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THE FUTURE OF THAI-AMERICAN ECONOMIC COOPERATION

David I. Steinberg
Consultant

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EXECUTIVE SUMMARY

Vast changes have occurred in Thailand, in the Southeast Asia region, and in the world economy since the United States initiated an economic assistance program with Thailand in 1950. The AID program, which was just more than half of the U.S. military assistance program, was essentially related to security interests, although the resistant geographic pockets of poverty, on which the program was later focused under the New Directions, were essentially the same as those under the threat of China, the Vietnam War, and the communist insurrection. Today, Vietnam is perceived as the major potential adversary. The United States has strong strategic interests in Thailand; Thailand perceives the United States as the guarantor of its independence.

Thailand has developed economically, politically and socially, and is on the verge of "middle income" status. USAID Thailand recognized the need for an enhanced collaborative relationship in the economic sphere between the United States and Thailand, reflecting these changes, as their longer range national interests are parallel in many respects.

This essay examines ten possible institutional options for such an enhanced relationship, and recommends a binational institution as the most appropriate. Funding for that organization might come from reflows from economic or military assistance loan repayments to the United States from the Thai government, and the latter might be willing to provide partial support to such a program. Although it gives no program prescriptions, it suggests a consultative process by which to arrive at such a program. It suggests a minimum annual funding level of \$5 million, with a more desirable goal of \$10 million.

The paper examines various means to begin planning for such an institution and the required consultative process within the U.S. government, as well as between the U.S. and Thai communities, involving both the public and private sectors. It notes that a full-time, relatively senior AID official should be charged with overseeing this process. It makes suggestions on the general need for consultations with the Congress in the early stage of such a strategy. It advocates the transfer of one project to the new group.

The paper also notes that there are valid, continuing reasons for the continuation of the USAID mission that transcend the need for the monitoring of continuing projects and funds, and recommends a "parallel" approach to the economic relationship based on both the proposed bilateral organization and USAID.

The paper comments that the economic crisis facing AID, and by extension the Thai program, should be viewed as an opportunity to enhance the existing pattern of relationships, rather than as a problem. The immediate need simply speeds the process of change within the context of continuity, and should be used to the advantages of both the United States and Thai governments.

NOTE

This report is divided into two parts. Part I was initially drafted in Washington prior to the USAID Mission Retreat of January 13-15, 1988. It was reviewed in Bangkok, slightly edited, but the earliest revision was distributed at the Retreat to provoke discussion. It has been allowed to stand in its early form to give perspective on the original thinking that went into the recommendations.

Part II was written following the Retreat. It only partly reflects the discussions during the Retreat, and is not intended as an attempt to summarize or reflect accurately the complex of views that were presented at that meeting. Part II modifies and expands the original recommendations in Part I, and considers some alternate views voiced at the meeting. This paper has been edited following the receipt of Mission comments.

The positions in this paper, however, are solely those of the author and do not necessarily reflect those of USAID or AID/Washington.

The Future of Thai-American Economic Cooperation

David I. Steinberg
Consultant

PART I

1. The Need for a Changed Relationship

Thailand, the United States, and indeed the international political and economic order have been transfigured since the introduction of the U.S. economic assistance program in 1950. Through varied peripetitions, that program responded to diverse internal and external stimuli and priorities, assisting Thailand to recognize and meet threats to its survival and prosperity. Although its proximate motivation and content shifted, its structural form [a relatively large field mission] remained remarkably constant.

The continuing relationship between Thailand and the United States is important to both nations, each of which recognize their own and the Asian region's changed circumstances. Both also realize that their individual and collective national interests require a restructuring of the institutional mechanisms for continuing, if different, economic relationships and dialogue if national interests are to be pursued. This essay analyzes the changes in the political-economic environment that prompt such a reconsideration, the national interests that are likely to direct such plans, past accomplishments, future needs, institutional alternatives to meet such needs, and a strategy to achieve both interim and longer term goals.

2. The International Transformation

Thailand and the United States have both initiated and responded to political and economic changes in the post World War II era. Some changes have been external, others internal, to Thailand. They are most obvious in the international sphere, but those internal are no less profound.

The U.S. aid program to Thailand began as a response to the perceived threat of overt aggression from the newly formed People's Republic of China [PRC], and was made more plausible by polarization over the Korean War. It also stemmed from a parallel U.S.-Thai belief in the possible subversion by the PRC of the extensive, wealthy, and economically critical [and as yet essentially unintegrated] Chinese community in Thailand. The program later languished in the early 1960s as Thai financial resources grew, but was soon resuscitated with the intensification of the Vietnam War and the deepening of U.S. involvement in it, a deteriorating situation in Laos, as well as by the growth of internal subversion.

Security interests were the driving force behind the program, funding levels, and internal administrative style. In 1973, a mission director characterized the program as of two types: "security with development aspects," and "development with security aspects." [1]

Today, Thailand has excellent relations with the PRC, partly a product of mutuality of interests in relation to Cambodia [both the Chinese and Thai wish to see Vietnam leave], and the drop in Chinese support to the now, virtually powerless, internal communist insurrection in Thailand. Thailand's Chinese community is more integrated into the mainstream of the national society than in any other state in the region. The former Kuomintang [Chinese Nationalist] troops, which had been an early threat to Thailand's sovereignty in its northern reaches, and were used and supported by the Thai military as a cordon sanitaire against external threats, are no longer militarily active. Although its western frontier is not quiescent, Thailand has withdrawn clandestine support to Burmese rebels, which had been prompted by fears of a leftist revolution in that state, as Burma has turned inward, absorbed in its ethnic tensions and economic stasis. A united Vietnam, the its occupation of Cambodia and influence in Laos, and the resultant influx of refugees has become Thailand's primary security concern. Its eastern front is most vulnerable.

The Thai economy has also been transformed. Thailand is no longer a rice monoculture, nor are its exports simply primary products. Greater international self-sufficiency in grains, and the U.S. role as one of the world's premier rice exporters have helped to change these relationships. Manufactured products now dominate export earnings [\$7.1 billion in 1985]; tourism [2.6 million visitors in 1986, compared to 33,000 in Burma] dilates foreign exchange receipts. Equally profound is the growth of Japan in exports to and investment in Thailand. Two-way trade between Thailand and Japan in 1985 was \$3.2 billion. The region relies on Japanese concessional economic assistance, and in no country in the area [and in no other country in the world on a per capita basis] is it more important: it averaged about \$355 million annually over the past several years. In contrast, U.S. concessional economic assistance to Thailand, which once was paramount, has become statistically insignificant at 2.4 percent [\$24 million in 1986 out of approximately \$1 billion, with an additional \$37.5 million in military assistance; \$21 million in 1987, including about \$16 in development support and \$5 million in economic support funds]. Trade between the United States and Thailand in 1983 was, however, \$2.2 billion. U.S. investment in Thailand is highly significant at over \$4 billion by 1985 [three quarters in petroleum-related industries], although lagging behind Japan.

Thailand has moved to serious regional cooperation, supplanting previous single state patron-client relationships and international security-motivated regionalism [such as SEATO] with forms, such as ASEAN, which have been indigenously spurred in the area and more catholic in approach

Internally, Thailand's changes are equally vast. It has transformed itself from a traditional Southeast Asian state to a modern nation: one where formerly legitimacy and power resided in and emanated from the center and whose periphery was defined not by internal administrative capacity or national loyalties but by colonial-imposed boundaries, to one deeply concerned with its peripheral peoples and their welfare and with the state's capacity to assist in their development. Even the opium [later heroin] trade, expanding within the Golden Triangle, is today a far less significant force on U.S. streets than two decades ago, Pakistan replacing Southeast Asia as a primary source.

