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

PROJECT PAPER

THAILAND

PRIVATE SECTOR IN DEVELOPMENT

493-0329

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ABBREVIATIONS

AA/PRE	Assistant Administrator/Private Enterprise Bureau (AID)
ADB	Asian Development Bank
AID	U.S. Agency for International Development
ASEAN CCI	Association of Southeast Asian Nations - Chamber of Commerce and Industry
ATI	Association of Thai Industries
BOI	Board of Investment (Thai)
BOT	Board of Trade (Thai)
CP's	Conditions Precedent
DTEC	Department of Technical and Economic Cooperation (Thai)
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Development Product
H.C.	Host Country
IBRD	World Bank
IESC	International Executive Service Corps (U.S.)
IFCT	Industrial Finance Corporation of Thailand
IMF	International Monetary Fund
JSC	Joint Standing Committee for Commerce, Industry and Banking
LC	Local Currency
LDC's	Less Developed Countries
NERAD	Northeast Rainfed Agriculture Development (Project)
NESDB	National Economic and Social Development Board (Thai)
OJT	On-the-Job Training
OPIC	Overseas Private Investment Corporation (U.S.)
PID	Project Identification Document
PP	Project Paper
PRE	Private Enterprise Bureau (AID)
PSC	Personal Services Contract
RTG	Royal Thai Government
SAL	Structural Adjustment Loan (IBRD)
SDR	Special Drawing Rights (IMF)
TBA	Thai Banking Association
TDP	Trade and Development Program (U.S.)
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID/T	U.S. Agency for International Development, Thailand

Currency Equivalent: \$US1 = Baht 23

PROJECT AUTHORIZATION

THAILAND

Private Sector in Development
Project No. 493-0329

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended (the FAA), I hereby authorize the Private Sector in Development Project (the "Project") for Thailand (the "Cooperating Country") involving planned obligations of not to exceed Four Million United States Dollars (\$4,000,000) in grant funds over a one-year period from date of authorization, subject to availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project will assist in improving the business climate and accelerating the growth of private sector business ventures in priority development sectors, particularly in areas outside of Bangkok. The Project will fund long and short term technical assistance, investment surveys, promotional campaigns, investment missions, industry visits, seminars, policy/planning studies, administrative support costs, office equipment, and evaluation costs.

3. The Project Agreement(s) which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in Thailand or in the United States, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on vessels under flag registry of the United States.

Signature Charles W. Greenleaf
Charles W. Greenleaf
Assistant Administrator
Bureau for Asia

Date 8/26/82

Clearances:

DAA/ASIA:E. Staples	<u>CS 8/26</u>	Date	<u>8/26</u>
ASIA/DP:L. Smucker	<u> </u>	Date	<u> </u>
ASIA/PTB:D. Barrett	<u> </u>	Date	<u> </u>
ASIA/PD:G. R. van Raalte	<u> </u>	Date	<u>8/25</u>
ASIA/TR:T. Arndt	<u> </u>	Date	<u> </u>
GC/ASIA:J. Silverstone	<u> </u>	Date	<u>8/25</u>

GC/ASIA:ST1sa:hp/eb:8/23/82

PART I - RECOMMENDATIONS, SUMMARY, ISSUES AND FINDINGS

A. Recommendations

It is recommended that a grant of \$4.0 million and a loan of \$2.1 million be authorized for this Project. Loan terms are to be 40 years including 10 years grace, 2% during grace and 3% thereafter.

B. Summary Description

This four year Project is designed to improve the general business climate for the private sector and accelerate the growth of private enterprise in priority development sectors emphasized in Thailand's Fifth National Economic and Social Development Plan (1982-1986). It will encourage the start-up and growth of firms which are export-oriented, natural resource-based and labor intensive, particularly in the currently unindustrialized (non-central) regions of Thailand. Facilitating industries of this nature should contribute to Thailand's major objectives to reduce trade deficits and unemployment while accelerating growth outside of Bangkok.

The Project will aid in meeting the above objectives by: (1) a selective marketing program to identify business opportunities consistent with Fifth Plan objectives and to attract appropriate private enterprise participation in these opportunities; (2) establishment of means for effective policy analysis by the private sector to analyze important issues and recommend appropriate policies to the RTG, (3) establishment of linkages between private sector associations in priority development sectors in Thailand with counterpart organizations in the U.S. to encourage mutual cooperation, transfer of technology, and future business relations; (4) providing a special credit support program to enable small/medium-sized firms in priority ventures to access capital markets; and (5) provision of technical assistance to support small/medium-sized firms to expand in priority development sectors.

C. Issues

The PID approval cable (Annex I) and/or other AID/W communications recommended that Project objectives be sharpened and priorities be established for activities, that lessons learned from other countries be considered, that design efforts be coordinated with TDP, OPIC and PRE, that the Project be simplified to the extent possible, that Project constraints be better defined, and that constraints to investing outside of Bangkok be analyzed. Annex I discusses the ways the Project addresses these issues.

D. Summary Findings

The analyses prepared for this Project indicate it is technically sound and should facilitate the achievement of the Royal Thai Government's Fifth Development Plan objectives, especially its structural adjustment targets. Direct economic impacts are difficult to estimate, but Project components have been chosen to have maximum impact at reasonable cost. Benefits should accrue primarily to smaller entrepreneurs, farmers and laborers and the Project should help facilitate dispersal of economic benefits to regions outside the Bangkok area. The Project meets all applicable statutory criteria as shown in the Statutory Checklist in Annex VI.

PART II - DETAILED PROJECT BACKGROUND AND DESCRIPTION

A. Background

1. Economic Growth and Structural Problems

Powered by a vigorous private sector, Thailand's economic growth over the past two decades has been impressive, and real GDP expansion has averaged 7-8 percent per year (4.5 percent per capita). Industrial growth has been particularly rapid, with manufacturing value added increasing from 13 percent of GDP in 1960 to more than 20 percent in 1979, about a 10 percent per annum growth rate. The growth rate in agriculture has been less than 5%, but because the agricultural base is large (about 26 percent of GDP in 1979) its contribution to the total economy has been very substantial. In absolute terms, an agriculture that was 50% of the economy in 1950 had expanded over three times by 1980.

However, Thailand's economic growth has not been without problems. The growth of industry and rapidly growing labor force (3 percent annual growth rate) has concentrated most new employment in the industrial sector centered around Bangkok and the central plain's region, and has contributed to a high unemployment rate in rural areas. This has worsened rural/urban and regional income disparities, caused large rural-urban migration flows, increased population pressures on urban services, and intensified pollution problems.

Until the mid 1970s most of Thailand's industrial growth was directed at import substitution. Export growth has not kept pace with the rapid increases in import costs for crude oil/petroleum products and capital goods. The Thai Government's resistance to letting petroleum prices rise exacerbated the problem. This has caused severe balance of payments problems leading to a devaluation of the baht in 1981. The rate of inflation increased rapidly during the 1970's until it reached a peak of almost 20 percent in 1980. Thailand's external debt also increased markedly. The public sector's foreign external debt almost doubled between 1979-1980 to US\$4,542 million, although the public debt service still claims only 6.8 percent of export earnings.

The Government has strongly responded to the above problems. It has sharply increased the consumer prices of petroleum products, electricity and other utilities, increased many tax rates, and lifted ceilings on interest rates. In 1980 price controls were lifted on 29 of 36 categories of goods and import duties were reduced for many other goods. These measures have apparently had at least a temporarily favorable

effect as both the balance of payments situation and inflation rate improved in late 1981. However, it should be noted that there are still several chronic problems in the Thai business environment that need to be addressed. These include problems related to taxation, price controls, uncertainty due to poorly defined regulations/laws related to business, and the general problems of delay and vacillation that are prevalent in many RTG agencies. These problem areas are described more fully in Annex III and IV-I. Moreover, the Royal Thai Government (RTG) realizes that the Thai economy's structural problems over the longer term will require even greater effort on the part of Thailand's public and private sectors and has accordingly embarked on a major program to cope with trade imbalances and the need to disperse economic activities and increase employment opportunities outside of the Bangkok area. The Fifth Economic and Social Development Plan (1982-1986) places particular emphasis on structural adjustment and improving economic efficiencies.

The role of the private sector in future development efforts will be especially crucial. The RTG has given a clear mandate to the private sector to expand its participation as a direct agent of change in the Fifth Development Plan and to participate directly with the public sector on planning and policy decisions. The RTG knows that vigorous private sector growth in development sectors will be necessary to provide jobs, mobilize required capital, provide management skills and technology, and supplement the efforts of the increasingly overburdened Thai public sector development agencies.

2. The RTG's Structural Adjustment Program

A major objective of the Fifth Development Plan is to better balance the country's future economic development so that import dependence will decline, exports will rise, employment rates will be higher and economic activities will be distributed to areas outside of Bangkok and the central region. Figure IIA1 indicates some of the Plan targets in this regard. To quote from the Plan, this will involve, "Restructuring the manufacturing industry towards export industries by speeding up the transformation of primary processing industries into finished product export industries. Meanwhile, the government will develop a basic industrial complex on the Eastern Seaboard, particularly industries connected with natural gas, sponge iron industry, chemical fertilizer, soda ash, potash and petrochemical industries. Furthermore, the government will encourage the dispersion of manufacturing activities to outlying regions in order to increase rural employment and the use of local raw materials. The government will also promote conservation of energy in the

manufacturing production process and encourage local and foreign private investment. Price control measures will be avoided unless the structure of industry is monopolistic. Finally tax rates, the structure of investment promotion privileges, and industrial export promotion measures will be improved."

The RTG is very interested in having AID assist with this effort. Indeed, during October, 1981, when Prime Minister Prem visited the U.S. he requested we seek ways to more involve America's dynamic private sector in Thailand's development. The Prime Minister particularly stressed the importance of attracting foreign cooperative business ventures to provide Thailand with needed capital, technical assistance and marketing assistance to meet its ambitious development targets. Since that time Thailand was included in the list of ten priority countries for assistance by AID's Private Enterprise Bureau (PRE), and a PRE reconnaissance team led by AA/PRE Elise Dupont visited the country in February, 1982. Much of the basis for an AID private sector program in Thailand and the USAID/PRE roles in such a program was developed during the visit of the reconnaissance team and concurrent visit by project design AID consultants.

B. Detailed Description

1. Project Approach

One of the major findings of the PRE reconnaissance team was that while RTG policies to overcome the structural problems discussed above are generally sound, the implementation of these policies will be difficult without some assistance: "There is no need for drastic measures or changes of direction. The U.S. should refrain from implying that there is; but some developments can be encouraged, current and emerging weaknesses corrected, and potential problems averted by judicious action." This Project's approach has been to analyze the potential and existing problem areas, determine existing mechanisms that are dealing with them, and focus the Project on the most serious gaps that AID has a particular expertise in overcoming in the overall program to facilitate Thailand's structural adjustment.

Figure II.B.1 summarizes the major structural adjustment problem areas, what the general approach of the RTG's Fifth Plan is to address the problems, and how the Project plans to facilitate the Government's efforts. AID's major efforts in this four year Project will be to operationalize several key priorities in the Plan. The Project will (1) help identify and analyze investment and other

Figure II.A.1. Some Key Economic Objectives of the Fifth National Economic and Social Development Plan (1982-1986)

Date	Trade Balance GDP	External Debt Export Earnings	Budget Deficit GDP	Export Industries All Industries	Agricultural Production GDP	Industrial Production GDP	Dispersal of Industrial Base "Utilization of Labor and Domestic Raw Materials"
1981 (Actual)	-8.2%	8.5%	3.2%	15%	24.8%	21.1%	To be encouraged through policy and incentive structure when possible.
1986 (Target)	-4.5%	7.3%	1.1%	22%	22.5%	22.1%	

business opportunities that are consistent with the RTG's objectives to have a labor intensive, export oriented, decentralized industrial base that is not dependent on import of raw materials; (2) provide assistance to develop and carry out promotion campaigns to attract both local and foreign businesses (particularly U.S.) to participate in developing the identified opportunities; (3) provide technical assistance and partial funding to establish a policy analyses and planning capability for the private sector to carry out planning and policy analysis of key public/private sector issues; (4) provide assistance to develop linkages between the private sectors in the U.S. and Thailand to facilitate the transfer of technical and management expertise; and (5) to facilitate the involvement of small/medium-sized, new/expanded business ventures targetted on priority development concerns through provision of credit assistance and technical assistance.

These objectives are consistent with AID's policy to encourage private sector participation in development and they meet the strongly expressed desire of the RTG to increase private investment in Thailand's productive sector as a means of supplementing the Government's development efforts, relieving public sector financing requirements and reducing trade imbalances, and encouraging a modern production base for the country.

The Project approach will also have a direct impact on the implementation of the rest of the AID program in Thailand since it will focus promotional and policy development attention on the Agroindustry area and strengthen efforts to decentralize economic opportunities. Private sector participation is essential to provide market linkages for increased agricultural production and meeting the capital and technology needs of a modernizing agricultural sector. As such this Project clearly supports the AID strategy in Thailand by helping facilitate rural development generally. Moreover, during Project design special efforts were made to determine potential investment opportunities that would provide an increased market demand for crops widely grown by small farmers. This emphasis is directly related to several of AID's projects in Thailand (eg. NERAD, Lam Nam Oon, N.E. Small Scale Irrigation, Land Settlements). Efforts during Project design also focused on uncovering opportunities in the seed industry and this is consistent with the project approach under Seeds II. Opportunities in these key areas will be among the first beneficiaries of the business promotion program that will be financed under the Project because of the opportunity profiles and marketing surveys that have been carried out during Project design. (See Annex IV for results of surveys.) In addition, Project staff will be tasked to seek out opportunities to

effectively involve the private sector in AID's entire project portfolio whenever such involvement can help overcome constraints in the program or more effectively meet individual project objectives. Several such opportunities have already been discovered for the Lam Nam Oon and NESSI Projects and there are clear indications that a private sector emphasis is very timely for the AID project portfolio in Thailand.

2. Relation to Past AID Efforts

Coming at an important turning point in the evolution of Thai policies toward the role of the private sector, the activities envisaged under this Project represent a reentry of the U.S. assistance program in Thailand into an area where it already played a significant role at earlier stages of the country's economic development. As early as 1959, AID fielded a high-level private investment team that visited Thailand and presented a report that included policy and project recommendations for both the RTG and the U.S. assistance program. The report described basic attitudes and roles that are strikingly similar to the situation today, although the intervening years have seen substantial growth in the country's economy and institutional base.

The first program of activities designed to help promote the Thai private sector also combined institution-building, policy formulation and direct promotion of U.S. and Thai investments in specific product areas. But coming at a much earlier stage in the development of infrastructure and of the complexity of the structure of manufacturing, these activities assisted with the actual initiation of several basic government services and the creation of some private sector capabilities. For example, the institution-building activities included provision of industrial policy advisors to NESDB, technical assistance to the BOI, technical and loan assistance to launch the IFCT, and feasibility surveys. By the 1970's the focus of the AID program shifted, and the private enterprise division and its activities were phased out.

The key conclusion of the 1959 team, and of many subsequent policy analysts concerned with Thai development was that the private sector shows a high degree of dynamism in Thailand; is a major engine of growth and capital formation; and should be encouraged by government, rather than hampered by excessive interventions or over-regulation. Over the years the record of growth has justified the basic attitudes found earlier, and justifies the present confidence that successfully addressing the constraints and problems facing a more mature private sector in the economic environment of the 1980s, can

Figure II.B.1: Structural Adjustment Program Problem Areas

<u>Problems</u>	<u>Fifth Plan Proposals</u>	<u>A.I.D. Role</u>
1. Industrial Structure not export oriented and dependent on imports of raw materials/capital goods.	1. Promotion/incentives for export industries and industries less dependent on import requirements.	1. Technical assistance for promotion effort to identify opportunities for export and develop/implement promotional campaign. Feasibility study and credit assistance for interested firms that qualify.
2. Over centralized industrial base.	2. Incentives for decentralization.	2. Technical assistance for policy development, promotion, and establishment/expansion of appropriate industries.
3. Too much of the country's industrial investment has been capital intensive.	3. Promote labor intensive industries and develop labor intensive production techniques.	3. Help promote Thailand as appropriate location for labor intensive industries and identify viable industry options for Thailand.
4. Many industries not efficient and/or standards of quality inadequate for export.	4. Promote and control standards.	4. Provide mechanism for technical cooperation between U.S. and Thai private sectors. Technical assistance through IESC where necessary.
5. Need to strengthen dialogue between public and private sectors on problem areas.	5. RTG will cooperate with the private sector in implementing policies.	5. Provide mechanism and technical assistance to private sector to analyze problem areas and policy options, and present recommendations to RTG.

help ensure that the private sector engine of growth continues along with a full head of steam.

