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FUTURE DIRECTIONS FOR
U.S.-THAI DEVELOPMENT
COOPERATION: A CONCEPT PAPER

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CONCEPT PAPER ON FUTURE DIRECTIONS FOR
DEVELOPMENT COOPERATION BETWEEN THE
UNITED STATES AND THAILAND

I. Introduction and Executive Summary

The purpose of this paper is to explore future directions over the next decade for development cooperation between the United States and Thailand. The point of departure is to build on the outstanding development cooperation experience and relationship built over the last 38 years. The goal is to suggest a rationale for a continued development cooperation program that responds clearly to a range of mutual interests of the two countries, including the economic, technical and broad geo-political interests of the U.S. as well as of Thailand. The paper argues that in spite of A.I.D.'s increasingly scarce resources (and paradoxically, partly because of those scarce resources), the Agency should continue, indeed increase, its support to countries that will effectively utilize assistance and where the returns to assistance in the form of economic growth will be high. The record of growth in the developing countries shows, as noted in the Administrator's Statement for the FY 1989 Congressional Presentation, that rapid economic growth translates into even more rapid growth in imports from the U.S. For these, and other reasons discussed in the paper, the Mission believes the U.S. should "stay the course" with Thailand. While Thailand is still at the very lower end of the range of "Lower-Middle Income Economies" (by the World Bank's definition), its economic growth record over the last 25 years, averaging six percent a year in real terms, is impressive, and its recent performance exceeds that of other ASEAN countries. If this performance is maintained, and present indications point in that direction, Thailand is destined to join the ranks of such star economic performers as South Korea and Taiwan within a decade or two. A development cooperation relationship that continues to at least that point can provide a catalyst to help ensure that Thailand realizes that scenario, and at the same time reap increasingly significant economic and other benefits for the U.S.

The program strategy delineated in the paper for the U.S.-Thai development cooperation relationship may be viewed in three stages spanning a 15-year period. The first stage, corresponding to Thailand's needs as a lower income country, and encompassing projects in agriculture, health and population, entered a phase of transition in 1985 to a new, second stage designed to meet Thailand's needs as an emerging middle income country. The first stage projects will be all completed in 1989. Meanwhile, the second stage, focusing on a limited number of relatively large projects, began in late 1985 with the signing of the Science and Technology for Development project. Five main subject areas have evolved in this stage. Building on these areas, six broad themes are described in some detail in Annex I at the end of the paper. These themes, which could provide program content for continuing U.S.-Thai development cooperation, are:

- A. Private Sector Trade and Investment
- B. Science and Technology
- C. Natural Resources and Environmental Management
- D. Policy Dialogue
- E. PVO Strengthening and Collaboration
- F. Training and Exchanges

While they are not meant to be exhaustive, we believe these themes will have continued significance for Thailand, draw on comparative U.S. strengths and yield significant benefits to the U.S. as well. Additional topics that meet the same criteria, such as urban development problems and energy conservation, can fit into this six-fold grouping.

The third stage of development cooperation, appropriate to Thailand's transition to "newly industrializing" or relatively advanced developing country status, will call, in the Mission's view, for a new organizational form. Laying the groundwork for this transition will take time. The new organizational form, a binational commission, council or foundation, would become operational in the 1993-1995 period.

The paper describes in Annex II, eight "general principles" that should characterize a new organizational mode:

- management, not transfer, of resources;
- catalytic role;
- mutuality;
- comparative advantage;
- flexibility and responsiveness;
- contributions from benefited parties;
- private sector linkages; and
- grant funding.

Several "non-options" are assessed against these principles, including:

- terminate relationship;
- mixed credits; and
- regional program.

Four "selected" organizational options are examined, including:

- I: continuation of existing mission;
- II: modified USAID mission;
- III: replacement of USAID mission with U.S.-Thai binational organization; and
- IV: "dual track" approach (mission and binational organization).

Analysis of the latter two options involves tentative exploration of alternative financing as well as organizational arrangements that could more effectively serve Thai and U.S. interests and ensure continuity.

The paper concludes with a stated Mission preference for a "Dual Track" option, involving a continuation of the USAID Mission over the next decade in parallel to the creation in 5 to 7 years of a binational organization--a foundation or commission--jointly governed and administered. To begin with, it would be supported with the earnings from an endowment funded primarily from Thai repayments or prepayments of development and PL480 food assistance loans extended over the years by the U.S. Over time, Thai government and U.S. and Thai private sector contributions to the endowment would be expected to increase. Resources provided to the Mission might decline proportionately as binational endowment earnings increase. Three major issues regarding the structure and program for a new organization are explored:

- (1) general vs. sharply defined and delimited program parameters; and
- (2) binational vs. unilateral structure and governance; and
- (3) private sector vs. public sector orientation.

The discussion concludes that a sharp programmatic focus--say on "training and exchanges" and on "commercialization of technology"--would appear to have advantages that outweigh those of a general approach; that a properly structured governing board with binational representation of sufficient stature carries greater advantages than does unilateral (U.S.) governance; and that a balance in favor of private sector orientation but not excluding public sector representation in governance and program content is to be preferred over an exclusive private or public sector concentration. Further analysis of these issues will be required before definitive conclusions can be reached.

Next steps required to bring about the binational organization are suggested. An iterative process involving consultations, constituency building and negotiations at several levels in both countries will be required. New legislation, at least in the U.S., will be needed. The nature of this labor-intensive process, and past experience with similar efforts (the Luso-American Development Foundation), suggests the required time frame will be of the order of 5 to 7 years.

The sections below detail the considerations leading to the "dual track" recommendation. The paper is necessarily lengthy in order to adequately argue a difficult case. The reader may wish to consult the Table of Contents for a "road map" that will permit scanning and selective reading.

This paper deals only with Development Assistance and not with Economic Support Funds (ESF). As employed in Thailand, ESF (for the "Affected Thai Village Program") is provided for a specific geo-political rationale generated by the military incursions and massive refugee influx impacting upon Thai villagers along the Laotian and Cambodian borders.

II. Historical Perspective

On September 19, 1950, Thailand and the United States signed an "Economic and Technical Cooperation Agreement". This initiated one of the longest and most continuous programs of economic assistance ever provided by the U.S. government to a less developed country. While there have been ups and downs in the levels of assistance provided and shifts in the composition and strategy underlying the program, most knowledgeable Thai and U.S. observers would conclude that the program has made major contributions to economic progress in Thailand and to reinforcing positive relationships between the two countries.^{1/}

Capital and technical assistance, including training, valued at some \$1 billion over the last 38 years, has resulted in the creation of vital transportation, power and irrigation infrastructure. It has also resulted in the development of key institutions and Thai expertise that have made substantial contributions to the modernization process. It is possible, for example, to trace the direct impact of U.S. assistance on the incidence of malaria in Thailand, banished from the status of leading nationwide killer to that of controllable and relatively minor problem in limited border areas. U.S. assistance also played a major role in enabling Thailand to more than halve population growth within roughly two decades, from over three percent a year in the mid-sixties to about 1.6 percent in 1987-88, a growth rate virtually identical to those reported in 1985 for South Korea, Hong Kong and Singapore.^{2/} From 1970 to 1984, rates of contraceptive prevalence (of married women of child bearing age) increased over four-fold in Thailand, from 15 percent to 65 percent, nearing rates experienced in the above three countries. U.S.-Thai cooperation has also played a significant role in bringing about major improvements in other socio-economic indicators, such as:

- (1) infant mortality, which declined from an estimated 88 infant (less than age 1) deaths per 1,000 live births in 1965 to 43 in 1985;

^{1/} See David I. Steinberg, "The Role of External Assistance in the Economic Development and Planning of Thailand: Torques and Tensions in the American Aid Program", paper prepared for the "United States-Thailand Bilateral Forum", March 25-28, 1985, The Asia Foundation, and same author, "The Future of Thai-American Economic Cooperation", paper prepared for USAID/Thailand, February 15, 1988. A forthcoming monograph on the impact of U.S. economic assistance to Thailand, prepared by Robert A. Muscat on the basis of extensive interviews, will make the same points.

^{2/} These and the other socio-economic indicators reported in this paragraph are taken from World Bank, World Development Report, 1987, Tables 27-29 and 31.

- (2) life expectancy at birth, which increased between 1965 and 1985 from 54 to 62 years for males and from 58 to 66 years for females; and
- (3) percentage of population age groups enrolled in primary schools, which increased between 1965 and 1984 from 78 to 97 percent.

As will be discussed later, Thailand still has to do some catching up to match "Asia's Four Tigers" (South Korea, Taiwan, Hong Kong and Singapore) in some of these areas (for example, infant mortality rates in South Korea in 1985 were 27 per 1,000 live births as compared with a 1985 estimate of 43 for Thailand). Thailand's social as well as economic performance has nonetheless been impressive.

