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**U.S.-THAI TRADE AND INVESTMENT
SUPPORT PROJECT**

DEVELOPMENT RATIONALE AND OBJECTIVES

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**Thailand Mission and
Bureau for Asia and Private Enterprise
U.S. Agency for International Development**

U.S.-THAI TRADE AND INVESTMENT SUPPORT PROJECT

Development Rationale and Objectives

I. INTRODUCTION AND SUMMARY

The purpose of this document is to present the rationale for A.I.D.'s U.S.-Thai Private Sector Support Project. To achieve this objective, it is necessary to address -- adequately and objectively -- the legitimate issues and concerns raised by Congressional reviewers. For the project to proceed, it is necessary that cogent arguments be put forward on the following key points:

1. The project and its activities genuinely and directly satisfy development objectives as set forth in the letter and intent of U.S. law and A.I.D. strategy.
2. The project reflects A.I.D.-Royal Thai Government agreement that the project is essential for Thailand's continued development and economic growth.
3. The project reflects A.I.D. operational strategy to phase down the breadth and scope of its financial and personnel resources in Thailand as Thailand emerges as a newly industrializing country.

This document sets out to confirm that these basic requisites have been met. The next section examines the project's developmental rationale, drawing upon evidence prepared over the course of project design. The section includes a matrix that presents project goals, the means to achieve them, and indicators upon which the project's performance can be evaluated. In summary, this section asserts that in view of Thailand's current level of development, the proposed project offers a highly effective means to pursue mutual development goals and objectives through cooperative Thai and U.S. private sector support.

The following section summarizes the extraordinary efforts that have been undertaken to develop this initiative. From the outset, the Thailand A.I.D. Mission (USAID/Thailand) has expended substantial energies and resources to ensure the legitimacy of the undertaking and an effective project design.

The final section place the foregoing assessments and the project into the context both of Thailand's development status and aspirations, and of the confluence of important U.S. interests in Thailand and the Southeast Asian region. Ironically, the proposed project not only provides sound economic development benefits for Thailand, but also directly supports a number of key U.S. objectives related to the mutual interests of Thailand and the United States.

II. PROJECT RATIONALE AND CONSISTENCY WITH A.I.D. POLICY, STRATEGY AND PRACTICES

Status of the Thai Economy: Growth but Unmet Needs

The Thai economy has reached an important point of transition in its process of development. On the one hand, Thailand is approaching the status of an "advanced developing country." The nation's long-term economic growth rate of about 7.0 percent in real terms has allowed Thailand to develop its resource base and improve living standards beyond most A.I.D. targets for poverty, literacy and health programs. Foreign investment and technology have played a central role in Thailand's development performance. Both the Thai and all observers of Thailand agree that if the past rates of economic growth are to be maintained, Thailand must develop the skills needed to apply more sophisticated technology and must also expand its ability to mobilize foreign and domestic investment.

In reality, Thailand is not uniformly developed, and in fact is composed of two separate "economies." The level and sophistication of output in the Metro-Bangkok region are relatively advanced, leading to per capita incomes averaging well over \$1,000 in the area. In outlying regions, however, economic activities are more traditional in nature, resulting in lagging productivity and average cash income levels in the range of \$300-\$400. The economic transformation of Thailand has not been extended uniformly throughout the nation, and so the need for development initiatives on the part of the United States and other donors has not reached a complete end. In addition, the transition process itself and efforts to complete the process successfully give rise to additional requirements that can be met by short-term donor assistance.

From a comparative standpoint, Thailand is now in a stage of development similar to that of Taiwan in the early 1960s or South Korea in the latter 1960s and early 1970s. That is, appropriate policy foundations have been put into place, economic activities have "taken off" on the basis of true comparative advantage, and initial gains in the form of higher standards of living are clearly evident. In Taiwan, poverty in both urban and rural areas was reduced largely because the poor were gradually absorbed into the expanding modern sector through, inter alia, expansion of its small and medium sized private enterprises. The U.S. government not only supported but actively encouraged Taiwan's early trade and investment efforts as a means to achieve development progress.¹

¹ See John A. Mathieson, SRI International, The Taiwan Development Experience and its Relevance to Other Countries, 1988.

From the perspective of A.I.D., Thailand is in the process of "graduating" from LDC to "advanced developing country" status, and to a strategy based on mutual interest. This in turn calls for innovative approaches to support Thailand's growth process with a small level of development resources, both financial and human.²

The challenge identified is to reinforce the process of economic transformation in Thailand and extend it throughout the Thai economy. USAID/Thailand has considered and developed a series of project initiatives, including the rural industries development project, the science and technology for development project, the agricultural technology transfer project and the management of natural resources project, all aimed at assisting Thailand to meet this challenge. After considerable deliberation and numerous discussions concerning available resource levels, the Mission concluded that a project seeking to stimulate additional private sector-led initiatives between Thailand and the United States would materially contribute to the development objectives of the Mission and A.I.D. as well as the people and government of Thailand. To accomplish this, the Mission embarked on testing the appeal for a private sector-led organization to stimulate closer commercial ties.