A greater sense of national unity has evolved under the monarchy. Although Thailand is by no means ethnically homogenous [and its immediate problem of the Malay-speaking Islamic minority in the south may be expected to grow with heightened Islamic fundamentalism in Malaysia], it fortunately lacks the exacerbated divisions that plague all the other nations in the region. The Thai Communist Party is no longer a threat, rendered powerless because of Thai government development and pacification policies and the diminution of PRC support. Thai institutional, administrative, and intellectual capacity has infinitely expanded. The political system has matured through exceedingly varied vicissitudes, the likelihood of arbitrary military coups diminished, and pluralistic forces--reflected by a more active legislature, the growth of intermediate interest groups, and private businesses--strengthened throughout the society. Nevertheless, the entrenched bureaucratic polity remains the primary force in the Thai body politic.

Sustained economic growth and political maturity has accompanied and accelerated Thai nationalism and self-assurance. Although traditional patron-client relationships continue to play a national as well as a personal role in Thailand, there too economic maturity and international complexity have altered some of these needs.

The United States, having supplied almost \$1 billion to Thailand since 1950 under its economic assistance programs, has closely monitored both the growth of the Thai economy and its increased sophistication. As early as January 1985, in the approved fiscal year 1987 Country Development Strategy Statement, USAID called for a more mature relationship with Thailand, and the need "to work toward a fundamentally redefined relationship in the area of development cooperation..." [2., emphasis in original]. That perception was both prescient, and reflected a movement toward a changed internal USAID program strategy in Thailand.

This departure in program content not only was a recognition of Thailand's continuing economic success and the likelihood of modest U.S. resources for development assistance in Thailand, but also of improved Thai capacity and different needs.

3. Thailand, The Contemporary Economic Context

Two years ago, a minister in the Thai Prime Minister's office vigorously complained that South Korea, starting from the same per capita level as Thailand twenty-five years ago and without Thailand's natural resource base, had outstripped Thailand in GDP by more than twice, and in per capita income by three times. What, he lamented, was Thailand's problem? This understandable frustration masks Thailand's remarkably successful economic performance since that time. [In contrast, Burma's GDP is one-seventh Thailand's, its per capita income one-fourth.]

With over an \$800 per capita income [even if income disparities have increased and distribution remains problematic], and steady growth throughout the period--in contrast to most of its ASEAN partners, Thailand's accomplishments are quiet, prudent, and yet profound. In 1987, Thailand had a 6.6% GNP growth rate, and rates approaching that level are forecast over the next three to five years. Thailand's commodity exports have diversified, its non-traditional exports expanded. Thailand has comfortable foreign exchange reserves [\$3.9 billion in 1987], but they are unlikely to grow to major proportions. The vast majority of the population are still on the land [in contrast to most developed economies] although the overall contribution of agriculture to the economy has dropped, and urban and industrial labor absorption will be problems as even agricultural expansion cannot sustain the rural population in spite of one of the world's most successful family planning programs. Still, Thailand has few of the problems of the magnitudes characterizing most developing societies.

Thailand has a highly trained and sophisticated managerial and intellectual class, well-established institutions to plan and manage the economy and social services, a developed and diversified private sector, and a reputation for both fiscal prudence and economic opportunity; it is thus highly attractive to the foreign private sector. In 1986, Thailand received some \$500 million in foreign investment. Japanese industry is expanding in Thailand, and Taiwan, Hong Kong, and Singapore money is increasingly prevalent. In the 1990s, more Hong Kong industry is likely to relocate to Thailand. These changes not only reflect low Thai wages in comparison to many other states of the East Asia region [although Thai national statistics mask significantly higher Bangkok wage rates], but also an investment climate conducive to growth. Thailand has become an important trading partner of the United States [although the United States is a competitor of Thailand in rice], and cumulative U.S. investment in Thailand is greater than in Korea. These changes are bound to be accelerated by the announcement by President Reagan on January 29, 1988 that the United States will eliminate GSP privileges for imports into the U.S. from Korea, Taiwan, Hong Kong, and Singapore beginning January 2, 1989.

Thailand has brought its current account deficit under control, and limited its inflationary problems. It has less need for traditional concessional assistance [the World Bank recognizes this trend], and indeed has the capacity to attract any level of commercial lending it may require. That is not to maintain, however, that Thailand is without developmental needs or problems.

Environmental degradation has become severe. Agricultural growth has come more through horizontal expansion of arable land than in unit yields, and the boundaries of exploitable land under current technological and financial constraints have been reached. Pollution is widespread. Bangkok is perhaps the world's quintessential primate city, some 55 times larger than Chiangmai, wealthy but with a deteriorating quality of life. Transportation, communications, and institutional bottlenecks will retard the growth of exports. Extensive pockets of poverty, although vastly reduced, exist. Employment absorption issues loom large. Tenancy and illegal squatting have spread to previously unaffected areas, such as the Northeast. Centralizing predilections by government retard local initiative.

The issues facing Thailand today cannot effectively be addressed by past developmental modes of programming and traditional foreign aid administration. The objective changes in Thailand, without regard for changes in donor capacities, require a re-examination of Thai problems within the context of a need for an enhanced Thai-U.S. relationship, one that should be built upon both the national interests of the parties concerned and their needs.

4. United States and Thai National Interests

The national interests of both the United States and Thailand over the longer term are basically remarkably confluent. Although short term trade or textile disputes, rice subsidy issues, intellectual property rights concerns, refugee disagreements, and narcotics problems are small dark clouds, they do not obscure a generally bright, mutually compatible, horizon. These problems may be ameliorated by continuous, effective peer-level dialogue.

To the United States, Thailand is of paramount security interest. As ASEAN's "frontline" state, it is the nation most affected by Vietnamese power, and the only non-Chinese land force balance to it. Linked by the Manila Treaty and the Thanat-Rusk communique [1962], it is the linchpin of the U.S. security network in mainland Southeast Asia. Its airfields and ports offer potential intermediate links between Guam and the Persian Gulf and the Indian Ocean, and could become even more important depending on base-right negotiations in the Philippines. It is an arsenal and stockpile of U.S. strength in the region. [The Memorandum of Understanding on Logistic Support of 1985, and the War Reserves Stockpile Agreement of January 1987] The large number of refugees from Cambodia and Laos are of important humanitarian concern to the United States.

Thailand is a growing market for U.S. goods and services, and with enhanced national income, could become even more important. Its inherent stability [in spite of past military coups that have not changed its underlying economic continuity and opportunities] is attractive to U.S. business. [3] Each additional billion dollars in exports from the United States to other nations provides 25,000 new jobs in the U.S. [4]. Exports from the United States to Thailand in 1986 were about \$1 billion. Thailand provides access to important raw materials, such as rubber and tin.

There have been recent indications of economic liberalization in Laos and Vietnam, and it is possible that some settlement may be reached in Cambodia. Under any liberalization or settlement in Indo-China, should the United States be involved, Thailand must figure prominently.

Thailand is also important to the United States as it is a moderate voice in third-world circles and in international fora. The U.S. is also interested in fostering the regionalism in which Thailand has played such an important role. The U.S. seeks to discourage Thailand as an international source of opium and heroin, or as an avenue for their export from the region.