3. Relation to Other Programs

PRE has agreed to provide assistance to address related problem areas. Specifically PRE will focus on (1) clarifying the management constraints within the private sector and helping develop a private sector management improvement project, (2) developing a senior seminar program for Thai officials on issues on private enterprise in development, (3) developing a program in the U.S. with an appropriate institution for senior policy makers to introduce them to the U.S. private enterprise model, (4) investigating a program aimed at assisting Thai banks better package private investment projects in key development areas. Close liaison is planned between the USAID mission and PRE on the above areas as well as this Project.

Asia Bureau is also developing a project to provide Asian countries with technical assistance to facilitate private sector development. The USAID Mission and Asia Bureau have been discussing ways to have the regional project complement the proposed bilateral project, and have agreed that provision of a technical specialist in the Agribusiness area to work with the Mission would best complement the promotional emphasis of the bilateral Project and the rest of USAID's project portfolio.

Other USG agencies that are expected to participate in activities related to the Project include the Trade Development Program (TDP) and Overseas Private Investment Corporation (OPIC). Discussions between the USAID Mission and TDP representative in Hong Kong have provided a base for future cooperation through USAID providing information on possible U.S. investments to TDP and TDP helping finance feasibility studies for interested investors where such investments could result in increased U.S. exports. OPIC is expected to assist in setting up investment missions to Thailand similar to the mission scheduled for July, 1982 in conjunction with the Project's promotional program. The FY 1982 OPIC investment mission was requested by the RTG to quickly respond to the Prime Minister's visit to the U.S. and PRE reconnaissance team visit before Project activities commence. The results of this initial mission will help determine where additional opportunities may be explored under the Project and what are the most serious constraints perceived by potential U.S. investors.

The ASEAN Chamber of Commerce and Industry has also been active in promoting business relations between ASEAN countries and the U.S. ASEAN CCI is currently sponsoring a variety of projects throughout the region. Efforts under this Project will be closely coordinated with the ASEAN CCI initiatives in order to avoid unnecessary redundancies or conflicts.

The design of this Project was done in very close association with other U.S. agencies, particularly the Foreign Commercial Service, Embassy Economics Counselor, and Agricultural Attache. The American Chamber of Commerce in Thailand was also very active in these efforts and the President of the Chamber was a participant in the PRE Reconnaissance Team. Coordination among all these agencies will be maintained during Project implementation so that a truly integrated U.S. private sector initiative will continue throughout the Project's life.

It should be noted that the Project conforms closely to the proposed private sector role of AID sketched-out by Michael Samuels, V.P. of the International Division of the U.S. Chamber of Commerce during his February 25, 1982, appearance before the House Foreign Affairs Committee: AID should act as a catalyst to stimulate private sector involvement by addressing policies unfavorable to the free market and by reaching out to small and medium sized U.S. firms that lack the outreach of larger multinationals; as an intermediary to help identify local private sector needs and matching these with available resources; and as an educator for host governments on the benefits accruing from a private enterprise approach to development.

4. Other Donors

In addition to assistance from AID and other USG agencies, the RTG has sought budget support assistance from the IMF and IBRD that will contribute to the structural adjustment program. Agreement was reached with the IMF on a major standby program which covers a two-year period starting in April, 1981, and amounts to SDR 814.5 million. Moreover, in July, 1981, the IMF provided Thailand with SDR 186 million under its compensatory financing facility. The IBRD has also agreed to provide a series of Structural Adjustment Loans (SAL) and the first loan for \$150 million was signed in early 1982. Other loans are expected to be negotiated in the future to help meet requirements for external capital and to encourage policy changes consistent with a rational structural readjustment program.

Under UNDP financing, the IBRD provided consultant assistance in 1980-82 to the Board of Investment (BOI) to develop investment opportunity profiles and to prepare an action program for the BOI to improve the RTG's investment promotion program. The UNDP expects to pursue the consultant recommendations at the Government's request beginning in 1983 to help in the reorganization and institutional development of BOI.

AID's proposed Project is designed to complement the efforts of the IBRD and UNDP by providing immediate assistance to the country's effort to promote private sector participation in development, while changes in the organization and policies of BOI are effected. The AID financed assistance will also be closely targetted on involving the U.S. private sector in these efforts and as such will supplement the more broad-based IBRD/UNDP efforts. Moreover, should the longer term institutional assistance from IBRD/UNDP not materialize, this Project may well establish a precedent for future contractual assistance to the Government for investment promotion.

5. Project Components and Targets

a. Goal: At its highest level the Project will contribute to the RTG's Fifth Development Plan structural adjustment objectives of improving Thailand's balance of trade and reducing unemployment problems, particularly in areas outside of Bangkok.

Specific Fifth Plan targets related to these objectives are (1) manufacturing output and employment expanding by at least 7.6 percent per annum, (2) industrial growth in areas outside of Bangkok and surrounding area exceeding growth rate within that area, (3) trade deficit decreased from 8.2% of GDP to 4.5% of GDP.

Meeting these objectives will depend on oil prices and the speed with which Thailand is able to exploit its own oil and gas resources. Thirty percent of Thailand's import expenditures were for petroleum products in 1981. It is likely that this percentage will decrease markedly with Thailand's offshore gas reserves now being tapped; the Fifth Plan objective is to decrease the volume of oil imports by three percent per year on average during the Fifth Plan period, a target that appears feasible. This will assist Thailand in its efforts to decrease overall import requirements. Goal attainment is also dependent on a favorable investment climate and political stability. The AID Mission has no reason to believe the present favorable climate and the country's long stability will change for anything but the better in the future.

b. Purpose: The Project's purpose over a four year period is to improve the climate for and accelerate the growth of private sector business ventures in priority development sectors, particularly in areas outside of Bangkok. It is expected that a number of new investments and other business arrangements will be made in export oriented, labor intensive, and natural resource based industries as a direct result of the surveys, promotional program, and special credit fund/technical assistance provided under this Project. (Figure II.B indicates the illustrative structural adjustment criteria for screening Project activities - at least two of the four criteria should be met to qualify for Project support.) In addition the relationship established between the private sectors in Thailand and the U.S. should stimulate a steady flow of information on markets and new technology between the two countries. The improved policy analysis and planning capability established under the Project to address private sector related issues should result in realistic policies and regulations that will steadily improve the investment climate for industries particularly in priority development areas.

c. Project Outputs and Inputs.

1) Business Opportunities Identified and Marketed. This component will provide technical assistance to the BOI to (1) help identify and analyse investment and technology licensing or contracting opportunities that could contribute to Thailand's structural adjustment objectives; (2) assist in designing promotional campaigns that would help alert local businessmen to opportunities as well as help obtain necessary investment, market linkages and technology from developed countries' (particularly the U.S.) private sectors to address the identified opportunities; (3) help carry out the promotion campaigns by preparing necessary materials, identifying target investors/licensors/contractors, programming media, providing personal follow-up service to attract investors to Thailand; (4) helping arrange business missions/seminars (for potential investors and bankers) in the US and in Thailand to facilitate the investment process and match up joint venture partners; (5) helping train BOI personnel (OJT) in the U.S. and (6) providing feedback to the public and private sectors on the results of these efforts.

Considerable effort was made during the design of this Project to identify business opportunities and constraints that could be addressed during implementation. Annex IV provides a summary of the opportunities that will be used to focus the early promotional efforts of the Project and allow it to get underway quickly. All of these opportunities

are in the Agroindustry area since this sector appears to offer the most promise for rapid development under the Project and for contributing the most to Thailand's structural adjustment objectives. Constraints identified in these surveys are also summarized in Annex IV and these are expected to be addressed under the other Project components.

It is proposed that approximately five-ten additional surveys be carried out during the life of the Project to generate good business prospects in a range of subsectors and meet the Government's structural adjustment criteria discussed previously. (Note: Some of the studies conducted under this component are expected to be for investment trend analysis and other planning studies.) After screening, particularly attractive opportunities would be incorporated into one of the three planned promotion campaigns that are expected to be carried out under the Project and aimed particularly at U.S. businessmen. A different campaign is planned for each Project year after year 1 and each campaign will comprise a focused approach on a clearly identified target audience followed up by personal contacts and investment missions arranged for interested business groups. Project consultants in conjunction with BOI will also assist potential investors to locate local business partners and provide available survey material and other available materials to them upon request. None of the above services are currently being provided systematically by BOI although some investment survey/prefeasibility material is available on an ad hoc basis. Some mailing campaigns are also conducted by BOI's overseas offices.

This type of promotion approach will primarily benefit firms which are less experienced than the big multinationals in identifying international opportunities -- primarily firms in the Fortune 500-1,000 range, divisions of highly diverse and larger companies, or firms primarily in retailing or wholesaling that need to secure supplies. At the same time, it will aid the small and medium sized Thai firms without the resources to contact American firms and expand the range of choices for the larger Thai groups. In addition, the Project provides subsidies in the form of a special credit assistance program and technical assistance for priority business ventures proposed by small/medium sized firms that would have difficulty in mobilizing funds for these purposes.

The promotion component will be carried out under the BOI's general direction during the life of the Project in order to supplement BOI's own efforts to promote investment for priority development sectors. BOI currently does not have the capability to carry out such an ambitious

promotion program and is not likely to obtain this capability until a major reorganization with staff/budget increase, and extensive training take place. This component accordingly is essential to helping achieve Fifth Plan structural adjustment objectives until a planned IBRD/UNDP institutional development program can be put into place for BOI. (See Annex V for a more extensive discussion of BOI). It should be noted that even without the expected IBRD/UNDP program the Project will serve as an example of what an effective promotional program can accomplish whether it is done internally or is contracted out. Either option would be possible in Thailand and the choice will depend on the Government's success in developing the BOI as a viable institution as well as on the results of this Project.

Thailand needs the kind of marketing program summarized above if it is to accelerate investment and technology into target areas of its economy. Thailand has traditionally not been aggressive in such efforts and has depended largely on domestic savings to finance private investment (more than 95% of gross fixed private capital formation since 1975). As a result Thailand's ASEAN neighbors have done considerably better at attracting foreign business and investment and most have very active and effective investment promotion programs, despite the fact that actual investment incentives vary little in the region (See Annex IV for summary of comparative investment incentives). It should be noted that a recent comparative study of selected LDC's investment promotion programs published by the U.S. Chamber of Commerce indicated that Thailand's policies were if anything more attractive than most other Asian countries. Indeed, many businessmen in Thailand with experience elsewhere are convinced that Thailand has one of the most attractive climates for investment in the world, and that a well run investment promotion program that publicizes Thailand's attractions for business will by itself result in a major influx of investors, especially if such a program were conducted in conjunction with a program to address existing constraints.

Inputs needed to carry out the above program include, (1) a long term investment promotion specialist and an industrial development consultant to help implement BOI's action plan, and particularly to identify opportunities, coordinate appropriate investment promotion campaigns and help respond to investor inquiries (at least one of the consultants should have substantial experience in Thailand); (2) services of a firm(s) to provide the necessary support for selective promotional campaigns and associated investment missions, seminars, direct follow up with potential investors and surveys to determine possible joint venture partners and campaign results; (3) several short term consultants to do planning

studies, investment opportunity surveys, market surveys and other analyses necessary to provide technical (subject matter) support for promotional campaigns. As noted elsewhere, the proposed Asia Bureau Project to provide a full-time Agribusiness Consultant to Thailand will complement this component also.

The above inputs would be managed under a single contract with an appropriate US/Thai joint venture. Several firms and one University have expressed interest in participating in this component. It appears that the best arrangement may be a joint venture consisting of a large public relations or marketing firm in conjunction with a U.S. University and local Thai consulting firm. Such an arrangement would provide the necessary strength in international marketing with the survey/research skills of a U.S. university and the local backstopping capability and knowledge of the public and private sectors in Thailand.

(2) Strengthen Private Sector Analysis Capabilities and Dialogue with RTG

To strengthen the capabilities of the private sector and to enable it better contribute to the formulation of Government policies that affect the private sector it is proposed to provide assistance to three important private sector organizations:

(a) A full-time Thai analyst/planner (and necessary funds for administrative support, facilities and equipment) to assist the senior private sector committee in Thailand, the Joint Standing Committee for Trade, Industry and Banking (JSC) as its Executive Secretary.

This Committee includes representatives of Thailand's major private sector business organizations: the Association of Thai Industries, the Thai Chamber of Commerce, the Board of Trade, and the Thai Banking Association. The prime purpose of this component is to support these associations in mobilizing the private sector's coordinated opinions and to see to it that analyses are made that are needed for the private sector to develop well formulated recommendations on issues for presentation to the RTG.

These analyses would deal with such issues as current RTG tax policy and its application, RTG regulations and policies affecting imports and exports of key commodities, Thailand's policy and procedures for encouraging foreign investment and decentralization, and policies and procedures for encouraging transfer of technology to Thailand

(see Annex III for example).

The function of the Executive Secretary provided for the JSC will be (i) to assist the Committee in identifying issues to be analyzed, (ii) to see to it that the association designated to conduct the analysis and formulate recommendations receives needed USAID resources, (iii) to arrange for consideration by the JSC of the association's recommendations, (iv) and to arrange for the transmittal of the JSC recommendations to the Joint Public/Private Sector Committee of the RTG. the Executive Secretary is the servant of the JSC.

The sum of \$80,000 is provided for the salary of the Executive Secretary \$10,000 for administrative support, facilities and equipment, and \$30,000 for incentive pay for senior internships from the private and public sector. Interns will be rotated through the Secretariate on a regular basis to expose them to the dynamics of the JSC process and so they may contribute fresh ideas from operating and planning agencies.

(b) To enable the associations to build their capability for conducting such analyses it is proposed that an analyst/planner be provided for each of the two associations that will carry out the analyses needed - the ATI and the Thai Chamber of Commerce.

These analysts/planners will become part of the staffs of these associations. They will recruit individuals or consulting firms to carry out the research, oversee the conduct of the research and present the results for approval by the leadership of the association.

It is proposed that \$120,000 be provided for the salaries of the analyst/planners in the two associations, i.e., \$60,000 for each association.

(c) To finance the analyses of issues to be made by the associations, it is proposed that a fund of \$200,000 be made available by AID and matched by a \$200,000 contribution from the two associations.

When the JSC has identified an issue to be studied, has designated the association to carry out the analysis and determined the amount of money required for the study, it is proposed that it shall direct its Executive Secretary to present the Committee's plans to AID with the request that the funds be made available to the association designated.

It is planned that JSC give priority to agroindustry problems. This focus is consistent with the concern that is reflected throughout this Project and it conforms with the RTG's priority emphases on this sector. Moreover, it responds to the recommendations of the Thai private sector to the U.S. Agricultural Mission to Thailand in May, 1982 to assist in the establishment of an autonomous agricultural institute to address impediments to agricultural development. The Asia Bureau Project's provision of a full-time Agrobusiness Consultant to Thailand will support studies undertaken in this sector.

This emphasis on agroindustry in the early analysis of issues should not restrict work on key and broader tax and policy issues. Many policy issues have widespread impacts. The emphasis that is urged, however, would serve to focus initial efforts and make this component supportive of other Project elements.

Ultimately the success of this component should encourage the establishment of a semi-autonomous institute that will coordinate the planning and research needs of the several private sector interest groups. Analysis and research by these associations to date has been poor because of resource and staff limitations. A central "Institute for Private Sector Development" would help pool resources, respond to Joint Committee priorities, and avoid redundancy. AID will encourage the formation of such an institute, and the designation of some resources under this component for the planning of the institute.

