

Country Development Strategy Statement

FY 1985



Thailand

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BEST AVAILABLE

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FY 85 CDSS - Thailand

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Introduction

This Country Development Strategy Statement is presented in two basic sections.

Part I responds directly to Washington guidance applicable to USAID Missions with approved CDSS's. It contains a brief review of AID's current strategy in Thailand and considers how the Mission is incorporating the Agency's four principal emphases in its program.

Part II presents an initial, preliminary view of a revised strategy for Thailand which reflects its emerging middle income status. It has been approximately five years since the last fundamental review of AID's program assumptions and strategy; the re-evaluation now underway is meant to develop a new approach appropriate to carry AID through the 1980's to a point at or near the time when Thailand will no longer require concessional assistance.

Since this systematic reappraisal is in its early stages, the strategies and methodologies for the remainder of the eighties included in this CDSS update must clearly be understood to be preliminary and subject to adjustment.

AID/Washington has requested USAID/Thailand statements on two particular topics: Women in Development and Narcotics. The first topic is considered in a special attachment as Annex 1. Regarding AID activities in anti-narcotics efforts, the Mission prefers to deal with this complex issue in conjunction with the Embassy's upcoming Narcotics Assessment and Strategy Paper (NASP). The NASP or equivalent is due to be completed in the next few months preparatory to the FY 85 budget planning cycle for USG-funded narcotics programs.

Part I. Present A.I.D. Strategy and Methodology in Thailand

A. Strategy and Role

AID has followed essentially the same role and strategy in Thailand for approximately the past five years. Throughout this period, the focal point of our development assistance strategy -- with one important exception -- has been to aid the poor farmers of Northeast Thailand. The Northeast has been and remains the poorest area of the country, with the worst natural resource endowment and the largest concentration of absolute poor (6 million). The majority of the region's inhabitants farm under highly variable rainfed conditions, and most traditionally have had limited access to government development programs. Because of its large population (one-third of the national total), strategic position (bounded on three sides by Indochina), and its relative poverty, the Northeast has demanded attention as a critical development problem for the RTG and AID.

The main thrust of AID's efforts in the Northeast since at least 1978 has been improvement in the equity and efficiency of RTG development programs at the service delivery end. Combining AID's comparative institutional advantage in agriculture with the fact that most of the Northeast poor are rainfed farmers, AID's regional strategy has centered on raising farm incomes through improved agricultural productivity. Integrated farming systems approaches (as under the NERAD Project) and specific, single-function project approaches (i.e. improved seed

multiplication) have been utilized by AID in attacking the problem of low agricultural yields. The principal vehicle for implementing this rainfed agricultural strategy has been the RTG's Ministry of Agriculture and Cooperatives (MOAC) and its line agencies.

The second major program emphasis has been to assist the Thais to lower their birth rate. Control of population growth is critical if Thailand's increasing economic well-being is not to be drained off. Success in this area has the clear potential for freeing-up the RTG to focus more of its attention and finances on improving the quality of life of a more limited but still needy population. Population growth rate declines have been dramatic the past decade, and the Mission is confident that with a modest amount of targetted AID assistance the Thais will continue to make satisfactory progress in this area.

More recent emphases in AID's present strategy in Thailand include:

- a) stimulating the private sector to play a more vigorous role in certain aspects of Thai economic development;
- b) encouraging the streamlining and decentralization of RTG program planning and implementation; and
- c) enhancing the policy formulation capabilities of the RTG in order that it may have a more analytical, apolitical basis for major economic decision-making and resource allocation. The strategic springboard for these additional program concentrations remains AID's objective of assisting the Thais apply resources more effectively to alleviate poverty and attendant problems of rural development, especially in the

Northeast.

Several other fundamental factors have impacted on AID's Thailand program over the past half decade and have influenced the choice of sectors in which we are active and how we have exerted our influence:

1. AID has a very modest program quantitatively relative to other donors, in particular the World Bank, ADB, and Japan. Our total annual assistance has not exceeded 3% of official development assistance since the mid-seventies. With ODA projected by the RTG to rise to an average \$1.5 billion annually over the next five years, our share will fall to less than 2%.

2. A significant share of Thai receptivity to AID and attendant effectiveness of the AID program springs from the well-developed network of US/Thai links and relationships. The overseas study of over 10,000 Thai participants have been financed by AID, and returnees are located throughout government and industry with a perspective on development problems shared by AID.

3. AID has concentrated its assistance on qualitative changes, particularly with regard to stimulating Thai concern for equity: the focus on rainfed farmers -- poor almost by definition -- and improving access to family planning services by the rural poor reflects this concern. Virtually all our projects have substantial technical

assistance and training components. When capital assistance is provided, it is to provide financial resources sufficient to permit a credibly large scale of systematic applied research in a development methodology essentially new to Thailand (i.e. NERAD, Mini-Micro Hydro) or to sustain and support an RTG policy shift, often expressed in terms of difficult budget reallocation (i.e. Population Planning II).

4. AID often acts as a pioneer, or at least an anticipator, of future Thai Government/major donor investments. The RTG has noted how AID's rainfed agriculture program -- on the basis of both its analytical phase and the array of subsequent action programs -- drew attention to this sector's problems and attracted complementary RTG and other donor activity. Major Japanese investments in seed multiplication can be traced in part to early efforts supported by AID. In fact, compared to earlier years, more funds from major and minor donors are flowing into the agriculture sector: the RTG ascribes at least some of the reason for this phenomenon to AID's highlighting the development needs of the Northeast.

B. Priority Methodologies in Implementing Current Strategy

Four key programming tools -- use of policy dialogue with host government, indigenous institutional development, use of private enterprise, and technology transfer -- are being applied to achieve AID's major development objectives. As AID's Thailand strategy evolves, as

discussed in Part II, still greater application of these programming approaches can be anticipated.

1. Policy Dialogue

Thailand's economy has experienced a degree of success that compares favorably with any developing country. Fiscal caution and conservatism broadly prevail and the consensus-seeking national leadership mitigates sharp upward or downward swings in economic development policy.