The project's goal is to promote self-sustained economic growth in Thailand by further integrating the nation into the world economy. By encouraging additional private U.S. investment and technology transfer, the project will extend the breadth and depth of the modern economy in Thailand. In this way, unemployed or underemployed labor and other resources now devoted to low productivity activities will shift toward activities requiring greater productivity, technology and competitiveness. In short, the proposed project and its goals and activities offer a logical form of assistance for a country at Thailand's current stage of development.

Project Goal and Activity Matrix

In response to questions put forth by Congressional Staff reviewers of the project, the "Activity Matrix" presented on the following pages was prepared to indicate in summary form the objectives, activities and outputs of the U.S.-Thai Trade and Investment Project. The material presented is consistent with the Project Paper previously submitted, and with the economic analysis undertaken during project development.

² See USAID Thailand, "Assistance Management Plan," 1990, which projects a mid-1990s program of very modest funding and bilateral staff levels.

US THAI TRADE AND INVESTMENT PROJECT
(Project Duration 1990-1995)

Development Objective	Implementation Strategy	Implementation Activities	Relationship of Implementation Activities to Dev. Objective	Development Impacts	Performance Indicator
<p><u>Project Goal</u></p> <p>Assist Thailand's integration into the world economy to achieve self-sustaining economic growth.</p> <p><u>Project Purpose</u></p> <p>Facilitate Thai access to the free flow of investment capital, goods and services and technical skills necessary to sustain current levels of economic growth.</p>	<p>Help the Thai and U.S. Private sector to create a sustainable binational institution which:</p> <ul style="list-style-type: none"> — Identifies and supports technology sectors and products where Thailand has a development need and the U.S. has a comparative advantage. — Undertakes research, informational and technical support activities to encourage deeper bilateral ties; and — Provides policy studies and position papers which can help Thailand further integrate into the world economy and improve U.S. bilateral commercial and economic relations. 	<p>Increase productive U.S.-Thai joint venture investments.</p>	<p>Creates job opportunities for unemployed and under-employed Thais.</p>	<p>Reduce poverty by absorbing the poor into the modern economic sector.</p>	<p>Increased formal sector employment (including direct and indirect) in new ventures.</p>
		<p>Expand access of SMEs to new business opportunities</p>	<p>Extends project benefits to smaller, less advantaged firms and their employees.</p>	<p>Encourage equitable participation, in Thailand's economic growth.</p>	<p>Joint ventures established which involve Thai SME's.</p>
		<p>Undertake market research with emphasis on opportunities outside Metro Bangkok</p>	<p>Research provides profiles of project opportunities outside of Bangkok. BOI provides special incentives to encourage firms to locate outside of Bangkok.</p>	<p>Increase Thai employment and income-generating opportunities outside the Metro-Bangkok region.</p>	<p>New manufacturing or agricultural firms outside of Bangkok as a result of project activities.</p>
		<p>Emphasize agribusiness and Thai domestic resources.</p>	<p>High value agricultural products and newer technologies increase incomes and value added from agriculture.</p>	<p>Raise productivity, incomes, and employment in Thai agricultural sector.</p>	<p>New joint ventures or technology agreements. Significant increases in incomes.</p>
		<p>Conduct conferences and seminars.</p>	<p>Results in removing constraints to U.S. investment and technology transfer.</p>	<p>Technical and management skills transferred.</p>	<p>U.S.-Thai investment in new economic sectors</p>

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**ACTIVITY MATRIX: US THAI TRADE AND INVESTMENT PROJECT
(PROJECT DURATION 1990-1995)**

Functional Approach	Relationship of Project Activities to Objective Sought	Market Research and Information	Estimated Cost (\$000)	Performance Indicator or Status
<p>Establish information support unit for market research and policy reviews</p>	<p>Research identifies "demand-driven" activities having a developmental impact. Sectors include, inter alia, agribusiness, environmental control, and health-care products.</p>	<p>Conduct market research into selected economic sectors.</p>	<p>200</p>	<p>Market survey underway in Thailand Nov. 1990 - Jan. 1991. Additional market research studies to be undertaken during each year of project.</p>
	<p>Study of information and outreach networks combined with market survey provides basis for formalizing linkages with trade associations and public/private business networks.</p>	<p>Conduct research into needed product quality and standards for international acceptance.</p>	<p>200</p>	
		<p>Conduct in-country investigation of Thai firm capabilities.</p>	<p>100</p>	<p>Cooperative linkages established with U.S. and Thai business associations and government agencies.</p>
	<p>Research constraints to investment in selected sectors of the Thai economy.</p>	<p>300</p>	<p>Information services provided to U.S. and Thai entrepreneurs.</p>	
	<p>Information services increase investor interest and knowledge, helping to bring U.S. investments to Thailand.</p>	<p>Research constraints affecting capital in-flow and technology transfer in selected economic sectors.</p>		<p>150</p>
		<p>Research specific trade or investment opportunities for Thai and U.S. entrepreneurs.</p>	<p>300</p>	
	<p>Services provide information needed to help investments, licenses, and technology transfers to take place.</p>	<p>Develop cooperative linkage with different U.S. and Thai government agencies charged with economic expansion and integration.</p>	<p>200</p>	<p>Quality and standards improve.</p>
		<p>Provide information to assist provincial chambers of commerce or other locally based organizations in researching their own investment opportunities.</p>	<p>250</p>	
		<p>Prepare facts and information on specific areas of the Thai economy for distribution.</p>	<p>150</p>	

