" as self-sustaining operations. Since some initiatives such as policy analysis are unlikely to attract long-term funding, this criterion is supplementary rather than mandatory.

B. Criteria for Narrowing the Sectoral Focus

The ten criteria recommended and the analysis of rationales for interventions presented previously in this report contain some implications for the sectors most likely to produce initiatives worthy of support. A sectoral focus is not contemplated at this time, in that policy, promotion (at least reactive promotion) and technology transfer through general training do not conform well to a sectoral orientation, since most of these activities relate to a number of potential sectors. Nevertheless, if a sectoral narrowing is deemed useful or necessary in the future, it should be possible to distinguish those sectors which meet the following tests.

1. Promote exports.

Ceteris paribus, export-oriented projects yield a higher social return than import-substituting projects. This follows directly from the principle of comparative advantage. In addition, assuming equivalent fiscal treatment, expansion in the export sector has a more favorable impact on the fiscal budget than expansion of the import-substituting sector (which may even cost the government revenues), thus enabling the government to attack the skilled labor and social infrastructure bottlenecks more aggressively.

2. Have high value added.

The potential for raising efficiency through greater specialization in the production of intermediate goods depends on the size of the market. Projects having extensive backward linkages (i.e., those that purchase a large fraction of their intermediates from local sources) should therefore be given priority.

INSTITUTIONAL ANALYSIS

Once a conclusion was reached on the need for a series of activities to promote bilateral trade and investment, the next logical issue addressed was to determine the most appropriate organizational strategy to administer the project's initiatives in Thailand. From the standpoint of timing and cost effectiveness, the most efficient approach would be to assign responsibility for carrying out the project to an existing organization. This would reduce the time and financial resources required to set up a new organization (staff recruitment and training, budget system and controls, operational procedures, etc.). However, this option is only viable if an existing organization is functionally and constitutionally able to meet the requirements necessary for managing the effort.

The key characteristics of the implementing organization for the project include the following:

The organization's charter and operational outlook should support private enterprise development and enhanced bilateral commercial relations between Thailand and the United States.

The organization should possess a managing board and membership that primarily represents the interests of the private sectors of both Thailand and the United States.

The organization should enjoy a high degree of respect from and cooperation with both private and public sector entities operating in Thailand in the area of trade and investment, and is not perceived as a competitor to existing institutions.

The organization should be actively interested in and administratively capable of implementing an A.I.D.-funded trade and investment project.

- o The organization should be financially self-sufficient or offer a high probability prospect of becoming self-sustaining once A.I.D. funding of the project is complete.

As the project was being developed, a number of organizational candidates for project management were explored in the interest of avoiding the need to create a new institution. In addition, the study team examined a number of alternative possibilities.

1. Serious consideration was given to enlisting the American Chamber of Commerce in Thailand (AmCham) as the implementing institution. AmCham is open to both U.S. and Thai members. It is strongly oriented toward improving bilateral commercial relations, and is engaged in both policy dialogue and promotion activities (especially the Mini Ambassador Program). It is a financially self-sustaining organization. However, it is sometimes viewed by Thais as being too closely associated with U.S. positions on policy issues. Nevertheless, the AmCham is a strong organization and represents the best possible candidate for implementing the project. Upon due consideration, both AmCham leadership and USAID questioned the administrative capability and interest of AmCham to carry out the project effectively. In addition, AmCham was concerned with jeopardizing its independence through a close association with USAID and was opposed to being responsible for the commitment and disbursement of U.S. Government funds. For these and other reasons, it was mutually agreed that AmCham would not serve as the project implementing agency. However, during project development and in the JUST Business advisory group workshop, several AmCham Board members expressed their agreement with the relevance and utility of the illustrative activities proposed under the project, and indicated a willingness to serve as members of the JUST Business Board.
2. The Joint Public/Private Sector Consultative Committee (JPPSCC) of the Royal Thai Government is a successful mechanism for seeking cooperation between the public and private sectors in Thailand. This organization has been supported by the USAID Mission in Thailand. However, the JPPSCC could not serve as the implementing agency because its membership is restricted to Thais.
3. Consideration was given to expanding USAID's role with Thai business associations, such as the Federation of Thai Industries (FTI), the Thai Chamber of Commerce, and the Thai Bankers Association. It was decided that it would be inappropriate for Thai business associations to be expected to undertake a number of proposed activities, since they are directed to the specific interests of U.S. firms. In addition, this project is intended to address the needs of U.S. businesses trying to do business in or with Thailand, and Thai businesses associations are by definition oriented toward serving the interests of Thai businesses.