Over 11,000 Thais have been the recipients of USAID (and predecessor agencies) grants for training in the U.S. Many of these former trainees occupy very senior positions in Thai central and local government bodies as well as in the private sector. When interviewed, Thai officials and leaders consistently report that training is the most important thing the U.S. has done. Training grants have incalculably enhanced relations between the two countries and have provided unusual access to Thai leadership.^{3/}

These accomplishments have been matched on the economic front by impressive, sustained GDP growth rates, which, as noted above, averaged six percent a year in real terms over the last 25 years. Manufacturing's share of GDP, now at 20.6 (1986) percent, exceeds that of agriculture at 16.7 (1986) percent. Exports of manufactures and services have burgeoned, with tourism and textiles now leading in value terms the traditionally dominant primary export: rice. Manufacturing exports as a whole exceeded agricultural exports for the first time in 1986: 55 percent vs. 34 percent of total exports, respectively, as compared with 36 percent vs. 48 percent in 1981.

U.S. assistance programs can take only partial credit, of course, for these or any other aspects of Thailand's performance. They have been complemented by the sound policies of the Royal Thai Government (RTG), a long-standing reliance on market forces and trade and the dynamism of Thai entrepreneurs.^{4/}

^{3/} The forthcoming monograph by Robert Muscat will detail these and other examples of the impact of U.S. economic assistance.

^{4/} Thai leaders show increasing awareness of their progress and potential. At a recent seminar, Dr. Amnuay Viravan, Chairman of the Bangkok Bank (largest commercial bank in Southeast Asia) and former Minister of Finance, after noting that "we seem to have greater potential than other developing nations of Asia", suggested that Thailand could well become Asia's "Fifth Tiger" sometime in the next decade or at the turn of the century. Reported in Bangkok Nation, March 26, 1988, p. 13.

III. Current Strategy

After having passed through several stages, including varying emphases on physical infrastructure and a range of institutions dealing with agriculture, rural development, health, family planning, education and public administration, the current strategy of the USAID/Thailand program focuses on problems relevant to Thailand's needs as an "emerging middle-income country". This strategy is set forth in the A.I.D. Thailand FY 1987 Country Development Strategy Statement (CDSS) issued and approved in January 1985. The five main programmatic elements of the Mission's current strategy are:

- strengthening indigenous science and technology capabilities of relevance to agriculture and industry;
- expanding the role of the private sector, especially in industry outside the Bangkok area;
- strengthening Thai capability to manage natural resources and the environment for sustained economic growth;
- assisting in the formulation and implementation of economic and social policies that address priority problems and constraints identified by the RTG in its 5-year plans or elsewhere; and
- strengthening the role of private and voluntary organizations (PVOs), especially indigenous Thai PVOs, in meeting the needs of the socially and economically disadvantaged in Thailand.

The Mission is in the process of phasing in full implementation of this revised strategy. One major project (Natural Resources) is not yet authorized, other core projects are not yet fully operational and seven pre-current-strategy projects in agriculture, rural development and population are coming to conclusion. All seven will be completed by the end of 1989.

IV. Why a Re-examination of Strategy Now?

As the current strategy nears full implementation, the Mission is looking ahead over the next decade to consider possible future directions for several reasons:

- (1) to begin with, the FY 1987 CDSS (issued in January 1985) recognized the progress and structural transformation occurring in the Thai economy and anticipated a re-examination when it called for working "toward a fundamentally redefined relationship" (p. 41, italics in original), noting that the coming decade provided:

"an opportunity to plan--and prepare for--a future relationship with a wealthier Thailand in which traditional concessional assistance no longer has a role but strong economic and other forms of cooperation continue. The Mission believes that the future relationship may evolve into a binational commission or council staffed by nationals of the two countries. For the moment, it is anticipated that steps taken during the CDSS period will be directed essentially toward more modest forms of collaborative management as well as experimentation with relatively more flexible programming mechanisms" (pp. 42-43);

- (2) the need to re-examine the current strategy in view of a series of discussions and actions, beginning with the February 1987 "Mini-Mission Directors' Conference" (held in Chiang Mai, Thailand, and involving the Thailand, India and Indonesia Missions), and culminating in the current draft Agency "Advanced Developing Country" Policy Paper and the observations of Administrator Alan Woods concerning the advantages to the U.S., and the interest of the Agency, in exploring:

"...options for transforming our relationship with the advanced developing countries into a productive and more mature partnership..." so as to "...nourish the investments we have made and the institutions we helped to build"
(Administrator's Statement, FY 1989 AID Congressional Presentation);

- (3) the fact that while U.S. Development Assistance (DA) levels to Thailand have declined sharply over the last four years (by 42 percent), aid from other bilateral donors, overtly motivated in varying degree by commercial self-interest, has been increasing rather than decreasing. Assistance to Thailand from Australia, Canada, Germany and Japan now equals or exceeds that from the U.S. (Japan by 30- to 40-fold); and
- (4) a recognition that as Thailand continues to mature economically, the nature of our relationship with Thailand will change, calling for a flexible and responsive organization, with stable financial capacity, to serve the mutual interests of Thailand and the U.S.

These reasons for re-examination of Mission strategy do not necessarily imply a new organizational form. But they do, at a minimum, require (1) an exploration of ways in which the relationship between promoting Thailand's economic development and mutual U.S. and Thai interests can be strengthened, and (2) recommendations of programmatic changes in the Mission's strategy that would strengthen that linkage.

V. Proposed Objectives and Themes for Continuing U.S.-Thai Development Cooperation

Two basic, shared objectives can be delineated for continuing U.S.-Thai development cooperation. They are:

- (1) Geo-political security: an important rationale since the beginning for both countries, and one that will continue for the foreseeable future; and
- (2) Economic, commercial and technical benefits: as Thai markets expand with economic growth, the importance to the U.S., as well as to Thailand, of developing enhanced trade, investment and scientific and technical relations will increase, as will the utilization of U.S. and Thai technology by both countries.

Accomplishing these objectives will help achieve the following sub-objectives:

- (a) Counter-balance to rapidly expanding Japanese dominance in the Thai economy, of value also to Thais who recognize the limited degree of technology transfer which Thailand has received thus far from Japanese aid and investment; Thais are also concerned about the risk of overdependence stemming from the preponderant Japanese presence.
- (b) Exposing Thai current and potential leadership to U.S. societal and cultural values ; similarly, Thai may seek increased understanding of Thai society and cultural values by U.S. public and private sector leaders.

The paper proposes six major programmatic themes for continuing U.S.-Thai development cooperation. They represent continuing and emerging Thai needs as well as areas where the U.S. has comparative strengths. The six themes are:

- (1) expanding private sector trade and investment;
- (2) increasing science and technology capabilities;
- (3) enhancing natural resources and environmental management;
- (4) improving the development policy framework;

- (5) PVO strengthening and collaboration; and
- (6) enhancing training and exchanges.

For the sake of brevity, a discussion of the situation in each of these areas, a review of current Mission activities and suggestion of some possible future efforts are located in Annex I attached to the paper.

VI. Organizational Options for a Continuing Programmatic Relationship

This section presents an analysis of options, each implying a certain organizational form and administrative structure. Four options are selected from a wide range of options examined by the Mission. Although the Mission believes each of the "selected options" has merit as a vehicle for continued U.S.-Thai development cooperation, it recommends Option 4: "Dual Track", as the best, most viable option for development cooperation over the next decade.

A. General Principles

Again, for the sake of brevity, Annex II contains a discussion of eight "general principles" the Mission believes should ideally characterize any option. The principles are:

- (1) management of resources (as opposed to transfer of resources);
- (2) catalytic role;
- (3) mutuality;
- (4) comparative advantage;
- (5) flexibility and responsiveness;
- (6) contributions by benefited parties;
- (7) private sector linkages; and
- (8) grant funding.

B. Some "Non-Options"

The starting point for consideration of organizational options is a paper prepared for the Mission by David Steinberg. He delineates ten possible options:^{5/}

- (1) Terminate program.

^{5/} Steinberg, op. cit., pp. 13-19.

- (2) Continue bilateral program with greatly diminished mission staff, e.g., commodity import, mixed credit or cash transfer type program support.
- (3) Continue bilateral activities through centrally funded projects without a local mission or perhaps staff of one U.S. Direct-Hire officer located in the Embassy. Latin American and Caribbean Bureau programs for the "Advanced Developing Countries" of Brazil, Colombia, Mexico and Uruguay/Paraguay follow the latter variant, supplemented by drawing on regional bureau projects.
- (4) Program through a regional AID office.
- (5) Establish a new U.S. government entity to manage programs.
- (6) Program exclusively through existing U.S. private and voluntary organizations.
- (7) Program exclusively through multilateral agencies.
- (8) Establish a non-governmental (or quasi-governmental) U.S. organization to manage programs.
- (9) Establish a Thai government or private organization to manage programs.
- (10) Establish a binational U.S.-Thai organization to manage programs. Steinberg rejects all but one of these options for a number of reasons including:

- levels of funding and/or staff size insufficient to properly manage and program activities of a catalytic nature that foster Thai-U.S. private sector, science and technology and other linkages of mutual benefit (options 2 and 3 in particular are rejected on these grounds);
- lack of bilateral as opposed to regional or multilateral focus (options 4 and 7); and
- lack of joint U.S. and Thai participation in governance and administration (options 5, 6, 8 and 9).

The Mission's selected options differ somewhat from Steinberg's list though they include his preferred option: (10) "binational U.S.-Thai organization". There are three "non-options" in the Mission's view that nonetheless deserve some attention: termination; mixed credits; and regional program. While they are, in effect, rejected options, they have some desirable features, or at least may be perceived by some observers to be desirable.