**ACTIVITY MATRIX: US THAI TRADE AND INVESTMENT REPORT
(PROJECT DURATION 1990-1995)**

Functional Approach	Relationship of Project Activities to Objective Sought	Investment Support and Technical Assistance	Estimated Cost (\$000)	Performance Indicator or Status
<p>Establish support and technical assistance unit.</p>	<p>Creates an institution which will encourage bilateral trade and investment on a self-sustaining basis.</p>	<p>Provide political, economic and cross-cultural information and training sessions for U.S. business personnel through AmCham-Thailand.</p>	275	<p>One joint Thai-U.S. (JUST Business) organization established.</p> <p>8 investment missions and 10 seminars organized on targeted sectors and industries.</p> <p>All new joint venture partnerships are likely to undertake training and technology transfer exercises.</p> <p>7 sectors identified for promotion on the basis of offering good opportunities for skill transfer.</p> <p>Number of U.S. firms operating in Thailand increases by 50 percent.</p>
	<p>Information and training activities facilitate increased U.S. investment in Thailand.</p>	<p>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.</p>	150	
	<p>Activity screening and market studies will help identify target opportunities which will maximize skill transfer.</p>	<p>Conduct seminars, lectures, conferences, and workshops on specific opportunities by sector and industry.</p>	250	
	<p>New investment creates job opportunities for unemployed and under-employed Thais.</p>	<p>Facilitate and investment missions from the U.S. and organize visits for Thai and U.S. entrepreneurs to the U.S.</p>	400	
	<p>Services for smaller Thai firms extend project benefits to smaller, less advantaged firms and their employees.</p>	<p>Screen specific trade or investment opportunities for Thai and U.S. entrepreneurs.</p>	100	
	<p>Increases private sector knowledge of opportunities and lowers cost of acquiring needed information.</p>	<p>Help examine potential joint-venture partners. (D+B source)</p>	200	
		<p>Provide opportunity data to interested firms.</p>	200	
		<p>Computerize input needs of U.S. and Thai businesses and match with possible suppliers.</p>	50	
		<p>Facilitate agreements between Thai and U.S. firms and to help establish agent or licensing relationship.</p>	175	
		<p>Assist businesses pursue possible support from international institutions.</p>	100	
		<p>Encourage banking institutions to consider financing specific investments and development projects.</p>	100	
		<p>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.</p>	500	
		<p>Assist provincial chambers of commerce or other locally based organizations in carrying out their own programs to stimulate investment.</p>	150	

The project matrix presents a logical flow from concept to activity to measure of achievement. The following discussion presents supporting arguments and documentation related to the project's goal, purpose and objectives.

A. Project Goal: Promote Self-Sustained Economic Growth

The project's overall goal is to "promote self-sustaining economic growth through Thailand's greater integration into the world economy." The project will seek to achieve this goal by supporting the development of an independent, private sector institutional mechanism to stimulate stronger U.S. and Thai private sector bilateral links through trade and investment, undertaking a series of mutually beneficial activities for this purpose, and funding a actionable policy analyses and discussions aimed at reducing existing constraints to bilateral interaction.

Each of these components has a proven track record of success in other developing countries. One of the most effective initiatives undertaken by A.I.D. over the past decade has been technical assistance projects aimed at helping developing countries to undertake market-based, export oriented economic strategies. Other donors, including the World Bank and regional development banks, have designed their projects to emulate A.I.D. approaches in this area. The Thailand project closely follows the structure and orientation of guidelines set forth by evaluations of similar activities, and these guidelines were in turn prepared on the basis of analyses of effective trade and investment initiatives.³

Experience of similar initiatives has shown that activities designed explicitly with the private sector and run by private sector or non-bureaucratic groups have a better chance of achieving efficiency and long-run sustainability than do projects managed by and for government entities.⁴ The design of this project has applied this lesson.

One specific means to support higher economic growth rates is to encourage needed investment and technology transfer from the United States in areas that benefit Thailand. The introduction of

³ Agency for International Development, Center for Development Information and Evaluation, "Evaluation of A.I.D. Trade and Investment Promotion Projects," 1991. The importance of promotion as a development tool is cited in Louis Wells and Alvin Wint, Foreign Investment Advisory Services, International Finance Corporation, Marketing a Country: Promotion as a Tool for Attracting Foreign Investment, 1990.

⁴ See, for example, "Trade and Investment Project Guidebook," Bureau for Asia and Private Enterprise, Agency for International Development, December 1990.

appropriate technologies and investments in areas which maximize comparative advantage are major determinants of Thailand's recent development success. International corporations operating in Thailand account for a large and growing share of productive employment. For example, a recent study calculated that in 1986, 600 manufacturing foreign firms were responsible for over 182,000 jobs, or some 15.2 percent of wage and salary earners in the manufacturing sector. The indirect employment generation of foreign firms amounted to over 400,000 jobs, with almost 200,000 being accounted for by employment created in the agricultural sector as a result of foreign investment in the processed food industry.⁵ The project's focus is on assisting small and medium sized enterprises to establish new ventures or expand existing operations. The specific sectors to be identified for assistance are being identified in a comprehensive market survey now under way in Thailand.