Some economic development policies, or non-policies, give reason for concern, however. Government subsidization of essential services such as transport, electricity and water supply, especially in better-off Bangkok, saps the national treasury. The tax structure is still excessively regressive, despite high luxury taxes designed to take fiscal advantage of the conspicuous consumption habits of the wealthy. RTG agency budgets are bloated and rigidified by a large civil service, the bulk of whom (in the case of agriculture services, inexplicably) are located in and around the capital. Despite well-intentioned attempts, industry has been given little incentive to locate out of Bangkok. The natural resource base is under great stress, with total forest depletion theoretically possible by the Year 2000.

The RTG is seriously concerned with these problems and is making continued efforts to deal effectively with them. The government receives support and encouragement from the foreign donor community in needed adjustments. Because of the magnitude and breadth of its program (projected to rise to over \$650 million in FY 83), the World Bank is preeminent in macroeconomic policy consultations, addressing all the issues above. The Bank has over 400 person/weeks of studies scheduled over the next year or so which will bring their expert teams in contact with top RTG leaders and academics to study and discuss a dozen major issues in development and relate these to government policy making. Through its projectized sector-wide loans, the World Bank leverages policy in key functional areas with varying degrees of success. (An example is the subsidy reduction proposals tied to favorable consideration of the pending State Railways loan.) Probably even more importantly, the Bank's Structural Adjustment Loan (SAL) Program endorses and rewards RTG fiscal and policy reforms in a number of sectors. The Mission consults with the World Bank on the policy-level objectives and undertakings of the SAL program, and this includes opportunities for updates on RTG "compliance" as well as the opportunity for us to comment on the prospects and problems for the RTG making reforms in certain sectors. Planning and policy circles of the RTG are aware of AID's active interest in and support for the SAL program. In view of the Bank's dominant role in policy-level consultations with the RTG, AID should ensure that its concerns are well represented in policy-making circles of the Bank in Washington and Bangkok.

The other donors, in terms of impact on Thai development policy, are significantly-less active in the consultation process. Most donors state that they accept without deeply questioning RTG programs and wait to react to host government requests for assistance. UNDP does participate strongly in supporting the RTG's department of foreign donor coordination and influences RTG policies in this area beyond the weight of its own development contribution. Most other donors play down any statements indicating that they discuss policy issues with the host government (although obviously each donor has its special concerns such as cassava imports for the EEC, which provoke some policy discussions.)

AID is more directly active in policy analysis and consultations at the sectoral and subsectoral level, where our involvement is more noticeable and our knowledge is more expert. An excellent example of relevant and effective AID/RTG dialogue has been in the population/family planning sector, where AID has had a substantial measure of success in convincing the RTG (i.e. Ministry of Public Health, and the principal planning and budgetary agencies) to markedly increase budgetary allocations for contraceptive procurement. This intervention followed from AID's conviction that the Thais should be picking up a substantially-larger share of the recurrent costs of the now well-established family planning program. AID has further encouraged the RTG to take the next step and recover at least part of the cost of the program from users.

The RTG is facing budget shortfalls in this period of slow economic and revenue growth and consequently needs to assess critically the value of all government programs. Given these facts, the USAID expects to raise the need for greater RTG efficiency in resource allocation. We will urge the RTG to adopt reasonable and enforceable cost-recovery mechanisms, especially in population planning and agriculture where we have a large interest and commitment.

The recently-completed report of the U.S. Presidential Mission on Agricultural Development to Thailand provided a useful back drop to AID/RTG discussions, recommending, among others, regular and predictable easing of export controls, adopting a consensus land use and forestry policy, and accepting more objectively the useful role of agricultural marketing middlemen. These expert points coincide with views we are offering to the RTG on a continuing basis.

Other joint AID/RTG consultations at the sector level illustrate the Mission's concern with and the RTG's receptivity to AID involvement in helping to tackle policy issues:

-- Under the new Micro/Mini Hydroelectric Project, we expect to assist the RTG to rationalize its policy and decision-making machinery for long range planning and development of small scale hydroelectric resources.

-- Through our Emerging Problems of Development Project, we are financing a \$2.0 million technical assistance effort undertaken by Public Administration Services, Inc., to streamline and reform the programming, budgeting, and accounting processes of key RTG staff agencies, with the objective of freeing up scarce government budgetary resources for new initiatives. This government-wide effort is supported by an ancillary project with the same objectives specifically targetted to the Ministry of Agriculture and Cooperatives (i.e. the Agricultural Planning Project).

-- Our proposed Private Sector in Development Project will have as a major output the sustained and systematic presentation to the government of constructive criticism by the organized private sector of public policy and actions directly affecting the development of private enterprise. We believe that in Thailand the fostering of a mature government/business dialogue on critical issues of mutual interest transcends the importance of a direct AID role in these same issues.

The three above-cited activities point out the Mission's conviction that AID's most useful policy role in Thailand is in helping to improve Thai policy formulation capability. In this spirit, AID has informed the RTG that it is prepared to consider assistance to the proposed Thai Development Institute (TDI), which would be asked to grapple with tough development issues in a thorough, open manner to support more knowledgeable public debate.

2. Indigenous Institutional Development

Heretofore, the core of AID's program in Thailand has been implemented through the line agencies (e.g. Ministries of Health, Agriculture, Interior) of the RTG in almost all cases. There are many reasons for this, among them relative ease of access, use of a common bureaucratic "language," and simply the fact of long-standing relationships. There are, however, built-in limitations to the effectiveness of a program which relies solely on the RTG service delivery mechanism. Line agencies are usually overcentralized in Bangkok, with relatively few top quality professionals in the countryside and few inducements to keep them there. Salaries, and often motivation, are low.

AID has addressed these problems in several ways. One has been to reflect in project designs more explicitly the interests and concerns generated from within RTG line agencies. Another has been to be more realistic about bureaucratic realities. This means that integrated rural development, multi-departmental projects are now viewed with less favor by the Mission, and projects with simple, clear purposes administered by only one agency are preferred.

AID is looking also at public sector and non-governmental alternatives or, perhaps more properly, complements to our support for RTG line agencies.

One public sector option is assistance in strengthening local government councils and administration. An ongoing AID decentralization project is assisting tambon (township) councils and amphoe (district) administration to improve the identification, design, selection and implementation of small rural development projects. This project is being carried out under the aegis of one particular RTG national program; more general skills development is needed to enable local units to support and administer both locally-initiated and-financed programs and nationally-mandated programs. The Mission's view is that many public sector programs can be more efficiently and responsively directed at the local rather than the central level. Building up local participation will also permit more effective influencing of the nature and direction of RTG development programs.