The RTG is currently planning to develop a "Thai Development Institute" that would provide analysis for major public sector requirements initially although its resources are also ultimately expected to be available to the private sector. If the TDI is established during this Project, some of the studies might be contracted to the TDI.

(3) Establish Linkages Between US and Thai Private Sector Organizations

The objective of this component will be to provide a basis for informal technical cooperation between Thai industry groups in priority sectors (export oriented industry, high labor demand, and decentralization potential) and U.S. counterpart organizations. Such cooperation would supplement normal commercial relations of several kinds, such as joint ventures with debt and/or equity participation, licensing for Thai use of proprietary technology, marketing of Thai

exports/sale of U.S. exports to Thailand, and management or technical assistance contracts. It is also expected that informal linkage may well lead to normal commercial relations in many cases.

An informal linkage is important because there are limits to how much business and technology transfer can be expected to flow from normal commercial modes of relationships between enterprises. Only a relatively small number of Thai firms will ever be involved in direct, joint-manufacturing activities. Management contracts will be limited to large-scale operations and will probably always be few in number. Licensing will certainly grow as Thai industrial capability spreads to more sophisticated products. The flow of technology and management advice through contacts with US importing firms requiring products manufactured to precise specifications and standards is likely to be a major source of contribution from US enterprises, if the experience of Korea provides a model for Thai industrialization, a not unlikely scenario. A recent IBRD study of the sources of Korean industrial competence showed that informal contacts between foreign buyers and Korean suppliers was by far the most important transmission belt for foreign technology (much of which is non-proprietary) and management advice, compared with direct foreign investment, which played a minor role. Of course, for this transmission to take place, a firm must be in contact with a potential or actual business partner abroad.

Drawing on past experience of AID (and predecessor agencies), this Project proposes to replicate this type of informal relationship between American and Thai firms in the same line of business. Under the Marshall Plan, so-called "productivity teams" of senior technical and managerial personnel from US firms visited European enterprises in the same line of business, bringing the latest in US production technologies to their European counterparts, through an informal process of plant visits and discussions. A similar arrangement during the 1960s and 70s brought leading experts from the US electric power generation and distribution sector to India where they reviewed a broad range of Indian power problems and gave the Indian authorities the benefit of their views on future power policies, programs and technology choices.

Thai industry is already well organized to participate in this type of program. Within the overall industrial association of Thai enterprises, the Association of Thai Industries (ATI), firms in particular product lines or sub-sectors are organized into "clubs". ATI currently contains 18 of these clubs in various subsectors. It is expected that the Project will concentrate priority attention on the largest

and best organized of the clubs, the Food Processing Industry Club, that comprises 85 member industries in 12 sectors (see Fig. IIB). As linkages are developed between this club and U.S. counterparts, other clubs may also be brought into the program in accordance with their potential contribution to RTG structural adjustment criteria. Candidate clubs include the electronic industry club, furniture industry club, chemical industry club, and leather-based industry club among others. Annex V has a complete list of clubs and the policies and objectives of the ATI.

On the US side, selection of team participants could be managed by an "umbrella" U.S. private sector association in conjunction with AID and the Department of Commerce. The association would determine the appropriate U.S. trade organizations to counterpart interested Thai organization and advise the ATI accordingly. Administrative arrangements could also be contracted to the US association with the objective that between the US and Thai sides, the whole process would be managed by the private sector entities involved to the maximum extent. Participants' salaries will be covered by their parent firms. Such a US private sector participation in the cost of the program would enhance the image of U.S. enterprises as full partner with the Thai side.

A likely candidate for the U.S. association is the U.S. Chamber of Commerce. The Chamber is the largest, most representative private sector organization in the U.S. and has a strong international division that could provide the necessary liaison between the ATI and businesses in the U.S.. The U.S. Chamber has the added advantage of having a counterpart in Thailand (American Chamber of Commerce in Thailand) that will be actively involved in the Project's U.S. Public/Private Sector Committee (see part IV). Discussions with the American Chamber on their potential role will be pursued during the Project's pre-implementation stage. Other candidates for the U.S. private sector liaison include the Council for Industrial Development and the National Association of Manufacturers. Selection of the U.S. liaison association will be done competitively based on an assessment of candidates' capacities and interests to work on the Project.

It is expected that six visits will be made by industry club representatives between the US and Thailand during the life of this Project, or about two per year. For planning purposes 15 persons are expected for each team and each trip will involve one seminar hosted by the organizing club. One week for each visit is expected to be fully adequate. Materials would be provided beforehand acquainting the team members with the general setting and specific nature

of the industry in question. The materials are expected to be prepared by the concerned industry club with inputs from BOI for trips by US teams to Thailand. Suitable publicity in Thailand by BOI and in conjunction with the investment promotion component would help sustain momentum and awareness of an expanding involvement of US private enterprises in Thai development. It is planned that two-four of the visits would be made by representatives of Thai industry clubs to observe the operation of U.S. industries and in these cases the U.S. clubs are expected to make all the necessary arrangements with some coordination assistance from AID and the U.S./Thai liaison organizations.

(4) Technology Transfer for Small Enterprises

It is expected that the above component will identify numerous technical and management constraints for private sector expansion into priority development areas. In some cases these constraints may be addressed by further arrangements between the Thai and U.S. industrial associations. This Project also provides a grant component of \$100,000 to the International Executive Service Corps to bring retired experienced business people to Thailand to help smaller firms address these constraints. The grant will closely parallel the AID/Egypt arrangement with IESC to provide managerial, technical and training assistance to firms, but it will be limited to smaller firms (with less than \$2.0 million annual sales) needing assistance in developing or expanding operations that meet all or most of the Project's structural adjustment criteria (Fig. II.B.2). The grant will subsidize such technical assistance with a 50 percent contribution towards the firms' cost of IESC volunteers, with the IESC picking up the rest of the costs based on established guidelines for IESC assistance. This grant should result in up to 25 grants of assistance to selected firms under the Project, and will be administered by IESC's local representative in coordination with AID. If there is sufficient demand for these services, contingency funds under the grant may be used to finance additional services.

(5) Encouraging Small/Medium Sized Thai Ventures

Much of the wealth and power in Thailand's economy is concentrated in relatively few hands. This tends to limit access to institutional credit to the affiliated groups of larger businesses. Smaller businesses are usually not equipped to demonstrate the feasibility and the "bankability" of the ventures for which they seek loans. Many small enterprises have never dealt with banks and don't understand their requirements and procedures.

The objective of this component is to establish a mechanism for funding ventures by small/medium sized firms interested in starting or expanding operations that meet the Project's structural adjustment criteria. It is proposed to provide \$2.1 million in loan funds to the Industrial Finance Corporation of Thailand (IFCT) to assist such small/medium sized enterprises. IFCT will provide matching funds of \$2.1 million. The aggregate will be used to lend to small and medium sized enterprises located outside Bangkok and adjoining provinces. The enterprises must also be involved in either (a) agroindustry, (b) production for export, or (c) meet the labor intensity criterion shown in Figure II.B.2.

The funds will be lent at IFCT's normal 15-16 percent rate. The low rate of interest charged IFCT for AID funds (3 percent) will create a substantial "surplus spread" of about 6.5 percent for IFCT, after allowing for the costs of administration, bad debt provisions and exchange rate fluctuations. This "surplus spread," amounting to about \$3.5 million over the life of the loan (40 years) will be established as a "special fund" and is to be used to support an IFCT program of seminars and business meetings for upcountry small businessmen to promote investment and to discuss areas of opportunity and credit availability, and to prepare pre-feasibility studies for potential investors in priority industries. A portion of the fund will also be used for training relating to business development for loan clients under the Project.

Annexes V-VI describes the special fund program in more detail, and IFCT's loan application is separately available.

This educational and assistance program is necessary to ensure that small/medium sized enterprises can obtain IFCT credit as well as credit from local commercial banks who can help finance operation costs for businesses. It will support other elements of the Project by providing a mechanism for following up on the promotional and linkage components and by helping address the concern that there be equitable access to Project benefits by all interested entrepreneurs who have viable project ideas.

In Thailand, IFCT is virtually the only industrial credit source of repute that relies on "project evaluation" as the major determinant of credit extension, rather than "credit standing" (or "affiliation") as do the other major sources of industrial credit. Moreover IFCT has a

priority program aimed at better meeting the needs of smaller, rural industries, but has had a major problem in obtaining long term credits at reasonably low rates for relending to finance local capital costs. Concessional loan terms are important to allow IFCT to run the associated credit support program to assist smaller firms.

AID will thus play a vital role in helping extend credit to support the important structural adjustment objective of decentralizing industry as well as helping address the equity problems apparent in the Thai industrial base.

Figure II.B.1 Food Processing Industry Club Composition
of the Association of Thai Industries

Adams (Thailand) Co. Ltd	Sansuk Panich (Vegetable Oil) Ltd Part.
Ajinomoto Co (Thailand) Ltd	The Semsuk Co. Ltd
Alaska Milk Industry Ltd	Siam Flour Mill Co Ltd
Apache Co Ltd	Siam Food Products Co Ltd
Bangkok Dairy Plants Co Ltd	Siam Seafood Co Ltd
Bangkok Edible Oil Co Ltd	Sriracha Sugar Co Ltd
Bangkok Feed Mill Co Ltd	Srithai Feed Mill Co Ltd
Bangkok Livestock Processing Co Ltd	Star Feedmill Co Ltd
Betagro Co Ltd	Sura Thaiderm Co Ltd
Boon Rawd Brewery Co Ltd	Tamaka Sugar Industry Co Ltd
Charoen Pokphand Feed Mill Co Ltd	Thai Amarit Brewery Ltd
Cholburi Sugar & Trading Co Ltd	Thai Cannery Co Ltd
Cold Storage Industry Ltd Part	Thai Chemical Industrial Co Ltd
Eastern Sugar Co Ltd	The Thai Dairy Industry Co Ltd
Ekaphol Export Co Ltd	Thai Edible Oil Co Ltd
Foremost Dairies Co (Bangkok) Ltd	Thai Feed Mill Co Ltd
Green Spot (Thailand) Ltd	Thai Food Factory Products Co Ltd
Jew Had Co Ltd	The Thai Fruit Canning Corp Ltd
Kamol Kij Co Ltd	The Thai Marine Food Co Ltd
Kanchanaburi Sugar Industry Co Ltd	Thai Multiplication Industry Co Ltd
Kancm Sakol Co Ltd	Thai Pineapple Canning Industry Corp
Ltd	
Krung Thai Sugar Co Ltd	Thai President Foods Co Ltd
Maemthong Industry Ltd Part	Thai Pure Drinks Ltd
Lever Brothers (Thailand) Ltd	Thai Ruam Charoen Sugar Co Ltd
Little Home Bakery (1966) Co Ltd	Thai Rung Ruany Industry Co Ltd
The Livestock Trading Corp Ltd	Thai Sausage Factory Co Ltd
Loyd & Sons Co Ltd	Thai Seri Cold Storage Co Ltd
Luxco Foods Co Ltd	Thai Seri Industry Co Ltd
Mahaguna Distillery Co Ltd	Thai Sugar Industry Co Ltd
Wong Seng Candy Co Ltd	Thai Sugar Manufacturing Association
Mitrphol Sugar Co Ltd	Thai Tangtong International Corp
Nguan Heat Industry Co Ltd	The Thai Tapioca Industry Co Ltd
P Patanawat Co Ltd	Thai Wah Co Ltd
Pan Asia Food Industry Co Ltd	Thanakorn Vegetable Oil Products Co Ltd
Patum Vegetable Oil Co Ltd	Thi Yo Products (Thailand) Co Ltd
The Peace Canning Co Ltd	United Cold Storage Co Ltd
Phranakorn Milk Industry Co Ltd	United Flour Mill Co Ltd
Preserved Food Organization	United Milk Co Ltd
Kuan Kamlarb Co Ltd	Universal Food Co Ltd
Safcol (Thailand) Co Ltd	Vitaco Food Industry Co Ltd
Saha Mitr Soap Corp Ltd	Wan Far Long Co Ltd
	Wan Thai Foods Industry Co Ltd
	Wiwat Industry Co Ltd
	Wong Brothers Ltd Part

Figure II.B.2 - Structural Adjustment Criteria for Screening
Project Activities

1. Labor Intensity - Should have potential to provide employment for significant number of Thai citizens. Substantial capital cost is permitted if this will generate a substantial number of jobs, and particularly if most of capital costs are absorbed by foreign firms, but total Project funds associated with each venture should not exceed \$100 per each expected permanent employment opportunity.
2. Export Oriented - Should be designed to export a minimum of 50 percent of production.
3. Decentralized Potential - Should have major part of value added capacity located outside Bangkok and adjoining provinces.
4. Natural Resource Based - Most of value added of end product should originate in Thailand.

PART III - PROJECT ANALYSES SUMMARIES

A. Technical Analysis

1. General Constraints

This Project is designed to relieve constraints identified by various studies and consultancies as restricting the private sector from addressing the key development objectives discussed in Part II. These constraints can be placed in four groupings as follows:

a. Information Gap Problems

(1) American businessmen have poor knowledge of Thai business opportunities. This problem appears to be caused principally by the small scale and resources of many Thai enterprises, the American businessman's misconceptions and lack of contact with Thailand, and the weak promotional efforts of the Thai government.

(2) Thailand faces intense competition for a limited number of investments by a number of nearby countries, most of whom have more vigorous and more effective investment promotion programs. Malaysia, the Philippines, Indonesia, and Sri Lanka all are pushing for labor-intensive industry and a number for agricultural-based ones. South Korea, while in a somewhat later stage of development, still is an important competitor for many types of investment.

(3) Thai firms lack access to technology, managerial techniques, and market information which would enable them to operate more efficiently, maintain better quality control, and be more competitive on international markets.

(4) RTG policy makers generally lack adequate information for making key policy decisions that affect the private sector.

Each of these problems (as well as most other problems discussed below) especially affect smaller and rural enterprises. Results of AID's Rural Off-Farm Employment Project (a joint project of Kasetsart University, Michigan State and Ohio State) indicated the major constraints to the growth of rural industries included misguided Government regulations affecting the price and marketing of raw materials, technical problems that rural businessmen don't know how to resolve, limited access to capital (only 28% of 148 firms interviewed received loans from financial institutions when

they started their businesses) because banks perceive a high risk associated with small firms, and problems developing and maintaining market linkages.

b. Institutional Environment

While the Thai business climate is reasonably good, some comparatively small changes could make it much better and more attractive for both local and foreign businessmen.

(1) The Thai Board of Investment has had problems adequately promoting investment in Thailand, welcoming incoming investors and handling their problems, and in dealing with other Thai ministries and agencies.

(2) The Thai private sector has difficulty in dealing with the government; businessmen and civil servants are mutually suspicious, despite considerable commonality of goals.

(3) An effective means of providing project appraisal services and credit to smaller entrepreneurs does not exist.

c. Policy Environment

The Thai industrial base, while increasingly export-oriented, still retains many rather weak import substitution operations which are relatively capital-intensive and highly concentrated in the Bangkok area. The causes of this include the government's liberal use of tariff exemptions on imported machinery and raw materials as investment incentives and a general policy, maintained through the early 1970s, of import substitution protected by tariffs. Tax and other Government policies and regulations affecting the private sector appear in many instances to overly restrict or distort private sector expansion in various other areas. Enforcement of regulations has been uneven and application inconsistent in some instances (see Annex III for examples).

d. Narrow Participation in Industry

Participation in the modern business sector needs to be widened by providing:

(1) a broader base of ownership;

(2) better growth opportunities for small and medium sized firms not connected to major investment groups;

(3) more professional management positions.