B. Project Purpose: Facilitate Thai Access to the Free Flow of Investment Capital, Goods and Services, and Technical Skills

Thailand's recent economic success has been fueled largely by inflows of foreign investment, in ventures seeking to utilize and develop Thailand's comparative advantages. In the near future the nation's economic performance will continue to be closely tied to capital inflows, as the level of domestic investment mobilized cannot meet the growing needs of Thailand's economy. The stock of U.S. investment in Thailand is large, but over half represents investment by a handful of companies in oil exploration and development. U.S. investments in industrial and agricultural ventures have not risen commensurately with opportunities, and so have fallen behind inflows from Japan, Hong Kong and Taiwan. The proposed project includes a number of activities to initiate specific U.S. investments and joint ventures in Thailand.

The United States and Thailand offer each other major differences in comparative advantage, leading to major economic gains from bilateral trade. In particular, Thai officials believe that steps are needed to correct the growing U.S. deficits in its trade with Thailand. Ironically, Thai firms and consumers would like to have access to a greater range of U.S. products, but for several reasons U.S. companies have not paid sufficient attention

⁵ The Employment Effects of Manufacturing Multinational Enterprises in Thailand, Atchaka Sibunruang and Peter Brimble, International Labour Office, 1988.

to Thailand as a market for American goods.⁶ The proposed project seeks to support institutional mechanisms and corporate outreach to expand commercial relations between the two countries. In particular, U.S. firms which are infrequent or moderately active international players will be the targeted beneficiaries of the in-country market research and support services.

Interviews carried out during project development revealed strong preferences among Thai business and government leaders for much greater U.S. involvement in the Thai economy, since U.S. firms have a much better record in transferring useful technologies and management skills than do firms from other developed countries. The United States possesses competitive advantages in a number of technology areas (e.g., pollution control, agriculture, advanced materials, services, etc.) that offer opportunities for U.S. firms and also provide direct benefits to Thai firms and the economy as a whole. All new joint ventures assisted by the project are likely to involve technology transfer and training.

C. Project Objectives

The following discussion addresses issues and rationales related to the principal developmental objectives sought under the project.

The Project Seeks to Reduce Poverty by Absorbing the Poor into the Modern Economic Sector

Notwithstanding the importance of U.S. foreign assistance targeted at education, housing, nutrition, health, and other areas which are central to welfare and standards of living, the ultimate solution to the reduction of poverty is the creation of productive employment choices and income-earning opportunities. The proponents of "basic human needs" strategies concluded that the establishment of private sector job opportunities was the only way to avoid the need for costly government support programs.⁷

⁶ See, for example, "Michigan Businesses and Southeast Asia," by Richard J. Smith, 1988. This survey identified U.S. misperceptions regarding market size, distance, political instability and other factors as reasons for limited interest by U.S. firms in commercial ventures in Thailand.

⁷ Employment, Growth and Basic Needs: A One-World Problem, prepared by the ILO International Labour Office in cooperation with the Overseas Development Council, 1977. This book provides the fullest explanation of "basic needs" development strategies, and notes, "In almost all countries . . . insufficient and unequal access to employment rank high among the major causes of poverty and inequality." (p. 15)

The Project seeks to Encourage Equitable Participation in Thailand's Economic Development

The standard pattern of development is that during the phase of economic "transformation," income inequality increases. In many countries in Asia, this phenomenon has not been a natural concomitant to development. This is due to the fact that, in comparison to the experience in other regions, individual workers and small firms in Asian countries have been able to take advantage of economic opportunities and generally rising wages caused by export-led growth.

The proposed project seeks primarily to encourage and assist the development of small and medium-sized enterprises in both Thailand and the United States. These are the firms that do not have the resources necessary to obtain pertinent information on potential commercial ventures on their own. In addition, the project is intended to provide for significant "backward linkages" -- providing income and employment generating opportunities in firms supplying foreign firms operating in Thailand. A recent study by the Foreign Investment Advisory Services of the International Finance Corporation concludes that there is considerable potential for backward linkages between foreign investors and their domestic suppliers.⁸

The Project is Oriented toward Increasing Thai Employment and Income-Generating Opportunities outside the Metro-Bangkok region

A major goal of Thailand's development strategy is to extend the benefits of growth to lower-income regions outside of greater Bangkok. The activities to be carried out under the project fully reflect this goal. In particular, the project has actively sought Board of Director participation (ex officio) by the Thailand Board of Investment (BOI), which has mandated that stronger investment incentives be introduced to encourage investment in lower-income regions.

The Project Attempts to Raise Productivity, Incomes, and Employment in the Thai Agricultural Sector

Thailand has made great strides in developing nontraditional agricultural output and exports, but further efforts are required to raise rural incomes and productivity. The proposed project will focus considerable attention on assisting agriculture joint ventures, which are likely to lead to major gains in the sector.

⁸ Foreign Investment Advisory Service, International Finance Corporation, "Backward Linkages of Foreign Direct Investment: Selected Countries' Experiences and the Case of Thailand," April 5, 1990.

As a recent example, a joint U.S.-Thai venture on poultry led to significant contract purchases from small scale producers. With guaranteed markets and technical assistance provided by the joint venture company, these small firms raised their incomes and productivity by over four hundred percent. In another example, a joint U.S.-Thai seed multiplication venture in northeast Thailand helped raise incomes and employment in a depressed area. By devoting project resources to continual review of opportunities outside of Bangkok, the project seeks to expand on these successes.