To Thailand, the U.S. is the essential guarantor of continued Thai independence and security in the face of a militarily powerful [although economically weak] Vietnam. The importance of China to the Thai should not be underestimated, but neither should it be overestimated as the PRC cannot supply Thailand with the sophisticated weaponry [it has supplied tanks and armored personnel carriers] it feels it requires. The U.S. is the patron used to balance international affairs. It is also a political, but not a financial, balance to overly aggressive Japanese economic influence, which has excited strong nationalistic reactions. The U.S. is a major market for Thai products, a source of much of Thailand's needed technology, the site over previous decades of most of the international training of its highly competent administrative, scientific, and intellectual elites, and the model for many Thai institutions.

A continuation of the present institutional economic relationships between the United States and Thailand, even if proposed by the United States executive branch and supported by the Congress at predictable financial levels, is unlikely to supply more than modest incremental capacity to already strong Thai capabilities, although it could assist the Thai in early conceptualization and institutional response to newly articulated or recognized problems, such as those of the environment.

Although such a continuing program might demonstrate U.S. interest in Thailand at a political level, and thus reassure Thailand of the importance of the bilateral relationship to the United States, it is an insufficient response given the depth and importance of the bilateral relationship.

5. The U.S. Economic Assistance Program in Thailand

Through U.S. fiscal year 1983, the United States provided about \$ 1 billion [including centrally funded projects] in economic assistance to Thailand. Until 1985, about \$1.8 billion was supplied in military assistance, most of it in the form of grants. Much of U.S. economic assistance to Thailand had explicit security, as well as economic, objectives.

Begun in response to the Chinese communist takeover in China and the Korean War, the program in that early period provided basic infrastructure to extend effective Thai military and administrative control to its own border regions. It strengthened the center to deliver services to the periphery, and was a necessary stage in both the development of the Thai state and in economic progress.

With the growth of a communist insurgency in Thailand, severe problems in Laos [with northeast Thailand essentially ethnically Lao, and irredentism a possibility], and the increased U.S. commitment to the Vietnam War, a planned phase out of the economic assistance program was reversed. Increased efforts were designed both to deny areas of the northeast and north to the insurgents through extensive development efforts, and to protect U.S. air bases in the former region.

The shift in the Thai program, as a result of the New Directions [1973] efforts to have foreign aid focus on the rural poor, coincided with the pull out of American forces from Vietnam. Because the most pervasive and resilient pocket of poverty in Thailand was the northeast, AID's emphasis continued in the same region; the rationale [not the program area] shifted.

Over the past half-decade, a perceivable alteration in assistance strategy stressed the role of the private sector, decentralized authority, and a diminution of central government control. Over the past three years, with falling levels of support, a further change began to concentrate assistance in areas where the U.S. had a comparative advantage: science and technology, private sector development, rural labor absorption, policy support, and environmental issues.

In over thirty-five years of economic assistance, changing priorities within an overall security-oriented context resulted in shifts of emphases: from public sector to the private sector; from strengthening central administrative mechanisms to supporting decentralization; from educating the elite to speed delivery of services to the poor to increased direct concern with the masses; from large infrastructure to more local, micro-level projects; from urban areas to those more rural; and from concern with administrative continuity to administrative innovation.

The United States program did not operate in an international vacuum, nor was it solely responsible [with the Thai] for recommending change. Privatization in the Thai economy was a conscious Thai decision, the result of a seminal World Bank report of 1959, supported by the United States. Structural problems of rural poverty were also stressed by the Bank. U.S. projects and programs succeeded when the Thai recognized that such efforts were in their national interests, and not solely in those of the donor.

The articulated and approved USAID strategy now calls for a shift in the program to stress the following elements:

- *promotion of the private sector, both corporate and voluntary
- *applied science and technology to maintain competitiveness in world markets
- *decentralization
- *host government managed and administered projects
- *increased Thai-U.S. cooperation
- *grant funding for high risk, innovative projects
- *greater voice by Thailand in the use of funds
- *less need for expatriate long term, technical assistance

Programs have already been instituted, and will be highlighted among an array of other local and centrally funded efforts, that will improve science and technology, especially in relation to the private sector; rural employment in agro-industry; contribute to solving new developmental problems; and alleviating environmental concerns.

Although there have been recent changes in operating style, USAID mission operations have generally and historically been staff intensive, with USAID personnel often have important, but sometimes unadmitted, managerial and advisory roles, and even performing coordinating functions between Thai ministries or departments in the interests of project efficiency. This pattern is generally over, and a more collegial relationship has been established reflecting the enhanced Thai technical and planning capacity.

6. The Present Program in the Thai Developmental Context

The modest size of the present U.S. economic assistance program in Thailand [\$21 million in 1987] is an anomaly. The past security needs of the United States and its present security concerns are not supported at a credible level by a tangible expression of involvement and interest in Thailand's economic or social wellbeing, a condition on which inchoately the effectiveness of the security interests rest.

The diminution of the U.S. official economic role in Thailand has properly resulted in a realization that a little less [or more] of past [even if effective] programs will only marginally contribute to Thailand's development, and will not reassure the Thai of the depth and constancy of U.S. support.

Japan cannot act as guarantor of Thai independence. China's role is somewhat ambiguous but important. In immediate terms, China becomes a countervailing force to Vietnam, but a longer range reliance on the PRC is more uncertain. ASEAN does not have the capacity to protect Thailand. This is the essential role of the United States. Since that security role can only be accomplished within the context of a developing and stable Thai economy, reflecting the stability of Thai society as a whole, it is in the U.S. national interest to contribute within its capacity through a variety of means to this condition.

A diminished level of foreign assistance need not alone determine effectiveness. A program under these circumstances should thus concentrate on activities in which smaller resources could be proportionally more effective, where the United States has clear comparative advantages, where the increased capacity of the Thai at all administrative and intellectual levels is recognized and taken into account, and where the importance of the program in Thai eyes outweighs its relatively modest size.

7. Future U.S.-Thai Relationships and Thai Needs

Any rationally designed future U.S.-Thai economic relationship must take into account international, regional, and internal capacities and evolution in both nations. It should recognize that although import substitution growth strategies have often failed, export-led policies are today more difficult to implement and less likely to be effective to the extent protectionist policies multiply in the U.S. and other trading partners. Regionalism should be recognized as increasingly important.

Any such relationship must realistically deal with the changed role of the United States as a debtor nation with large trade deficits as well as the fiscal stringency in U.S. budgets. Such a strategy should contribute substantially to U.S. national interests in Thailand and the region, be designed to accentuate those fields in which the U.S. could make a significant contribution to Thailand beyond the fiscal level of such programs, be acceptable within the U.S. and Thai bureaucratic and legislative systems, and must be potentially effective, which means responsive to Thailand's future needs, as well as U.S. interests.

What are Thailand's likely needs over the next decade? Thailand must maintain a strong military capacity to protect its diverse peoples scattered along long, nearly indefensible, borders, yet balance the critical role of the military in defense with its less blatant, but still prominent, stance in the political and administrative spheres. As the coup becomes a less viable mechanism to transfer and exercise political power, the military has shifted, and is expected to continue, to play an active role in the existing political process, as well as in development more generally. This

latter role gives legitimation to an extensive military budget in the face of a collapsed internal insurgency. The future of Thailand will in large part depend on the monarchy, and the effective transition to a new head of state. As the monarchy, and its popular reverence, has solidified the state in the past, these are likely to be critical for the future.