1. Why Not Just Terminate?

This question, corresponding to Steinberg's first option, is one that may come readily to mind, especially in these times of increasingly scarce U.S. Development Assistance resources. It must be examined seriously.

In the terms posited at the beginning of the paper, the question can be reframed as follows:

--Why should USG resources continue to be channelled to Thailand for development cooperation over the next decade?

A leading Thai executive and economist (Dr. Amnuay Viravan, Chairman of Bangkok Bank) has been cited at the outset of this paper as expecting Thailand to join the "Four Asian Tigers" of South Korea, Taiwan, Hong Kong and Singapore at the end, not at the beginning or mid-point, of the next ten or twelve years, i.e., around the turn of the century. To begin with, this prediction can be examined from the standpoint of economic growth projections. This traditional approach to "graduation" of countries from development assistance has its serious limitations, as will be seen below, but it is a common yardstick which can serve as a starting point for the discussion.

Thailand's per capita GDP reached a level of roughly U.S. \$850 in 1987, i.e., at the lower end of the group of so-called "Lower Middle Income Countries" as categorized by the World Bank.^{6/} While real GDP in 1987 apparently increased by 6.8 percent, perhaps 7 percent, and some economists expect a similar growth rate in 1988, historical experience, as well as longer term projections by one of Thailand's leading macro-economists, Dr. Virabongsa Ramangkura of TDRI (Thailand Development Research Institute), would suggest that an annual range of five to six percent growth over the decade would be more realistic. In fact, growth rates might be even lower in future years. As the U.S. trade deficit moves toward balance, countries that have heavily depended on the U.S. market to fuel their export growth, including Thailand, may find it

^{6/} This figure is calculated from the Bank of Thailand estimate for 1986 GDP per capita of Baht 21,082, converted to U.S. \$807 at \$1.00=฿26.13. [This is slightly smaller than the result obtained from using the World Bank World Development Report 1987 (Table 1) figure of \$800 for 1985 and increasing it by 1.8 percent (estimated per capita growth rate in 1986) to \$814.] In 1987, GDP is now estimated to have grown by 6.8 percent. With an estimated population growth rate in 1987 of 1.6 percent, GDP per capita would have increased 5.2 percent, from \$807 to \$849.

increasingly difficult to export to the U.S. Thailand's very low labor costs could still give it an edge over competitors. But new U.S. protectionist measures, or U.S. reduction or withdrawal of GSP privileges to Thailand, recently threatened as noted in Annex I, Section A, could also slow down export growth unless alternative markets are penetrated (especially Japan) sufficiently to compensate for U.S. actions. Similarly, appreciation of the Baht against the Dollar, possibly in response to U.S. pressure in that direction in the future, would also decrease the attractiveness at the margin of Thai exports to the U.S. market.

If, then, real GDP growth ranges between five and six percent over the next decade and annual population growth averages 1.5 percent,^{7/} GDP per capita would grow between 3.5 and 4.5 percent a year, reaching between roughly \$1045 and \$1105 by 1993, and between about \$1240 and \$1380 by 1998. These levels are in the range achieved by South Korea during 1975-76, the period when annually appropriated U.S. aid to South Korea ceased.^{8/} Thus, even by the admittedly limited yardstick of per capita GDP, the Korean experience would suggest that termination would be more appropriate at the end of the next decade rather than the beginning, assuming Thai yearly per capita GDP growth is maintained in the 3.5 to 4.5 percent range.

Of course, GDP per capita is just one indicator of aid eligibility. ESF, in particular, may be maintained (or terminated) for other reasons. Also, even if it had identical national per capita income levels to those of Korea's, Thailand, in view of its greater internal regional income disparities (with one-third of its population in the Northeast at one-fifth or less of the national average), would probably still not be viewed as "developed" as South Korea.^{9/} Furthermore, as hinted in Section II ("Historical Perspective"), Thailand's performance on several

^{7/} The RTG's Sixth Five Year Plan, 1986-91, targets a 1.3 percent population growth rate by 1991, an overly optimistic target according to some experts. The World Bank World Development Report, 1987 (Table 27) projects an annual population growth rate of 1.6 percent for the period 1985-2000. We adopt here the slightly more optimistic growth rate of 1.5 percent a year.

^{8/} The method for estimating the Korean GDP per capita figures is explained in Annex III to the paper.

^{9/} Interestingly, the size distribution of income in Thailand is relatively equitable according to published data (or at least was so in the mid-seventies). The ratio of the income received by the wealthiest 20 percent to that of the poorest 20 percent of households was in the 8 to 9-fold range for Thailand (1975-76), South Korea (1976) and Hong Kong (1980). These results may be contrasted with a Latin American "NIC", Brazil, with the same ratio reaching an astounding 33 fold in 1972. From World Bank, World Development Report, 1987, Table 26.

socio-economic indicators falls considerably behind that of the Asian "Tigers" whom it hopes to emulate. In fact, Thai performance in several cases lags behind levels achieved by the "Tigers" roughly twenty years earlier. Table I on the next page reveals some striking indications of such lags. For example, while Thailand, South Korea, Hong Kong and Singapore have achieved roughly comparable life expectancies, population growth rates, daily calorie supply per capita, and primary school and higher education enrollment ratios (in fact Thai and South Korean higher education ratios are roughly double those of Hong Kong and Singapore), the secondary school enrollment ratio in Thailand in 1984 was less than the same ratios in South Korea and Singapore in 1965 (30 percent vs. 35 and 45 percent, respectively). The same inter-country contrasts emerge from the table for infant mortality rates, population per physician and population per nursing person. Similarly, the sectoral structure of the Thai economy, both in terms of product and employment distribution, manifests substantial lags behind its "big brothers", especially in terms of employment shares in agriculture vs. manufacturing. This is not to say there has been little structural change in the Thai economy. Table I provides ample evidence of considerable structural change, but it also provides considerable evidence that Thailand must surmount more formidable obstacles on the road to advanced status than per capita GDP levels, which are also relatively low, would suggest by themselves.

Table I

Selected Structural Comparisons Among
Several East and Southeast Asian Countries1/

| | <u>School Enrollment Ratios</u> (percentage of age group enrolled) | | | | | |
|-------------|---|-------------|------------------|-------------|---------------|-------------|
| | <u>Primary</u> | | <u>Secondary</u> | | <u>Higher</u> | |
| | <u>1965</u> | <u>1984</u> | <u>1965</u> | <u>1984</u> | <u>1965</u> | <u>1984</u> |
| Thailand | 78 | 97 | 14 | 30 | 2 | 23 |
| South Korea | 101 | 99 | 35 | 91 | 6 | 26 |
| Hong Kong | 103 | 105 | 29 | 69 | 5 | 13 |
| Singapore | 105 | 115 | 45 | 71 | 10 | 12 |

| | <u>Population per Physician</u> | | <u>Population per Nursing Person</u> | |
|-------------|---------------------------------|-------------|--------------------------------------|-------------|
| | <u>1965</u> | <u>1981</u> | <u>1965</u> | <u>1981</u> |
| Thailand | 7230 | 6870 | 5020 | 2140 |
| South Korea | 2700 | 1390 | 2990 | 350 |
| Hong Kong | 2460 | 1300 | 1220 | 800 |
| Singapore | 1900 | 1100 | 600 | 400 |

Infant Mortality Rates
(deaths of infants under age 1 per 1,000 live births)

| | <u>1965</u> | <u>1985</u> |
|-------------|-------------|-------------|
| Thailand | 88 | 43 |
| South Korea | 63 | 27 |
| Hong Kong | 28 | 9 |
| Singapore | 26 | 9 |

Distribution of GDP by Sector (percent)

| | <u>Agriculture</u> | | <u>Manufacturing</u> | | <u>Services</u> | |
|-------------|--------------------|-------------|----------------------|-------------|-----------------|-------------|
| | <u>1965</u> | <u>1985</u> | <u>1965</u> | <u>1985</u> | <u>1965</u> | <u>1985</u> |
| | Thailand | 35 | 17 | 14 | 20 | 42 |
| South Korea | 39 | 14 | 19 | 28 | 35 | 45 |

Distribution of Labor Force by Sector (percent)^{2/}

| | <u>Agriculture</u> | | <u>Manufacturing</u> | | <u>Other</u> | |
|-------------|---------------------------|-------------|----------------------|-------------|--------------|-------------|
| | <u>1970</u> | <u>1985</u> | <u>1970</u> | <u>1985</u> | <u>1970</u> | <u>1985</u> |
| | Thailand (1972 & 1985) | 72 | 59 | 8 | 11 | 20 |
| South Korea | 50 | 25 | 13 | 26 | 37 | 49 |
| Taiwan | 35 | 17 | 20 | 33 | 45 | 50 |

1/ All data unless otherwise noted are from World Bank, World Development Report, 1987, Tables 3 and 29-31. Higher education enrollment for Thailand probably includes the huge enrollments in the two "open universities", but even so the comparisons with Korea vs. Hong Kong and Singapore are striking. Sectoral shares for Hong Kong and Singapore are not reported, as they do not make very meaningful comparisons with economies with larger rural hinterlands, such as Thailand, Korea and Taiwan. The World Bank does not report on statistics for Taiwan. Data on population growth, contraceptive prevalence, life expectancies at birth and daily calorie supply per capita may be found in World Bank, op. cit., Tables 27-30.