Institutional options lay in the private sector in Thailand, also. These are generally less constrained by government red tape, and are more efficient when compared with many public bodies, especially if established on a self-sustaining or profit-making basis.

a. PVO's. The Mission already has an active program supporting activities of indigenous and U.S.-based PVO's. Several of these have been especially effective in community development and on-site training, especially among youth groups. What remains to be proven is the extent to which these programs can be widely replicated and sustained without diluting the hands-on impact usually manifested in the PVO technique.

b. Non-profit organizations. An outstanding example of this group is Thailand's Population and Community Development Association (PDA). This organization takes a holistic view of the community and its needs, and relies heavily on local participation and imaginative promotional and marketing techniques. PDA is already playing a key role in AID's population and decentralization projects. The just-established Institute for Management Education in Thailand (IMET) will financially sponsor entry- and mid-level management education at a cross-section of Thai universities. Like the Association of Thai Industries (ATI) and the Thai Management Association (TMA), IMET brings together some of the most successful, forward-looking businessmen in Thailand to attend the long-range growth and development needs of Thai industry. These groups to a large degree have a shared sense of purpose with AID; all are presently assisted by AID.

c. Rural-based private banks and suppliers. National banks, headquartered in Bangkok, have a far-flung network of branches in provincial and district towns. Their potential can be further developed as a source of supervised credit for short-to-long term purposes, provided in conjunction (formally or informally) with RTG agricultural production programs and, potentially, AID-financed projects such as Northeast Rainfed Ag Development and Northeast Small-Scale Irrigation. Similarly, agricultural inputs suppliers, such as private seed companies and fertilizer dealers, are a natural conduit for introduction of new technologies because of their intimate contact with farmers. While the

Mission does not intend to return to financing supervised agricultural credit, we will explore fully ways in which our goals and those of these rural-based banks and businesses mesh. One aspect of the Seeds II project targets private sector seed firms for training and technical assistance through the auspices of the relevant RTG department. We believe we can go still further with a broader spectrum of the commercial community.

e. Communications media. The Mission is also looking toward the private communications media, especially radio and TV, as a complement to information diffusion through government channels. As an initial effort, we are investigating a possible project which would disseminate timely and accurate agricultural marketing information to Thai farmers, followed perhaps by production technology information. The premise behind this mode of marketing intervention is that it takes account of U.S. technological advantages and also minimizes the extent to which information/technology dissemination programs must be implemented through a difficult-to-manage rural communicator network (e.g. RTG agricultural extension program).

In summing up all the above institutional alternatives, the point to emphasize is that AID must not necessarily equate development action programs with elaborate public sector service delivery programs. We must increasingly support the RTG in directing its attention toward its most crucial roles: to establish policy guidelines, promulgate fair and

unambiguous regulations, promote free market entry and free trade, and lay down a climate conducive to equitable development through largely-private means. The need to set the proper policy environment and to target government programs discretely is one important reason why AID supports enhancement of RTG capabilities for policy formulation and planning/budgeting/accounting systems development in the Bureau of the Budget, NESDB, and the Office of the Comptroller-General.

3. Private Enterprise Development

In the past, the AID program in Thailand recognized the importance of private enterprise but saw its role essentially as one of supporting public sector agency programs, particularly as they affect agriculture and family planning. Increasingly, however, parallel to encouragement of public/private sector cooperation, the AID program is placing more emphasis on involving private enterprise as a means to further rural development both as a disseminator of knowledge (technology) and as an action agent to develop markets for rural production. The Mission is especially interested in facilitating a substantive development role for the private sector in creation of rural-based, natural resource-based, and employment-generating industries.

Current Mission strategy recognizes that the development of markets for rural production is essential to increasing such production and raising rural income. In part, the development of such markets requires

new investment, both domestic and foreign, supported by government policies which improve the climate for investment. The Mission is submitting an FY 83 project that will enhance the capability of existing private sector organizations to analyze regulations and RTG policies negatively affecting the climate for investment and to present coherent alternatives in a cooperative forum to RTG policy making bodies. In addition, this project will include support for preliminary analysis of attractive rural investment opportunities and the promotion of such opportunities to potential domestic and U.S. businesses. A number of programs initiated by AID's Bureau for Private Enterprise, particularly PRE's loan to the Siam Commercial Bank, and the proposed work of the Joint Agricultural Consultative Corporation (JACC), will also facilitate and support increased rural agribusiness development. The proposed project will promote linkages, in addition to JACC, between U.S. and Thai business to enhance investment, trade, and -- perhaps most importantly -- the flow of American know-how.

The Mission has several ongoing agricultural production projects that are being reviewed to ascertain ways in which profit-making agricultural markets can enhance the likelihood of these projects' success. On the inputs side, indigenous suppliers (e.g. seed companies) can play a key role in furthering RTG production and income objectives.

Improved middle management and the transfer of knowledge and technology are essential to the growth of the private sector. The

PRE-supported Institute for Management Education in Thailand is a positive step in mobilizing U.S. skills and private sector resources to further indigenous management training. While the IMET program is a beginning, the AID program in Thailand will place additional emphasis on private sector training, initially by:

- financing a PYO-sponsored pilot project to provide basic business training to village level youth;
- exploring with existing private sector institutions the development and media dissemination of a basic management program relevant to small scale rural enterprises;
- utilizing existing private sector businesses in carrying out extension work on cash crops in areas of Northeast Thailand, and,
- developing a volunteer domestic service corps composed of individuals in the private sector who would work with small rural firms trouble-shooting their problems.

There is only limited other donor assistance to the private sector. The World Bank has generally supported private sector ventures through loans to the Industrial Finance Corporation of Thailand (IFCT). ADB also supports the IFCT. World Bank officials expect that the Bank of Thailand (central bank) will become a private sector/industry loan window in the future, perhaps in lieu of direct assistance to IFCT.

4. Technology Transfer

Until recently, RTG line agencies were the principal means of technology diffusion under AID projects. We are increasingly looking to non-governmental institutions to serve as technology transfer agents -- e.g., agricultural suppliers and the communications media. In addition, U.S./Thai business linkages under the proposed Private Sector in Development Project will be an increasingly important avenue for transfer of technologies and business approaches.