The Board of Directors will be responsible for setting policies, determining the nature and scale of activities, and overseeing the operations of JUST Business. The Board will meet periodically to review ongoing activities and decide on initiatives presented in an agenda developed by the secretariat. While Board membership is to some extent based on personal affiliation, members will act in a personal rather than official capacity, lest they be required to obtain official approvals from the organizations they represent.

Size, operational scope and reporting responsibilities of the JUST Business secretariat

The project strategy calls for a small and efficient staff for JUST Business. The staff would consist of an President, a Vice President, and a small support staff. The President would also serve as the Project Manager, and would oversee and coordinate specific project activities, communicate with USAID, and serve in a government liaison role. Project activities would be carried out by existing organizations (e.g., AmCham, BOI, FTI, NESDB, etc.) and by individuals or firms operating on a short-term contract basis.

The project will fund a five-year lease for the JUST Business offices, and provide the organization with furniture and office equipment. Funds will also be extended for project activities, which would be developed as separate functional and financial subcomponents. The President will report substantively to the JUST Business Board of Directors, to whom quarterly progress and financial reports will be submitted. In addition, the President will be responsible to USAID for maintaining accurate financial records, submitting quarterly progress and financial reports, and coordinating project activities in accordance with A.I.D. policies and procedures.

Institutional linkages between JUST Business and other relevant organizations

Inasmuch as JUST Business is intended to supplement and extend the capabilities of existing organizations, concerted efforts are required to put into place collaborative relationships with existing organizations. Important linkages will be provided through Board membership. The secretariat will work closely with the US&FCS Board member to develop cooperative linkages with USG agencies such as US&FCS, TDP, OPIC, and Eximbank. The USAID Board member will arrange for complementary relationships with the A.I.D.-funded ASEAN trade and investment project (PITO). Similar linkages with RTG agencies will be developed through BOI and NESDB Board members. Similarly, close working relationships with business communities will be organized through AmCham and Thai business association Board members. The Board of Directors will reject any project subcomponents which are deemed competitive with or duplicative of activities carried out by existing public and private sector organizations.

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Means to ensure sustainability following the initial period of USAID funding

The basic concept underlying this proposed project is to create an institution with a permanent presence that seeks to enhance bilateral Thai-U.S. commercial relations. To meet this goal, JUST Business faces the need to become financially self-sufficient. A.I.D. and especially the Bureau for Asia and the Near East place a high priority on sustainability.

It is difficult for any organization such as JUST Business to assure sustainability at the outset of its existence. Experience shows that the organization must first establish its value by effectively performing services deemed worthy of support by funding sources. Accordingly, JUST Business should focus its initial efforts at developing its capabilities and providing its services as quickly and efficiently as possible.

Nevertheless, the Executive Director and Board of JUST Business should be charged with designing a comprehensive plan for financial self-sufficiency during the first year of operation. Self-sufficiency should be defined broadly to mean that by the end of the five-year USAID project, JUST Business will have secured sufficient non-A.I.D. sources of funding to support a viable secretariat and program of activities. These sources could include membership dues (assuming JUST Business is formed as an association), fees for services, individual and corporate contributions, fundraising events, grants from foundations and non-A.I.D. development agencies (e.g., World Bank, IFC, ADB, etc.), and projects and grants from Thai and U.S. government agencies other than A.I.D.

The financial plan will be based on a general strategy to secure incrementally larger amounts of funding in each successive year according to a predetermined schedule. For example, in year three of the project, outside sources of funds would cover 25 percent of JUST Business expenditures. This share would be raised to 50 percent in year four, 75 percent in year five, and 100 percent in the year following completion of USAID funding.

The organizational strategy for the JUST Business secretariat presented above represents the consensus of opinion developed at the advisory group workshop. At that time, two alternatives were put forward for the "secretariat" functions and size of the organization. The first option described below was determined to be the preferable choice. However, several members of the advisory group advocated the second option.

Option 1: A Small-Sized Secretariat

This approach calls for a "lean" organizational structure. The management of JUST Business would consist of an Executive Director and a Deputy to oversee and coordinate specific activities. These two people would be supported by additional staff, contractors or committees which would be responsible for monitoring activities.

The JUST Business Board would decide upon, fund and oversee project activities, but most of the activities would be carried out by existing policy, promotion and training organizations. The physical "presence" of JUST Business would be limited largely to actions taken by the Board and to the small secretariat. This approach has clear merits in the form of cost saving, efficiency and non-duplication.