2/ From Key Indicators of Developing Member Countries of the Asian Development Bank, 1987.

The statistics reported above provide a quantitative but imperfect picture of the constraints and obstacles Thailand faces in the coming decade. With the recent re-acceleration of economic growth, bottlenecks in energy supply, transportation infrastructure, communications, water supply, quality control, standards and testing, environmental controls and other areas are becoming painfully apparent. While job candidates far outnumber openings in fields like education and general government service, shortages in technical and management levels are increasingly reported. For example, expanding large Japanese firms in Thailand report difficulties in recruiting Thai engineers. (Thailand's large open universities concentrate more in such fields as education and the liberal arts, which may explain the surprisingly large higher education enrollment ratio shown in Table I.)

While a continued U.S.-Thai development cooperation program will not have the capital resources to help Thailand address these constraints, it can help marshall and enhance U.S. and Thai technical and management expertise through consultancy, training, research and other forms of exchange. These elements are just as critical to success as sufficient capital resources.

These technical and management resources can be purchased, of course, just like capital resources. But this ignores the special services of brokering and facilitating that intermediaries like a USAID mission can provide in helping to match Thai needs with U.S. expertise. Beyond the argument that development cooperation should not be terminated because the "development job" in Thailand still has to be completed, and that we believe a development cooperation program has a unique contribution to make, is the rationale, growing in importance, of self-interest to the U.S. Thailand is now a "leading edge" country in Southeast Asia. Other bilateral donors are increasing their assistance to Thailand because they perceive their stake in this country and the region. The U.S. also has, or should have, economic, intellectual and political stakes in continuing to provide modest, grant assistance to Thailand that:

- encourages Thais to undertake risks in improving key development policies;
- identifies bottlenecks and facilitates solutions that boost U.S. as well as Thai exports and investments;
- encourages activities of mutual benefit, including cooperation and exchange in such areas as science and technology, natural resources and environment, energy conservation and urban development;
- provides access to current and potential Thai leadership through support of training, conferences and other exchanges;

- maintains and nurtures institutional linkages developed over the years that remain advantageous to both parties, as well as facilitates and "brokers" new linkages, with resources contributed to an increasing degree by the institutions themselves^{10/}; and
- provides deeper understanding of lessons learned from an emerging, genuine success story, with both sustainable growth and poverty reduction as significant features. Success stories are not too common, and the popular examples, Taiwan and South Korea, are stale. Thailand will become increasingly important as an example that needs to be well understood, and which calls for our active involvement. In fact, Thailand is already being increasingly viewed as a model by other developing countries who send officials to Thailand for training and observation tours. The USAID Mission facilitates such exchanges for well over a hundred such officials a year and could continue to do so. In fact, Thailand is likely in the not too distant future to become a significant source of technical assistance to lower-income countries in the region, a role which continuing U.S.-Thai development cooperation could support.

It may be asked: why not let the Foreign Commercial Service (Department of Commerce), Embassy Economics Section, OPIC (Overseas Private Investment Corporation), EXIM Bank, Fulbright Foundation and USIS (U.S. Information Service) take over these functions, which they perform in varying degree already? One reason is that the USAID mission has established over the last 38 years linkages to persons and institutions in Thailand not reached by other USG entities. For example, development cooperation can forge linkages to groups such as economic think tanks, like the linkage already developing, thanks to A.I.D. financial support and professional encouragement, between such institutions as the Thailand Development Research Institute and Harvard and Princeton Universities. Another fundamental reason is that the program funds available for development cooperation permit undertaking things that other entities cannot do because they do not have the mandate, experience, orientation or resources do do them.

^{10/} Such long-standing linkages involve, among others, the following U.S. Institutions: Indiana, Kentucky, Iowa State, Oregon State and Mississippi State Universities as well as the Battelle Memorial Institute. The Mission is already "buying-in", through the "BIFAD Linkages" project, to help nurture a valued, long-standing linkage between Mississippi State University and the Seed Division of the RTG Ministry of Agriculture and Cooperatives.

With termination, a presence would be lost that looks at Thai-U.S. relations not solely from the standpoint of U.S. interests, a presence that has credibility and trust that could ultimately be very effective in promoting U.S. as well as Thai interests. Trade and investment issues, for example, tend otherwise to get approached from a relatively narrow merchantilist perspective--bargaining on exchanges of resources. For example, the relatively low U.S. share in Thai imports may be viewed as a problem, or as an unrealized opportunity. The USG really ought to bridge these gaps, and a development cooperation relationship is one dimension of such an effort.

There may come a time when such inputs will not be needed and the various linkages will be self-sustaining with their own resources. But even when Thailand becomes a relatively advanced country, modest grant support of the kind that is evolving in the USAID program may continue to be beneficial to both countries. The Japan-U.S. Friendship Commission continues to support such linkages and has enhanced mutual understanding between these two economic superpowers. This body, a part of the U.S. government and staffed by a few USG employees in Washington and one in Tokyo (and relatively little known in the U.S.) is funded by the earnings of an endowment created by the repayments from Japan for loans extended by the U.S. in the immediate years after World War II.

It might also be argued that other donors, more flush with resources than the Mission, can do the job. But the U.S. has comparative strengths relative to other donors. A.I.D. also provides greater flexibility, such as local cost financing, than other donors, especially Japan. Abandoning Thailand to other donors would not only forego the increasing advantages to be gained by the U.S. from a continuing development cooperation relationship but would probably damage some of the strong associations that have been developed over the last four decades.^{11/}

2. Mixed Credits

This approach is one variant of Steinberg's option (2), "Continuation of bilateral program with greatly reduced staff". Under this variant, the program would concentrate exclusively on the provision of the Mission's grant resources to blend with less concessional, or commercial U.S. resources, to "sweeten deals" that could make major proposed U.S. investments and export bids more attractive than those of other donors. This is the "mixed credit" option. An example would be to provide training on grant terms to sweeten the bid of U.S. telecommunications firms so they could win contracts to upgrade the telephone system of Thailand. In fact, such an approach has recently been suggested to the Mission.

^{11/} This argument and several others in this sub-section were suggested by thoughtful comments by Michael Crosswell, Senior Economist of A.I.D.'s Asia Near East Bureau.

An advantage of the mixed credits approach would be the ability to scale down Mission staff to one or two people. But there are substantial disadvantages. This approach involves the transfer rather than the management of resources. It would not permit continuing to nurture the long-standing U.S.-Thai institutional relationships, nor to build new ones. Also, the amounts required to sweeten such deals could be quite large. Moreover, the A.I.D. Trade and Development Program (TDP), overseen by the Embassy's Commercial Section in Thailand, already provides this kind of support, albeit on a relatively modest basis.

3. Regional Program

Steinberg's fourth option is to promote U.S.-Thai development cooperation exclusively through a regional program. The enhanced ASEAN program, to be located within USAID/Thailand, provides a good example. But, as Steinberg points out, the level of resources devoted to Thailand in such a program is likely to be relatively small. Furthermore, it cannot contribute to the U.S. image and the U.S.-Thai relationship as directly as a bilateral program. Coexisting regional and bilateral programs can be quite complementary however.

Another regional program that might be attractive at higher per capita income levels is the less concessional Housing Guarantee (HG) Program, supported by RHUDO, provided of course that HG terms are also attractive. Given Thailand's current ability to attract large flows of more concessional financing, HG resources are not attractive at the present time, at least to the RTG.

C. Selected Options

The four options described in this section are characterized as "selected options" because the Mission believes each has sufficient potential to be considered as a possible model for continued U.S.-Thai development cooperation. Each option builds to an extent on previous options, leading to the recommended "Dual Track" Option IV, that would phase-in a binational organization and phase-down the USAID Mission over a ten-year period.

1. Option I: Continuation of Existing Mission

This option would pursue maintaining or increasing DA levels within the existing Mission strategy and organization. Steps already under consideration to improve the implementation performance of "core" projects, such as Science and Technology, and "Emerging Problems of Development", would be pursued.

Pros

The pros of "Option I: Mission Continuation" are:

- (1) Maintains existing USAID/Thailand Mission institutional presence, a very valuable asset painstakingly created by U.S. and Thai efforts over a 38-year period, with highly trained and effective Thai professional and support personnel, a workable administrative structure, vast interrelationships with the RTG and the Thai private sector and tremendous good will. For example, the Prime Minister hosted a Government House reception on the occasion of the "Third Cycle" (36th anniversary) of U.S. economic assistance to Thailand in the Fall of 1986.
- (2) Maintains "official" status and image of relationship; may be more feasible to program activities directly in support of U.S. geo-political and economic/commercial and technical objectives, and to pursue "policy dialogue," than through an independent entity; can continue management support of regional programs (ASEAN and RHUDO) and functions (ACO, FIN, EXO) as well as security-related ESF ("Affected Thai Village" Program) and other management-intensive "special concerns" (narcotics, Women-in-Development, PL 480 Section 416 sugar quota offset, etc.) and management oversight of a substantial number and volume (\$7-10 million a year) of centrally-funded activities, as well as less concessional assistance such as a Housing Guarantee Program.
- (3) Desirable programmatic and administrative changes can be made without requiring extensive review and approval by USG entities beyond AID and STATE (e.g., OMB, Treasury or Congress).