Beyond these modalities, we are looking at other ways to transfer U.S. technology to Thailand.

One attractive means adopted by our new Seeds II project is intensive on-the-job training for RTG seed service personnel in selected U.S. seed companies. OJT of this sort exposes government personnel to the newest, cost-effective production/processing techniques in a competitive setting. Greater use of OJT in the U.S. might well be used in ongoing and proposed rainfed agricultural production projects and in future agricultural marketing projects.

Another technology transfer mechanism proposed in last year's CDSS and still under consideration is strengthening of Thai scientific and technical research capabilities, especially as they relate to the technological needs of small and medium Thai industry. Although oriented

to a broader spectrum (by company size and industrial sector) than the likely Thai effort, the private sector-financed Korean Institute of Science Technology (KIST) has been a conceptual model. The Mission is particularly interested in the problems of export-production standardization and quality control, and labor/capital/technology (production factor) problems of rural-based industry.

The Mission is making vigorous use of CRSP's, collaborative agreements, and AID/W centrally-funded projects, all of which add great flexibility to the bilateral program, when their activities are carefully introduced under Mission sponsorship and closely monitored. Some especially useful AID support mechanisms with important actual or potential contribution to technological change in Thailand include:

- in health and family planning:
 - * Johns Hopkins Program for International Education in Gynecology and Obstetrics (for micro-surgery sterilization training).
 - * International Fertility Research Program (including use of sutured IUD's).
 - * Research Triangle Institute (financial returns to public investment from national family planning).
- in agriculture:
 - * Water Management Synthesis II (irrigation).
 - * IRRI Small Scale Ag Equipment Industrialization.
 - * Peanut-CRSP.

The Mission is presently investigating more extensive use of the media, especially radio and TV, in Thailand for technology transfer purposes. The electronic media have the advantages of affording access to the target group at low cost per capita, providing an appropriate "working platform" for a non-staff intensive AID intervention, and can accommodate particular U.S. expertise in this area. Media-based agricultural technology dissemination programs would also complement previous AID support to RTG agricultural extension services.

Technologies which the Mission believes can be further exploited in support of our present program objectives include: a) remote sensing (LANDSAT) vis-a-vis natural resource development and protection; b) micro-computers in field applications in the agriculture, health, local infrastructure development, and finance sectors; and c) sophisticated weather/climate reporting systems useful for localized and national decision-making in agricultural production and marketing, especially in rainfed areas. Examples of other technologies worthy of further scrutiny include advances in immunization and uses of irradiation in industrial and agricultural processes.

The Mission considers there are several worthwhile lines of research in agriculture meriting further attention: roots and tubers (cassava is an important cash export crop here); early-maturing, drought-resistant varieties across the range of Thailand's annual field crops; soil and water conservation; and fast-maturing trees for reforestation and

forage. But the Mission continues to believe that at least of equal concern with initiation of new research is the priority dissemination of existing research results. Far too much research in Thailand repeats what has been done elsewhere; better networking/diffusion from CGIAR institutions, English-language research digests, ag research data clearing houses, and computerization should be important goals for both the Mission and the Agency as a whole.

Over the next five years, we see AID's objectives as being development of effective complements to RTG line agency diffusion mechanisms, especially in the private sector. More specifically, AID and the RTG need to develop means to disseminate agricultural and rural development technologies without heavy reliance on staff-intensive, "on-ground" transfer mechanisms which tend to have a high cost per head and are difficult to manage. AID will also help the Thais identify and support application of advanced technologies to Thai requirements a prospect made more practical by miniaturization, simplification, and cost-reduction.

Part II. A.I.D. Strategy for Thailand As An Emerging Middle
Income Country -- A Preliminary View

The AID Mission has begun a comprehensive reevaluation of our strategy in Thailand. This move has been stimulated by several factors. First, it has been five years since a fundamental review with no preconceptions has been attempted; Thailand, meanwhile, has gone through a continuing metamorphosis that changes (at least potentially) some of AID's assumptions on the country's development needs and directions. Second, we must prudently conclude that AID's annual budget levels for the Thailand program are unlikely to increase in real terms in the near future, and that Thailand's relative economic standing in the developing world mandates a shift to increased loan financing. Third, and perhaps most importantly, Thailand now has the clear potential -- as a participant in the healthy East Asian economy -- of achieving AID graduate status in the foreseeable future. From the economic development standpoint, we think this potential could be realized in the next ten years, and have begun to use this possibility and this timing as anchors for our thinking on the future program.

What follows is a review of the status and trends of key economic factors that characterize Thailand at this stage in its development, a projection of those conditions which should be achieved by Thailand if self-sustaining growth in 1992 is to be realizable, and the direction the AID program should pursue to assist Thailand in meeting at least some of

those conditions. We wish to strongly emphasize that this future country development profile and strategy outline are very preliminary in nature and are subject to continuing refinement and possible substantive change as we do our analysis over the coming months. Objectively verifiable indicators of Thai self-sustaining growth by and large remain to be established, as we shall attempt to do in the coming months.

A. Macroeconomic Profile

1. Salient Features of the Thai Economy

Since 1960 Thailand's economy has grown at an average real rate of 7.5% per annum, resulting in a GDP of \$40 billion at current prices, and bringing the Kingdom to the threshold of middle income status. Agriculture (crops, livestock, fisheries, forestry) has been the major single catalyst, but its 25% current share of GDP has nearly been overtaken by the industrial sector (manufacturing and mining) which has grown at some 9%/year over the last two decades.^{1/}

As a generalization, the private sector has been the stimulant for national economic growth, currently accounting for 65% of national

^{1/} It is important to note, however, that over 50% of industrial production value is agriculturally linked, including, most importantly, food processing, beverages, tobacco, textiles, wood and paper products.

investment, 85% of consumption expenditures and 90% of savings. The public sector has complemented this dynamism with adequate basic infrastructure and prudent macroeconomic management and by constructing an environment which has permitted private capital to function reasonably efficiently.