The Project Seeks to Promote Mutually-Beneficial Trade and Investment Activities

A substantial body of literature has been devoted to analyzing the "mutual gains" that can be achieved through increases in commercial transactions between the United States and developing countries.⁹ These gains accrue in the form of expanded employment, income generating opportunities and government revenue on both sides of the transactions.

Trade and investment relationships are closely tied, and recent experience has shown that firms and countries that employ expansionist, "global" strategies contribute more to domestic employment, exports and income than do their "import substitution" oriented counterparts.¹⁰ The proposed project places a strong emphasis on the mutuality of interests involved, in order to pursue both U.S. and Thai interests simultaneously. These interests are both macro (Thai economic growth and free market support) and micro (new firm registration and employment impacts) in nature.

⁹ See, for example, John W. Sewell and John A. Mathieson, The Third World: Exploring U.S. Interests, Foreign Policy Association, 1982.

¹⁰ Surveys by the Emergency Committee for American Trade ("The Role of the Multinational Corporation in the United States and World Economies," 1972) and Business International ("The Effects of U.S. Corporate Investment 1960-1972," 1972) concluded that the employment and export contributions of multinationals increased much faster than those of U.S. manufacturing as a whole. Most analyses cite that both employment gains and losses are associated with U.S. foreign investment, but that on balance the economic effects of these investments are positive. See C. Fred Bergsten, et. al., American Multinationals and American Interests, The Brookings Institution, 1978.

In Implementation, the Project is Designed to Provide a Small, Efficient Organization which Collaborates Closely with Existing Organizations

The private sector advisory committee rejected the concept of establishing a large central organization, opting instead for a small unit that complements and supports rather than duplicates the activities of other entities. Key government and private sector organizations will be represented on the Board of Directors in an official or ex officio capacity, as shown on the following organizational chart. The Secretariat will remain small to conserve funds, minimize startup time, and allocate greater resources to other operating agencies, such as the Foreign Commercial Service, American Chamber of Commerce, Thailand Board of Investment, and U.S.-ASEAN Council.

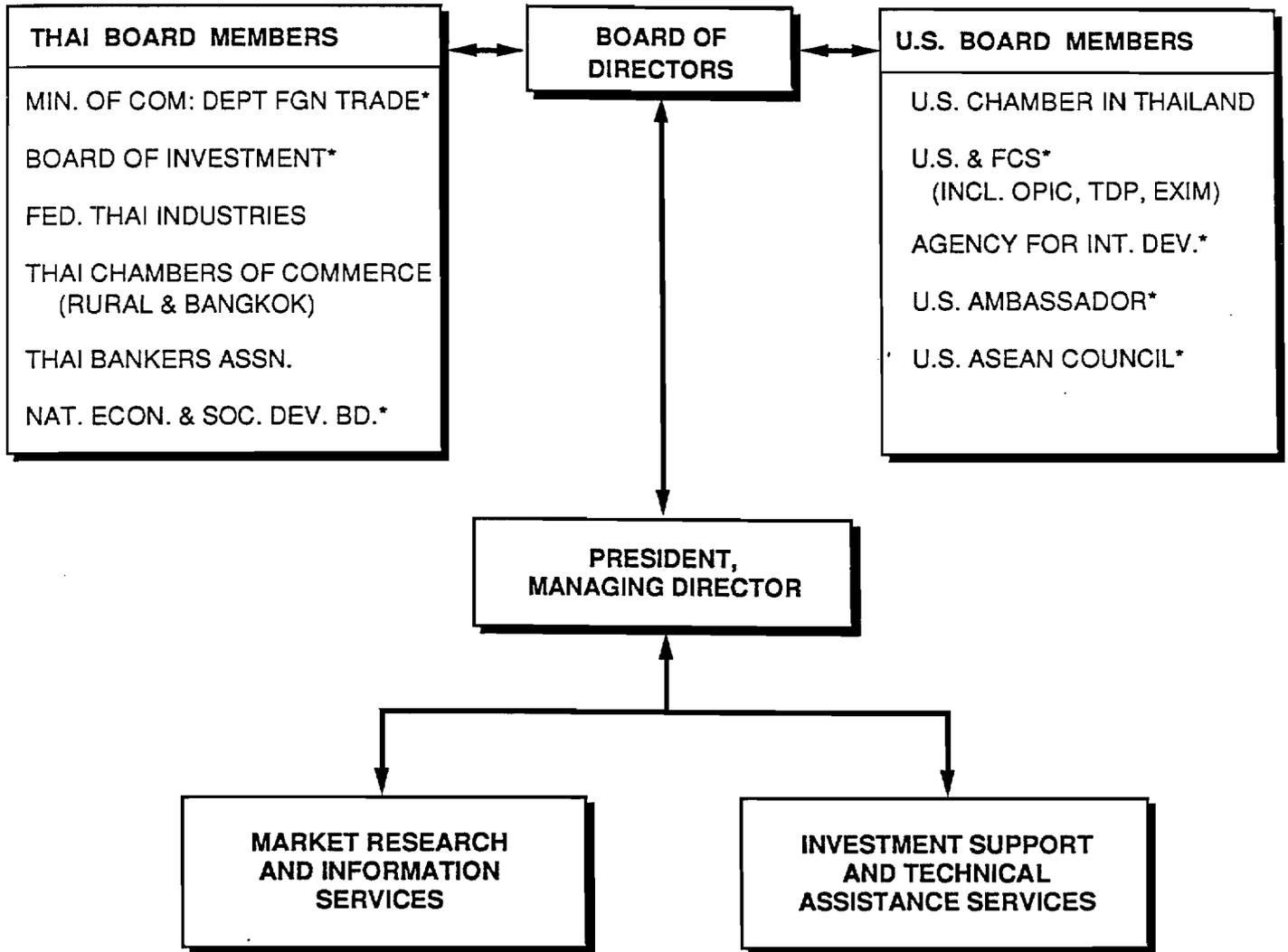
A five-year project budget estimate is presented below. This budget is consistent with A.I.D. project documents. The budget indicates funding by A.I.D. through a cooperative agreement, funding by A.I.D. through separate contracts, and estimates of non-A.I.D. sources of financing. Since most of the activities of the project Secretariat will be devoted to operational activities, the Secretariat costs are incorporated into the functional categories presented in the overall project budget. However, to provide further detail, these costs are broken down separately below in a separate Secretariat budget.