Option 2: A Larger Physical Presence for JUST Business

This alternative approach would introduce a stronger physical presence for JUST Business. The configuration and role of the Board would be the same. However, the organization would have a larger facility, and would have on-site activities in the form of information collection and promotion, research coordination, and business development assistance. JUST Business would still work with and rely on existing organizations. However, a greater effort would be made to provide common facilities for and integration of certain project activities. JUST Business would become identified as a physical entity providing a series of services to private enterprise at a central location, rather than primarily as a funding organization.

The benefits of this alternative approach include a more visible identity for JUST Business, more active coordination of separate activities, and a greater amount of resources for key project activities. The costs come in the form of financial resources required (to support the facility, technical assistance, and a slightly larger number of full-time staff). The advantage in is a potentially greater impact and higher visibility under the alternative strategy.

ISSUES IN THAI-U.S. COMMERCIAL RELATIONS

Thailand and the United States share a deep and broad array of mutually beneficial commercial relations. However, if one were to "take the pulse" of official bilateral relations on trade and investment issues, one could easily conclude that the patient is sick. In fact, even a casual reader of the daily business press in Thailand could characterize the situation as the pending collision between an "irresistible force and an unmovable object." An unprecedented level of tension has arisen as a result of a growing list of bilateral trade disputes.

A. Structural Determinants of Current Frictions

Before turning to a brief description of these issues, it is useful to examine the underlying causes of the general trend. On the one side, the United States is pursuing a course grounded in the combination of declining economic sectors and the persistence of a seemingly structural trade deficit of enormous proportions. Unlike the past, in which the United States enjoyed trade or at least current account surpluses, the government is no longer willing or politically able to play the role of "disinterested" world trade system manager, allowing nearly unlimited access to U.S. markets and overlooking trade restrictions abroad.

Hard times have brought forth an era of the United States pursuing its own direct self interests more vigorously, witnessed by both protective measures to prop up declining industries and retaliatory measures targeted at establishing a "level playing field." In addition, new trade legislation increasingly ties the hands of U.S. administrations which traditionally had greater flexibility to apply liberal interpretations in order to prevent new trade restrictions called for by industry petitions. Nor are U.S. negotiators as able as in the past to offer "package deals," trading concessions in different areas, since legislation now often requires a set course of action on a commodity-by-commodity basis. Thai officials and to a larger extent the Thai business community and press are not sufficiently aware of the process of and constraints on U.S. policy decisionmaking and the political forces behind it.

Thailand is rapidly developing to the point of already representing a significant actor in the international trading system. As such, Thailand is no longer an insignificant player which is immune from attention given to its trading policies and practices. According to U.S. officials, Thailand must learn to accept its responsibilities to act as a mature trading nation within the global economic system. Thailand accounts for only about 2.0 percent of total developing-country exports of manufactures, and Thailand's total level of manufactured good exports in 1988 amounted to less than the increase of such exports from South Korea and Taiwan. In certain product categories, however, Thailand represents a major force and international competitor in product categories such as clothing and apparel, gems and jewelry, and processed fruits, vegetables and fish.

According to the Thai perspective, Thailand is still a relatively poor developing country with a growing but still fragile export sector. The economy is highly dependent on external trade, and many export industries remain in an "infant" stage, thereby requiring open access to markets and various forms of assistance at home. According to this view, it takes time to adjust basic commercial policies, and the short timetable for change demanded by the United States is unreasonable.

No nation willingly agrees to "graduate," in the sense of accepting the withdrawal of preferences or conceding the need to adopt trading practices consistent with international norms. In many areas, Japan is still in the process of graduation. The "Four Dragons" of East Asia spent enormous amounts of funds for lobbying efforts to forestall being eliminated from U.S. GSP eligibility. Nevertheless, countries which reach a certain threshold of development and trade prowess inevitably face the prospect of various forms of graduation. While Thailand will enjoy a few more years of "grace period" in certain areas, the country is preparing itself for the reality of taking those actions required of an increasingly equal partner in international trade.

The bilateral trade issues described below focus on the principal concerns of each nation's government regarding policies and actions taken by the other, and are expressed according to the arguments presented by the "aggrieved party." Reflecting on the overall collection of issues, each side has a legitimate case against the other in certain areas. Stated differently, neither side is sitting down at the negotiating table with an unblemished record.

B. Thai Concerns over U.S. Policies

Thailand's objections to U.S. trade policy revolve around three sets of issues -- the subsidization of U.S. rice, the imposition of U.S. import restrictions against products of interest to Thai exporters, and retaliatory actions undertaken by the U.S. Government against "unfair" Thai trade policies.