Cons

- (1) This option would continue to be staff-intensive (i.e., staff per portfolio dollar). As pre-strategy projects in the portfolio phase out, staff intensity could decline, but this could well be offset by the need to explore and design new initiatives, monitor fully operational projects under the existing strategy, administer USAID and RTG rules and regulations, and meet IG documentation requirements.
- (2) While there is a high degree of Thai-U.S. collaboration in design and implementation in the current setting both within the Mission (U.S. and FSN) and between the Mission and the RTG, there is not as much as there might be in a jointly governed and staffed organization such as a binational commission or foundation.

(3) Programming and implementation flexibility and response time will be constrained by the continued need for Mission staff to devote substantial time to A.I.D.'s standard procedural and documentation requirements, the functional account restrictions and the application of the IG program audit function. Notwithstanding the generally good working relationships with the RTG, and the improvements that may accrue from seeking better understandings, the Mission is likely to continue to encounter implementation delays resulting from quantitative and/or qualitative RTG staff inadequacies, staff turnover and strict application of rules and regulations.

(4) This option will continue to be dependent upon annual Congressional appropriations and subject to continued Graham-Rudman-related downward pressures on budget and staff, with increasing threat of termination. The Mission believes the only way of avoiding such a demise under Option I is to persuade OMB and the Congress that the program strategy outlined above should be continued at least until Thailand joins the ranks of the current "NICs", a status which most experts would agree is not likely to be reached until the turn of the century, at a minimum. Option I must be shown to be worth its cost in terms of contributions both to the economic and security interests of the U.S. That will take substantial and concerted efforts by the Mission, Bureau and Agency as well as the Embassy and State Department.

2. Option II: Modified USAID Mission

This option would continue the USAID Mission as an organization but would seek major changes in the way we do business in order to enable the staff to pursue more effectively the mutual economic benefit-oriented program suggested in Option I. The changes would require both USG and RTG actions. Most, if not all, the USG actions would require OMB, Treasury and/or Congressional approval.

A. Desirable changes on the USG side include:

- (1) Streamlined project design and implementation requirements (e.g., return to pre-1970, relatively simple documentation requirements);
- (2) Elimination of functional account restrictions as well as CN and de-ob/re-ob procedural requirements;
- (3) Satisfying accountability in large measure through independent accounting firms;
- (4) Ability to set up and/or contribute to endowment funds.

B. Desirable changes on the RTG side include:

- (1) Allowing the USG to enter, with minimal procedural requirements, agreements with private sector organizations; and
- (2) Streamlined procedures for project and sub-project review and approval.

Pros

Option II has the same "pros" as Option I, plus the following:

- (1) Streamlines Mission and RTG procedures and management workload, freeing time to identify and design innovative initiatives in support of strategy, particularly with the private sector.
- (2) Also frees more time for effective and expeditious implementation; in short, once the proposed procedural changes have been effected, Option II should be less staff-intensive than Option I.
- (3) Ability to establish endowment funds in projects creates greater potential for self-sustaining activities.

Cons

- (1) Same with respect to degree of Thai-U.S. collaboration as Option I ("con" number 2).
- (2) Subject to downward budget pressure in the same manner as Option I ("con" number 4).
- (3) A substantial amount of effort and staff time is likely to be required to gain approval for and put into effect the proposed procedural changes--in fact, such proposals as eliminating functional accounts, replacing IG audits with independent accounting firm audits, and going back to pre-1970 project design and implementation documentation and approval requirements may be so difficult and problematical that the cost-benefit ratio becomes unacceptably high.

3. Option III: Replacement of USAID Mission with a U.S.-Thai Binational Organization

This option projects the phase-out of the USAID Mission at some point during the next decade followed subsequently with its replacement by a U.S.-Thai binational organization. This would represent a fundamental organizational change from the USAID Mission, involving shared U.S.-Thai governance and influence over programming and implementation management. The organization could be called, and structured as, a "Foundation", "Council", or "Commission"--implying least governmental relationship at the "Foundation" end of the spectrum and a greater degree of relationship at the "Commission" end.

The binational organization would be financed from sources independent of the annual U.S. Congressional appropriation process. The basic source of support at the beginning would come from the income generated by an endowment that, by mutual agreement of the U.S. and Thai governments, would be funded largely from repayment flows, or a prepayment, resulting from previous U.S. economic assistance loans to Thailand. Over time, private donations from both countries might significantly augment the organization's income. RTG contributions could also be encouraged as well as USG contributions appropriated under the authority of U.S. domestic legislation.

There are precedents for such an approach. The Luso-American Development Foundation became operational in 1985 after a five-year planning effort. It is binational in governance and administration, and funded by the income generated by an endowment capitalized over several years by the Portuguese Government from A.I.D. ESF program grants. Joint U.S.-Omani Commission development activities are financed by annual ESF grants. The already mentioned Japan-U.S. Friendship Commission, while not binational in governance and administration, funds programs of exchange and related activities from the income generated by an endowment. Funding issues receive further attention in sub-section VI-D, below.

Establishing a "binational organization" would require intensive efforts both in Thailand and the United States. A range of consultations with knowledgeable academic, business, and government and other leaders would be advisable in both countries. Some of these efforts themselves would generate some rewards--a fresh look; a collegial effort; a cooperative undertaking. A number of USG entities, ranging from A.I.D. and State, to OMB and Treasury, to the White House and Congress, would have to be involved in reviewing and authorizing the organization and its funding arrangements. Similar efforts would be required on the Thai side, involving a number of entities up to the Cabinet and perhaps the Parliament. The dialogue would and should reach to relatively high political levels. As was the case for the Japan-U.S. Friendship Commission and Luso-American Development Foundation, specific legislation would likely be required, at least on the U.S. side, as well as extensive bilateral negotiations (see Section VII below, "Conclusion and Next Steps" for an elaborated sequence of implementation steps and illustrative timetable).^{12/}

^{12/} David Steinberg suggests a very optimistic implementation strategy and timetable on pp. 24-26 of his paper, Future of Thai-American Economic Cooperation.

Until there is further exploration of the feasibility of establishing a binational organization, and the likely time required for the various steps involved, no timetable can be provided except to indicate that the time horizon would be over the next decade. One reason for the decade horizon relates to the future scenario for Thai economic growth. As discussed previously, plausible projections of Thai per capita GDP to the turn of the century put it at that point in the range of South Korean per capita GDP prevailing in the mid-seventies when U.S. economic assistance was phased out. In addition, other indicators signify structural constraints and bottlenecks that indicate Thailand is currently not as advanced as South Korea in the seventies (see sub-section VI B-1).

Pros

The binational organization option (III) carries a number of "pros" and "cons" of its own.

- (1) This option would permit new initiatives in trade and investment and other areas of mutual interests, while concurrently stimulating support for private sector, scientific and technical, university and PVO linkages of mutual benefit to both countries, efforts which currently tend to be hampered by the application of regulations employed in government-to-government programs with public sector entities as the implementing agents.
- (2) Would establish a mode for U.S.-Thai development cooperation that could continue for the foreseeable future with an assured stream of funding.
- (3) Would save the USG the annual appropriations cost of the DA program in Thailand (net of current payments on U.S. economic assistance loans, which currently run about \$3 million annually).
- (4) The new organization by its charter and composition would be fully binational in its governance and management, with significant if not majority representation from the private sector.
- (5) It would also be designed to be flexible and responsive, yet accountable to its governing board.
- (6) Its streamlined procedures and flexibility should enable the new organization to be considerably less staff intensive than Option I (current USAID Mission) and perhaps even Option II.

Cons

- (1) The annual program levels yielded by an endowment produced from the stream of payments, or prepayment, on previous U.S. economic assistance loans is likely to be considerably lower than current annual DA levels, unless augmented from non-USG sources.

- (2) Although certain attractive features to both the USG and RTG of tapping loan reflows for an endowment can be cited (reduction of Thai external debt if prepaid, relatively small current and discounted cost to the U.S. Treasury, savings to U.S. of annual DA cost of USAID program, highlighting the potential economic and political benefits to both countries), the procedural, policy, legal and attitudinal obstacles will be formidable. Total prepayment in particular may well seem unattractive to the RTG. It would represent a given up-front budget cost in return for canceling highly concessional external debt and receiving a future stream of endowment benefits of positive, but virtually unquantifiable value to Thailand.

Additional information and analysis is essential to determine the amounts and assess the characteristics of alternative funding options. As explained below, the Mission has been exploring the performance of this analysis by local financial consultants.