Thailand will need more and increasingly sophisticated industry both to absorb the entrants into the labor force, the numbers of whom increase over the next decade in spite of a highly successful family planning program, and to compete on world markets. Business leaders have entered politics [in contrast to Korea] and may be expected to play a major political role. Rural-based industries will be essential if rural incomes are to rise commensurate with increases in national income, and if the the national economy, and not Bangkok alone, is to prosper at comparable rates. Expansion of secondary and higher education will mean a need for positions for a better educated, more technologically oriented, work force. With an already extensive bureaucracy, this group must be employed by the private sector internally, or seek employment abroad.

The increased growth of Bangkok as the primate city will not only strain administrative capacity, but result in economic inefficiencies that could be alleviated in part through development of regional centers. If Thailand is further to develop its exports, its transportation and communications networks must be expanded and modernized. Growing income disparities between those resident in Bangkok and the central plains, and those in the northeast, the south, and the northern and western hill tribes [even though income levels have improved for all groups] must be assuaged. Environmental degradation must be reversed through more effective and productive management of Thailand's extensive natural resources.

Higher technology in all fields will require more sophisticated training at graduate levels, and although Thai institutional capacity will increase, economies of scale will require that much training in specialized fields will have to be done abroad, indeed out of the region. Collaborative programs between U.S. and Thai institutions already exist and are important [for example, the Wharton School, Northwestern, and Chulalongkorn University cooperate in a graduate business education program].

8. Institutional Strategies for New U.S.-Thai Relationships

The past termination of AID country programs [with a few, more recent and notable exceptions, discussed below] has generally been simplistically determined and abrupt. Attention seems to have been paid more to the need to demonstrate to the Congress the efficacy of the past economic assistance programs, and the desire to trim budgets and staffing levels, rather than to look at means to assure desirable future U.S. relations with that country. There has been a ubiquitous

search for "success stories." The short term took precedence over longer-range interests. The term "graduation" itself connotes arrogance, and a teacher-pupil relationship that the enhanced economic status of the recipient nations in that category belies.

As one report on the process stated:

We consider this notion ["graduation"] dangerous and deluding, even though it expresses well enough our impatience to see a job completed. Moreover, declining appropriations, plus statutory limitations imposed on AID regarding the total number of countries eligible for major categories of assistance, have placed AID under great pressures. There is a consequent urgency to "discharge" countries completely, like patients from an overcrowded hospital, as soon as they appear to become "ambulatory." To pursue the metaphor further, "graduation" does not signify the end of the learning process, nor "discharge" an assurance that the patient no longer needs special care.[5]

Parenthetically, closure of AID programs are sometimes determined or justified by aggregate per capita income levels that have little necessary relationships to income distribution, capacity, structural problems of poverty, or the usefulness of post-AID relationships with the United States to either nation. Middle income countries in which the U.S. has important, non-economic interests, are then sometimes assisted through security-related support, which, however, can skew programs and ignore some developmental needs.

Internal U.S. government discussions have only recently attempted to take into account the types of enduring economic and non-economic [exclusive of diplomatic and security] relationships that the United States wished to maintain with any country. The reasons are clear: urgency to sever the AID tie for immediate fiscal reasons, plus bureaucratic complexity [without concomitant bureaucratic rewards at that level] to determine how relationships might be maintained. The past two decades are replete with missed opportunities.

In some countries where AID has either phased out and in again, or considered phasing out and then dropped such plans [Turkey, Brazil, Morocco, and Tunisia come to mind--Thailand was considered for phase out at least twice, approximately 1960 and 1975], program momentum is diminished, planning disrupted, institutional memory lost, and host country organizations left with severed ties. These difficulties might have been obviated by consideration of new institutional relationships between the U.S. and such countries before the termination of assistance.

USAID Thailand is to be commended for its efforts, beginning with the FY1987 CDSS, to seek a solution to this dilemma and to consider innovative approaches to institutional and programmatic changes. Its consideration of various alternatives, of which this essay is a part, may be of assistance to formulating a number of other new national

relationships with the United States. It is important, however, not to seek administratively easy but simplistic general models to the middle income transitional syndrome. This paper is not a guide for the middle-income perplexed; each country should be considered sui generis.

In this instance, nine alternative institutional arrangements through which the United States could continue [one under which it would close] its economic relationships with Thailand, and by implication with other nations, in a post-AID period are listed below, and then individually examined. These seem to be the most likely choices in the Thai context. All alternatives are not mutually exclusive; several could be combined with one or more of the others. All are in some sense bureaucratically feasible. The advantages and disadvantages of each are separately considered, as is the programmatic content of the recommended approach.

Logically, "form follows function;" it would be desirable first to consider the nature of the programmatic relationship between the United States and Thailand and its content before considering the institutional means to implement such a relationship, since the administrative mechanism should be adapted to its programmatic purposes. Yet because this report must at this stage in planning recommend an administrative process to arrive at the product [i.e., the program], rather than the product itself, it is important that the relative merits of each administrative approach be considered at this juncture. Further, programs under an enhanced peer relationship should be mutually planned, not unilaterally determined. In addition, the relationship between the United States and Thailand is not solely based on its program, but on broader political and security perceptions that give the administrative choices more importance, and make its timing more critical.

All the alternatives are based on the following set of hypotheses: the Thailand program will be under strong pressures for reduction and/or phase out because of its relatively high national per capita income level and the pressure to support other countries perceived [perhaps erroneously] as of higher immediate political, economic, or security interest; that the budget for the Thai program over the next five years will not significantly increase, at best be maintained, but more likely substantially reduced; that there will be Congressional and perhaps some administrative support for complete phase out, in part to demonstrate bureaucratic success, in part for internal U.S. economic reasons; and that unless plans are made soon for considering the alternatives, their implementation, funding options, and related administrative considerations, actions will be taken in disregard of other, non-economic consequences to the possible detriment of United States interests in Thailand, both public and private. It is also assumed that the Congress would look with favor on a relatively inexpensive, innovative method for furthering the U.S. interests in Thailand.

It is the belief of the author, however, that the changes in the objective factors in Thailand, the region, and in the relationship between the United States and Thailand should prompt such reconsideration exclusive of the availability of present or planned funding levels because of Thailand's increased fiscal, intellectual, and administrative capacity; greater nationalism; and the need to be accepted at a peer level. USAID Thailand had recognized and articulated the need for such changes based on these and other factors. This paper does not discuss continuation of the present administrative relationships as a sole approach, but rather discusses some of the options open to the United States.

These alternatives are:

1. Terminate assistance; "graduate" in traditional manner.
2. Continue bilateral program with diminished or no mission support [check writing for general or sector support, etc. either at a major level--Israel--or at a very modest level].
3. Continue bilateral programs through centrally funded projects without a local mission [Mexico, Columbia, etc.].
4. Program through a regional AID office.
5. Establish a new U.S. government entity to manage programs.
6. Program exclusively through existing U.S. private and voluntary organizations.
7. Program exclusively through multilateral agencies.
8. Establish a non-governmental [or quasi-governmental] organization to manage programs.
9. Establish a Thai government or private organization to manage programs.
10. Establish a binational U.S.-Thai organization to manage programs.

1. Terminate assistance.

This is the least desirable of the ten listed alternatives, for it makes contributions neither to the Thai nor to the U.S. interests and needs, except immediate and short term U.S. budgetary considerations. It could cogently be argued that it in fact undercuts the U.S. position, for it would likely be considered to forecast the loosening of security relationships. It would diminish the U.S. presence, and substitute nothing for its loss. Although such an action would no doubt be explained publically as motivated by the excellent overall Thai economic record, the message would be clear to the Royal Thai government, whether it was of Congressional or executive branch origin. This action could in addition undermine ASEAN relations with the United States by signaling similar possible actions, perhaps in Indonesia.