U.S. Rice Subsidies. The Rice Title of the U.S. Food Security Act of 1985 extends a series of benefits to American producers through the Marketing Loan Program, the Export Enhancement Program, the provision of long-term soft credits, and other provisions. The Title provides a total of about \$1.0 billion in subsidies to U.S. rice farmers, and according to the Thais acts to seriously distort the world rice market (by reducing world prices) and undermine Thai exports. The rationale behind the program has been the need for the United States to reclaim market shares unfairly lost to subsidizing competitors, and Thailand has been cited as a country using unfair trading practices. However, an analysis completed for the International Trade Commission has shown that the Thai subsidy amounts to only 0.84 percent of export prices.

The Thais feel that the declining U.S. share of world rice markets is due largely to the stagnation of U.S. productivity in rice production, natural preferences for Thai rice varieties, and U.S. political difficulties in Middle Eastern rice importing countries. The U.S. subsidy program has dramatically reduced the price differential between Thai and U.S. rice (the latter being higher because of greater production costs and higher quality), from \$117-\$241 per metric ton in the 1982-1985 period to only \$37 in 1988. This "artificial" reduction has undermined Thai sales of rice to Europe, which fell from 556,588 metric tons in 1985, the year before the subsidy program took effect, to 195,085 metric tons in 1988.

The U.S. Food Security Act expires in 1990, and the Thais are seeking assurances that the subsidy provisions will be deleted from the subsequent legislation. U.S. negotiators suggest that any major changes will depend on the results of reductions in agricultural subsidies determined in the new round of multilateral negotiations by the General Agreement on Tariffs and Trade (GATT). Thailand is an active member of the "Cairns group" of nations engaged in agricultural trade policy negotiations. The Cairns group consists of Australia, Canada, New Zealand and a series of developing countries that seeks rapid liberalization of agricultural trade policies.

U.S. Textile Quotas. Although Thai exports account for only 1.4 percent of total U.S. imports of textiles, Thailand is the largest textile exporter to the United States that operates in the absence of a formal bilateral agreement. The U.S.-Thailand textile agreement expired at the end of 1988, and has not been replaced by a new agreement due to a breakdown in negotiations. The breakdown was caused by Thailand's rejection of the U.S. intention to impose group limits on Thai exports to the United States, and to extend restrictions to new categories of interest to Thailand, including ramie silk. In the absence of a formal bilateral agreement, fifteen separate actions have been initiated against Thai exports, and the United States has threatened to impose unilateral restraints pending resolution of the outstanding cases.

The Thai view holds that the quotas derived from the overall Multifiber Agreement (MFA) are themselves protectionist. In addition, the specific quotas applied to Thailand are unreasonably low, inasmuch as levels of Thai exports are well below those of many other producing nations. This exacts severe damage on Thailand's growing textile industry.

Voluntary Restraint Agreement (VRA) on Steel. Thailand is the largest exporter of steel products (primarily steel pipes and tubes) to the United States without such trade being governed by a "voluntary" quota, or VRA. U.S. officials have indicated that Thailand should enter into a VRA. If not, Thailand could be subject to Section 1322 (the "melted and poured") provision of the Omnibus Trade and Competitiveness Act. It was developed to preclude nations from circumventing VRAs on steel through third-party sales. Since Thailand's pipe and tube exports use as inputs steel that is melted and poured in Japan, Thailand could face unilateral restrictions imposed by the United States. Enforcement of Section 1322 would in effect restrict U.S. imports of Thai pipe and tube to levels substantially below those achieved in 1988 unless Thailand enters into a VRA.

The Thais claim that VRAs and the threatened use of unilateral restrictions are not consistent with free trade principles and the intent and spirit of GATT and the Uruguay Round. The "melted and poured" provision constitutes a violation of GATT Articles 11 and 19. The U.S. policy is therefore a blatant protectionist device.

Anti-Dumping/Countervailing Duty Actions. Under GATT provisions, importing countries are permitted to impose countervailing duties (CVDs) on companies deemed to be unduly dumping or countries determined to be subsidizing their exports. Over the past three years, three major anti-dumping cases have been brought against firms operating in Thailand. A tariff of 15 percent was imposed on welded carbon steel pipes and tubes in 1986, malleable cast-iron pipe fitting received an Affirmative Determination in 1987 (indicating justification for countervailing duties), and anti-friction ball bearings were subjected to a 20 percent duty in 1988.