2. Project Interventions

The Project uses a variety of means to overcome these constraints. A main thrust is to close the information gap, but in such a way that the Thai economic and social aims will also be furthered. At the same time, the Project will address problem areas which make investment in Thailand less competitive with its neighbors -- the weak investment promotion program, the problems in the policy environment and weak communication between the public and private sectors that adversely affect government-business relations. The new ventures the Project stimulates will help fulfill Thailand's economic and social aims. In addition, the Project should help to broaden the participation in Project objectives from the Thai private sector through providing the small and medium sized firms with technical assistance and access to information on investment opportunities, credit, and potential business partners.

a. The Information Gap

The Project addresses the information gap by generating pertinent information and making it available to potential business ventures. It is basically a three-part process: (1) Research is done in Thailand on investment opportunities, indicating the general feasibility and potentials for doing business in Thailand. Actual corporate feasibility studies except for those of some small firms, are expected to be done by the corporations themselves, starting with the information the Project provides. (2) A search is done of the U.S. market for corporations that have the skills, market information, or market access to help (and profit by) the Thai economy in the fields already researched in Thailand. Contact is made with these firms (through limited industrial advertising, direct letters, and personal approaches), which are then persuaded to investigate the Thai opportunity further. (3) When the foreign investor comes to Thailand, representatives of the BOI, in coordination with the AID advisor to the BOI, meet them, and help them deal with potential Thai partners and government agencies.

This is a highly selective marketing process. Its components are well within the abilities of public relations firms, certain consultants, or universities. It also will keep the number of inquiries and groups coming to Thailand to a number that can be managed by the Board of Investment and to those which have the highest probability of success. The Project approach favors this approach over broader, more

intensive schemes aimed at large numbers of businessmen, because of difficulties and expense necessary to handle a large number of inquiries, because it is unnecessary to achieve large numbers if the success rate of small numbers is high, and because the Project can concentrate on those industries most likely to help achieve Thailand's aims.

(A more detailed look at the BOI itself and its limitations is contained in Annex V.)

The Project, through its marketing of Thai investment opportunities, will increase Thailand's competitiveness to attract businesses to areas in which Thailand has clear advantages, such as Agriculture, against some of its Asian neighbors. Moreover, the more selective, "go and find the investor" approach will identify many investors who are not already searching for Southeast Asian opportunities. As students of international investment have long noted, the process by which foreign direct investment occurs is rarely one involving a systematic search for opportunities, but is highly idiosyncratic, and is not (and for the most part cannot be, because of information shortages) a country-by-country comparison. In such situations, the country coming forward with information which reduces the cost of investment searches and demonstrates the comparative advantage of specific investment opportunities, will have a significant advantage over other countries, no matter how attractive their foreign investor services are.

Such a plan assumes that Thai-U.S. investors, once brought together, will be able to make a business arrangement that is satisfactory and profitable -- i.e. there are opportunities that are not being taken advantage of only because information is lacking. The various Project design teams have confirmed the high potential of Thailand for investors (see Annex IV). There appears to be no reason for additional incentives for many investments in Thailand.

None of this does any clear good for the country unless the particular investments made contribute to Thailand's Structural adjustment objectives. The Government has already made considerable progress in removing economic penalties for exporting and the IBRD suggestions for the BOI and recent BOI policy all provide greater support for export operations. The Project has to depend on continued RTG support for the Government's stated aims through its fiscal, monetary, and regulatory policies. What the Project principally does is to seek out and promote business opportunities that will satisfy the bulk of the criteria on the assumption they will also be viable ventures, particularly if given BOI incentives. In

addition, the linkages between private sectors in Thailand in the U.S. and the technical assistance from IESC should help firms, whether joint ventures with foreign firms or not, to be more efficient and thus provide greater support to the nation's goal for a better structured and efficient industrial base.

b. Improving the Institutional Environment

(1) Helping the Board of Investment

As accompanying material suggests, the BOI does need assistance in its operations. Indeed, of its three functions, attracting investment, judging and monitoring investments to be given BOI approval, and securing compliance with its wishes from other ministries, it is only the middle one, the judging, that it appears able to address adequately. It is also apparent that Thailand cannot wait for the BOI to be built up if it is to meet its Fifth Plan development objectives. The Project proposes to do for the BOI what it has been unable to do for itself -- handle a proper marketing campaign for investment in Thailand and provide the follow-up for those activities. The BOI knows that it is not performing these functions, given its present funding and staff, and is anxious for help. As indicated, there should be no problem in finding personnel or organizations to provide the marketing and investment survey work.

The Project's proposal can be viewed in two lights: (a) as an interim program, filling a gap while the BOI increases its capacity, and at the same time helping to train the BOI to do the job; or (b) as a pilot project for privately-run promotional activities which the RTG itself could finance after the Project expires. Either option (or a mixture) is plausible in the Thai political context. Present indications are that the RTG is going to build up the BOI; despite a very tight national budget, the BOI's budget for activities in Thailand was increased by 25% between 1981-1982, and another 17% between 1982-1983, (See Annex V) and new offices are to be built. It may, as a number of other countries in the region are doing, continue to use a public relations firm to supplement its operations for the foreseeable future.

The success of the Project is not dependent on either dramatic improvements in the BOI (although that would improve the investment climate) nor the granting of BOI privileges to all potential contacts. The use of independent organizations for marketing and contact with investors supplements the BOI and could be continued by the RTG. Secondly, BOI privileges are not necessarily decisive for the

viability of firms; many Thai and foreign private sector operations are doing extremely well without any BOI privileges. In a sense, the BOI privileges are more a "marketing tool" to attract investment than a decisive factor in the viability of that investment. Like an automobile rebate, the buyer doesn't buy unless he expects the automobile itself will function well and the rebate is only decisive when there are a number of close decisions.

There is a training effect from having consulting organizations work with the BOI. Should the BOI itself take over all marketing operations, the training would have to be stressed more. Should the BOI continue to use some independent services, it must be shown how to judge those services. At least in the initial stages, the training is much the same for both purposes.

(2) Improve Private Sector Capability to Affect RTG Policy/Planning

The Project seeks to improve the dialogue between business and government to move it from being an ad hoc, "favors and penalties" operation to one in which the business community articulates some consistent policy in a sound enough way that the government accepts at least some of it in its own policy formulation. Heretofore most Government policy has been set without formal or broad based dialogue with private sector interest. The Project effort is modest, but more vigorous tactics are unlikely to be fruitful in the current fragile environment.

The Project's grant to establish such a capability will meet a felt need and will help the business sector formulate policies. This is being done with the participation of the public sector because in the Thai context it is good to (a) have the effort appear to be one of cooperation rather than confrontation and (b) to give the results greater credibility and support in order to gain political effect. The expectation is that sound policy studies will lead to higher level, policy-oriented discussions that feed into both private sector and business sector activities. The Government would retain its watchdog and policy setting role, but will be better informed on the implications of its key policy decisions.

The Joint Public/Private Sector Committee will be an early beneficiary of the Project. The committee has had a promising start, and the businessmen who have participated have felt that there was dialogue that could result in better legislation and administration, especially with sound inputs

which have heretofore been uneven. Government members are high enough that their decisions carry considerable weight. The analyses work under the Project should enable the Committee to make more informed decisions and strengthen its viability as an institution.

Various other alternatives to get at the problem of poor communication between the sectors were considered, including seminars, educational changes, and public relations campaigns. None seemed to have as strong or lasting an effect as this proposal which strengthens existing institutional arrangements while providing a new base for more effective private sector input into the country's policy and planning.

(3) Widening Participation

The Project encourages a wider equity base in several ways: (a) by turning the search for opportunities and for foreign and domestic partners into a more technical, formal, and public process, (b) by giving special assistance to small and medium firms, (c) by encouraging ventures outside the Bangkok area, and (d) by promoting joint ventures, which increases smaller firm's credit ratings and opens more bankers' doors. The Project does not envisage restricting investment contacts to only small or "new" ventures because a number of larger Thai groups have important managerial and technical skills; moreover, the larger firms' political and moral support is need to sustain the program.

One means of widening the ownership base, developing the Thai Stock Market, was rejected as impractical under the Project. Such markets have never been very successful in LDC's and Thailand's is no exception. An attempt to subsidize capital to borrowers also does not in itself seem particularly promising, being or likely to lead to wasteful capital use and difficult administrative decisions on eligibility. The creation of new lending institutions is possible, but Thailand already has a sophisticated banking system and AID could have little impact on current practices and policies. A logical approach, then, would be to aid small and medium sized business to identify opportunities and partners and provide special credit facilitating services to lower risks for bankers, and this is the general approach of the Project.

3. Other Problem Areas

It should be noted that the proposed Project interventions will not be able to address all the problem areas

apparent in the private sector environment, but they will address many of the major constraints that appear to be ripe for resolution. No effort was made in the Project to address the whole area of "management" in the private sector because of its complexity and the need for more work to more precisely define the problems, and various options for addressing them. The PRE Bureau is following up on this area, and plans to do an assessment of the management sector as soon as possible. Follow-on activities in the management training area are possible from both centrally funded (PRE) and bilateral sources depending on needs and resource availabilities.

The whole area of "transfer of technology" is perhaps also only superficially addressed in this Project, although several components should produce substantial benefits in this area. It should be mentioned, however, that the Thai mission is pursuing this topic further, and in May-June, 1982, a consultant team did an assessment of the current industrial measurement and standards situation as well as technology research and development needs and capabilities in Thailand. The team concluded that substantial felt needs as well as actual deficiencies for all industrial sectors exist which should be addressed in order to properly support the objectives of the Fifth Development Plan. USAID Thailand expects to pursue this problem area in a Project planned for FY 1984.

Most foreign businessmen complain that "red tape" and bureaucracy are problems in doing business in Thailand. Many reasons for the slow and complicated RTG approval process for necessary licenses, privileges, etc. have been cited in the literature including the long mutual distrust and poor communications between the public and private sectors; an overburdened and complex bureaucracy that has limited resources and expertise to respond to policy direction; and historical/cultural characteristics that produce strong respect for authority figures such as traditional bureaucrats and produce strong patron client relationships that tend to constrain coordination among government agencies. As Gerald Sentell indicates in his study of the BOI (separately available from this PP), "It is sometimes difficult to determine whether a project is delayed because of red tape, simple inefficiency, political influence, or some combination of the three."

Clearly, this Project can do little to address many of these problems which are endemic to LDC's, and indeed are as much manifestations of under development as they are constraints to development. It should be noted, however, that despite these problems, there are many successful foreign and Thai businessmen who have prospered in Thailand. With the proper assistance from a local partner, consultant or shrewd

staff member many of the above hindrances can be relegated to minor annoyances. In the meantime, the RTG is doing what it can to address these problem areas and this Project may well serve as a catalyst to the process.

B. Socio-Economic Analysis

1. General Benefits

This Project does not lend itself to standard quantification of expected benefits. The detailed analysis in Annex IV illustrates, however, the potential impact in general terms based on reasonable assumptions for the various components. The investment/market surveys-cum promotion component has the potential for the most immediate and tangible economic effects. In the top priority agribusiness area, for example, a well-targetted promotional program can produce specific product-oriented investments, create new production capacity and employment in the processing and handling of the product, provide incremental farm employment and income from production of additional export supply, and help alleviate Thailand's balance of payments deficit. A recent PRE-financed study (see Annex IV) indicated that a number of very interesting potential investments are ready for development. These include cotton ginning, fish canning, peanut oil extraction, cashew nut processing, seed reproduction, and vegetable processing and canning -- all rural, labor intensive, and in need of private support for capital, technology, and market access. In addition, the study and related surveys indicated a large number of other agribusiness opportunities including further processing of agricultural products, fruits and vegetable processing and export, cattle and pig production, coffee processing, and numerous others. It should be noted that the simple existence of opportunity will not necessarily cause contact to be made between Thai and U.S. firms. The vice president of one of Thailand's most vigorous (and heavily agricultural based) firms, one with several U.S. partners, commented that U.S. firms did not appear to be aggressively looking for foreign opportunities, and his company had to identify potential investors, hunt them down, and persuade them to invest. He could not see a small Thai firm affording that kind of operation. The potential linkage with Northeast production-development efforts, especially off-season production in presently underutilized irrigation projects, offers the added impact of helping these investments raise the level of benefit above their current levels.

In the case of other labor intensive industries, such as the electronic industries, it may be argued that besides the employment that would flow from inducing these labor-intensive

industries to locate in Thailand, focusing on them under the Project will have a spread effect by helping attract other firms of labor-intensive, export oriented manufacturing operations. This would contribute to achievement of the RTG objective of moving Thailand into the small group of economies that will benefit from the next rounds of international investment as Singapore, Korea, Hong Kong and Taiwan shift towards more capital and skill-intensive industries, opening up the field for countries able to aggressively seize the labor-intensive ground. The detailed analysis indicates that for a number of economic and policy reasons, Thailand is well situated to achieve this objective.

The economic impact of the Thai-U.S. industry linkage component, and of the component designed to help strengthen the policy dialogue between the Thai government and private sector, cannot be specified except in general terms. The analogue between the interindustry linkage activity proposed and the earlier experience in Korea, India and Europe (under the Marshall Plan) that served as effective transmission belts of technology, is discussed elsewhere. The policy dialogue support activity will be helping the Thai private sector and RTG policy makers to more systematically and effectively determine how effectively the country seizes the opportunities for commercial and industrial growth that will arise in the next few years. Drawing on the RTG Fifth Plan, various IBRD studies, and the analyses behind the structural adjustment loan, the economic analysis section in Annex IV indicates the critical role that the current reshaping of Thai policy with respect to the private sector will have in the country's development in the 1980s, and the importance of continuing to improve the public-private sector dialogue on this policy for strengthening the investment climate. Thus the proposed assistance to the RTG-private sector dialogue process could have very substantial economic impact and influence on government-business relations in Thailand.

2. Social Impact

The Project contributes to the overall Thai effort to reduce poverty and income disparities through encouraging labor-intensive, raw-material based industries, particularly those that lie outside the wealthier Bangkok region. It makes these contributions on both macro and micro levels.

The marketing and the private-sector dialogue components are designed to encourage both domestic and foreign ventures in target areas of opportunity, while at the same time helping rationalize the price, tax, and incentive structure to (among other things) favor exports and labor-intensiveness.

Thai exports, it should be noted, are generally labor-intensive -- e.g. textiles, clothing, rice, pineapples, rubber, maize tobacco. As the Thai economy is presently being restructured, most successful new industries should help exports and employment. In the process of selecting particular industries for marketing, the Project will "narrow the information gap" on precisely those industries which will have a large effect on employment and income levels. Two such industries are agribusiness and electronics.

The Economics of many Thai agribusinesses favor locations near the source of supply whenever the costs of production compensates for any additional communications/transport costs. Employment is drawn largely from the rural or nearby small city areas. The vast majority of agribusiness firms use small farmers for some or all of their supplies. Large plantations are few and have generally been unsuccessful. A good example of an agribusiness based on small farmer supply is Adams Tobacco, a joint venture between Thai and U.S. interests, which has introduced a Turkish-style tobacco to 50,000 small farmers in the Northeast.

The income effects of each wave of agroindustry investment that Thailand has experienced in the past twenty years have reached even into previously remote and mainly subsistence areas, as entrepreneurs responding to emerging market opportunities in export of maize, cassava, kenaf, and other commodities, have scattered processing plants over large rural areas, and created new markets for very large numbers of the country's overwhelmingly small family farm units. The Project is designed to hasten the further development of this process.

The Project's emphasis on finding U.S. partners for ventures in Thailand reflects its interest in creating vertical marketing systems in which the U.S. partner would develop export markets while helping with technical concerns within Thailand. The planning and coordination that would occur between partners (whether joint venture or just good trading partners) would help alleviate problems of low farm prices or of sporadic supplies of highly irregular quality.

Some Consultants (e.g. Daniel Hefler of A.D. Little) have suggested that the electronics area in Thailand could benefit from additional study and/or vigorous promotion effort, partly because there is a lot of interest from international investors in Southeast Asia, and partly because of its employment effects. The equity effects of any one electronics industry investment will depend on the labor-intensity of the manufacturing process employed, where the plant is located,

extent of its backward-linkage effects, the real rate of protection (if any) and how long that lasts, the nature and distribution of ownership and the disposition of profits. What matters in this case is the setting in motion of more efficient processes through which Thailand is enabled to capture a greater share of international electronics investment (based essentially on wage costs/quality comparisons, as long as technology in parts of the electronics industry remains highly labor-intensive) and the development of international recognition that Thailand has become another member of that small group of (mainly Southeast Asian) countries where labor-intensive industries can most profitably locate. The choice of electronics was made by the RTG. It is a sensible area for Thailand to go for in this international competition for foreign investment, but it is the development of the ability to attract industries of similar economic character that is the underlying objective that, if attained, will bring sustained investment benefits to the country and contribute significantly to its replicating the "Gang of Four" (Korea, Taiwan, Hong Kong, Singapore) model. The powerful equity impact in this growth model is not found so much in the redistribution of income shares among population groups, as the aggregate effect on overall growth of the economy, and on the absorption of the labor force into full employment with consequent assurance that wage rates will rise along with general growth, and the absolute levels of the lowest income deciles will rise along with the middle and higher levels.