2. Continue the bilateral program with a radically diminished, or in the absence of, a resident mission.

The quintessential AID program of this sort is with Israel. In Israel, this is essentially a check-writing operation, without programmatic content [although this operation earlier created various binational endowments].

An alternative model, within this general rubric but somewhat different conceptually, is represented by Brazil, Columbia, and Mexico in the post-mission period. The former allows for large cash or commodity transfers, the latter for a small program, limited by available staff [one person located in the Embassy] and time. The latter option has typically also drawn to a substantial degree on centrally-funded projects, thus overlapping with Alternative 3 below. The advantage of this alternative is that a program or small presence [and visibility, however marginal] is continued, and thus is an improvement over Alternative 1 above. In the Thai context, however, the magnitude of any projected funds would not offset the image of phase down or out, and thus would diminish the U.S. role and its perceived commitment. This is, of course, bureaucratically the easiest of alternatives [except complete phase out].

3. Continue a bilateral program through centrally funded projects without a mission.

Thailand, because it offers a wide array of effective institutions with which and talented staff with whom to collaborate, is an attractive site for centrally funded projects. The full range of these projects and the funding they involve are difficult to calculate, but they total almost \$10 million, for they included centrally funded PVO activities, human rights projects, private sector, BIFAD, health, and science and technology programs, among others. Thus this alternative is somewhat overlapping with Alternative 6 below. In addition to a diminution of the U.S. position, the major disadvantage of this plan would be to place the program planning and monitoring essentially in the hands of U.S. academic institutions and individuals, as AID Washington normally does not have the staff to monitor the array of such projects and organizations operating overseas. In the past, such programs tend to be responsive largely to the needs of participating American organizations and their representatives. Such an approach might reflect U.S. program priorities rather accurately, but there is every likelihood that it would not be as responsive to Thai needs or indeed opportunities. Although such activities might be inherently useful, and no doubt should continue whatever alternative might be chosen, their contribution to the U.S. interests in Thailand [as separate from the U.S. interests in foreign areas more broadly] would be limited. For these reasons, this is not a preferable single approach. Locating an AID official in the Embassy to coordinate such activities, as was done in the Latin

American examples mentioned above, could help ensure compatibility with host country interests--especially if this official had some independent resources. Effectiveness will be limited, however, to the size of these resources [usually very modest in the case of the Latin American countries], and the administrative time of one person.

4. Program through a regional AID office.

This approach is a modified aspect of several present and past AID offices. These include REDSO East and West, the South Pacific office, and the former Regional Economic Development Office [RED] in Bangkok. The REDSO concept is supportive of local AID missions, but REDSO/E has operated non-resident Seychelles and Mauritius programs. There is no intellectual reason why some national level programming might be done out of such an Asia regional office, as is presently the case in the South Pacific, although it would be deprived of on-site staff analytical capacity and support. There has been interest in some foreign diplomatic circles in establishing an ASEAN organizational link or office, separate from present AID operations, that would handle regional projects. This is a similar concept to the former RED office, which supported a variety of regional institutions [although not ASEAN], and was disbanded for essentially ad hominem reasons. If Thailand were the only national program included [i.e., excluded from having a national program], it could be perceived as constituting a national slight. A regional office might be helpful in fostering regionalism, and perhaps should be pursued separately, but its very strength--a regional approach--would undercut its responsiveness to Thai needs. Further, it would not be sufficiently dramatic evidence of U.S. commitment to Thailand itself. This is not the most desirable solution to the U.S. dilemma.

5. Establish a new U.S. government entity to manage programs.

Presumably formed under separate legislation or authorization, a new organization would have three distinct advantages over all previously discussed official efforts:

[a] it would likely be more responsive to U.S. national interests;

[b] although governmental, it might be able to shed some of the more onerous AID-type regulations and restrictions, thus leading to more flexibility in staffing and programs;

[c] it would be tangible evidence to the Thai community that the U.S. was serious about its overall commitment to and relationship with Thailand.

Its defects include, most prominently, the one-sided nature of the effort when one of the rationales for a new approach would be the maturity of the Thai economy and the competence of Thai staff. In addition, such an organization would probably still be hampered by the strictures of U.S. regulations and requirements, and be required to program through existing Thai government mechanisms. It might also be regarded in the Congress as the forerunner of a number of nationally specific official organizations, and thus treated with a certain skepticism. Of the four previous alternatives, this is still the most desirable.

A corollary approach would be to attach a program to an already existing government special purpose entity. If a focus were to be solely on research or on science and technology, a special effort with the National Science Foundation or the National Academy of Sciences might be an appropriate response. Such an approach would gain in professional focus, but lose in flexibility. [Below we consider doing the same thing with an existing Thai national organization.]

6. Program exclusively through existing U.S. private and voluntary organizations.

Although much good work could be accomplished through this alternative, assuming additional set-aside funds for their new programs, this effort would not necessarily be more responsive to Thai needs [even though in general private organizations are more sensitive toward local considerations because they tend to be located close to their ultimate clients as well as relatively flexible in procedures--both related to their relatively small size and their staff and the "intimacy" or personal nature of their grant processes and monitoring]. Major support the U.S. PVOs would probably skew the latter's programs, and would tie the efficacy of the official U.S. effort to the adequacy or failures of PVO leadership. It would also present an image of the PVO as more of a U.S. government entity than might be desirable. PVOs, however, would be divorced from direct U.S. government influence over programs. This would not be a visible indicator of the U.S. commitment. This alternative would likely receive Congressional support. Organizations such as The Asia Foundation, Care, Community Development Foundation, or a number of others might be included or considered. If such a PVO program were specifically dedicated to providing assistance to Thai private and voluntary organizations, it could perform a useful purpose, even though the overhead charges by the American or international PVOs would be substantial. No doubt under any plan adopted, some U.S. economic assistance will be provided to U.S. PVOs for Thailand activities from central funds. This alternative thus would only marginally improve in volume what they might, in any case, do.

7. Program exclusively through multilateral agencies.

This approach might involve the earmarking of additional funds provided to the World Bank, the Asian Development Bank, FAO, UNICEF, or the UNDP for enhanced projects in Thailand. It would have the advantage of supporting projects that might be in line with U.S. interests [assuming that such funds could be earmarked not only by country but by sector or project], but it would be essentially invisible except to the cognoscenti, and would suffer from another organizational milieu, perhaps even more bureaucratic than AID, with its own set of internal, non-Thai, priorities. At the present time, World Bank activities in Thailand are small, for the need for its assistance, and thus its role, is being reassessed. In addition, it might be more difficult to get Congress to approve of this approach than some of the other ones. This does not seem to be a feasible alternative.