Most of the project's budgetary expenditures in its first years of operations will be covered by the A.I.D. cooperative agreement. However, a long-term strategy for seeking financial self-sufficiency will be developed during the first year of the project.

The figure following the budget estimate indicates the activities and priorities during the first year of the project. This shows the intention to work with and support existing organizations.

For example, first year priorities have been placed on (1) assisting the Foreign Commercial Service in Thailand to conduct sectoral opportunities studies and provide information to entrepreneurs; (2) financing a U.S. investment advisor in the Thailand Board of Investment; (3) supporting the Mini Ambassador program of the American Chamber of Commerce; and (4) creating collaborative relations with the U.S.-ASEAN Council. All of these organizations have been involved in the project development process, and each is designated as an "implementing" agency of the project.

PROJECT ORGANIZATION

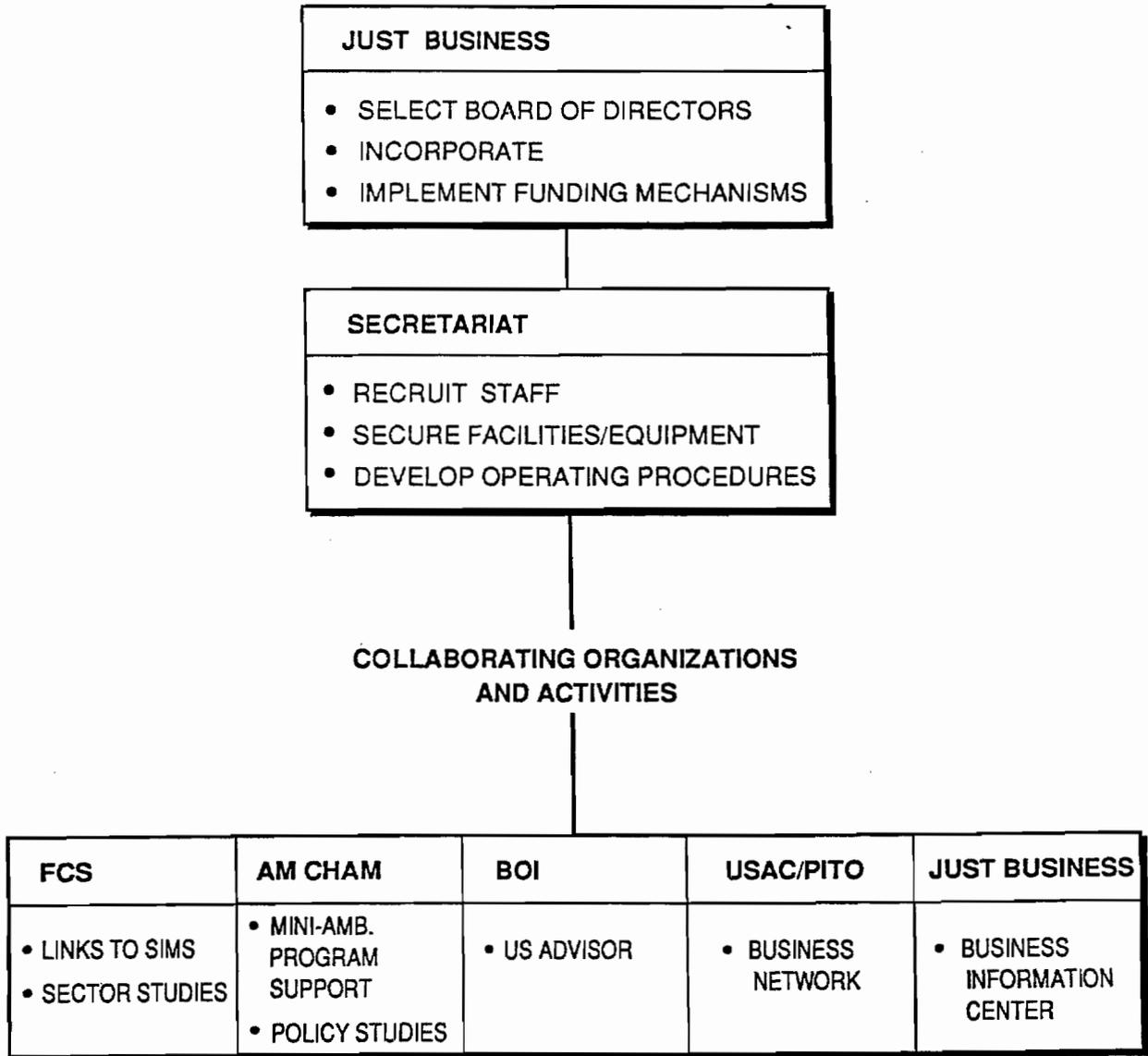


* Ex Officio Members.