Despite the fact that domestic markets absorb the majority of national production, one of the most salient characteristics of the Thai economy and one of the primary determinants of future growth is its linkage to international markets -- commodities, capital and labor. The value of international trade in 1981 was equivalent to 45% of total GDP and a majority of manufactured goods circulating within the domestic economy are either import products or have a high import content. Foreign capital markets, both private and public, have had a major impact on RTG and private investment programs, and will contribute a projected 18.8% of total revenues toward the Fifth National Plan (1982-1986). Net positive foreign capital movements were of sufficient magnitude to balance the current account deficit in 1981. Finally, foreign labor markets (especially the Middle East and the U.S.) currently employ 200-300,000 Thai citizens in occupations ranging from engineers to factory and field laborers, generating almost \$500 million in foreign remittances per year.

The economy is not without its share of problems, however. There are a number of critical areas for improvement:

a. Balance of trade: A long-term trend in declining terms of trade, as well as a current restrained demand for key Thai exports (notably, rubber, cassava, tin) resulting from the current global recession has clearly had an impact on the economy. Despite a tripling of total exports -- paced in recent years by strong rice sales -- the last ten years have produced successively-larger trade deficits, culminating in 1981 with a record \$2.8 billion. Current government policies (i.e. devaluation, restraining energy imports through substitution of indigenous natural gas, acceleration of exports) appear to have begun a reversal in this trend, however.

b. Debt service: The total external debt stood at \$7.9 billion in 1981, 65% of which was accounted for by the public sector. This was essentially due to a very rapid increase in RTG foreign borrowing within the last five years to finance large state enterprise and basic infrastructure development. Despite a five-fold increase in the national budget over the last decade, financed largely by customs duties and business taxes, deficits in the range of 3-5% of GDP (or \$1 billion in FY 83) have resulted, compensated for through domestic borrowing. For its part, the RTG has begun a highly-publicized process encouraging private investment wherever possible, reducing the size and number of existing state enterprises and improving the efficiency and management of those state-run service and production groups which remain. The aggregate public/private debt service to exports ratio stood at a fairly stable 14.5% in 1981.

c. Equity: Generally, personal income has increased considerably over the last two decades. The nationwide incidence of poverty has been estimated to have dropped from 50% in 1960 to 25% in 1980. Major regional and rural/urban disparities persist, however, and are, in some ways related. Regionally, perhaps 50% of those still below the poverty line are located in the Northeast, and an estimated 90% are located in rural areas. Central to this theme is the high degree of centralization around the administrative and commercial capital of Bangkok. With a current (1981) estimated population of over 5.3 million, Bangkok is approximately 50 times larger than the next largest urban center. This demographic primacy (one of the highest in the world) also translates into commercial, administrative, and service primacy. The RTG has made a determined effort in recent years both to break down the hegemony of Bangkok and to accelerate the process of poverty alleviation. Examples of the former include tax and investment incentives for private groups outside of Bangkok, major infrastructure improvements upcountry (especially in the Northeast) and promotion of the massive Eastern Seaboard industrial development scheme.^{1/} Examples of the latter include attempts at improved, decentralized RTG services in rural areas, the identification and channeling of major funds to poverty areas through the Poverty Eradication Program, the Rural Employment Generation Program and a major new emphasis on localized decision-making through nationwide tambon planning.

^{1/} In 1970 almost 75% of total RTG expenditures benefited Bangkok, today that number has dropped to almost 50%.

d. Employment: Thailand had a total labor force estimated at 21.7 million in 1981. An estimated 74% of those employed were in the agricultural sector and 7% in the industrial sector, a ratio much different than the respective one-quarter contribution of GDP that each sector now roughly provides. Basic RTG policy has been to indirectly increase employment opportunity through selective stimulation of various productive sectors of the economy, but also includes the Rural Employment Generation Program which employs some 3 million rural laborers in small public works projects during the dry season (January-June). Unemployment among graduates of vocational schools, teacher colleges, and universities is currently of special concern: nationally, some 40% of those leaving school are unable to find work.

f. Environmental: The historical basis for economic growth in Thailand has generally been the expansion of low input farming systems over a readily available land resource base. This trend was substantially accentuated over the last twenty years with diversification into new cash crops in addition to expansion of rice production areas. The result has been heavy competition in land use nationwide, placing enormous stress on the existing natural resource base. Expansion of upland crop production was the primary reason for reduction of forest cover from 60% of national area in 1960 to 29% in 1980. Deforestation, increased cropping of marginal agricultural lands, and reduction of fallow cycles, have led to increasingly widespread soil erosion (5-20 cm/yr. in the Northeast and East), with reduction of soil fertility and

sedimentation of national water courses, irrigation systems and storage reservoirs.

2. Trends Through The Next Decade

The nature of economic growth over the next decade is highly speculative. Nevertheless, an examination of past trends and an understanding of key economic factors in Thailand permit some limited macroeconomic forecasting over that timeframe:

a. Demography

- Current population growth rate of under 2% will drop to 1.5% by 1986 and remain stable through 1992.
- There will be some 57 million inhabitants by 1992, or 19% more than 1982.
- Bangkok and the Northeast will grow most rapidly, adding 35% (through natural increase and migration) and 18% (through natural increase), respectively, to their current populations.

b. Agriculture

- Agriculture will continue to play a key economic role, employing 60% of labor force and producing 50% of total exports in 1992, although its share of GDP will fall below 20%.
- Current commodity forecasts indicate generally favorable markets for key Thai agricultural exports, with probable exception of quota-controlled sugar and cassava. Production will continue to diversify into fruit, oilseed and vegetables.

- Farming systems will become more input and skilled labor intensive, fallow periods will decline, and existing holdings will be used more intensively.
 - Regionally, the Northeast will demonstrate poorest growth record due to comparative disadvantage in critical production factors (access to markets, basic infrastructure, capital) as well as higher land use pressures and the Central Plain will, through expansion of irrigation systems and improvement of basic technology, develop its agricultural base at a rate greater than the national average.
- c. Macroeconomic considerations
- No major change from present moderate inflation (5-10%), reasonably-high economic growth (5-7% per year), and continued economic modernization/industrialization, barring major unforeseen circumstances such as a major rise in defense/security requirements or wide fluctuations in world markets/energy supply/weather.
 - Thailand will reduce energy imports through development of natural gas, hydroelectric and other domestic energy sources, but imports will continue at high levels due to growing industrial sector.
 - Given prospect of slower rate of growth in agriculture and decline in terms of trade, trade deficits will widen. Foreign borrowing will have to continue to make up the difference together with other payments (eg., remittances and tourism) Negative balance of payments trends will continue to be a source of worry.
- d. Employment
- High growth in labor force at 2.9% per year through 1985 and slightly less through 1992.