8. Establish a non-governmental [or quasi-governmental] U.S. organization.

This essentially is similar to Alternative 5 above, except that the strictures of U.S. government regulations would be eased. There is much to be said for this approach, and there are ample precedents both by sectors and areas. The Asia Foundation, the Pan-American Foundation, the African Development Foundation, and Appropriate Technology International immediately come to mind, although there are many more examples. The most innovative of these organizational structures is the Japan-U.S. Friendship Commission, the funding for which will be discussed below. Of all the alternatives suggested thus far, this is the most desirable in meeting U.S. interests, in providing programmatic flexibility, and in demonstrating a visible U.S. commitment. The limitations of this approach are twofold: first, there would be no necessary Thai component to the planning, as there is no Japanese in the Friendship Commission. Although this could be overcome by establishing a Thai program advisory group of some sort [the Japanese group does not have one], it would not be as desirable as other approaches. Second, such an organization, if located in the United States [as is the Japan-U.S. Friendship Commission and for cost reasons alone there would be a tendency to locate such a group in the U.S.], is physically divorced from the local scene, with the potential for increased alienation from local needs. In addition, these organizations would be under strong pressures to program within the United States, rather than in Thailand. In many cases this might be appropriate, such as in the provision of scholarships or fellowships in certain fields or with various institutions. It would be more effective if such an organization operated from Thailand, but this might be difficult for a group that was essentially American, since there would be reporting and other requirements necessitating a U.S. presence. This approach, however, is feasible and should not be immediately dismissed.

9. Establish a Thai government or private organization to manage programs.

This is the counterpart to Alternative 8. It has several distinct advantages, and some additional problems. It presumably would be based in Thailand, and more responsive to Thai concerns. It would be an indication of a peer Thai-U.S. relationship, helpful in a rising nationalistic period. It could, however, be subjected to intense Thai political or social pressures [without an escape valve of U.S. involvement], and it could not be expected to contribute to the U.S. national interests except as they might conform to Thai requirements. It is also less likely that the Congress would approve of an approach such as this that would release the organization from minimal U.S. regulations. Safeguards could be built into such funding mechanisms, but they would be palliatives. Although this approach is desirable in many ways, it is inferior overall to the final, and recommended alternative.

10. Establish a binational U.S. Thai organization to manage programs.

This is the most desirable of all alternatives, although not without some [relatively minor] drawbacks. There are many precedents for this type of activity. Most common are the binational Fulbright Commissions around the world. Of more immediate relevance to AID are the Luso-American Foundation [running the U.S. assistance program in Portugal], the U.S.-Spain Joint Committee [administering programs in science and technology and cultural exchanges through USIA supervision], the Oman-American Joint Commission and the Omani-American Joint Commission for Technical and Economic Cooperation, the Sino-American Fund for Economic and Social Development [in Taiwan], the plan that had been proposed for phase out in Korea in 1969 [but ignored when new funds ended in 1975], and no doubt a variety of other institutions in various parts of the world.

If membership were properly designed, it would be reflective of the peer relationship that the U.S. hopes to foster with Thailand, it would be responsive to both U.S. and Thai needs, and be highly visible in Thai circles without being a natural target for nationalistic sentiment. Located in Thailand, probably with a support office in the U.S., it would be better equipped to manage programs there, but could contract for services in the United States as might be appropriate and necessary [e.g., the placement of Thai students in training programs]. An organization of this sort would more likely attract Thai funding for some activities or local administrative costs. Incorporated both in Thailand and in the United States, and in the U.S. designated by the IRS as a 501 (c) (3) [non-profit] organization, it could raise funds for special activities in both locations.

Binational boards exist in Thailand. In addition to the Fulbright Board, the Eisenhower Fellowship Board and the Kennedy Foundation have Thai-U.S. joint boards. Such a board for a new group should contain representatives of the Thai Government and the U.S. Embassy and USAID [for an interim period], the Thai and U.S. business communities resident in Thailand, and the Thai and U.S. academic groups.

Thailand's developmental status and competence call for such an organizational relationship, and it is the recommended choice. It is also the alternative that has been suggested by USAID Thailand.

It has been suggested that another option for a post-AID relationship would be the provision of funds to an organization in-country that AID had previously helped to create. Examples [from another country] include the Korean Institute for Science and Technology--now renamed], the Korean Development Institute, etc. This approach has not been pursued here for a specific reason. The hallmark of development is change and unanticipated consequences and needs. To tie future assistance or relationships to an organization established with a targeted objective would be unsound. It is better to pursue the goal of flexibility than to be harnessed into the rigidity of a predetermined approach.

Such a binational organization by its nature could perform certain functions quite well, but would be limited in others. For example, that type of organization would have difficulty in dealing with infrastructure projects [which in any case it probably would not have funds to program]. It probably could not itself propose and manage a complex management-intensive environmental sector project, such as the one currently under preparation. As a type of "foundation" [giving grants to other organizations to manage] as opposed to a USAID Mission [managing or monitoring directly], it would have to contract out such complex project design issues

Another role for such an organization is to provide a discrete forum for discussion of U.S.-Thai disputes, which have become increasingly acerbic in the past several years as Thailand and the U.S. became economic competitors in certain fields [itself an aspect of the new peer relationship]. These disputes are sometimes perceived in the eyes of the public as a remnant of the old patron-client relationship, with the U.S. acting as an inappropriate "angry elder brother" admonishing the younger. A continuing knowledgeable forum for quiet airing of disputes and their amelioration is needed. A binational organizational auspices for holding such meetings would greatly assist in the process of reducing the tensions that will no doubt continue.

9. Organizational Funding

It is ironic that although core funding for the Thai program is one of the precipitating causes for considering organizational change, a wide variety of imaginative precedents and recommendations are available to solve this dilemma. Funding mechanisms will be considered here; levels of support follow below, as they are a necessary, logical extension of programmatic content.

If the level of AID funding is a core problem, there are five alternative, non-AID methods to solve the dilemma of support to a new institution. These are: [a] appropriated, but non-AID funds; [b] public funding, but through reflows; [c] private U.S. funding; [d] Thai funding, either public or private; and [e] a U.S. public one-time endowment from appropriated or authorized funds.

[a] Appropriated, non-AID funding.

Special interests have sometimes lobbied in the Congress for support for institutions that were involved in developmental activities, and thus had a certain amount of intellectual overlap with AID. The Asia Foundation, the East-West Center, the Pan American Foundation, and the African Development Foundation are examples of Congressionally appropriated funds provided to private, or quasi-governmental groups. It is unlikely, however, that this approach would be approved on an individual country basis without very special circumstances, because of the precedent it would be perceived to set. This is not an impossibility, and it would be far more feasible if the Thai government were to agree to provide, for example, half of the costs of such an organization. This method should not be overlooked, but it seems a less likely possibility than alternative [b].

[b] Public funding- reflows.

The precedent for this type of programmatic funding for development work goes back to the early days of this century, and the Boxer Indemnity Fund paid to the United States by a defeated Ch'ing Dynasty China in the 1900 Boxer rebellion. These funds were used to provide scholarships for Chinese students in the United States, and is the first example known to the author of public funding for development through foreign payments. The contemporary use of loan repayments for program activities is widespread; for example, PL-480, Title III are funds returned to the host government for additional activities. Massive local currency funds were returned to India perhaps two decades ago in a widely publicized move. The most relevant example is the Japan-U.S. Friendship Commission, which is supported by Japanese loan repayments authorized [but not appropriated] by the Congress. It is important to note here that the Portugal model discussed above is not appropriate under this category. The funds for the endowment for the Luso-American Foundation are technically not U.S.

monies; they are under the control of the Portugese government even though they originated from the United States, thus giving the Portugese a greater say in their use in spite of the binational nature of the Foundation.