There are a number of other industries which have significant potential to contribute to both AID and RTG objectives: handicrafts, bamboo and rattan furniture, pottery and file, for instance, are all labor-intensive, up-country industries with international potential. Under the Project, ventures in these areas could be assisted directly through the IFCT component and the IESC technical assistance.

3. Absorptive Capacity for Foreign Investment

Given the present moderate relative size of foreign investment to total private capital formation (only 2% from 1975-1979) and the moderate ratio of U.S. investment flow into Thailand (15% of the total in 1980), and the long-standing favorable attitude of the RTG towards U.S. investment, there are no foreseeable reasons why even a substantial rise in U.S. investment should encounter any barriers.

4. Environmental Concerns

Annex IV contains a request for a negative determination. No significant negative environmental effects

are expected directly from the Project, but the National Environmental Board of Thailand will be requested to serve in an advisory capacity to ensure adequate monitoring.

5. Role of Women

No particular effort has been made under the Project to especially involve women in any of the activities, however, it is expected that they will benefit at least as much as men from the employment opportunities that should result from the Project. It is planned that the Project evaluations will include an analysis of differential impacts on men and women, (if any exist) and attempt to ensure women adequately benefit under the Project.

C. Financial Analysis and Plan

1. General

The total costs associated with this four year Project are estimated to be \$10.24 million, with \$4.0 million contributed from the grant, \$2.1 million from the loan, \$1.56 million from the Royal Thai Government, \$2.1 million from the IFCT, and \$0.98 million from the private sector.

Considering only the AID/RTG portion of the grant financed components, AID will finance 72 percent of estimated costs and the RTG will finance 28 percent of costs. The cost sharing for the loan-financed activities will be 50 percent from AID and 50 percent from IFCT. The private contribution will be associated with the grant-financed elements and represents 5 percent of the estimated total cost of the Project. Costs for each component are described below, and shown in Figures III.C.1 and III.C.2.

2. Business Opportunities

This component comprises one full-time expatriate consultant (promotion) and one full-time Thai (industrial development) for a three year period (at \$155,000 per person year for the expatriate including overhead and local travel expenses, plus \$50,000 per person year for housing, vehicle and driver and \$35,000 per person year for first class Thai/local consultant); \$200,000 for 10 local investment surveys by quality local firms; \$500,000 for the services of a local consulting firm for domestic investment promotion, including one full-time person to help develop local business contacts, local office support for the two consultants, seminars for investment missions, media coverage and newsletter; \$1,000,000 for U.S. based marketing support,

Figure III.C.1 - Estimated Project Costs
(\$000)

Project Component	AID Grant		AID Loan		RTG	IFCT	Private Sector		Total
	FX	LC	FX	LC	LC	LC	US	Thai	
1. <u>Business Opportunities Identified/Marketed</u>									
(a) Two Consultants for three years.	465	255	-	-	-	-	-	-	720
(b) Local investment surveys	-	200	-	-	-	-	-	-	200
(c) Thai promotional support program	-	500	-	-	-	-	-	-	500
(d) U.S. based marketing consultant and investment mission program.	1,000	-	-	-	-	-	-	-	1,000
(e) Overall contract coordination/administration support.	180	-	-	-	-	-	-	-	180
(f) BOI Program and Administratives support	-	-	-	-	1,500	-	-	-	1,500
Sub-Total	1,645	955	-	-	1,500	-	-	-	4,100

Project Component	AID Grant		AID Loan		RTG	IFCT	Private Sector		Total
	FX	LC	FX	LC	LC	LC	US	Thai	
2. <u>Strengthen Private Sector Dialogue with RTG</u>									
(a) One local program analyst/planner.	-	80	-	-	-	-	-	-	80
(b) Two Studies Directors	-	120	-	-	-	-	-	-	120
(c) 40 studies	-	200	-	-	-	-	-	200	400
(d) Admin. Support	-	30	-	-	60	-	-	60	150
(e) Facilities/equipment	-	10	-	-	-	-	-	100	110
Sub-Total	-	440	-	-	60	-	-	360	860
3. <u>US/Thai Private Sector Linkage</u>									
(a) Industry Visits	200	-	-	-	-	-	50	50	300
(b) Administrative Costs	150	-	-	-	-	-	10	10	170
Subtotal	350	-	-	-	-	-	60	60	470
4. <u>Technical Assistance Grant to IESC</u>									
25 grants of 3 months each.	100	-	-	-	-	-	-	100	200
Sub-Total	100	-	-	-	-	-	-	100	200

Project Component	AID Grant		AID Loan		RTG	IFCT	Private Sector		Total
	FX	LC	FX	LC	LC	LC	US	Thai	
5. <u>IFCT Loan Program</u>									
Sub-Total	-	-	-	2,100	-	2,100	-	-	4,200
6. <u>Evaluation</u>									
Sub-Total	75	25	-	-	-	-	-	-	100
Total All Components	2,170	1,420	-	2,100	1,560	2,100	60	520	9,930
Contingency (11%)	240	170	-	-	-	-	-	-	410
Grand Total	2,410	1,590	-	2,100	1,560	2,100	60	520	10,340

Note: Inflation of 10 percent per year was considered in developing the above cost estimates.

Figure III.C.2 - Annual Financial Summary - AID Contribution
(\$000)

Project Component	Year 1	Year 2	Year 3	Year 4	Total
1. Business Opportunities Identified/Marketed	-	885	960	755	2,600
2. Strengthen Private Sector Dialogue	80	110	120	130	440
3. US/Thai Private Sector Linkage	-	110	115	125	350
4. IESC Technical Assistance	20	25	25	30	100
5. IFCT Loan Program	500	500	500	600	2,100
6. Evaluation	-	50	-	50	100
7. Contingency (Grant)	10	135	140	125	410
8. Total	610	1,815	1,860	1,815	6,100

including one full-time consultant to develop potential investors/business contacts for Thailand, computer time to locate and screen potential investors, organizing 3 investment missions (transportation), seminar program for U.S. bankers and business people on opportunities to Thailand (3 seminars), plus expenses for transportation and communications; and \$180,000 for contract administration by a senior management representative of the consulting firm to provide supervision and counsel on all aspects of the program (two trips per year plus two months per year backstopping).

The BOI is estimated to have to provide virtually half of its operating budget for support of this accelerated program, or the in-kind equivalent of \$500,000 per year over three years. This includes program support for publications, analyses, and overall management and coordination of this component.

3. Strengthen Private Sector Dialogue

This component will consist of \$80,000 for a top quality local analyst/planner for 36 months, \$120,000 for two studies directors for ATI and the Thai Chamber of Commerce, 40 policy studies by quality local consulting firms (\$200,000 from AID plus \$200,000 from the private sector); \$60,000 in-kind contribution from the public sector and a like amount from the private sector for salaries of staff who will be rotated through the JSC secretariate. (AID will provide a 25 percent incentive payment for staff at \$30,000.) Plus \$10,000 from AID for locally procured office equipment.

4. U.S./Thai Private Sector Linkage

This component will provide \$200,000 from AID for 6 visits by approximately 15 businessmen (each trip) between the U.S. and Thailand. It is expected that the grant will provide for transportation costs only and that the industry clubs will work out arrangements for lodging and programs, estimated cost \$120,000. The AID grant also provides \$150,000 for the services of a U.S. private sector association to coordinate this component.

5. IESC Grant

AID will provide \$100,000 grant to subsidize fifty percent of the costs IESc charges smaller enterprises. These costs are currently \$7,000 for a three month consultancy and thus would allow for about 25 consultancies.

6. IFCT Loan

The financial plan and arrangements for this \$2.1 million component are provided in a separately available document.

7. Evaluation

Two evaluations will be financed at \$50,000 each under the Project for the equivalent of 6 person months of expatriate and local expertise for each evaluation.

8. Financial Arrangements

It is expected that AID will directly disburse all grant funds to contractors hired under the Project, using standard AID financial procedures. For local procurement and studies, the concerned private sector organizations are expected to develop contracts/purchase orders in close coordination with AID and DTEC and AID will directly disburse funds against the approved documents. For international travel, AID can purchase tickets for investment visits upon request of the ATI, using standard fly America regulations. Visas and passport arrangements can be worked out by the concerned firms, or if necessary, with the assistance of the Grantee (DTEC). For the IESC component, AID and IESC will sign a standard IESC agreement that will provide the necessary services and IESC will be advanced funds for each consultancy upon presentation to AID of a proper invoice.

IV. IMPLEMENTING ARRANGEMENTS

A. Administrative Arrangements

1. General

This Project's implementing arrangements are predicated on three basic principles:

- The Project organization should not subvert existing organizational arrangements for facilitating public/private sector dialogue but should aim to strengthen them whenever possible.

- The Project should have strong representation from both the public and private sector and direct access to the Prime Minister's joint public/private sector committee for policy guidance and interagency coordination when necessary.

- U.S. interests should be represented in the organizational structure since a key objective of the Project is to expand access to U.S. markets and investors.

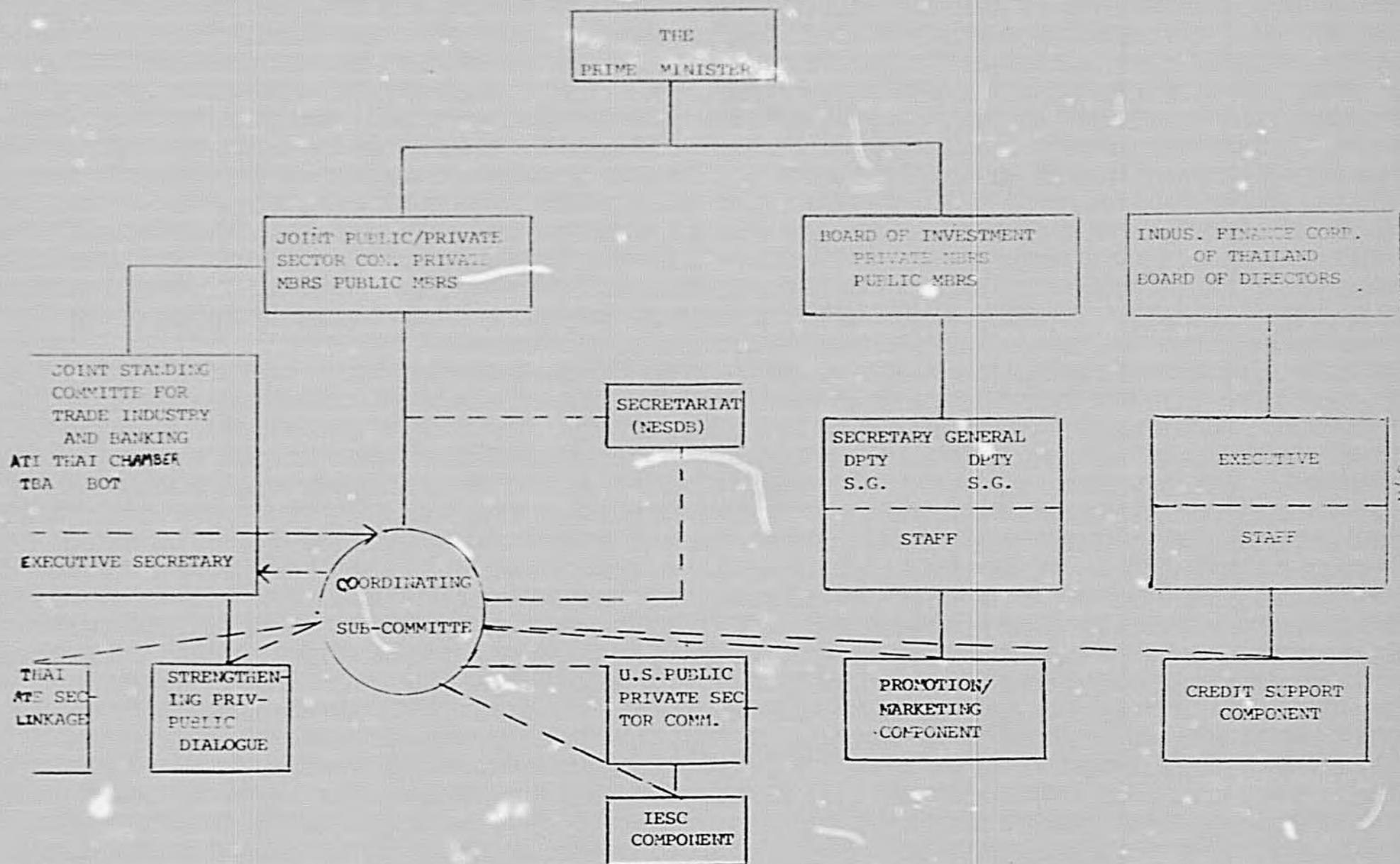
Fulfillment of the objectives of this Project requires that established agencies of the RTG - the BOI; the IFCT, a quasi public agency; the Joint Public/Private Sector Committee; and the Joint Committee on Trade, Industry and Banking - each function with increasing effectiveness. The private sector, and particularly the agencies that represent it - the ATI, Thai Chamber, BOT and TBA - must also play an increasingly effective role in the formulation of RTG policies and their execution.

Figure IV.A pictures the organizations that are involved and suggests the interrelationships. It indicates the agencies of the private sector that are involved, the components for which they are responsible, and the organizational mechanisms through which they are expected to have an influential voice in the implementation of this Project.

It is planned that the Prime Minister's Joint Public/Private Sector Committee, which is composed of the Government's economic ministers and representatives of each key private sector business organization, will make its existing Coordinating Sub-committee responsible for continuing oversight of the implementation of the Project.

This Subcommittee consists of representatives of the private sector business organizations and of agencies of the RTG. It is chaired by the representative of the National Economic and Social Development Board and this ensures that

FIGURE IV-A-PROPOSED ORGANIZATION FOR PRIVATE SECTOR



Project activities will conform to the objectives of the Fifth Development Plan.

The functions of this Sub-committee in relation to the project are:

a. to involve representatives of the Thai private sector in the effort to accelerate the directed growth of private enterprise in Thailand and stimulate investment at home and from abroad in priority development areas.

b. to monitor the execution of components of the Project by each responsible agency and to offer advice for their guidance.

c. to consider operational plans for carrying out of the Project as they are formed prior to each fiscal year 83-87.

It is contemplated that the sub-committee will meet to consider and to coordinate Project activities each month, and may call upon the executing agencies BOI, IFCT, the JSC, ATI, Thai Chamber, and IESC - quarterly (or less often) to review with it the progress being made and problems encountered. A representative from USAID is expected to sit with the Sub-committee as an observer.

U.S. assistance and coordination will be provided by a counterpart Public/Private Sector Committee composed of representatives from the U.S. Embassy Economics Section, Agricultural Attache Office, Commercial Section, USAID, the American Chamber of Commerce and the International Executive Service Corps representative in Thailand. This committee has been functioning since early Project design and is chaired by the Deputy Chief of Mission. The committee has played and should continue to play an important role in coordinating the activities in Thailand of TDP, PRE, OPIC and other U.S. agencies without local representatives and that have important implications for the private sector program in Thailand.

Within USAID, a new office of private enterprise is being established to monitor the Project. The office initially will be composed of one U.S. direct hire and one local professional with broad experience in the Thai private sector, and a secretary. The office will represent AID in the U.S. joint committee and will be the contracting office for all grant-financed consultant assistance under the Project.

2. Procurement/Contracting Arrangements

AID direct contracts are proposed for the consultant assistance because of the need for close liaison with the American Chamber of Commerce, OPIC and the Department of Commerce on the search for potential U.S. business ventures for Thailand plus the need to minimize red tape to the extent possible when dealing with the private sector. Experience has shown that AID direct contracts in Thailand can be executed more quickly and administered more effectively than most host country contracts, and there is minimal loss of host country control if lines of authority are clearly specified in the contract. Since contractors invariably prefer an AID contract to a H.C. contract and because the nature of the work will require providing supplemental services quickly and efficiently, there appear to be clear advantages to having a direct AID contract for the contracts envisioned under the grant (promotional/marketing services and policy studies).