BUDGET ESTIMATE

	1st Year	2nd Year	3rd Year	4th Year	5th Year	Total
A. JUST Business cooperative Agreement						
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						
	125.00	75.00	50.00	75.00	75.00	400.00
Subtotal	670.00	1,270.00	1,270.00	1,120.00	1,120.00	5,450.00
B. Other AID Direct contracts:						
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
c. Total Just Business Contribution						
	50.00	50.00	100.00	200.00	200.00	600.00
TOTAL PROJECT	<u>1,220.00</u>	<u>1,370.00</u>	<u>1,370.00</u>	<u>1,320.00</u>	<u>1,320.00</u>	<u>6,600.00</u>

FIRST YEAR ACTIVITIES/PRIORITIES



The project Secretariat will consist of a U.S. director, a Thai deputy director, an additional Thai professional and two support staff. Estimated costs for the Secretariat are shown below. The process of recruiting the U.S. director will follow strict conflict of interest guidelines. The estimated Secretariat costs are as follows:

Project Secretariat Costs

<u>President (U.S.)</u>	<u>Annual Costs</u>	<u>Five-Year Total Costs</u>
Salary	\$80,000	\$400,000
Benefits	20,000	100,000
Housing (Rent)	30,000	150,000
 <u>Thai Professional Staff (2)</u>		
Salary and Benefits	80,000	400,000
 <u>Thai Clerical Staff (2)</u>		
Salary and Benefits	20,000	100,000
<u>Office Space, Utilities, and Communications</u>	<u>40,000</u>	<u>200,000</u>
Total	\$270,000	\$1,350,000

Concerted efforts will be made to minimize the operating costs of the Secretariat. However, the business plan takes the prudent course of presenting conservative estimates of funding required to attract high quality Secretariat staff.

III. PROJECT DEVELOPMENT PROCESS, ACTIVITIES AND RESULTS

By virtue of its nature and approach, the proposed U.S.-Thai Trade and Investment Support Project has from its initial inception been subject to controversy. The focus on commercial relations and the strategy to have a private sector body implement the project (as opposed to a traditional "government-to-government" approach) in particular have led to close questioning and scrutiny of the project. This was complicated by ongoing discussions related to the long-term direction of the USAID Mission in Thailand. As a result, the project development process has included an unusually large number of preparatory analyses and consultations, especially given the small size of the project.

The numerous steps taken and results achieved in the project development process are summarized below. The ongoing conclusion of these assessments is that the project is sound from the perspectives of both Thai development interests and U.S.-Thai mutual interests.

A. Standard Project Development Process

Unlike other A.I.D. projects, this project not only proceeded through all the required steps for approval and authorization, but also included additional preparatory analyses. A formal Project Identification Document (PID) was completed in March 1989. Questions raised both at the Mission level and in A.I.D. Washington reviews of the PID led to the assignment of a team of economic and technology specialists to prepare an "Interim Report," which included a detailed economic analysis and justification (described below). After thorough review, a formal Project Paper (PP) was drafted in early 1990. Based on comments received, this PP was revised and submitted in July 1990. To take into consideration suggestions by A.I.D. Washington and Congressional staff, the PP was revised again and resubmitted in September 1990. Additional market studies are being undertaken in 1990/1991 to develop a comprehensive business plan for the project. These include an agribusiness opportunities survey and strategy funded by USAID/Thailand and carried out by the American Society of Agricultural Consultants, and a "backward linkages" survey carried out the Foreign Investment Advisory Services of IFC.

B. Solicitation of Views

The project development process involved an extensive solicitation of views in both Thailand and the United States, as well as a continuous dialogue with the major private sector and government institutions involved. These reactions and suggestions were useful in shaping the project's design.

Upon completion of the interim report, USAID/Thailand sponsored a major two-day conference to review the proposed project. Participants included leading Thai and U.S. business leaders, as well as officials from relevant U.S. and Thai government bodies. The results of the conference were reflected in the streamlined project design which included comprehensive management guidelines and controls. Private sector participants were responsible for removing any activities that could be considered "subsidies" to private firms. The proposed project now has a high level of support from both the U.S. and Thai private sector leaders in Thailand.

From its inception, the project was designed to complement and not compete with existing organizations. The project seeks to cooperate closely with the American Chamber of Commerce in Thailand, the Board of Investment, the Federation of Thai

Industries, and the Private Investment and Trade Opportunities (PITO) Project. Most importantly, the project will establish close links with the U.S. government agencies in the trade and investment area, including the Foreign Commercial Service (FCS), the Trade and Development Program (TDP), the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank by serving as a reliable, proactive source of market research, information, and technical support for bilateral opportunities.