- Higher labor supply, lower demand given the present economic slowdown, and increasingly capital-intensive agricultural/industrial sectors will double open unemployment by 1986 to some 600,000.

e. Natural resources

- Population growth, land use competition and increased industrialization will work together to accelerate deforestation, soil erosion, air/water pollution.
- Irrigation system sedimentation, declining land fertility, and scarcity of fuelwood for cooking will rise in public consciousness along with other environmental problems.

f. Equity

- National incidence of poverty will continue to decline to 15% of total population by 1992.
- Parts of the Northeast, North and South will significantly trail national trends of gradual poverty alleviation.

3. 1992: Preconditions to Self-Sustaining Growth

Among all factors which we feel will contribute to the orderly termination of AID concessional assistance, the most important in our present view will be the achievement of sustained rural growth.

Approximately 80% of Thailand's population is rural. As we have seen, this group has not benefitted from the fruits of development nearly as much as urban (essentially Bangkok) Thais, despite the fact that the country's fundamental economic well-being springs from the rural

economy. At the present time, the rural areas are not sufficiently participating in the classic economic cycles of savings, investment, and consumption to buoy the economy over the long haul and buffer it from uncontrollable exogenous factors. Of course, there has been progress: for example, the percentage of total domestic savings (deposits) mobilized in rural areas has jumped from 35% in 1975 to an estimated 70% today. It must be borne in mind, however, that Thailand has a large population base and excellent potential as a mass market. Without developing this potential, RTG budgets (and deficits) will be large in order to meet resource transfer needs of rural areas, Thailand will be excessively dependent upon the vagaries of the international marketplace, and domestic industry and commerce will remain chronically inefficient due to relatively-low volume of activity in a relatively-small "modern" economy.

There really are no viable options to sustained rural growth. The urban, highly-industrialized model of Singapore does not fit because of the overwhelmingly-rural character of the country and the population: continued disproportionate growth in Bangkok would almost certainly breed serious socio-political discontent upcountry if no attempt were made to help these areas catch up. The Nigerian experience of exploiting industrial raw materials (i.e. petroleum) is not practical given the limits of equivalent resources in Thailand such as tin, rubber, and natural gas relative to total economic development requirements.

There are a number of important corollary conditions which both further define and support the critical condition of achieving sustained rural growth:

a. Equitable growth will be required throughout the nation. This means growth must be regionally dispersed and impacting on all income deciles in the population. The Northeast, North, and -- we suspect -- the South are still too dependent on relatively narrow economic bases (i.e. cassava, rubber, tourism), and reflect inequity in personal income. It is highly unlikely that these regions would passively accept a high rate of growth in Bangkok and a widening disparity in incomes, without political disruption and/or demanding redress through government income transfers. Either would present an unacceptably-high claim on RTG talent, time, and financial resources.

b. A crucial part of equitable growth and rural transformation is the development of urban growth poles. Urban centers complementary to Bangkok provide a ready source of goods and services demanded by modernizing agriculture and the rise of a rural mass market with disposable income, an intermediate or final market for agricultural production, and -- of increasing importance -- a source of employment for a rapidly growing workforce. Major provincial towns such as Ubon and Khon Kaen have already grown dramatically in recent years and filled much of the service/market gap. Some preliminary information suggests that district towns may be the logical focal point for much of the future dispersed growth.

c. Agricultural diversification and industrialization, based upon Thailand's international economic comparative advantages, is required to provide a broader base for rural growth. The long-term outlook for marketing Thailand's rice internationally is limited and Thailand's global market share is unlikely to change much. Domestic demand for rice is relatively inelastic. Self-sustaining economic growth necessitates less dependence on a single crop in the world agricultural market. Diversification into cash crops other than non-glutinous rice, greater attention to resilient "up-scale" markets through better agricultural standardization and grading, and agro-processing promise greater flexibility and protection for Thailand economically. Industrially, agricultural modernization and increased rural investment will sustain domestic industries more effectively than the present narrow, Bangkok-biased market does. Continued industrialization will also be important as an absorber of the growing labor force, projected to reach 33 million by 1992.

d. A corollary condition to both sustained rural growth and agricultural diversification is stabilization of the natural resource base. Land, water, and forest resources must be protected to ensure future gains in agriculture productivity. If the land base is permitted to continue to deteriorate, productivity increases in rice will become problematic and significant diversification will become impossible.

The Mission believes other conditions must manifest themselves beyond those relating specifically to rural growth if projecting 1992 graduation is to be at all credible.

Alternative government organizational approaches permitting greater dispersal of decision-making and more responsiveness to particular local needs must be in place. In more general terms, the public sector must be both more efficient and effective in performing its appropriate functions.

Basic infrastructural needs (electrification, water, communications) and basic human services needs (shelter, primary education, health, and controlled population growth) must be met and maintained in a financially-responsible manner. The Mission believes these basic socioeconomic conditions are realizable by 1992 with concerted effort, but the importance of achieving them must not be understated.

Finally, Thailand should be expected to be able to rely on international capital markets for its development borrowing requirement in lieu of concessional financing. Again, given Thailand's traditional prudence, we believe such a greater degree of financial self-reliance is achievable by 1992 if the world economy returns to any semblance of normalcy in the next half decade.

B. Outline of Emerging Mission Strategy

AID cannot and will not address all of the above preconditions to steady, autonomous development. Our role and capabilities are modest in comparison to total need and the resources of the RTG and other donors. However, a tentative outline of a future AID strategy in Thailand emerges from consideration of the array of important conditions to self-sustaining growth in 1992. Some aspects or sectors of concentration of our present strategy discussed in Part I.A. will likely continue through the eighties; others will be new. The final shape of AID/Thailand's strategy will become clearer in subsequent program documentation as we obtain definitive RTG and AID/W reactions, as other donor programs are researched for complementarity or redundancy, and as our overall strategic and sectoral hypotheses prove, or do not prove, themselves out under further detailed analysis.

From our present strategy, we expect to retain certain ongoing emphases in somewhat-revised form.