- (3) The USG might conceivably contribute to an endowment from continuing Foreign Assistance Act (FAA) appropriations. However, it would take several years from this source alone to build an endowment capable of yielding even a modest annual income of--say--\$5 million. If the rate of contribution were less than current annual DA levels (\$15 million), the capitalization of the endowment would take even longer. Specific purpose USG contributions authorized by domestic legislation (as opposed to the FAA), and of clear benefit to the U.S. as well as Thailand, are a possibility which is analyzed further below (see Section VI-D).
- (4) There would be no USAID Mission able to continue regional program and support functions (ASEAN, RHUDO, ACO, FIN, EXO), nor ESF "special concern" and centrally-funded activities. An A.I.D. Representative established at the Embassy could handle some of these programs, such as ESF. Regional responsibilities could be shifted elsewhere.
- (5) The search for a more collaborative relationship through a binational organization may prove illusory. First, our present relationship is in a very real sense collaborative. Thai counterparts are accepted at peer level and have considerable influence and control in annual planning, project agreement approval, funding, selection of trainees, etc. To the extent this is not the case, USAID could seek earlier involvement of counterpart units in project identification and design. This would not require a change in organizational mode.
- (6) A truly joint relationship in a binational organization may turn out to be far more difficult to achieve than we anticipate. We run the risk that the Thais could over time gain increasing control since they will generally occupy positions in the organization for a longer period of time. Sooner or later, an American occupying an important position could be coaxed into making changes that will shift power. If Americans employed in the organization are residents of Thailand,

they will be vulnerable to pressure since their continued stay can always be questioned. Their interests will often be more parochial than the USG may desire. Further contributing will be Thai opinion that they funded the organization if proceeds from a loan repayment are utilized to endow. The result over time will be less identification of the organization with the USG, and less ability to meet USG geo-political and economic objectives through influence on the direction and nature of supported activities. It may also be difficult even for a binational organization to have more flexibility and freedom--say, to make grants to the private sector--than is possible under current USG and RTG procedures.

These are serious concerns. The experience thus far of the USAID-funded Portugal-based Luso-American Development Foundation, which appears to be increasingly under the sway of Portuguese political interests and pressures, suggests that these concerns are not unfounded. One possibility would be to retain more of a "quasi-governmental" nature in the organization, including participation by USG and RTG officials in both the governing board and the administrative staff of the organization...more like a "Binational Council" or "Binational Commission" than a "Binational Foundation". The cost of a move in this direction, however, could well be increased application of USG and RTG policies, programs, rules and regulations, and a corresponding loss in flexibility, ability to deal directly with the private sector, etc.

In the final analysis, it just may not be possible to meet fully the objectives of control and flexibility. Something of one may have to be traded off for the other.

With regard to the workload involved in establishing a new organization, consultants can help. The Mission has already contacted financial consultants; additional consultants with Thai legal and other specialized backgrounds (e.g., in designing commission or foundation organizational structures) will likely be needed along with the budgetary resources to pay for them. Based on the experience of the Luso-American Development Foundation, direct-hire assistance from AID's General Counsel and Regional Legal Advisor as well as other offices will be essential. The Mission will also need at some point a senior, field-experienced A.I.D. officer with an exclusive assignment to help us manage the process and these resources.

Finally, it may also prove difficult under Option III to match the start-up of the binational organization with the phase-out of the USAID Mission. For this reason as well as to deal with some of the concerns listed above, a fourth option is proposed.

4. Option IV: The Dual Track Approach

This option entails the establishment of a binational organization along the lines suggested in Option III, but in parallel with the existing USAID Mission. It is likely that it would take at least five years from now for the binational organization to become operational (the gestation period for the Luso-American Development Foundation in Portugal was five years). The concluding section of the paper suggests an illustrative implementation scenario. The USAID Mission would continue at current annual DA levels during the binational organization's gestation period and then phase-down as the new organization gained experience and acquired resources. The total time frame would be ten to twelve years.

Pros

Option IV retains the "pros" of Option III. In addition, the "dual track" option provides for continuing the role of the government-to-government "official" relationship while concurrently expanding our "unofficial" private sector relationships. It also provides for the possibility of maintaining a total annual flow of financial resources for development cooperation activities at or near the same level as the current \$15 million DA level. At a minimum, the total annual level would not drop as sharply as if the USAID Mission DA program disappeared at the advent of the binational organization. For example, if an endowment yielded an annual income of \$8 million and the continuing USAID DA program received \$8 million a year, the total would be in the range of the current DA program. Yet the continuing DA program would represent a 50 percent saving over the current program. If endowment yields were to grow through other contributions from the Thai and U.S. private sectors, as well as from future prepayments of loans for currently active projects now only partially disbursed, annual DA levels could decline and total flows still be maintained.

These scenarios are only meant to be illustrative. More definitive planning should justify program levels for both the USAID Mission and the new organization on the basis of program needs and potential impact (see some initial thoughts on specific program content for the new organization in sub-section VI-E, below). The detailed discussion of major "themes" in Annex I provides a number of programmatic possibilities for both USAID Mission and new organization. It should be noted that at current DA levels (\$15 million a year) it will take about five years to fully fund the existing "core strategy" portfolio, including the new Natural Resources and Environmental Management Project. Full disbursement of this portfolio will take seven years.

Option IV also mitigates some of the other "Cons" of Option III. The "cost" to the Thai of moving to the new mode will be less if the USAID Mission is maintained since combined annual flows from both the new mode and the Mission will, at least to begin with, be greater than without the Mission. The continuing existence of the USAID Mission would maintain an

official USG presence and the capability to support activities of more special concern to the U.S., such as ESF programs and anti-narcotics activities. The current locus for such regional programs as housing and urban development, the proposed locus for the AID-ASEAN program and regional support services could continue in the Thailand mission. Limited staff support for centrally-funded activities could continue to be provided. Moreover, recent events suggest that an Indochina settlement and re-opening to Thailand and the U.S. is not out of the realm of possibility over the next decade. If this were to occur, Thailand and the USAID Mission would be strategically placed to provide regional support needs.

The USAID Mission could, during the first few years of the new binational organization's existence, provide supplementary expertise to assist the organization in such areas as financial management, other support services and selected program areas, including those covered by A.I.D. regional offices, such as RHUDO. This support could be particularly important in the early years of the binational organization. Along with private sector (Thai and U.S.) representatives, whom the Mission believes should constitute at least half, if not the dominant majority of membership, both RTG and USG representatives would sit on the organization's governing board. USG representative(s) could include the Ambassador and/or USAID Director.

Cons

The major "con" of this option would be the challenge of persuading OMB and Congress to continue annual DA appropriations for the USAID Mission program at the same time that previous loan repayments are being granted for an endowed binational organization. Some arguments that could help win approval for this option have been suggested above. They include an indication of some of the things that a USAID Mission is better placed to do than a new organization plus the fact that total flows could be maintained with a much reduced annual DA program.

D. Funding and Income Options for a Binational Organization

The Mission has initiated discussions with local financial consultants to assess funds that might be available from a range of public and private sources. One option that would receive special attention owing to the potential magnitude of funds is the prepayment of previous U.S. economic assistance loans to Thailand. A rough estimate suggests that about \$110 million is outstanding (or potentially outstanding when the S&T and ATT loans are fully obligated), with about seventy percent from DA loans and thirty percent from PL 480 Title I concessional food aid loans. About \$30 million of this amount represents loans in the current portfolio which have just begun to disburse. They obviously would not be good candidates for prepayment now, but could be as these projects reach their completion dates. Thus, the current amount potentially available is about \$80 million. Determining the precise pattern of repayment streams

is a lengthy process since it requires obtaining all loan schedules. The Mission has requested AID/W help with this exercise.

Armed with the repayment schedules, the financial consultants would develop and assess various options, including full prepayment, tapping annual flows, and "securitizing" the future (discounted) repayment streams through bond sales. The pros and cons to Thailand and to the U.S., of these options would be analyzed as well as related questions, such as Dollar-Baht mix, other sources of contributions to an endowment, investment strategies and expected endowment yields. Trade-offs between maintaining the endowment capital intact and drawing it down will also be analyzed. A copy of the scope of work for this analysis is attached as Annex IV. This information would be essential for any further assessment of the feasibility of a new self-sustaining organization.

Beyond loan repayments as a source of financing, to encourage and accept both Thai and U.S. private sector contributions, the new organization should obtain tax-free status in both countries. In addition, the possibility of special purpose government grants should not be overlooked. For example, the U.S. Coastal Zone Management Act expires in 1990. The new version could contain a provision of funding for joint activities with countries like Thailand where the U.S. and the other country have a mutual interest in improved coastal zone management. A grant could go to the binational organization to be earmarked for coastal management activities. The grant could build on the existing USAID-funded Coastal Resource Management project and the coastal resource management component being designed for the new Natural Resources and Environmental Management project. This would depart from the usual requirement that USG support for activities of a development nature overseas be funded from the Foreign Assistance Act. The justification for the departure would be the clear mutual benefit to be derived by the two countries.^{13/}

E. Some Structural and Programmatic Issues Requiring Further Analysis

Other sections (V and Annex I) suggest some theme areas on which future USAID Mission programming might focus. A new organization could move into many of these areas as well. Alternatively, the program content of the new organization could be sharply defined and made quite distinct from that of the continuing USAID Mission. Structural questions regarding degree of jointness or binational character in the governance and administration of a new organization have also been raised. A related question, with both structural and programmatic implications, is the extent to which governance, administration and program content should be private sector or public sector oriented.

^{13/} This possibility was suggested to the Mission Director by the International Director of the Coastal Resources Center of the University of Rhode Island, who thought Congressional support for the approach could be obtained. Thus, the idea has some basis.