Thailand has outstanding public loans totalling about \$98 million [including PL-480 Title I loans of about \$30 million] that must be repaid to the United States. This is not inclusive of \$337 million in loans under the military assistance program. Now, the average annual repayment to the U.S. Treasury is about \$2-3 million, although the interest and principla may rise to as high as \$9 million by 1991. The Congress could authorize a percentage of these funds [or MAP repayments] to be used by this new organization to engage in programs consistant with the charter of that group, although at present levels additional annually raised funds--either public or private--would be required for a credible program level. If such funds were authorized for two year periods, with guaranteed support for six or eight years, a new entity could then program with continuity and assurance. [Endowment is considered separately]

Such an approach [one officially sanctioned by the U.S. government], might be able to draw Thai government support in Baht to provide some of the local administrative costs, perhaps even program funds, of such an organization in Thailand.

[c] Private U.S. funding.

Private U.S. funding of a binational organization would be exceedingly difficult to maintain if it were the sole source of revenue. Private programming groups are required to spend a very high percentage of staff time in raising funds, rather than in programming itself, thus undercutting their original purposes. Private endowment would require so much initial capital as to make the likelihood of success moot. Although some foundations have occasionally provided endowment to Asian organizations [The Ford Foundation recently granted \$1 million to the Institute for Southeast Asian Studies in Singapore], such giving is rare and relatively small. Corporate and foundation fund raising for specific program endeavors, however, are both appropriate and feasible if the core administrative and program budgets are already in hand [and assuming that the organization is registered in the U.S. as one that is tax-exempt]. To predicate organizational success solely on private sources of support is unwise.

[d] Thai public or private funding.

Thai economic progress has resulted in Thai corporate support for a variety of developmental, non-profit work [for Thai business management training, for example], and more will be likely. There seems little doubt that a deftly designed program by a bilateral organization could attract some Thai private support, but it

would be unlikely that it would be sufficient to finance a significant, catholic program. It seems equally unlikely that Thai public resources would be approved to finance completely a binational endeavor. [Even Thai institutions such as the Thailand Development Research Institute relies almost entirely on foreign funding]. Although any binational effort [such as the Fulbright Commission or the binational center, which teaches English] should have Thai financial support, it would not be fiscally prudent to be solely dependent on such sources. Furthermore, lack of U.S. funding would minimize the U.S. program role, visibility, and balance.

[e] U.S. public, one-time endowment grant.

To endow a binational organization, the Congress might either appropriate or authorize [usually] a single payment to be the endowment of such an organization. This might come from the AID budget, a separate line item in another budget, or from dollar repayments of Thai loans. In many ways this is the most attractive approach, as it would establish the independence of the organization. There is precedent for such activity, such as Congressional allocation of \$100 million provided to the Luso-American Foundation in Portugal [even though the funds were technically Portugese by the time they reached the foundation], and \$5 million for the Mansfield Center for Pacific Affairs, but an intense effort would have to be made to achieve the magnitude of funds sufficient for such a program. Endowment of approximately \$50 million, as a simple example, would be required for a program and administrative budget of \$3-4 million, which would cover only a modest program [see below]. Of course, no single approach is necessarily desirable; a combination is possible with one normally dominating.

10. Program Content

The structure of an organization and its funding sources and levels logically should follow from its program goals and content.

The goals of a binational organization could be to:

- [1] contribute to Thai development needs in the future;
- [2] publically indicate the commitment of the U.S. to such development and to the future wellbeing of the Thai population;
- [3] encourage broad Thai-U.S. cooperation.

Goals should be kept general, programmatic content flexible. Programs could be focused within such broad goals, and redefined as necessary. Changing narrowly defined goals may involve resubmission of these goals to the IRS to ensure tax-exempt status continues.

One of the important considerations of any such effort would be the enduring links established with the United States. Thus professional and technical exchanges, training, international institutional links, joint research or projects, conferences, seminars, and joint pilot projects all would be appropriate activities. Major construction or procurement activities would probably be both inappropriate programmatically, difficult to administer, and would quickly exhaust the modest resources available.

Private sector growth in Thailand, and U.S. private sector activities related to Thailand will be critical for the mutual benefit of both nations. This should be an important programming area. It is evident that science and technology will play an important role in Thai growth, and it is a field in which the U.S. can make major contributions. The United States has been a major avenue for training, and overall it is one area in which the U.S. excels, and should be an important element of a programming strategy.

Economic development and mutually beneficial relations between nations are not products of economics alone. There is an urgent need for the United States to understand more about Thailand. The present efforts of the Fulbright Commission are important, and the new [1987] grants of the Luce Foundation of \$8 million over five years for Southeast Asian studies in the United States [in which Thailand will figure prominently] offer promise, but neither are sufficient. Perhaps U.S. intellectual links with Thailand may be critical for the future, and some new program, focussed in Thailand, could supplement the growth of Thai studies in the U.S.

A new binational organization should be able to respond to articulated Thai needs to ameliorate aspects of poverty in parts of Thailand [although large infrastructure projects would be precluded by the nature of the organization and its funding], as well as broader social and economic concerns. Policy analyses and studies, training, and interchange might all be appropriate activities.

The prime consideration should be the mutuality of benefits, and the identification of the United States with Thai progress--both growth and equity in Thai society.

The author believes that a detailed program prescription is not appropriate in this document, nor at this stage in considering instrumental options. It is especially inappropriate without Thai consultations. What is more important is the definition of the process by which mutually compatible programs can be identified to solve significant problems that Thailand will face and that are important to the Thai-U.S. relationship. This process is described in general terms below.

To be perceived as a credible U.S. commitment to Thailand, any new institutional mechanism should have a minimum programming level of \$5 million, with perhaps a preferable annual program budget of \$10 million. These are admittedly arbitrary figures, but they are consistent with likely opportunities and needs in Thailand, and with the importance of the relationship to both nations.

11. Implementation Issues

[See Part II for further discussion]

For such a new institutional arrangement, a two-track system of preparation may be desirable. The first is a plan to deal with the longer range planning and development aspects of a program and the formation of a consensus supportive of such an institution in both the U.S. and Thai communities. The second is a more immediate plan to handle a transitional period until a new, more permanent institution is in place. Both require intimate consultations with the Thai and with a variety of U.S. government and private institutions. These efforts should probably be conducted in parallel, with a core group working in both efforts, drawing upon others as is appropriate.

No effort of this sort can be considered private or privileged; the public in Thailand [where the issue is likely to be highly newsworthy] will become aware of this approach soon [it is already recommended in unclassified publications]; in the United States the appropriate Congressional committees should be apprised of State and AID views. By raising the issue in the approved, unclassified CDSS in 1985, a signal has already been given, even if the press has not yet picked it up. Although no public effort need be made to announce the program until it is firmly determined that a new organization [and the type of organization] will be formed, it is imperative that officials in both governments agree in principle before the possibility of leaks or publicity occur.

An implementation procedure, which should be carried out by a specially designated, fulltime, relatively senior AID staff member, might be as follows:

1. A small State/AID group and a comparable Thai team should reach tentative agreement on the nature of the organization to be proposed. The required political and funding bases in both countries should be sounded out, and the goals and advantages of the organizational structure chosen explained.

2. A inter-agency U.S. government meeting should be held to ascertain the full range of issues that affect U.S. relations. Representatives of Defense, Treasury, Commerce, USIA, Agriculture, science and other related organizations should participate, not to reach consensus but to articulate future needs and desired relationships.