CVD cases against government subsidization have not resulted in significant U.S. tariffs, but have covered a number of products of interest to Thailand. They include welded carbon steel pipes and tubes, textiles, steel wire nails, rice and anti-friction ball bearings. According to the Thai position, the subsidy levels found are minimal, ranging from 0.82 percent to 1.23 percent ad valorem, and therefore the products should not be subjected to CVDs. In addition, the 21.5 percent CVD imposed on ball bearings is unwarranted. Nevertheless, the RTG has decided to impose an export tax on ball bearings to offset subsidies. Overall, Thais argue that anti-dumping and CVD cases, while relatively minor in result are highly visible, and hence create unnecessary frictions between the two nations.

GSP Eligibility. The U.S. Trade and Tariff Act of 1984 attaches certain conditions for national eligibility for the Generalized System of Preferences (GSP), which provides duty free access to certain products exported by eligible developing countries. Among these conditions are the presence of laws and enforcement to provide the effective and adequate protection of intellectual property, open access of U.S. products to recipient-country markets, and internationally recognized worker's rights. Three petitions were filed against Thailand by the U.S. private sector in 1987. The Pharmaceutical Manufacturers Association alleged that Thailand does not protect patents for pharmaceutical products, the International Intellectual Property Alliance claimed that Thailand lacks adequate and effective protection of copyrighted works such as computer software, and the AFL-CIO alleged that Thailand fails to provide internationally recognized workers' rights. Unless the issues are resolved, Thailand faces the prospect of losing GSP eligibility. Due to a breakdown in negotiations, four items were eliminated from GSP eligibility by the United States in January 1989.

The issues involved are highly complex and beyond the scope of this report. Briefly stated, the Thais feel that national laws and enforcement of copyright protection (computer software, etc.) are currently or in the process of being brought up to acceptable standards. The conflict over pharmaceutical

product patents is more difficult, since Thai law is geared toward allowing companies to produce and distribute medicines as cheaply as possible to the rural poor, in accordance with national social policies. However, steps are being made to resolve this issue. Overall, however, the RTG feels strongly that efforts to provide adequate protection of intellectual property rights should take the form and pace that is determined by Thailand rather than by foreign governments or private sector entities. The intellectual property right issue is highly sensitive and politicized, since it has become viewed as a matter of national sovereignty.

C. U.S. Concerns over Thai Policies

As noted above, U.S. positions on bilateral trade issues stem in part from the overall U.S. trade deficit and in part from the motivation to seek an "even playing field." According to U.S. Department of Commerce statistics, the bilateral U.S. trade deficit vis a vis Thailand amounted to \$1.5 billion in 1988, an increase of \$617 million over that recorded for 1987. U.S. concerns focus on Thailand's import restrictions, export subsidies, intellectual property right protection, and barriers against services investments.

Import Restrictions. U.S. officials argue that Thailand maintains a series of protective trade devices that individually or collectively limit U.S. export opportunities. The average level of tariffs (trade weighted) is about 23 percent, which falls into the range of the acceptable, given Thailand's external sector performance and dependence on tariff revenues. However, duties on most food imports amount to about 60 percent. The elimination of high tariffs on a group of items including fresh fruits, tree nuts fruit and vegetable juices and chocolate confectionery are estimated by U.S. authorities as potentially resulting in an increase of \$3 million in U.S. exports to Thailand. High rates on apples have been reduced substantially. The removal of tariffs on certain machinery and parts (now 30-60 percent) and chemical products and pesticides (30-40 percent) are calculated to yield \$71 million in increased U.S. exports.

Thailand requires import licenses for items which fit into one of three categories: Those which are restricted to protect local industry, which trigger a need for purchases of similar domestically-produced goods, or which are controlled for health, security or other reasons. Numerous agricultural products are subject to licensing to protect local firms. These include coffee, fruit and vegetable juices, certain baked goods, sugar, honey, fats, cheese, and certain candies. Soybean meal imports are limited by a quota and by domestic purchase requirements. Cigarette imports are banned, and a state monopoly controls domestic marketing. Additional policies limit the imported leaf content of certain Thai cigarette brands. These restrictions are deemed to pose major barriers to increases in U.S. exports to Thailand.

Customs valuation procedures are considered by U.S. officials to be arbitrary and to restrict U.S. exports. Thai customs officials record the highest price for specific items imported from a given country, and apply that price to all subsequent imports of similar products from that country. Thailand is not a member of the GATT Customs Valuation Code. Additional barriers cited involve standards, testing, labeling and certification. Many U.S. manufacturers are reluctant to do provide information on their formulas to local importers. In general, licensing is expensive, and takes from six to eighteen months to obtain clearance if all documents are sufficiently in order.