These are important issues that need further analysis and review in the next phase of steps leading to eventual implementation of an approach like that of Option IV. Some initial assessment of each of these three issues follows.

1. General vs. Sharply Defined and Delimited Program

A case can be made for keeping the goals and proposed programmatic content of a new organization fairly general at the outset in order to permit maximum flexibility to its governing board and management.^{14/} The charter might contain a negative or proscribed list, such as prohibiting support for construction of buildings or infrastructure. It might provide for support for training, fellowships and exchanges, but otherwise permit broad freedom in defining programmatic themes. As a variant, a range of fairly broad themes, such as the six themes listed in Section V (and discussed in Annex I) could be stipulated. An alternative would be to sharply define and limit the programmatic content of the new organization in advance.^{15/} There are several advantages to this alternative, including:

- creates a clear, sharp programmatic vision and image for the new organization, building upon but distinct from that of the USAID Mission, that could help to win support in both countries;
- could help the organization avoid being pulled by various interest groups in both countries into additional programmatic areas, thereby running the risk of getting spread too thin; and
- by minimizing programmatic areas, would help keep staff size and operating expenses to a minimum.

The challenge is to define a programmatic focus that will be seen to be desirable by both countries for an on-going development cooperation relationship and that will be consistent with the "General Principles" indicated in Section IV-A (and discussed in Annex II), particularly the principles of mutual benefit and drawing on comparative strengths. A dual focus suggests itself:

- training, fellowship and exchanges; and
- commercialization of technology.

^{14/} This approach is recommended by David Steinberg, op. cit., pp. 22-23.

^{15/} This view was articulated in comments on an earlier draft of the paper by Peter Thormann, Program Economist, USAID/India. Thormann drew from the experience and strategic planning of USAID/India in devising new forms of U.S./Indian development cooperation built around the theme of "commercialization of technology".

The first focus--training, etc.--has a great deal to commend it. The arguments are presented in various parts of the paper and with some depth in Section F of Annex I. The benefits to both the U.S. and to Thailand are multiple.

The second focus--commercialization of technology--would combine two major themes of the current core strategy of the Mission: science and technology, and private sector. The combination of the two could lead to the forging of some potentially valuable and distinctive U.S.-Thai linkages of a technical and institutional nature. For example, the U.S. National Science Foundation (NSF) has established "NSF Centers" in such fields as materials sciences, biotechnology and robotics. With catalytic input from the NSF, industry has been encouraged to invest in university research programs in these fields. Another example is the U.S. state programs (Ohio, California, Massachusetts, New York and New Jersey among others) that have promoted industry-government-university R&D partnership, exchanges and other activities. These institutional innovations could be drawn upon in Thailand through the brokering and facilitating efforts of the new development cooperation organization. Linkages between U.S. and Thai institutions in both examples could be deliberately created in the process. The results should be of benefit to all parties. An example with trade aspects would be the identification of U.S. firms and expertise in technologies in which the U.S. has comparative strengths, and where Thailand is beginning to encounter increasingly serious problems. Pollution abatement, waste management, private power generation, energy conservation and related energy technologies and expertise come to mind.

With a "commercialization of technology" focus, the new organization could be viewed as a "center" that would broker and facilitate relationships between S&T-related parties in business, finance, government and academia in both countries.^{16/}

There are advantages to both a sharply focused and a more general programmatic approach. While the various considerations tend to lean, in the Mission's view, toward the sharply focused approach, we do not wish to make a strong recommendation now, but rather explore the question further through additional consultations in Thailand and Washington. There is in fact one additional area where the new organization would probably want to, and should be, involved, namely:

-- strengthening, especially indigenous Thai PVOs or NGOs.

A foundation or commission would be particularly suited to making grants to PVOs or PVO intermediaries with minimum necessary bureaucratic requirements.

16/ These concepts have been explored in the USAID/India program.

2. Binational vs. Unilateral Structure and Governance

This question has been explored in previous sections. It remains an issue that is not easily resolved. The Mission's point of departure in considering the structure of a new organization has been that both U.S. and Thai nationals should be represented on its governing board and on its executive staff. The U.S.-Thai Education Foundation that administers the Fulbright Program in Thailand is an example of Joint governance and administration that has worked well. There have been other examples of foundations in Thailand, including some of a joint nature, where the organization has come to be dominated by one person. Those who know Thailand well say that choosing Americans as well as Thais of high stature is critical to avoiding the risk of coming under the dominance of one individual, or being pushed to and fro by various interest groups. This may be as important or more important than how the organization's charter is structured.

The alternative would be to establish a foundation or commission (such as the U.S.-Japan Friendship Commission) under unilateral U.S. public and/or private governance. The emphasis would still be on mutuality of benefits, but the absence of mutuality of governance and administration is not consistent with the concept of mature partnership that the Mission believes should characterize an enduring development cooperation relationship between the United States and a country like Thailand. True mutuality will imply to many Thais and Americans mutuality in governance and administration as well as in benefits. ^{17/} There are ways of ensuring against the risks of the binational approach that in the Mission's view make the benefits outweigh the risks.

3. Private Sector vs. Public Sector Orientation

This related issue springs in part from the difficulty the current USAID Mission has had in responding to proposals from private business organizations and PVOs, and in initiating support for activities involving such organizations. One source of difficulty is reluctance and resistance by the Thai Government to such efforts. Notwithstanding official policy pronouncements about the key developmental role of the private sector, at the staff level the view tends to be either that the private sector needs no assistance or that even modest proposals need all the painstaking scrutiny and review given to public sector proposals. The result can be long, frustrating delays that result in ill will and diminished private sector interest.

^{17/} Steinberg comes to the same conclusion for similar reasons, e.g., see pp. 18-19, op. cit.

It might therefore be argued that the new organization should be exclusively private sector in governance and administration, and that the beneficiaries should be exclusively from the private sector. It can also be argued, however, that this position goes to an unnecessary--and undesirable--extreme. First, there will be continuing, legitimate needs in the Thai public sector--especially higher level management and public policy administration training for potential leaders that a new organization can help address. Moreover, this kind of support will pay dividends--as it has in the past--to the U.S. in its relationships with, and access to, Thai government leadership. Secondly, certain kinds of support to the public sector--e.g., in policy reform--can be of critical assistance to the private sector. While the USAID Mission could specialize in continuing cooperation in these ways with the public sector, there is no reason that the new organization could not assume them, especially after the Mission phases out.

Finally, to exclude the public sector from participation in governance of the new organization could be interpreted with surprise or suspicion, if not hostility by government. It would constitute a major break in a long, continuous and for the most part harmonious relationship between USAID and the RTG. One result could be the throwing up of obstacles that would make life for the new organization difficult in any event.

The Mission therefore believes it would be important to keep government "on board" through representation in governance. This need not, indeed should not, imply majority representation by government, however.

VII. Conclusion and Next Steps

For the reasons outlined in the previous section, the Mission recommends the "Dual Track Option". We propose an elaboration and refinement of the present paper, especially for the recommended option. This analysis would be based on: (1) the April 1988 AID/W review; (2) further informal discussions with foreign and Thai observers in Thailand; (3) the financial analysis proposed to be undertaken by local consultants; and (4) likely additional analyses of legal and organizational aspects. These analyses and consultations would provide the material for a proposed "Future Directions Plan of Action" that the Mission would submit for Washington review in mid-1989. This Plan of Action would contain more fully developed, illustrative programmatic themes and parameters, as well as proposed structures of governance and administration, and a timetable of next steps, including thoughts on U.S. constituency building. Preparation of this Plan would constitute a major undertaking for the Mission that would require drawing upon Agency and outside U.S. as well as local expertise.

If the 1989 review were positive, the next critical phase of building USG and public support could begin. This would clearly require full-time, Washington-based coordinating assistance from a senior officer as well as additional legal and other specialized expertise (e.g., GC and the

Regional Legal Advisor). Providing initial USG, including Congressional, signals were positive, more formal discussions with the RTG could begin. These parallel discussions in both countries could take at least a year, and bilateral negotiations at least another year. Then a minimum of another year would probably be required to appoint governors, establish the endowment, find a physical location and recruit executive staff. Thus, under this illustrative, but in the Mission's view, realistic timetable, it is likely to be at least 1993 before the binational organization is operational.

Before this latter process begins in 1989, the steps outlined in the previous paragraph need to be undertaken to assure senior management here and in Washington of the feasibility of pursuing additional steps in the U.S. and in Thailand. Adoption of a new organizational mode, or even a substantially modified one, as in Option II, will take time, effort and resources to plan and to implement. The Mission believes the costs are worth the benefits for both the United States and Thailand.

Annex I: Suggested Major Themes for Continuing
U.S.-Thai Development Cooperation

A. Private Sector Trade and Investment

Trade and investment are major instruments of economic growth. The record shows that Thailand is a growing buyer from, as well as seller to, the U.S. On the export side, the U.S. has become Thailand's largest customer, resulting in Thailand's enjoying a trade surplus with the U.S. of over \$0.5 billion, representing the difference between \$2.2 billion in Thai exports to the U.S. and \$1.6 billion in U.S. exports to Thailand (figures vary by \$0.5 billion depending on definitions, but the surplus is large in any event). While U.S. exports to Thailand are still only a tiny fraction (0.5 percent) of total U.S. exports, they have been growing on average at nine percent a year over the last decade. The U.S. is, however, a distant second to Japanese exports to Thailand, which reached about \$3 billion in 1987.