3. This could be followed by a State/AID meeting with perhaps half a dozen to ten of the intellectually broadest U.S. scholars on Thailand and Southeast Asia together with four or five of the knowledgeable representatives of foundations or public policy groups [not for possible funding purposes, but to get their views on programming modes and problems], as well as some members of the corporate world who think broadly about overseas needs and interests beyond the parochial concerns of their companies. This group should be asked to address both the likely problems Thailand will face over the next decade, as well as the types of institutional relationships that are necessary to assist Thailand and to further understanding of Thailand in the U.S.

4. A similar meeting, chaired by AID, should be held in Thailand with a similar group, including TDRI and other organizations.

5. Based on these discussions, an advisory committee of twelve or so Thais and Americans in equal numbers should be formed to consult on specific program planning for the initial period. This should clearly be a temporary group that would dissolve at some set date, so that the new organization could establish procedures for a more continuous advisory group later. The advantage of forming some preliminary group is that they would not have, or think they might have, any continuous vested interest in the outcome of the discussions, and thus might be more objective.

6. While this process is proceeding [and it need not take more than a few months if it becomes necessary to hasten the planning], a small group, including a few representatives of State and AID, would plan for the interim period. This would include intensive consultations with the Congress on funding mechanisms and accountability, so that bipartisan support is forthcoming.

7. Thais and Americans would then prepare the articles of incorporation, the by-laws, and the list of the founding members of a Board of Trustees or Directors for the organization, chosen by both governments. After registration as a non-profit organization for internal revenue purposes [so that donations to it are tax exempt] in the U.S. under provisions of article 501 (c) (3), and any requirements in Thailand, it could then receive tax exempt donations.

8. During that period, program planning would take place, fields of priority chosen, and public documentation prepared. Funding would have been solicited from the Thai government for some of the costs. In addition, the Board would chose a President or Executive Director [an American], and perhaps a Thai Vice President, an administrative budget worked out for the initial period, and office space chosen in Bangkok. Some appropriate organization in Washington [perhaps the International Institute of Education, the National Academy of Sciences, or some other group, or a small office of the new organization] might be contracted to act as support staff for both placing of grantees and liaison with and reporting to the Congress.

In the meantime, a strategy would be thought through, with AID playing the lead role, to convince the Congress that this was both feasible and desirable. These arguments might include: the cost-savings benefits of the new approach, the nurturing of U.S. national interests in the area, the broad appeal of such a strategy to both U.S. corporate interests and universities, the appeal to Thai sentiments and needs, and the fact that this approach would be a vast improvement on previous "graduation" efforts that did not take into consideration the breadth of U.S. interests.

Any new organizational approach is bound to excite bureaucratic sensitivities in both the U.S. and Thailand. It might be possible for an interim period to transfer part of the existing AID portfolio, perhaps "Emerging Problems of Development III," to a new organization.

12. Conclusions

The need for a changed programmatic relationship between Thailand and the United States is apparent. It is fortuitous that fiscal stringency combines with programmatic needs. Rather than becoming a problem for both the United States and Thailand, this juncture should be looked upon as an opportunity--positive and potentially fruitful--that only requires sensitivity in the design, funding, and management of a new, enhanced institutional arrangement between the two nations. AID should take the leadership role in these new relationships, for if it is to receive credit for its contribution to Thailand's economic success, thus working itself out of a job as donor organizations try to do, then equally it should be in the position to take credit for the imaginative design of a new institution that meets the new needs of both nations.

PART II

The USAID Mission retreat was both a product of the Agency's search for an "Advanced Developing Country" or "Middle Income Country" strategy, and the ANE Bureau's role in that process, as well as the need to rethink the function of official U.S. assistance to Thailand. With vastly differing conditions worldwide and rather gross statistical indicators based on imprecise and sometime spurious data, it is questionable whether any single worldwide definition of operational consequence can be forthcoming. A universal definition that could usefully encompass Thailand, Tunisia, and Turkey and provide guidelines for action in the ANE Bureau, as well as for the Agency as a whole, is also difficult. Assuming any strategy is possible, it is still necessary to consider that many different possible instruments may be needed to implement a strategy, of which the Thai binational organization is one.

After considerable discussion, there seemed to be a concensus at that meeting that the needs of Thailand, and U.S. interests there, were so varied that there was a requirement for both a new expression of U.S. concern together with a continuation of USAID. The proposed future co-location of USAID within the Embassy for security reasons, if it occurs, symbolically demonstrates the need for some instrument outside the Embassy walls more accessible to the Thai.

There is every likelihood that anti-narcotic activities, "affected Thai village" programs, along with Cambodian and Lao border refugee activities will continue. All will require close Embassy coordination and would be inappropriate for a binational group. Also inappropriate for such a group would be the management of regional support activities [legal, contracting, procurement, etc.], the AID support for ASEAN, and any base that might be required for a new effort to assist in the rehabilitation of all or part of Indo-China.

In addition, the already approved USAID portfolio will require the presence of a mission for at least half a decade simply to adequately fund and monitor the "mortgage" of ongoing activities. Thus, it became evident that there was a requirement for a "parallel" track: a new binational organization and the continuation of USAID.

To provide balance, it was suggested that the organization could be governed by a joint Board of Governors [or Trustees or Directors], appointed by the Prime Minister in the case of the TRhai and the U.S. Ambassador for the Americans, with a Thai [perhaps the Foreign Minister] as Chairman. The American Ambassador would sit ex-officio on the Board of perhaps eight members, as would the American Executive Director. The modest staff would reflect its binational character.

It was agreed that funding would be sought by suggesting the Thai repay early the approximately \$98 in U.S. public loans in dollars, after which the U.S. would return this sum to the new organization, which would hold a considerable portion of its assets in Thailand and in Thai instruments. This might be attractive to the Thai, for it would [1] lower their debt burden; [2] have strong political impact; [3] draw down their surplus, which is of some concern to them; and [4] the proceeds would be used for the Thai benefit.

This might also be attractive to the U.S. as [1] this would represent only an immediate loss to the U.S. Treasury of \$2-3 million a year immediately in return for powerful political advantages; [2] this would nct be debt forgiveness, but early repayment in dollars; and [3] it would be a statemanlike gestures.

Of course, the costs to each nation in this approach should not be neglected, but the political advantages would, the author believes, outweigh the relatively modest costs to each government.

The participants recognized that there were inherent dangers in this approach.

Primary is the fear that although the rationale for a new institution would include the continuation of the USIAD, financial pressures might thereby be accelerated to close out USAID. It must therefore be stressed that the roles of the two groups are quite distinct.

The alternative danger is that by doing nothing, one might lose both, and end with an inappropriate "graduation." To this writer, the latter fear is greater than the former, for the Mission mortgage, anti-narcotics, and continuing border tensions demand a continuation of the Mission for at least five years.

Some expressed concern that a binational commission could not materially assist the U.S. private sector in strengthening its role in Thailand. It could indirectly, however, support the improvement of the overall business climate, regulations, training, and access and dialogue and identification of the opportunities for U.S. business, perhaps as much [although somewhat differently] than USAID.

The Mission indicated interest in having some professional financial analyses conducted on the various costs of financing this new binational concept under different scenarios, and this report recommends that these be done.

This report also recommends that the ANE Bureau take an unequivocal stand on the desirability of the "parallel" approach to Thailand: the binational institution and the continued USAID presence.

Although thus may not be a universal model for the advanced developing countries, it seems a sensible solution to Thailand's situation and the U.S. needs in Thailand. Although there are many precedents for the binational concept, implementation of this plan at this time would be innovative and highly welcomed in knowledgeable circles, both in Thailand and the United States.

Footnotes

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