Export Subsidies. As noted previously, U.S. authorities charge that Thailand implements several programs that subsidize exports. These include preferential financing for exporters, rebates on taxes and duties on inputs used in export products, an export promotion fund, and subsidized electricity for exporters. Since Thailand is not a signatory to the GATT Code of Conduct on subsidies, Thailand does not enjoy the benefit of an injury test in U.S. countervailing duty investigations. Petitioners must merely achieve an affirmative finding on subsidization.

Intellectual Property Protection. The U.S. Government has pressed Thailand to undertake policy and enforcement reforms on virtually all aspects of intellectual property right protection, including patents, copyrights and trademarks. The U.S. view holds that intellectual property rights (IPR) are violated in Thailand through patent theft and copyright and trademark "piracy."

Thailand's patent law explicitly denies product patent protection for food and beverages, pharmaceuticals and preparations, and agricultural machinery. Trademark law does not protect service, certification and well-known marks. Penalties for trademark and copyright infringement are viewed as too low, and enforcement remains a problem.

Although the complaints are limited largely to the pharmaceutical, computer software and entertainment (videos and tapes) industries, the issue has been raised to the highest levels of government and both created major bilateral frictions and domestic political ramifications in Thailand. On January 19, 1989, the President of the United States determined that Thailand does not fully provide adequate and effective IPR protection, and consequently removed several Thai export items from GSP eligibility.

Service Investment Barriers. In addition to trade and IPR concerns, the United States has complained about Thai restrictions against investments by U.S. financial services firms. For example, foreign direct insurers are not permitted to establish branches or subsidiaries or hold more than 49 percent equity in an insurance company without special permission (An exception, the U.S. firm AIG, holds a significant share of the Thai insurance market due to its long history of a strong local presence). All government insurance must be placed with local companies.

No new banking licenses for foreign banks have been issued for 17 years, although a series of new applications are in the final stages of negotiation. Unless "grandfathered" under previous law, U.S. banks are restricted to one branch, a provision which is apparently even applied to automated teller machines (ATMs), which are desired by U.S. banks. Additional restrictions are faced by brokerage houses, and advertising and leasing firms are subject to the 49 percent foreign equity limitation. The RTG prohibits foreign firms from establishing new law offices, and foreign construction, engineering and architectural companies must enter into an affiliation with a local firm.

In 1986, Thailand was included for the first time in the "National Treatment Study" prepared by the U.S. Department of the Treasury. Thailand was one of four countries added to the total list of 15 countries, which are regarded by the U.S. Government as worthy of note in the area of national treatment of financial and other service industries.

D. Long-Term Relations and Concerns

The bilateral trade and investment policy frictions cited above are not atypical, and in a sense reflect the strong and growing commercial relationship between Thailand and the United States, accompanied by a more equal footing on policy matters. This is the result of Thailand's increasing economic strength, coupled with U.S. trade deficits and the political need to pursue "fair trade" rather than "free trade" negotiating strategies. If Thailand were not such a large supplier to nor such an important market of the United States, the range of conflicts and degree of vehemence extended to them would be much more limited. However, this is not much of a consolation to firms involved in the affected industries.

One should not view recent policy confrontations as the first salvos of a coming bilateral trade war. The bilateral relationship on commercial and other grounds is simply too important to threaten a major breakdown. The United States is the largest market for Thai exports, particularly in commodity categories which support Thailand's development aspirations. Thailand is a critically important commercial and strategic ally in the region. Both sides fully recognize the significance of these ties, and will ultimately act to serve those interests.

In the short run, both Thai and American negotiators and interest groups involved in trade relations need to gain a deeper understanding of the policymaking structures, political constraints, and limits to flexibility which operate in the opposite end of the bilateral relationship. Policy differences will remain irritants indefinitely until positions and their causative factors are adequately addressed and mutually agreeable solutions are developed.

Over the longer term, commercial relations should continue to expand to both nations' benefit. However, one could envision several developments which could lead to a divergence of interests and a growing level of conflicts.

First, Thailand's burgeoning exports could grow to the point of causing a major U.S. bilateral trade deficit. This in turn could elicit U.S. demands for dramatic forms of protection and/or policy changes in Thailand aimed at reducing the deficit. Second, Thailand could be targeted by Japan and the East Asian NICs as an export platform for sales into the United States. The products included would consist of contentious items such as ball bearings in "sensitive" U.S. sectors. U.S. policy attention would be directed toward Thailand rather than toward the host countries of the investors. Third, the majority of Thai industries could adopt the industrial organization and strategic planning structures of Japanese firms, due to the predominance of Japanese investment in Thailand and the natural proclivity of firms to organize themselves like their parent companies. As such, they create the group approach regarding finance, supplier relationships, introverted distribution and marketing, and so forth. These firms would then act to lock out U.S. trade and investment while serving the corporate and national interests of their parent firms.