B. Implementation Plan

This Project is expected to be carried out over a four year period, beginning FY 83 until FY 87. This time period corresponds to the last four years of the Fifth Development Plan and Project targets are geared to the objectives of the Fifth Plan.

The first year of the Project will commence after initial Conditions Precedent are met and will be devoted primarily to setting up the administrative arrangements for the Project and hiring/mobilizing the necessary consultant assistant. Experience has shown that it often takes a year or longer to develop proposals, advertise, select, negotiate and contract with consultant firms. Other first year activities will include developing and approving the counterpart budgets for BOI operations in FY 83, and planning necessary surveys for promotional campaigns that will be initiated in FY 84. (Some planning studies and/or workshops may be financed in the first year.) Selection of U.S. business organizations to counterpart ATI and finalization of plans for cooperative arrangements should also be accomplished in Project year one. Selection of major policy issues for FY 83 and consultants to analyze them should be completed, along with the selection of staff. (Figure IV.B shows the general implementation plan for each of these components.

In year 2 (FY 84) Project implementation will begin in earnest. Opportunity surveys will be initiated by the BOI for attractive business opportunities in Thailand that conform to structural adjustment objectives, and marketing surveys for U.S. firms that have interests in priority activities already identified (e.g. Seeds fruit/vegetable processing, cashew/peanut processing and marketing etc per Annex IV) will be initiated by the BOI consultant. A promotional campaign plan will be developed and the first targetted promotion campaign will be carried out for the selected Agroindustry opportunities.

Simultaneously, but independently of the above, the first policy analysis studies will be initiated by the JSC secretariate and issues for future analysis will be planned.

During year 1, the ATI should have completed arrangements with a U.S. counterpart organization for the first industry club visits, and the first visits are planned for early in year 2. Two visits per year (plus associated seminars and related activities) are planned for the final three years of the Project.

The other two Project elements, the IFCT credit support component and IESC technical assistance for small/medium-sized firms, are likely to start prior to the above elements since procedures and administrative arrangements are already well established for these components. IFCT has a long history of dealing with donors such as IBRD, ADB, OECF and is well-managed and staffed. It is expected that the first loans and special fund activities under the Project can be initiated in year 1 for small/medium-sized firms and completed early in year 2. Similarly, the local IESC office has been adept at locating firms interested in their assistance and IESC is expected to be screening applicants for Project assistance even before AID and IESC can sign an Agreement. The first IESC consultants accordingly are expected to be working with firms in priority sectors early in Project year 1.

The above schedule should allow adequate time for the Asia Bureau regional projects to complete arrangements for a U.S. Agroindustry consultant to assist in resolving any technical issues related to agroindustry. It is also anticipated that the Asia Bureau marketing study will have been completed in time to help prepare a market campaign plan early in year 2.

FIG. IV B. PRELIMINARY IMPLEMENTATION SCHEDULE

PROJECT COMPONENT	PREIMPLEMENTATION PERIOD (Post PP approval until initial Condition Precedent met) 3-4 MONTHS	YEAR 1	
<p>General Project Administration (Project Secretariate)</p>	<ul style="list-style-type: none"> - Agreement Signed - Establish Private Sector Subcommittee and Project Secretariate - General Implementation and Evaluation Plan. - Initial CPs met. 	<ul style="list-style-type: none"> - Implementation Plan for Year 2 	
<p>Opportunities Marketing Component (BOI)</p>	<ul style="list-style-type: none"> - Designate BOI Contact - Develop Terms of Reference for Consultants 	<ul style="list-style-type: none"> - BOI Budget for Year 2 - Advertise - Select Firm - Negotiate - Contract - Consultants on board. 	
<p>Strengthening Private Sector Dialogue with RTI (Joint Standing Committee)</p>	<ul style="list-style-type: none"> - JSC appoints committee for project implementation. - Office facilities and equipment requirements determined. 	<ul style="list-style-type: none"> - Advertise and Contract with Analyst/Planner (local PSC) - Set up Office Facilities - Select initial Policy Issues for Analysis - Work scope for initial studies. - Designate Staff from RTG and Private Sector 	
<p>Establish Linkages between Thai/US Private Sector (ATI)</p>	<ul style="list-style-type: none"> - ATI Appoints Committee for Project Implementation - Develop TOR for US Counterpart Organization - Priority Industry Groups Designated. 	<ul style="list-style-type: none"> - Advertise for US Counterpart Organization. - Select US Counterpart - Develop plan for Visits during Year 2 	
<p>Technical Assistance for Small/Medium Sized Firms (IESC)</p>	<p>AIJ/IESC Agreement Developed</p> <ul style="list-style-type: none"> - Agreement Signed <p>List of firms for first year developed</p>	<ul style="list-style-type: none"> - IESC Consultants located - First IESC Consultants <p>List of firms for Second Year</p>	<p>IESC continues to look for and meet needs of small firms</p>
<p>Credit Support Component (IFCT)</p>	<ul style="list-style-type: none"> - Operational Plan for administering the loan and special fund. - Administrative arrangements established. 	<ul style="list-style-type: none"> - Potential list of borrowers - Seminars - Prefeasibility/feasibility Studies. - First loans given - Second list of borrowers 	
<p>Other AID Programs</p>			
<p>AID US/Regional Marketing Survey</p>	<ul style="list-style-type: none"> - Marketing Surveys Completed. 	<ul style="list-style-type: none"> - Survey Materials Available. 	
<p>AID Regional Private Policy Review Project</p>	<ul style="list-style-type: none"> - Asia Bureau identifies Agricultural experts 	<ul style="list-style-type: none"> - Agro Industry Expert Available in Bangkok 	

YEAR 2	YEAR 3	YEAR 4
<ul style="list-style-type: none"> - Implementation Plan for Year 3 - Evaluation of First Year's Activities. 	<ul style="list-style-type: none"> - Implementation Plan for Year 4 - Evaluation of Second Year Activities. 	<p>Final Project Evaluation.</p>
<ul style="list-style-type: none"> - Initiate Opportunities Surveys (Thailand) -Market Opportunity Surveys (US) -Marketing Campaign Plan - Begin First Campaign based on available material - BOI Budget for Year 3. 	<ul style="list-style-type: none"> - Continue Opportunities Surveys (10) - Second Marketing Campaign - Second Investment Mission - First Investment Mission BOI Budget for Year 4 	<ul style="list-style-type: none"> - Third Marketing Campaign - Third Investment Mission
<ul style="list-style-type: none"> - First Studies Carried out - Issues for Year 3 identified 	<p>Studies continue as topics designated throughout project life (15-20 studies estimated)</p> <ul style="list-style-type: none"> - Issues for Year 4 identified. 	
<ul style="list-style-type: none"> - Initial Industry Club Visits - Industry Club Visits - Develop plan for Visits during Year 3 	<ul style="list-style-type: none"> - Industry Club Visits - Industry Club Visits - Develop plan for Visits during Year 4 	<ul style="list-style-type: none"> - Industry Club Visits - Industry Club Visits
<p>List of firms for Third Year</p>	<p>List of firms for Fourth Year</p>	
<p>Loan continued through Project</p>		
<ul style="list-style-type: none"> - Third list of borrowers 	<ul style="list-style-type: none"> Fourth list of borrowers 	
<p>Agro Industry Expert Available in Bangkok Throughout Life of Project.</p>		

The above preliminary implementation plan indicates that while there are several separate components of the Project that will be carried out more or less simultaneously none of the components are necessarily dependent on the other. Coordination will be limited to regular monthly overviews of the Project by the Private Sector Project Subcommittee, but these overviews will primarily be to track progress and results and insure that each component is contributing to the overall Project objectives.

C. Evaluation Plan

The Project subcommittee will appoint a special evaluation committee to plan for evaluations. In-depth evaluations of the Project are planned for year 2 and at the end of year 4, but the dates are flexible depending on needs. The first evaluation will assess the results of preparation activities to help ensure activities are being developed on a firm base with good management and expectation of success. This evaluation will be used to develop baseline data and to "fine tune" the Project to increase its potential impact, and it will involve consultant assistance. The types of baseline data appropriate for the Project will need to be thoroughly discussed prior to this effort.

An evaluation may also be done at the end of the third Project year to assess the progress of each component prior to preparing the implementation plan for year 4. This evaluation could be done in-house by the Project Subcommittee.

The final in-depth evaluation is also expected during year 4 and will be useful for determining possible follow-up actions necessary to address priority problem areas affecting the private sector at that time.

D. Conditions Precedent, Covenants

1. Initial Conditions Precedent

a. Initial Conditions Precedent for Grant Assistance

- (1) Designate Grantees Authorized Representatives.
- (2) Policy objectives of the Project.
- (3) General Project implementation/evaluation and financial plan for the life of the Project, including overall organization and plan of action.

b. Initial Conditions Precedent Under the Loan

- (1) Opinion of Counsel.
- (2) Borrower's Authorized Representative.
- (3) IFCT policies and operational plan for administering the special fund resulting from profits from the Loan.
- (4) IFCT policies and operational plan for administering the Loan including criteria to be applied and procedures for reviewing authorizing and managing the subloans associated with the Loan.
- (5) Evidence that the borrower has appointed sufficient staff to administer the Project and keep adequate records.
- (6) A plan for quarterly reports to USAID in the status of the Loan.
- (7) A plan for periodic audit of subloans and the special fund.

2. Conditions Precedent to Disbursements for Specific Project Activities

a. Opportunities Marketing Component
(Except for Services of Consultants and studies)

A complete marketing plan on an annual basis that indicates program objectives, target consumers, opportunities assessment plan, organizational arrangements and an implementing plan and schedule showing time frames and responsibilities for major actions.

b. Strengthening Private Sector Dialogue
(Except for services of long-term consultants)

- (1) Policy objectives and organizational arrangements for this component.
- (2) On an annual basis, priority policy issues to be scheduled during the subsequent year along with an annual

financial plan, including expected expenditures and private sector contribution.

c. Establish Linkages between Thai/US Private Sectors

- (1) Policy objectives and organizational arrangements for this project component, on the Thai Side.
- (2) Evidence that a suitable U.S. counterpart organization will provide necessary liaison function in the U.S.
- (3) On an annual basis, plan of action and financial plan for each succeeding year.

Covenants

1. The Borrower/Grantee agree to involve the National Environmental Board in monitoring the Project activities to ensure that any potential negative environmental effects of the Project are minimized.

2. The Government and AID agree on the importance of having new facilities and an improved program for investment promotion. The Government accordingly will make every effort to address these problems during this Project's life.

Private Sector in Development
Project Paper
Annexes

- I. PID Approval Cable (State 339830)
- II. Logical Framework
- III. American Chamber of Commerce Recommendations to Improve the Investment Climate
- IV. Detailed Economic and Technical Analyses
 - (I) Detailed Economic Analyses
 - (II) Summary of Comparative Investment Incentives
 - (III) Results of Agroindustry Survey
 - (IV) Summary Assessment of Agroindustry Investment Opportunities
 - (V) Summary of Private Sector Agrobusiness Development
 - (VI) Initial Environmental Examination
- V. Socio-Institutional Analysis and Background Material
 - (I) Private Sector Institutional and Cultural Environmental
 - (II) Concentration of Ownership
 - (III) BOI Action Plan
 - (IV) ATI Policies and Objectives
 - (V) IFCT Policies and Objectives
- VI. Statutory Checklist
- VII. Application for Assistance

ANNEX I

PID APPROVAL CABLE

VZDZCES A350PSC681
RR RUMTEK
IF RUEHC #9830/01 3581505
ZNR UUUUU ZZL 24 DEC 81
R 2413107 DEC 81 TOR: 1506
FM SECSTATE WASHDC CN: 01341
TO AMEMBASSY BANGKOK 6810-11
BT INFO ECON CHRON
UNCLAS STATE 339830 7/WR

CHARGE: AID 4

AIDAC

E.O. 12065: N/A

TAGS:

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

REF: BANGKOK 58699

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

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

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

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

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

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

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

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

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

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

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

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

10. APAC APPROVES THIS PID. HOWEVER, GIVEN TENTATIVE NATURE OF SOME ASPECTS OF PROJECT AND FACT THAT WE ARE STILL WORKING OUT SOLUTIONS TO MANY OF THESE ISSUES IN THIS NEW AREA OF ACTIVITY, WE WISH TO MAINTAIN CONTINUING DIALOGUE WITH PERIODIC STATUS REPORTS FROM USAID DURING PROJECT DESIGN PROCESS. USAID SHOULD ALSO CABLE ASAP SCOPE OF WORK FOR PDS/PRE FUNDED CONSULTANTS. FINALLY, PLEASE ADVISE OF ANY ASSISTANCE NEEDED FROM BUREAU AND PRE THROUGHOUT DESIGN OF THIS PROJECT. HAIG
BT
#9830

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

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

The Project's focus has been narrowed to emphasize assisting the RTG attract business ventures to priority development sectors, strengthening the dialogue between the Thai private-public sectors, and facilitating U.S.-Thai private sector linkages. A technical assistance and credit support program studies component will be utilized to facilitate small/medium sized enterprise participation in this process, but this type of assistance is not seen as necessary for large ventures. The Project outputs focus on encouraging business ventures to invest and apply business skills to resolving development problems, and the Project no longer includes downstream "hand-holding" for committed investors. Most private sector firms neither need nor desire such involvement by the public sector.

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

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

2. Problem with Availability of Grant Funding, Cable Paragraph 4

USAID/Thailand has placed highest priority on this Project's access to available grant funds. The proposed financial plan represents a viable compromise on a loan/grant split.

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

Strong emphasis was placed on such coordination during Project design.

- (a) The OPIC mission during July 1982, was planned in conjunction with the Project's focus on the Agribusiness and Electronics sectors and planning for this mission benefitted from the Project organizational structure on both the U.S. and Thai sides.
- (b) The regional TDP representative has had significant input Project design and it is expected that TDP will finance at least some feasibility studies identified under the Project that meet their criteria.
- (c) Much of the Project's framework was designed during the PRE reconnaissance team's visit during February, 1982, and PRE financed much of the consultant assistance to finalize his proposal. PRE and USAID bilateral efforts will be complementary.

4. Project Complexity and Administration, Cable Paragraph 3

This Project is perhaps the least complex of any current AID project in Thailand. It is focused on the agencies of the RTG they are central to the stimulation of private investment. It does not involve any construction or offshore goods procurement that often impose heavy burdens on implementing agencies. All necessary coordination may be done in Bangkok and not at regional, provincial and local levels as is necessary with many AID projects. Components are independent and do not have to be implemented in close concert with one another except at a policy level. The administrative structure is compact and based on existing systems and patterns. The Project is eminently doable and has sufficient support from the highest levels of both the RTG and Thai private sector to succeed.

5. Nature of Project Constraints

The Project focuses on the reduction of constraints identified by numerous consultants to the Thai Government as restricting private sector involvement in achieving basic national objectives, i.e. regional development, increased employment, decreased trade deficits. Those constraints are as follows: (1) inadequate knowledge by foreign businesses of opportunities in Thailand and by Thai investors of sources of export markets, appropriate technology and expertise; this is particularly relevant in view of the intense competition for

foreign investment within the Asian region; (2) economic policies that have favored formation of a comparatively inefficient, capital intensive, import substitution-oriented industrial base centered around the Bangkok area; (3) concentration of private sector wealth and power in a relatively small number of local business groups, tending to restrict the growth and entry of smaller entrepreneurs into key development sectors; (4) generally, poor communication between the public and private sectors which weakens any action to resolve other constraints and increases the uncertainty that private businesses must face in the business climate.

6. Impediments to Investment Outside of Bangkok

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

ANNEX II
PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

HD 100-20 (7-78)
SUPPLEMENT 1

Project Title & Number: **PRIVATE SECTOR IN DEVELOPMENT (493-0329)**

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

Life of Project:
From FY 1988 to FY 1988
Total U.S. Funds: 4.0 mil. Grant 2.0 mil. Loan
Date of Credit: June 1982.