C. Integration of Project in the Mission's Long-Term Strategy

Throughout the design of the project, efforts were made to ensure that the activity was fully consistent with the emerging Country Development Strategy Statement (CDSS) of the USAID/Thailand Mission. The CDSS concentrated on the challenge for implementing a new, "Advanced Developing Country" strategy which focuses on mutual interests replacing traditional donor-recipient relations.

A major component in USAID/Thailand's internal FY 1991 Action Plan is an effort to facilitate private sector investment. The goal of this component is "To assist Thailand to maintain the flow of foreign investment and trade needed to sustain its rate of economic growth, generate jobs and increase income throughout the society. . ." The program strategy involves support for the creation of a joint U.S. and Thai private sector organization.

D. Results of Comprehensive Economic Justification Analysis

As noted above, a theoretical and empirical analysis was undertaken to determine whether or not there was sufficient justification for the proposed project.¹¹ This analysis identified a number of important "market imperfections" in Thailand's economy that warranted interventions. These market imperfections include labor market distortions, lack of specialization, tax distortions, growth bottlenecks among others, that individually and collectively constrain growth. In each case, expansions of external trade and investment flows would act to overcome or ameliorate growth constraints, create additional employment and raise incomes. Interventions proposed would also work toward equating social and private returns associated with commercial activities, which has the effect of maximizing economic efficiency and welfare.

E. Legal Rationale Assessment

In response to Congressional inquiries, the Office of the General Council of A.I.D. prepared a formal brief examining the

¹¹ Economic Rationale for Trade and Investment Interventions, Appendix C-3, "U.S.-Thai Trade and Investment Support Project: Interim Report," October 1989.

legal basis for the proposed project in Thailand. This brief concluded that "The activities to be performed under the Project - - i.e., research services, information exchange and transactional services -- all qualify as "technical cooperation" within the meaning of Section 106(d)(1)" of the Foreign Assistance Act of 1961, as amended. In addition, "the Project as a whole qualifies as a 'technical cooperation program' within the meaning of Section 106 (d)(1). The brief also concluded that funds from the Section 103 account (Agricultural Rural Development and Nutrition) could be used for trade and investment in agriculture, aquaculture, natural resources management and other rural industries.

F. Market Survey and Analysis

To respond further to Congressional concerns and to refine the project's approach, a detailed market survey and analysis of trade and investment opportunities and needs is currently being conducted. A detailed survey instrument was designed and has been given to a comprehensive sample of 88 U.S. and Thai firms. The survey includes a special section on agriculture. Initial results suggest strong support for activities with lead toward commercial ventures in rural areas. Sectors to be emphasized include agriculture, health care products, environmental control systems, energy conservation equipment, and infrastructure products and services.

The results of the market survey will ensure that the proposed project is "market driven" in design and strategy. The results of the survey as well as those from a complementary agriculture opportunities survey will be incorporated into the business plan, which is described below.

G. Business Plan and Project Implementation Workshop

A formal Business Plan for the implementation of the proposed project is currently being prepared. This includes detailed organizational and budgetary plans, activity screening and monitoring systems, and comprehensive performance indicators. Pending removal of the CN hold on the project, this plan will be discussed, reviewed, and amended where appropriate by the advisory committee that has assisted USAID/Thailand in the development of the project.

IV. IMPORTANCE OF THE PROJECT TO THAILAND'S DEVELOPMENT AND U.S. INTERESTS

As is evident from the foregoing discussion, the proposed project has been subjected to a considerable number of tests regarding the rationale for and approach of the initiative. In conclusion, the project is justified from the standpoint of several different perspectives.

For a country at Thailand's stage of development, the project's intended activities are appropriate means to assist Thailand to achieve sustained economic development.

Thailand has embarked on a development path based on market principles and an export-led growth strategy. Numerous policy and institutional constraints need to be overcome, but many of these problems can be addressed adequately with a relatively limited amount of resources. Therefore, the project can "leverage" considerable development benefits to the Thai economy. In addition, the best means to reduce poverty in Thailand is to expand the modern, commercial sector, which is the basic goal of the project.

The Thai government and private sector both actively seek to increase trade and investment relations with the United States on a mutually beneficial basis. The proposed project is fully consistent with that goal.

In July 1990 the Office of the Prime Minister of Thailand and USAID signed a Memorandum of Understanding which identifies areas where the Thai Government believes U.S. development cooperation would provide the most benefits. Two of the four objectives included are (1) expanding bilateral trade and investment, and (2) drawing on the expertise of the U.S. private sector in addressing problems which hamper prospects for future competitiveness in the international marketplace. The proposed project is directed explicitly toward meeting these high priority objectives, and was explicitly referenced in the Memorandum of Understanding, having received the support of Thailand's Foreign Affairs Ministry, Ministry of Commerce, National Economic and Social Development Board, and the Ministry of Finance.

In addition, the United States holds important economic and strategic interests in the Southeast Asian region. Thailand is emerging as a key economic power in the region, and is seeking to expand trade and investment ties with the United States. It is clearly in the U.S. interest to respond to this shared goal. Currently, very limited U.S. resources are available to do so. The project's strategy is to collaborate with all relevant public and private sector bodies, and to serve as a catalyst for reaching this objective.