The scenarios presented above might appear extreme, but each of these developments is now taking place to a certain degree. The U.S. bilateral deficit is growing, Thailand is being developed as a third party export platform, and many industries are dominated by Japanese investors.

The long-term commercial interests of Thailand and the United States have been converging in recent years due to economic complementarity. These commercial ties have therefore reinforced the two nation's other sets of social, political and strategic interests. The future does not preclude the possibility of a divergence of Thai and U.S. commercial interests, leading to reductions in trade and investment flows as well as growing frictions on bilateral policy issues. Such a prospect is unlikely. Nevertheless, any chance of diverging interests would be reduced or even eliminated by a substantial increase in bilateral trade and investment flows in the near future.

Lessons Learned from Similiar A.I.D. Projects ...

The proposed trade and investment Project seeks to pursue relatively traditional initiatives (i.e., trade and investment promotion and policy analysis), in that these types of interventions have been undertaken successfully in many countries. The Project strategy is for these activities to be administered via a relatively innovative implementation plan (i.e., JUST Business).

For both the substantive components and the implementation strategy, the previous experiences of A.I.D., other donors, and individual host countries provide useful lessons that should be taken into consideration. The application of certain "lessons learned" can serve to improve the efficacy of the proposed project and reduce the prospects of encountering problems and mistakes encountered elsewhere. This section examines general lessons drawn from successes and failures experienced in the past, and takes note of relevant activities in Thailand.

Projects involving each of the functional components included in the project are new neither to A.I.D. in general nor to USAID/Thailand. The Mission has engaged in policy analysis projects with government entities and with private scholars and institutions such as the Thailand Development Research Institute (TDRI). These efforts have included funding for both research studies and basic institutional development. Several operational lessons can be drawn from this experience. One is the need to engage private sector officials and organizations early and throughout the process of research on policy issues affecting business. Another is the importance of being aware of the narrow base of funding for policy research in Thailand, and the resulting requirement to address the organizational rivalries that emerge due to selection of research awardees. In addition, policy studies related to sensitive national issues and/or bureaucratic "turf" should involve policymakers to preclude or minimize adverse reactions to research results.

The Thailand Mission has on several occasions implemented promotion projects, primarily with the Board of Investment. Early institution-building efforts in the mid-1960s successfully assisted the BOI to develop its operational capacity. A mid-1980s project geared toward targeted promotion for U.S. investors fell somewhat short of expectations due to unfortunate timing (it was implemented at the trough of the worldwide economic downturn). Another problem noted was the general absence of a post-project followup strategy, an issue that is directly addressed in the proposed Project.

In A.I.D., both Missions and Central Bureaus have had extensive experience in developing and implementing trade and investment projects. A summary of lessons learned include the following in each of the functional project components.

Policy analysis and dialogue initiatives are most effective when (1) initial activities focus on concrete policy problems that can be effectively addressed, rather than on overarching issues that are politically sensitive; (2) research and analysis efforts combine qualified local individuals/organizations with external U.S. research teams (as in the ASEAN-U.S. Initiative funded by A.I.D./ASEAN); (3) host country government and business leaders are "brought into" the process to express their views and identify themselves with the activity, in order to assure that research results are incorporated into the policy formulation process.

Numerous lessons have been learned in the area of trade and investment promotion. These have been summarized in "An Assessment of Investment Promotion Activities" by SRI International in a project for the Bureau for Private Enterprise, documents prepared by the Market and Technology Access Project (MTAP), sponsored by the Bureau for Science and Technology, a review of ANE trade and investment activities (Rudel), a series of studies prepared by the World Bank (Keesing), and other assessments. These analyses identify similar lessons, and most have been incorporated into the proposed project. They include a number of useful guiding principles.

Organizations involved in promotion should take an active role in policy discussions, since these entities can act as "ombudsmen" between public and private sectors. The most important promotional tool is "getting the policies right." Promotion programs should begin with relatively modest efforts and expectations, lest large bureaucracies and budgets emerge with limited results. Promotional activities should to the greatest extent possible engage local private sector organizations (chambers, federations, individual service providers) to leverage resources and take advantage of "in kind" contributions. A strong emphasis in any promotional program should be placed on putting into place a capability to assist prospective investors or traders; too often active promotion develops leads which are lost due to ineffective followup capabilities. The proposed project takes these and related lessons into explicit consideration.