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>Restructure Thailand's economic growth to reduce trade deficits as a percent of GDP and reduce unemployment, particularly outside of Bangkok.</p>	<p>Measures of Goal Achievement: (A-2)</p> <ol style="list-style-type: none"> Trade deficit decreased from 8.2% of GDP to 4.5% of GDP. Manufacturing employment to expand by an annual rate of at least 165,000 persons (7.6 percent). Rate of growth of employment in areas outside of Bangkok area exceeds that of Bangkok area. 	<p>(A-3)</p> <p>NESDB and Bank of Thailand reports.</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <ol style="list-style-type: none"> Imports of petroleum continue to decrease as other resources tapped. Free enterprise policies maintained with minimum government control. Government will continue to provide priority attention to efforts to improve investment climate and promote private investment.
<p>Project Purpose: (B-1)</p> <p>Improve the climate for and accelerate the growth of private sector business ventures in priority development sectors (export oriented, natural resource based, and labor intensive industries), particularly in areas outside of Bangkok.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status. (B-2)</p> <ol style="list-style-type: none"> Private firms of all sizes providing new investments for priority development sectors. Increased flow of technology, market linkages and management improvements from U.S. private sector to Thai private sector in priority development sectors. Improved investment climate reflected by better tax and incentive structure for businesses in priority development sectors. 	<p>(B-3)</p> <ol style="list-style-type: none"> Bank of Thailand and Board of Investment reports. Project Evaluations. Board of Trade and Association of Thai Industries reports. 	<p>Assumptions for achieving purpose: (B-4)</p> <ul style="list-style-type: none"> Adequate numbers of attractive investment areas and potential investors available. IBRD structural adjustment loan implemented as planned.
<p>Output: (C-1)</p> <ol style="list-style-type: none"> Intensive promotional program directed at attracting private enterprise participation in priority development concerns. Establish an effective policy analysis unit for public/private sector issues. Establish linkages between industry groups in Thailand and U.S. for priority industries. Credit support program for small/medium sized businesses. IESC providing assistance to small firms desiring to expand or begin new operations in priority sectors. 	<p>Magnitude of Output: (C-2)</p> <ol style="list-style-type: none"> (a) Ten investment surveys conducted (b) Three investment campaigns conducted. Minimum of 20 studies being acted upon for private sector related policy. Six industry group visits/seminars. Loans made for \$4.2 million and credit support program in operation. Approximately 25 consultancies arranged for facilitating private sector participation in priority development concerns. 	<p>(C-3)</p> <ol style="list-style-type: none"> Project reports/records. Evaluations. 	<p>Assumptions for achieving output: (C-4)</p> <ul style="list-style-type: none"> RTG/private sector relations do not deteriorate.
<p>Input: (D-1)</p> <p>Technical Assistance funds for surveys, seminars, investment missions, feasibility analysis, loan funds.</p>	<p>Implementation Target (Type and Quantity) (D-2)</p> <p>(See PP Budget for details.)</p>	<p>(D-3)</p> <p>Project Records.</p>	<p>Assumptions for providing inputs: (D-4)</p> <p>(As related to inputs)</p>

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

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

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

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

2. A single Government policy toward foreign investment is required

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

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

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

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

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

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

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

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

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

Specific Areas for Improvement

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

1. Price Controls

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

2. Income Taxation

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

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

3. Business Tax

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

4. Legislation

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

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

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

Customs

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

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

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

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

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

6. Alien Business Law

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

Conclusion

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

Annex IV

Detailed Economic and Technical Analyses

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

Detailed Economic AnalysisA. Private Sector Environment and Characteristics1. Introduction

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

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

Table 1Growth Indicators 1968-78, % Per Annum

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

1/ 1968-77.

Source: IBRD World Tables

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

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

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

2. Sectoral Characteristics

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

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

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

Table 2

Composition of Merchandise Exports (%)
(Current Prices)

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

a/ Preliminary

b/ Projected

Source: IBRD, SAL draft report 11/81.

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

Table 3

Manufacturing Structure

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

Source: IBRD Background Papers.....

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

Table 4Regional Distribution of Manufacturing 1976

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

Source: NESDB, Yearbook of Labor Statistics 1977.

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

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

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

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

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

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

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

3. Policy Framework

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

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

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

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

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

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

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

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

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

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

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

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

4. Policy Implementation

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

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

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

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

B. Socio Economic Impact of the Project

1. Feasibility of Objectives

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

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

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

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

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

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

This Project also aims to support RTG goals to accelerate the dispersal of industry. The share of the regions outside Bangkok and the Central Region in manufacturing output has been dropping as manufacturing investment has continued to concentrate heavily near the Gulf of Thailand and the main transportation and communication hub of the country, even if the diseconomies of location in Bangkok itself have begun to induce more location outside the city proper. (Between 1962-78, the share of Bangkok and the Central Region in total manufacturing value-added rose from 76% to 82%). As stressed elsewhere in this paper, the major incentive for investment in the outlying regions must be in the economics of location, where clear cost advantages are obtained by citing processing facilities near sources of supply of low value-to-volume commodities. The stress of this Project on agrobusiness, and on the assistance to BOI to strengthen its promotional activities in this sector, will therefore be important for this objective. Given present knowledge of the resource base of these areas, there is little likelihood that regional diversification can develop to any significant extent through any other route. The difficulty of achieving the target is illustrated by the fact that the rate of real growth in manufacturing value added in the Northeast during the period 1973-78 was only 3% a year. It would take more than a doubling of that performance for the Northeast equal the Bangkok-Central region if the economy as a whole (and thus primarily the Bangkok area) achieves the overall target of 7.6%. This objective will require strong promotional and policy support if it is to be achieved.

2. Economic Impact

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

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

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

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

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

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

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

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

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

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

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

Results of Survey of Agroindustry
Investment Opportunities and Constraints

(May, 1982)

I SUMMARY AND CONCLUSIONS

A Projects Identified as Attractive

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

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

1.02 - Another factor is the relative cost of hybrids to the alternate seeds available to the farmer. While yields when using hybrid seeds are higher they require a cash outlay while when using presently available varieties (even the improved strain - Suwan 1) the farmer can use seeds retained from his previous harvest. The risk of drought may deter the farmer from making that cash investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Major Constraints Identified

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

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

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

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

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

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

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

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

Table 1 - Project Nominated : New vs Expansion

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

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Table 2 - Projects Nominated With Export Potential

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

Table 3 -No. of Jobs Created

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

Table 4 - Projects With High Employment

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

Notes: (1) Building, Plant and Equipment only
 (2) Small investment in equipment in addition to existing plant

Table 5 - Projects With High Local Content

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

Notes: (1) Reducible to 65%

Table 6- Projects Located Outside of Bangkok

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

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SUMMARY ASSESSMENT OF
AGRO-INDUSTRY INVESTMENT OPPORTUNITIES

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

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

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

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

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

I. VEGETABLE SEED PRODUCTION AND PROCESSING

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

Current vegetable seed production is reported in bulk and repackaged for distribution to local farmers. Estimated vegetable seed demand in the country exceeds 47,000,000 farm-sized seed packets annually. There may also be a substantial regional export demand for these seeds. Vegetable seed production development is a priority in the national development program. An ongoing AID-supported field-to-farm program has recently been expanded to cover vegetable seed production, processing and marketing.

II. FRUIT/VEGETABLE PROCESSING

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

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

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

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

By: Donald M. Taylor

Introduction

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

Conclusions and Recommendations

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

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

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

Agribusiness Opportunities in Thailand

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

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

AID Agribusiness Investment Promotion Programs/Thailand

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

Thai Agribusiness Investment Background

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

Environmental Statement

The components of this project are all of a nature not normally requiring environmental analysis: (1) policy analysis; (2) promotion; (3) feasibility analysis and tech assistance; (5) facilitating communication between Thai-US business communities. However, a short discussion of environmental concerns is included here in that one indirect result of the Project is likely to be increased manufacturing in rural areas of Thailand, a subject of obvious environmental concern. The concern is not with this goal itself - overwhelmingly expert opinion is in favor of it - but rather how such enterprises can be set up so as best to protect the environment. Monitoring these concerns is the responsibility of the National Environmental Board. Under USAID technical assistance, guidelines have been established and monitoring capability enhanced. Therefore, the Project proposes to involve the NEB in the Project in a monitoring and advisory role which USAID will support - both for the purpose of controlling environmental affects of expanded enterprises, and also in order to increase the experience and effectiveness of NEB itself in Thailand's growth process.

Annex V

Institutional Analysis and Background Material

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

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

by

Wilson Brown
Professor of Marketing
Northern Illinois University

I. Institutional Framework

A. Background

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

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

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

B. Current Institutional Framework

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

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

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

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

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

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

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

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

Table 1

**RESTRICTED BUSINESS ACTIVITIES UNDER THE 1972
ALIEN BUSINESS LAW**

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

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

Section 2—Commercial Businesses

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

Section 3—Service Businesses

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

Section 4—Other Businesses

- (1) Building construction
- (2) Mining

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

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

Section 2—Industrial and Handicraft Businesses

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

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

Section 3—Commercial Businesses

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

Section 4—Service Businesses

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

Section 5—Other Businesses

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

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

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

Section 2—Industry and Handicraft Businesses

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

Section 3—Service Businesses

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

Section 4—Other Businesses

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

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

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

Table 2

Promoted entities are usually granted the following guarantees and privileges:

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

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

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

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

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

Source: *ibid.*

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

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

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

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

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

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

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

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

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

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

C. Structural Considerations

Thai business firms are small. Of the manufacturing establishments less than 1% employ over 300 people, 5% over 50.³ Growth has been most vigorous in the 50-300 group.

²See ISRD/UNDP "Action Plan of the BOI" draft, January 1982.

³Benjamin Cukox, "Industrial Policy and Administration" same source as Shilling.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Participation in Private Enterprise

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

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

⁵ Saechy Prasanset, pp 25-31. See also Frederick Riggs, Thailand: The Modernization of A Bureaucratic Policy (Hawaii, East-West Center, 1966).

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

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

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

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

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

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

II. Encouraging Wide Ownership and Participation in Private Enterprise:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Aid to The Joint Commission

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

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

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

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

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Manufacturing Industries

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

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

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

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

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

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

Source: Mainly from Krirkiat Phipatseritham (1982), p.143; Pramote Ongsuees (1979)

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

Structure of Thai Business Groups

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

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

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

Source: Kirkkiat Phipatseritham (1982) p. 328

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

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

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

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

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

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

Implications for U.S. Investors

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

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

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

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

b) Establishment of joint-ventures with Thai partners:

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

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

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

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

c) Bringing in capital:

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

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

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

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

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

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

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

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

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

- i) The host and investing countries should arrange for an appropriate transfer of technology. In this case, the smaller firms from the investing country are in better position than the multinationals which often bring highly capital intensive technology to the host country, mainly owing to the imperative of technological requirements. In this situation, establishment of an appropriate technical training center would be helpful for Thai partners.
- ii) In the light of i) and ii) above, export-oriented policy for Thailand should be very selective. It should be limited to branches of industries which have a long run market in advanced industrial countries in order to bring about an equitable integration or in other words a new international division of labor which is beneficial to both partners. This is the area in which U.S. investors can help Thai partners identify such types of business opportunities. Of course, the Thai partners will be in a more disadvantageous position to understand concrete business conditions in the investing countries. The establishment of linkages between U.S. and Thai private trade associations will be instrumental in identifying business opportunities with long-term potential. Many types of activity mentioned by the Thailand - U.S. Private Sector in Development Project would serve this purpose so well.

Action Plan of the BOI
Status and General Outline

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

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

3. Main development plans and projects proposed include:

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

4. Action being taken by BOI include:

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

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

Office of the Board of Investment

Budgets, 1981 - 1983

Unit : Baht

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

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

- Main decrease 1. Utilities 19.0%

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

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

Office of the Board of Investment

Staffing Pattern

31 May 1982

(a) By level

Position Classification Division	PC 9-11		PC 6-8		PC 3-5		PC 1-2		Total	
	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled	Authorized	Filled
1. General administration and Office of the Secretary	3	3	3	3	21	19	12	10	39	35
2. Project Control	-	-	4	3	26	15	2	2	32	20
3. Information & Promotion Services	-	-	6	6	21	13	2	2	29	21
4. Planning	-	-	3	2	22	13	2	1	27	16
5. Project Development	-	-	3	3	19	7	1	-	23	10
6. Project Analyses	-	-	5	5	31	19	1	-	37	24
7. Incentive Supervision	-	-	4	4	28	19	-	-	32	23
8. Investment Services Center	-	-	5	3	27	11	3	2	35	16
Total	3	3	33	29	195	116	23	17	254	165

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

Staffing Pattern

31 May 1982

(b) By education

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

Note: Excluding 10 clerks and chauffeurs categorized as permanent employees

The Association of Thai Industries:
Policies and Objectives

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

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

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

1. The Government Sector

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

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

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

2. Member Sector

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

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

To organize exhibitions to introduce locally made industrial products.

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

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

3. General Sector

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

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

To encourage members to observe business ethics and social responsibilities.

Membership in the ATI is divided into three categories.

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

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

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

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

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

The 18 Clubs currently comprise of the following:

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

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

Annex VThe Industrial Finance Corporation of Thailand

By

Dr. Suphachai Sophastienphong

The Industrial Finance Corporation of Thailand (IFCT) was set up twenty-two years ago by special legislation. Its main objective is to assist in the expansion and modernization of industrial enterprises in the private sector and to help develop the capital market in the country. In other words, the role of IFCT is to act as an effective catalyst for rapid economic development.

Over the past twenty-two years, IFCT has worked in close collaboration with various government agencies and has assisted the government in the execution of its industrial development policies.

There is little doubt that has contributed greatly to the rapid industrialization in Thailand. It helps promote investment activities mainly by providing medium and long-term loans to Thailand industrialists at special rates of interests. IFCT does not seek to maximize its profits but operates to assist the Thai government accomplish its economic goals.

The rates of interest that IFCT levies on its clients vary according to the types of projects and their location. Special concessionary rates are given to priority projects namely agro-industries, energy-saving industries and projects located in upcountry areas, (see Table 1). IFCT also operates an interest rebate scheme for export oriented projects.

Table 1IFCT Interest Rates

Projects qualifying for the long-term credit from the Bank of Thailand	10.0-11.0%
Agro-industry projects	15.0%
Energy-saving projects	15.5%
Upcountry projects	15.5%
Projects located in Bangkok and five nearby provinces	16.0%

The first loan that IFCT made was in 1960. From 1960 to September of this year, IFCT approved loans to 594 projects the total value of which amounted to 8,203 million baht. In recent years has rapid expansion taken place. During the first 15 years of its existence IFCT's loan amounted to approximately 2,200 million baht. This amount is significant when compared to the loans made during the last two years which amounted to about 2,941 million baht. During the 1960s the average amount of loans approved by IFCT was 60 million baht per year and this increased to approximately 1,000 million baht per year in 1978-81.

Sectoral Allocation of Funds

A wide variety of industries have benefited from IFCT's operation. IFCT's funds have been channeled to traditional types of industries such as textiles and leather products, agro-industries, mining and quarrying industries, chemicals and chemical products industries, metal and non-metallic products industries, etc.

The sector that has obtained the largest amount of loans is the non-metallic products sector which consists of such products as cement, ceramics, glass, bricks, etc. This manufacturing sector utilizes a significant amount of domestic resources. This sector accounts for twenty per cent of the total loans approved by IFCT or 1,642 million baht during the period from 1960 to September, 1981.

The sector which has obtained the second largest amount of loans from IFCT is the agro-industries sector which embraces such products as animal feed, vegetable and fruit canning, edible vegetable oil, milk products, etc. This sector accounts for 13.8 per cent of the total funds approved during the same period.

The next main sector relates to iron and steel products and other metal products. Approximately 13.4 percent of IFCT's funds has been channeled to this sector. The next most important sector is the chemicals and chemical products sector which has been allocated 9.6 percent of IFCT's funds or 786 million baht.

Geographical Allocation

From 1974 until October 1981, over half of IFCT's funds were allocated to projects located in upcountry areas. The Central Region accounted for about 34 percent or 2,207 million baht during the seven-year period. North, Northeast, East and South Thailand accounted for less than seven percent each.