1. Population/family planning. This has been the highest priority in AID's ongoing strategy, due to the fact that control of population in growth is a fundamental precondition for sustained economic advances at the family, community, and national levels. There has been remarkable success in this area in Thailand, and the emphasis in AID assistance is now clearly shifting away from a blend of capital

(commodity/budgetary) and technical assistance toward targetted technical support in the relatively few medical, research, and managerial areas where Thai expertise is lacking. We expect to sustain a strong bilateral-project presence through the next five years, perhaps relying upon central bureau project(s) support in a few carefully-selected interventions after 1988.

2. Applied science and technology. The Mission intends to seek out, through local institutions or institutional networks, opportunities for the application of U.S.-developed technologies and scientific findings on Thai development problems. To better dovetail with other elements of our program strategy, special emphasis will be placed on technological transfer, applied research, and development in i) agro-industry, ii) energy, iii) natural resource planning/development, and iv) health. The Mission also intends to survey emerging technological advances relevant to Thai development and introduce them into Thailand through bilateral or centrally-funded projects or information networks. One concept which the Mission intends to pursue is a loan to the RTG (or through the RTG to private/quasi-private bodies) for introduction of advanced technology hardware, instrumentation and processes, with associated technical assistance, training, and software. Such a program, which might be organized and administered by priority development sector, would further strengthen the technological trade ties between Thailand and the U.S. and lay a sound foundation for commercial relationships in the future.

3. Private enterprise. The Mission views the private sector in Thailand as an indispensable complement to government-managed development programs, and we plan to continue our emphasis in this area. To date, AID's strategy has covered a potentially broad spectrum of industrial or commercial sub-sectors. We now propose a somewhat-clearer focus on self-sustaining rural growth. Accordingly, special attention will be placed on small and medium-scale rural industrial development, agro-business development, and the development of trade relations between the U.S. and Thailand based on inputs for and outputs from the rural sector. We will also be actively pursuing ways in which public services can be provided through private channels. Special studies will be undertaken in the course of 1983 to further define what roles private and non-governmental organizations (including universities) can play in furthering optimal national economic growth and development.

We anticipate the newly-emerging strategy for Thailand will contain certain new emphases as well.

4. Agricultural diversification. We will encourage and assist the Thais in identifying and promoting new agricultural cash crops that can significantly "fuel" expansion of the entire rural economy. We view Thailand as having especially favorable factor endowments for diversified agriculture relative to other Pacific Basin countries: adequate, inexpensive labor; generally favorable agro-climatic conditions; geographic proximity to major markets; and entrepreneurial farmers and

businessmen. If there is even a modest roll-back in agricultural trade protectionism in the major East Asian markets, Thailand is situated to aggressively take advantage of the situation. As currently conceived, special attention will be paid to identifying means of innovative, low cost agricultural technology diffusion, development of marketing alternatives, the relative economic value of irrigated, as opposed to rainfed agriculture in the Northeast, and improvement in the efficiencies of agricultural input/output marketing systems.

5. Natural resource stabilization and protection. In order to permit an aggressive agricultural diversification program, the Mission will assess current and projected levels of degradation in the natural resource base (forests, soils, air, water) and will explore ways to stabilize its long-term productivity. AID's attention will center on recently opened-up rainfed areas throughout the Kingdom, since these zones seem to be at greatest risk (from rapid run-off flooding, loss of soil cover and fertility) and since sharp losses in productivity here will undermine any moves out of subsistence rice monoculture. One of the key questions to be examined will be the cost of reversing current trends and how the costs can be borne directly by all beneficiaries.

6. Urban service and employment centers. Assistance in the development of regional, provincial, and district-level urban growth poles will be important in smoothing the transition of the growing workforce from rural to urban employment, and improving the economic

service capability of these towns. A special study will be undertaken of latest employment forecasts, by region and sector, and the implications of those projections on migration and labor force skills development. The Mission is especially interested in analyzing the present and potential role of uniquely well-placed district towns.

7. Regional university development. Regional universities such as Khon Kaen University (KKU-Northeast) and Prince of Songkhla University (PSU-South) represent present or potential centers of excellence which compare well with RTG capabilities in many functional fields and which are especially well-attuned to unique problems of their areas. We believe these institutions are or will be well qualified to conduct applied research on the particular agriculture, sociological, industrial, and infrastructural requirements of their respective regions; train a professional business and economic development management cadre from and for the region; and design or backstop action programs tailored to the special needs of the area. We would anticipate that a program to strengthen these institutions would extend until at least 1992.

8. Public sector efficiency. An important segment of our emerging strategy is to increase the efficiency and effectiveness of the public sector. Possible areas of assistance include planning and budgeting, national policy and procedures on tax administration, civil service

reform, management training, and the analysis and reduction of unwarranted government subsidies. We also continue to be interested in enhancing the efficiency of government social services, potentially through such highly cost-effective programs as immunization, disease control and similar preventative health measures which provide a lower-cost alternative to curative medicine, help ensure greater human productivity, and fulfill basic human needs. Any and all of these proposed interventions will help prevent unacceptable budget or balance of payments deficits and will help hold the Thai public sector's share of Thailand's GDP to present levels throughout the eighties.

Detailed development of AID/Thailand's strategy will take place in two phases over the course of CY 1983. A first phase, to be complete by May, will flesh out our basic conceptual framework, building on the preliminary conclusions contained in this CDSS and testing both their accuracy as basic themes and verifying their appropriateness for USAID funding. An ensuing second phase will complete initial work and will provide sufficient detail to complete the FY 86 CDSS.

C. Role and Modalities of AID in the Future

AID should adjust its programming approach to fit Thailand's emerging middle income status. Thailand is increasingly capable of identifying, designing and managing development programs without the tight control and constant oversight of the foreign donor agencies. The World Bank's

Structural Adjustment Loan (SAL) program is at least partially in recognition of this maturing capability and sophistication.

We anticipate that the future AID program will increasingly be financed on a loan basis; that S & T and private sector-oriented elements will play a large role in AID's total program; that available direct hire AID staff will be restricted; and that program increases will be modest. As a result, we see AID moving toward a program which increasingly:

- * maintains sufficient flexibility, within credible strategic guidelines, to permit AID to respond to felt needs the Thais have expressed. Loan funding may in and of itself influence RTG thinking on the most suitable areas for AID activity.
- * provides block grants or block loans, or similar flexible mechanisms, to competent indigenous institutions, especially in those sectors where in-house AID expertise is relatively limited. Research, training, and technology transfer could all potentially profit from this approach.
- * explores the use of sector lending in lieu of project assistance in those areas where AID and the RTG can agree on clear program goals and measurable benchmarks of performance. Policy dialogue would be most effective with this instrument.
- * emphasizes the necessity of self-contained management and support in U.S.-source technical assistance contracts to reflect lower AID

staffing levels, and recognizes that this contractual self-reliance will result in higher costs.