Turning to an organizational perspective, A.I.D. and other donor agencies have encountered considerable problems when they have tapped local business chambers to implement promotional activities, since the latter are not oriented toward project implementation. However, the experience of USAID/Dominican Republic provides a useful example with the Investment Promotion Council (IPC) project. The IPC is a private organization, created largely under the guidance of the Mission, with a mixed public-private board (dominated by private sector members). The IPC has proven very effective in carrying out investment promotion and policy dialogue functions, in part due to the strength of the IPC staff and the private sector orientation of the organization.

Both Thai and U.S. organizations are now engaged in trade and investment promotion activities, and many of these should be involved in the proposed project. The goals and structure of the BOI have been described elsewhere in this report. The BOI should be both a "client" and a collaborating organization of the project in the area of investment promotion. In addition, the Department of Trade Promotion should be involved in bilateral trade promotion efforts. A number of U.S. government organizations provide resources that should be used. The U.S. and Foreign Commercial Service constitutes a primary contact for U.S. firms interested in Thailand. The U.S. Trade and Development Program (TDP) offers assistance to U.S. investors and exporters through the provision of funds for prefeasibility and feasibility studies. The Overseas Private Investment Corporation (OPIC) offers investment insurance and often engages in promotional activities. The Export-Import Bank of the United States (Eximbank) provides trade financing, and the U.S. Department of Agriculture operates a number of programs to assist U.S. agribusiness.

Individual U.S. states are heavily involved in trade and investment promotion throughout Europe and in Canada and Japan, and are increasing their activities in such countries as Taiwan. These state development agencies, as well as the National Association of State Development Agencies (NASDA) offer existing networks to utilize in promotional campaigns. In sum, these organizations collectively offer considerable pools of resources that are often neglected in trade and investment projects. The proposed project aims to engage these resources productively at the working level, but without attempting to add layers of bureaucracy or entering into "turf battles" over functional jurisdiction.

The Japanese have increased their involvement considerably in recent years. The Japanese International Cooperation Agency (JICA) has placed a Japanese expert on industrial estates at the Office of the Eastern Seaboard of NESDB to assist in the planning and development of the Eastern Seaboard; a Japanese trade expert at the Trade Training Center at the Department of Export Promotion to set up training programs to assist Thai companies in their export efforts; and a Japanese advisor on international investment (seconded from the Japan External Trade Organization - JETRO) in the BOI. This latter individual is involved in match-making and assistance to Japanese investors throughout the investment decision-making and approval process. JETRO also sponsors several programs through the Department of Trade Promotion to assist Thai firms in exporting to Japan. JETRO has sponsored and arranged several trade missions to Japan, and sponsors an annual ASEAN-wide meeting held in Japan to discuss joint venture opportunities. JETRO also offers assistance to prospective Japanese investors in Thailand.

A number of countries other than Japan have undertaken trade and investment projects. Germany has placed an advisor at the BOI, and this expert carries out matchmaking and investor servicing activities. The Belgian government has similarly placed an expert at BOI, as has the French ACTIM (Agency for Technical, Industrial and Economic Cooperation). The Canadian International Development Agency (CIDA) has provided funding to the BOI for an investment mission to Canada, including financing of a Canadian consultant to organize the mission and funding for travel of BOI officials and the cost of seminars. CIDA has also extended institutional and project assistance to TDRI and other organizations for policy research.

Most of these latter promotional activities have only recently been initiated. However, they collectively indicate the interest of numerous industrial countries in trade and investment relations with Thailand. Where these nations and particularly Japan are strongly represented, most private and government leaders interviewed by the study team felt that the United States is "under-represented." That is, they were perplexed why the United States does not have a more extensive presence in Thailand in efforts to promote commercial relations.

The preponderance of academic and development literature on trade and investment concurs on the point that if designed and implemented appropriately, interventions in the areas promotion and policy analysis can yield major benefits in the form of accelerated private sector-led development. In no country has the policymaking community determined that the policy climate is "sufficient" and warrants no further analysis or change. In addition, all successful developing countries have strengthened rather than closed their promotion organizations, even after these nations have achieved considerable results in enticing new investment ventures.

In summary, USAID/Thailand has actively sought the advice and counsel of the U.S. and Thai private sector, U.S. and Thai government officials, A.I.D./Washington, outside technical experts, and Mission personnel to develop a consensus on the goals and contours of the project, and to refine and further specify the method of approach of the project. Results of these considerable efforts are incorporated into this report.

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