On the other hand, if one looks at the first ten months of this year, one can see that the proportion of funds that went to upcountry areas declined precipitously. This is due principally to the tight money situation, which made commercial banks reluctant to provide working capital financing to new projects. The situation also made it more difficult for IFCT to mobilize long-term baht funds to on-lend to regional projects which tend to require a greater proportion of local currency financing.

IFCT's Role

In conformity with the Thai government's policies, IFCT has focused its attention on the pattern of growth rather than the rate of growth. This stems from its philosophy that there should be a harmonious development of both the agricultural and the industrial sector -- the so-called balanced growth. This is why IFCT has given much importance to agro-industries.

IFCT is one of the main institutions that helps to encourage industrial decentralization in Thailand. It was only in the early 1970s that special attention was paid by the government to regional development. During the past 23 years, IFCT has channeled about 1,673.9 million baht in loans to projects located outside Bangkok and five nearby provinces.

In its project analysis IFCT examines the balance of payments effects of every project it finances. The net balance of payments effects are estimated after taking into account imports of machinery, intermediates and parts from abroad, the outflow of interest, dividends, royalties, know-how fees etc and other factors. During 1977-81, the net surplus from IFCT projects is estimated at 22,498 million baht.

IFCT's operation during the last five years generated 10,000 additional jobs, increased value added by 10,000 million baht and the total value of domestic raw materials used was estimated to be 14,000 million baht.

In addition to providing medium and long-term loans, IFCT also participates in the equity of enterprises that are conducive to economic development. It guarantees credit made available to projects from any financial institutions or from suppliers of machinery. IFCT also provides a variety of services of industrialists such as advice on market, financial, and technical aspects.

Similarly, the Thai-Orient Leasing Co., Ltd., can lease machinery and equipment to Thai entrepreneurs who wish to expand their productive capacity but find it difficult to raise

additional debt financing. Therefore, in order to become producers, it is no longer essential for Thai industrialist to be the owners of these factors of production.

Apart from the direct assistance given to Thai industrialists, IFCT has also carried out measures to help develop the capital market in Thailand. The Mutual Fund Co., Ltd. (MFC), an investment trust, was set up to help mobilize savings and channel them directly into productive investments. MFC professional staff seek to identify and follow-up the progress of different companies for the purpose of making investment decisions for savers. MFC assists industrialists indirectly in the sense that it helps them to mobilize funds for investment from the public without having to fear that the management of their company will be affected.

In addition, IFCT helps administer a 1,000-million-baht Capital Market Development Fund (CDF), the main objective of which is to stabilize the fluctuations in share prices in the Securities Exchange of Thailand (SET). Such activity helps to strengthen Thailand's financial structure in accordance with recent Thai government policies.

Generating Business

It should be noted that IFCT's activities complement those of commercial banks and finance companies. For instance, while IFCT provides medium and long-term loans for financing fixed assets such as machinery and equipment, as well as the cost of construction and land improvement commercial banks provide IFCT's clients with loans for working capital requirements. Since many of IFCT's clients are the new and small industrialists IFCT plays a major part in generating additional business for banks.

In addition to IFCT's efforts to industrialize the country via financial, technical and other kinds of assistance to industrialists, IFCT has recently carried out research on technology transfer, the main objective of which is to identify the type of technology that will be appropriate for Thailand. It is anticipated that the results of this research will be used to help IFCT's staff in providing guidelines to Thai industrialists for the evaluation and acquisition of foreign technology.

Thus, over the past two decades IFCT has significantly expanded its operation in terms of providing medium and long-term loans for financing projects that generate substantial economic and social benefits to Thailand. It has also created a variety of new activities that provide

investment-related services to complement IFCT's main activities. As a highly development-oriented institution, IFCT will continue to play its part in promoting industrialization in the country.

IFCT Loan Proposal: Details on Utilization of the Special Fund

Assumptions

1. USAID's Loan

Amount: Bt. 50 millions

Maturity: 40 years with 10-year grace period

Interest Rate: 2% p.a. during grace period and
3% p.a. during repayment period

Disbursement: Reimbursement method on project-by-project basis

Principal and Interest Payments: made annually

Repayment: fixed amortization schedule

2. IFCT's subloans

Amount Approved: Bt. 30 million in year 1
Bt. 20 million in year 2

Interest Rate: 15% p.a. of which 5.5% goes to IFCT
2-3% goes to USAID
6.5-7.5% goes to Special Fund

Disbursement: Two-thirds of the loan approval in the first year
One-third of the loan approval in the second year

Revolving Funds: that are generated will be instantly invested (at 15% p.a.) or re-lent by IFCT

3. Special Fund

Amount: 7.5% p.a. of the outstanding sub-loans during year 1 to year 10
6.5% p.a. of the outstanding sub-loans during year 11 to year 40

Utilization: Special Fund is instantaneously and totally used by IFCT each year

Annex V-VI-2

USAID'S LOAN PROJECTION

Year	IFCT's debt to USAID or Outstanding sub-loans	Interest payable to USAID (2-3%)	IFCT's spread (5.5%)	SPECIAL/FUND	
				Annual incremental	Accumulative
1	20	0.40	1.10	1.50	0
2	44	0.88	2.42	3.30	1.50
3	50	1.00	2.75	3.75	4.80
4	50	1.00	2.75	3.75	8.55
5	50	1.00	2.75	3.75	12.30
6	50	1.00	2.75	3.75	16.05
7	50	1.00	2.75	3.75	19.80
8	50	1.00	2.75	3.75	23.55
9	50	1.00	2.75	3.75	27.30
10	50	1.00	2.75	3.75	31.05
11	48.34	1.45	2.65	3.14	34.80
12	48.68	1.40	2.56	3.03	37.94
13	45.02	1.35	2.47	2.92	40.97
14	43.36	1.30	2.38	2.81	43.89
15	41.70	1.25	2.29	2.71	46.70
16	40.04	1.20	2.20	2.60	49.41
17	38.38	1.15	2.11	2.49	52.01
18	36.72	1.10	2.01	2.38	54.50
19	35.06	1.05	1.92	2.27	56.88
20	33.40	1.00	1.83	2.17	59.15
21	31.74	0.95	1.74	2.06	61.32
22	30.08	0.90	1.65	1.95	63.38
23	28.42	0.85	1.56	1.84	65.33
24	26.76	0.80	1.47	1.73	67.17
25	25.10	0.75	1.38	1.63	68.90
26	23.44	0.70	1.28	1.52	70.53
27	21.78	0.65	1.19	1.41	72.05
28	20.12	0.60	1.10	1.30	73.46
29	18.46	0.55	1.01	1.19	74.76
30	16.80	0.50	0.92	1.09	75.95
31	15.14	0.45	0.83	0.98	77.04
32	13.48	0.40	0.74	0.87	78.02
33	11.82	0.35	0.65	0.76	78.89
34	10.16	0.30	0.55	0.66	79.00
35	8.50	0.25	0.46	0.55	79.66
36	6.84	0.20	0.37	0.44	80.21
37	5.18	0.15	0.28	0.33	80.65
38	3.52	0.10	0.19	0.22	80.98
39	1.86	0.05	0.10	0.12	81.20
40	-	-	-	-	81.32

Note: All figures are in millions of bahts.

Proposed Utilization of the Special Fund

Introduction

The USAID loan of US\$2.1 million (approximately Bt. 50 million) will generate a counterpart fund of about US\$ 3.5 million (Bt. 80 million) over the loan life of 40 years. The annual increase of the so-called Special Fund will fluctuate from year to year but will vary from Bt. 1.5 million to Bt. 3.75 million during the first 10 years. After loan repayment begins the yearly increment will decline gradually until it reaches a minimal amount of Bt. 0.12 million in the final year of loan maturity. In this paper, a tentative plan of fund utilization will be outlined assuming that the pattern of utilization is uniform throughout the 40-year period of loan maturity and that actual disbursements will correspond with the amount of money available in the Special Fund in any one year using Year 3 as the Sample Year.

Programs for Fund Usage

The Corporation intends to channel the proceeds of the Special Fund to the following types of projects.

1. Equity investment in small and medium sized enterprises or projects located in up-country areas: IFCT will invest in the equity of private enterprises which have high economic and social benefits. Small and medium sized enterprises are those with total assets of not more than Bt. 50 million and up-country projects are those located outside Bangkok and 5 nearby provinces (Samut Prakan, Thon Buri, Nonthaburi, Prathum Thani and Chachoeng-sao).
2. Promotion of private sector investment: Seminars and business meetings will be organized so as to introduce Government's policy and IFCT's services to industrialists and potential investors. Part of the money will be used to prepare investment opportunity studies for disseminating to interested parties. In addition, IFCT plans to assist and give advice to industrialists on project promotion and development.
3. Preparation of prefeasibility studies: As part of the attempts to promote new projects IFCT will carry out prefeasibility studies for potential investors with emphasis given to priority sectors as stated in the Government's Fifth Five-Year Plan. These sectors include export-oriented industries, agro industries, energy-saving projects and resource-based industries.
4. Promotion of foreign investment: Booklets on doing business in Thailand and other topics of interest will be prepared and distributed to potential foreign investors. The topics to be covered include rules and regulations governing local business practices, foreign exchange control, vital statistics of the country, and taxation.

5. Trainings: Part of the Special Fund will be used to send the staff of IFCT and/or USAID Loan's clients to attend training courses and seminars relating to business development.

Cost Breakdown

The cost breakdown of the above-proposed programs of Special Fund's usage is as follows:

A) <u>Assuming Equity Investment</u>	(Baht) <u>Amounts</u>	<u>Percentage</u>
Equity investment	1,687,500	45
Promotion of private sector investment	750,000	20
Prefeasibility studies	750,000	20
Promotion of foreign investment	187,500	5
Training	<u>375,000</u>	<u>10</u>
	<u>3,750,000</u>	<u>100</u>
B. <u>Assuming no Equity Investment</u>	(Baht) <u>Amounts</u>	<u>Percentage</u>
Promotion of private sector investment	1,125,000	30
Prefeasibility studies	1,687,500	45
Promotion of foreign investment	187,500	5
Training	<u>750,000</u>	<u>20</u>
	<u>3,750,000</u>	<u>100</u>

The detailed breakdown of the expenditures involved is given in the Attachment.

ANNEX /-VI-5

Attachment: Detailed cost breakdown
A) Assume Equity Investment
B) Assume No Equity Investment

1. <u>Equity investment</u>	1,687,500	
2. <u>Promotion of private sector investment</u>		
	750,000	1,125,500

of which:

2.1 Accommodation and meals	200,000	300,000
2.2 Transport	180,000	270,000
2.3 Per diem	100,000	150,000
2.4 Honourarium for speakers	20,000	30,000
2.5 Preparing opportunity studies	100,000	150,000
2.6 Field Trip	130,000	195,000
2.7 Other expenses	20,000	30,000
3. <u>Pre-feasibility studies</u>	750,000	1,687,500
of which:		
3.1 Consultant fees	400,000	900,000
3.2 Printing and related costs	50,000	100,000
3.3 Accommodation	150,000	300,000
3.4 Transport	100,000	300,000
3.5 Other expenses	50,000	87,500

ANNEX V-VI-6

4. <u>Promotion of foreign investment</u>	187,500	187,500
of which:		
4.1 Brochures	50,000	50,000
4.2 Data Collection	20,000	20,000
4.3 Field Trip	50,000	50,000
4.4 Transport	50,000	50,000
4.5 Other expenses	17,500	17,500
5. <u>Training</u>	375,000	750,000

PRIVATE SECTOR IN DEVELOPMENT
 CHECKLIST OF STATUTORY CRITERIA
 PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT1. Continuing Resolution Unnumbered;
FAA Sec. 633 (b); Sec. 634A.

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

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

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

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

A. GENERAL CRITERIA FOR PROJECT

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

1(b) Yes.

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

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

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

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

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

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- 601(b) The project will identify and promote investment opportunities in the private sector and will establish linkages between U.S. and Thai private sector organizations.
9. FAA Sec. 612(a); DAC. 636(n)
Continuing Resolution Sec. 508
Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.
- 612(b) The Royal Thai Government contribution to the project will exceed 25% of total requirements.
10. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?
- 612(d) There are no U.S. owned local currencies available for this Project.
11. FAA Sec. 601(c). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
- Yes.

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

N/A.

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

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

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

N/A.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria.

- a. FAA Sec. 102(b); 111; 113; 241 (a). Extent to which activity will: (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and

B. FUNDING CRITERIAL FOR PROJECT

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

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

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

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

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

Yes.

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

Yes.

- FVA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived under Sec. 124(d) for a "relatively least-developed" country)?
- Yes.
4. FVA Sec. 110(b) Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing or is recipient country "relatively least developed?"
- N/A.
5. FVA Sec. 201(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- 281(b) The project is consistent with the RIG's own development plans and will assist the RIG in increasing private investment in Thailand's productive sector.
6. FVA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?
- 122(b) Yes, economic growth will increase as a result of identification and development of viable industry options for Thailand and as a result of increased employment opportunities.

2. Development Assistance Project
Criteria (Loans Only)

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

2(a) Repayment prospects are excellent.

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

2(b) The enterprises assisted under this project will not so compete in the U.S.

3. Project Criteria Solely for
Economic Support Fund

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

N/A.

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

N/A.

UNCLASSIFIED
Department of State

ANNEX VII

INCOMING
TELEGRAM

PAGE 01
ACTION AID-00

BANGKO 41985 280538Z

2084 001800 AID3092

ACTION OFFICE ASPD-01
INFO ASPT-02 ASDP-02 FM-02 RELO-01 TELE-01 MAST-01 ABSP-02
PRE-01 /015 A2 028

INFO OCT-00 INR-10 EB-08 EA-12 AMAD-01 INRE-00 /066 W
-----072135 280539Z /38

O 280533Z JUL 82
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC IMMEDIATE 9415
AMEMBASSY JAKARTA

UNGLAS BANGKOK 41985

AIDAC

JAKARTA FOR RLA

E.O. 12065 NA

SUBJ: PRIVATE SECTOR IN DEVELOPMENT PROJECT - REQUEST FOR
ASSISTANCE

REF: STATE 208462

1. FOLLOWING COMMUNICATION ADDRESSED TO USAID ACTING
DIRECTOR RECEIVED 7/27: QUOTE

DEAR MR. QUEENER:

I WISH TO THANK YOU FOR YOUR LETTER WITH WHICH YOU HAVE
ATTACHED THE PRIVATE SECTOR IN DEVELOPMENT PROJECT PAPER
FOR NESOB'S REVIEW AND PROCESSING IN CONJUNCTION WITH
DTEC AND IFCT.

THERE APPEARED TO BE A CONSENSUS AT THE SEMINAR TO REVIEW
THE PROJECT AT PATTAYA ON JUNE 26-27, 1982 THAT THIS
PROJECT WAS VERY WELL CONCEIVED AND WOULD PROMOTE AN
ACTIVE PRIVATE PARTICIPATION IN THE COUNTRY'S DEVELOPMENT
PROCESS. FOR NESOB, THE PROJECT IS VERY MUCH IN LINE WITH
OUR NATIONAL DEVELOPMENT POLICIES AND WE FULLY SUPPORT IT.

IN THIS CONNECTION, WE WOULD LIKE TO REQUEST FROM USAID A
GRANT OF 4.3 MILLION DOLLARS AND LOAN OF 2.1 MILLION
DOLS TO THE INDUSTRIAL FINANCE CORPORATION OF THAILAND
(IFCT) FOR FUNDING ASSISTANCE TO THIS PROJECT.

IT WOULD BE GREATLY APPRECIATED IF USAID WOULD GIVE A
KIND CONSIDERATION ON OUR REQUEST AND WE LOOK FORWARD TO
HEARING FROM YOU VERY SOON.

SINCERELY YOURS,

(SIGNED)
SNOH UNAKUL
SECRETARY GENERAL
NESOB

END QUOTE.

2. USAID CONSIDERS THE A.I.D. REQUIREMENT FOR AN OFFICIAL
REQUEST FOR ASSISTANCE TO HAVE BEEN MET. DIAN

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