- * frees USAID of detailed procurement approval responsibilities, once it is satisfied that indigenous institutions are following sound procurement practices.

D. AID Resources

1. Mission Personnel

The Mission is committed to adjusting downward its personnel levels as previously agreed with AID/W. As the Mission proceeds further with its program re-evaluation and restructuring, adjustments in the numbers and skills mix of personnel both before and after FY 86 may be possible with clarification of strategic emphases and operational modalities. For the moment, we believe it is inappropriate to prognosticate on the future.

2. Program Budget - FY 83/88

<u>Functional Account</u>	<u>Planning Levels (\$ Million)</u> ^{1/}					
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
a. Ag/Rural Dev./Nutrition	13	12	10	17	27	25
b. Health/Population	14	5	4	5	5	5
c. Education/Human Resources	-	5	12	5	-	10
d. Special Development	<u>1</u>	<u>7</u>	<u>7</u>	<u>10</u>	<u>10</u>	<u>7</u>
DA TOTALS	28	29	33	37	42	47
ESF TOTALS	10	5	10	5	5	5

^{1/} Rounded to nearest million.

FY 1985 CDSS
Women in Development In Thailand

Background

Women's role in economic development presents a mixed picture in Thailand. In urban areas and in the modern, industrializing economy generally, women have status, power and responsibility which compares favorably with many developing countries. In government especially, women have an active role, most pronounced at middle management levels.

The situation is quite different in rural Thailand, however. Women in all rural areas of Thailand perform a variety of roles in addition to that of wife and mother. Many are of great economic significance. Women are manual laborers, food producers, processors and marketers. Non-agricultural goods and services are also produced and marketed by rural women. Most enjoy participation in family economic decisions, and many engage in wage labor, are self-employed, or work as unremunerated family labor. Rural women generally provide necessary supplement to the family budget. In many cases, they generate all of the family's external income. Nevertheless, it has been found that many of the economic activities of rural women fail to be included in traditional measures of GNP. This contributes to official failure to recognize their importance as an economic resource, at least at the national planning level. The general economic situation is such that women's participation in labor force has become a necessity; their income is needed to support their families. A Thai researcher found that in the rural areas in 1977, up to 73% of women were engaged in some form of income generation as compared to 80% of men. Regardless of the general acceptance of women's important contribution to the labor force, NESDB reported in 1978 that women's salaries were usually lower than men's.

As a whole, rural women do not feel that they are subordinate to men. Instead, they pride themselves on their equal responsibility and involvement in decision-making in the family. A National Council of Women (NWCT) study (1980) interviewed the male heads of household about their attitude towards women; 96% of the men interviewed think women are important to rural development.

Many studies on present roles of rural Thai women have found that despite women's strong economic position, they are seldom if ever designated as contact farmers or official agricultural leaders of their villages. In regular RTG activities, women seldom serve as agricultural extension workers or loan officers of the Bank for Agriculture and Agricultural Cooperatives, although AID's Lam Nam Oon and Mae Chaem projects have had good results with women members or leaders of outreach teams. Even where one of AID's projects explicitly provided for women's roles in project design and implementation (Land Settlements, 1979),

Peace Corps technical monitors have reported women's (beneficiary) participation as negligible or nonexistent in at least one land settlement area. Women also do not have the skills base, and the qualitative development role that goes with those skills.

Thus, while rural women make an economic contribution in their home locales, it is of limited scope and generally more menial in nature. Opportunities exist and women participate, but clearly not to an optimum extent. Most female rural dwellers still: a) quickly lose literacy and the limited skills obtained from their average 4 years of elementary schooling; b) lack the opportunity for further training and consequently, are often employed as unskilled or second hand labor; and c) are paid accordingly low, particularly when compared to men holding the same job. Accordingly, a large number of young rural women migrate to Bangkok or other urban centers, where opportunities for at least a small advance up the economic ladder (from farm wife) is possible. Without many skills, they cannot get well-paying jobs, and work as servants, unskilled laborers, factory workers, massage girls or prostitutes.

Most observers feel that rural women's migration to urban areas is due to lack of economic opportunity in their own locality. Accepting this situation, another question is raised. If these women could find satisfactory jobs in their hometowns, would they be compelled to move to urban centers?

AID's Role

Most AID projects have been designed to encourage male participation, with only peripheral attention given to the special needs of women. With the exception of health and population activities, women have been left, unintentionally, a step behind. This reflects the tradition of male dominance outside the home: if there is a male present in the household, participation in any outside-sponsored development activity is inadvertently left to him.

In light of these problems, AID needs to do more to involve women in its projects and planning. While serious, these problems are not intractable and, because of the relative openness of the Thai socio-economic system, would appear to be more amenable to AID intervention than would be the case in many other Asian countries. Although Thailand does not present severe WID problems, it does seem to provide an environment for meaningful and successful efforts which could serve as examples for WID approaches elsewhere in the Third World. Some can be done through the Mission's regular portfolio. In addition, we are considering a specific Women in Development project which could aim at developing and/or increasing women's income-generating skills as well as self-confidence and leadership. This would be a tremendous boost to rural women's qualitative participation in the work force. Candidate Thai agencies to lead such an effort include RTG community development agencies (such as Accelerated Rural Development and Community Development

Departments) and private groups such as NWCT, Girl Guides, and the Moslem Women Association, which are already aimed at improving women's conditions. However, AID will need to be selective about what agency is chosen to carry out which tasks. In particular we need to bear in mind past experiences of failure stemming from incapable, unqualified project staff.

With skill-training, young women would have greater employment and income opportunities in their native rural areas. This will in turn enhance their status in the eyes of male and/or older members of their community. This increase in status and self-confidence will assist women to emerge side by side with their male counterparts in other development projects, leaving an important spill-over effect throughout the AID portfolio and RTG development projects as a whole. And with this psychological and financial security, Thai women would be more likely to forego urban migration, which the Mission sees as a potentially important problem for Thailand in the future.