Thailand is also a major host for U.S. and Japanese direct investments, currently valued at approximately \$4 billion for the U.S. and between \$3 and \$4 billion for Japan. Foreign investment has been increasing in recent years at a phenomenal rate, especially from Japan which will soon overtake the U.S. Among the reasons are:

- (1) Very high marks for political and economic stability from financial institutions in Japan, the U.S. and Europe (far above those for the Philippines and Indonesia, and approaching South Korea and Hong Kong according to a recent Japanese survey);
- (2) a large and relatively productive labor force, along with increasing costs elsewhere and the elimination of U.S. GSP privileges in Singapore, Hong Kong, Taiwan and South Korea; and
- (3) liberal RTG regulations and incentives for foreign investment (including the right to 100 percent U.S. ownership)^{1/}.

^{1/} Even China is taking serious note of Thailand's economic progress. A recent report indicated that a Chinese Government study attributed Thailand's economic success to three factors: (1) RTG public sector investment focus on infrastructure rather than a much broader range of projects; (2) an effective tax benefits program for foreign investment directed to labor-intensive industries; and (3) an investment approval organization with authority, yet straight forward and flexible procedures. Thailand sparked the interest of Chinese officials because Thailand now has a per capita income three times that of China, compared to parity between the two countries two decades ago.

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Thailand's annual economic growth rate is expected to continue in the 5 to 7 percent range over the next decade. Thai manufactured exports to the U.S. and other countries, which increased over thirty percent in 1987, will continue to expand. The potential Thai market is also large, with a population of 54 million (South Korea's population stands at 41 million). At current economic growth rates, this market is likely to expand rapidly. Given, in addition, a relatively liberal import tariff structure (although there is room for further liberalization), Thailand's "open door" foreign investment policy should also result in a corresponding increase in U.S. investment.

Will U.S. firms and exporters take advantage of these opportunities? Recent experience suggests the U.S. business community has been sluggish in doing so...certainly, relative to Japan. For example, the RTG's Board of Investment (BOI) reports that in 1987, when there were 204 Japanese investment applications to the BOI, up from 54 in 1986 (although actual Japanese project start-ups were slower in 1987 than in 1986) there were only 58 U.S. applications, up from 23 in 1986. Moreover, the U.S. was also behind Taiwanese firms who submitted 178 applications in 1987, up from 35 in 1986, and behind European firms, who submitted 110 in 1987, up from 42 in 1986. U.S. investments are heavily skewed to petroleum and natural gas production, approximately \$2.4 billion, while the balance, \$1.6 billion, is mainly in consumer durable goods. Japanese investments, on the other hand, cover a wide range of capital as well as consumer goods. This indicates the U.S. is losing out on a genuine opportunity.

How can the USAID program help? First, whatever activities are undertaken should be consistent with Thai development objectives. To the extent that sound economic policies prevail, generally the case in Thailand, activities in support of U.S. trade and investment should also be supportive of host country development goals. Where this is not the case, USAID assistance intended to help the host country improve its policy framework should have first priority (if this is not done, attempts to assist U.S. trade and investment interests could be counter-productive to country development objectives). Current and recent private sector activities supported both through bilateral projects and PRE activities are contributing to private sector growth and a better policy climate for that growth. But more needs to be done on the policy front and in catalytic support of activities that foster U.S. and Thai trade and investment goals.

Two areas related to trade and investment where the economic policy framework remains weak in Thailand are: (1) domestic savings mobilization and (2) certain aspects of the import policy structure or regime, e.g., customs procedures and remaining distortions in the tariff structure. The level of tariff protection, while having recently been reduced somewhat, both through unilateral measures and actions undertaken in coordination with other ASEAN countries remains "too high", at an average tariff level of 31 percent, even in the

view of leading RTG economists.^{2/} The USAID Mission is exploring assistance to the Ministry of Finance (Revenue Department) to increase the effectiveness of tax revenue collection (via "EPD II"). The Mission is also assisting in the reform of Thai securities market institutions and in privatization of state enterprises. Both activities will improve domestic savings mobilization as well as the climate for foreign investment. Perhaps one area the Mission could explore is grant assistance through "EPD II" for improvement of the import regime. The Mission could also do more to encourage strengthening of Thai intellectual property rights protection, helping resolve a major current bilateral issue with the U.S. An example is a recent Thai university conference, AID centrally-funded in part, on patent protection, including pharmaceuticals. This is one of the issues involving a petition to withdraw U.S. GSP privileges to Thailand since Thailand does not provide patents for pharmaceutical products. The elimination of U.S. GSP privileges would check exports to the U.S., a major engine of Thai economic growth.

Activities directly in support of U.S. trade and investment objectives should be selective and catalytic, in view of our modest resources. They should not show favoritism to any particular firm and should not duplicate activities which other U.S.G. entities do, or could, undertake (e.g., U.S. Dept. of Commerce, Foreign Commercial Service, OPIC, TDP, Ex-Im Bank, etc.). Rather, they should aim to work on systemic changes that improve the policy and institutional framework, including institutions specifically concerned with U.S. business in Thailand and the environment within which U.S. firms compete. One small example already exists in the form of the \$10,000 PRE-funded grant to the Small Business Association of the American Chamber of Commerce in Thailand (intended to assist small and medium scale U.S. firms obtain credit from Thai financial institutions). A broader possibility we are exploring involves support for the rejuvenation and transformation of a moribund group called the Thai-U.S. Trade Council into an active Joint Thai-U.S. Business Council. The Council would include an organizational unit in each country with members from resident Thai and U.S. firms and interests. Trade and investment in both countries would be promoted through exchanges, conferences and workshops, trade missions, newsletters, a scholarship fund, policy analysis and dialogue, etc. Core funding would come from fees from member firms. Another area would be to assist Thailand diversify the country destinations for its exports, perhaps through selective assistance to a new "World Trade Centre" to be located in Thailand.

The proposed new focus of the AID-ASEAN program on trade, investment and the commercialization of technology would be very complementary to the U.S. bilateral strategy.

^{2/} Statement by Dr. Pisit Pakasem, Deputy Secretary-General of the RTG National Economic and Social Development Board (NESDB), at a conference in Bangkok, March 16, 1988, sponsored by CIDA (Canadian International Development Agency) and TURA (Thai University Research Association).

B. Science and Technology

Thailand's capabilities in this area of U.S. comparative strength are just coming of age. U.S. assistance in helping build such institutions as Chiang Mai, Khon Kaen and Kasetsart Universities, and the Thailand Institute of Scientific and Technological Research (TISTR), as well as participant training, laid the foundation for the current flowering. The process is being accelerated substantially by the almost sixty science grants funded by the AID/W Science Advisor's Office (about twenty percent of all grants won in worldwide competition--far more than any other country) and by the new bilateral S&T project. The latter effort draws on U.S. strengths and is recognized by Thai leaders as potentially one of the most important boosts yet given to Thai S&T capability. The Sixth Five Year Plan's chapter on Science and Technology is based on the USAID project. The Mission's Agricultural Technology Transfer (ATT) project is a significant source of support for technology transfer and applied research in agriculture, with an emphasis on commercialization.

Thailand's budding S&T capability is beginning to yield results of significant benefit to the rest of the world, including the U.S. In family planning technology, the mini-laparoscope, with which safer, more precise female sterilizations can be performed, was developed in Thailand. World class biotechnology research at Mahidol University is generating a breakthrough: an effective vaccine against three of the four strains of dengue, or "breakbone" fever, which plagues much of the tropical world, and which, in the advanced form of hemorrhagic fever, becomes life-threatening, especially to infants.

As in the trade and investment sphere, there are deficiencies in Thai S&T capability that should be addressed if the momentum of Thai economic growth and export competitiveness is to be maintained. Historically, R&D undertaken in Thai universities and government laboratories has tended not to be relevant to the needs of agriculture and industry. Little R&D is undertaken in the private sector except in a few large firms, although considerable adaptation of foreign technology takes place in a wider range of firms.

In a recent Bangkok article, Dr. Annuay Viravan, Chairman of the Bangkok Bank, argues that Thailand, if it is to achieve "NIC" status, must develop the "disciplined human resources and the capacity to develop technologies to continuously strengthen Thailand's competitive edge in world markets".^{3/} These are the challenges being addressed by the Mission's bilateral S&T project which, drawing on U.S. strengths, is intended to:

- fund "RD&E" (Research, Development and Engineering) proposals that are "demand driven";

^{3/} Reported in Nation, March 26, 1988, p. 13.

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- support "company-directed" research
- strengthen standards, testing and quality control capabilities;
- support graduate fellowships in Thai universities and exchanges with U.S. scientists;
- expedite technology and information transfer;
- promote use of technical consultants by industry; and
- undertake studies of policy constraints.

The scientist exchanges proposed for the new AID-ASEAN program would nicely complement the bilateral Thai program.

The going has been tough and slow, however. We expect acceleration of progress in the remaining four years of the project. However, much will remain to be done to create a self-sustaining S&T capacity capable of maintaining Thai competitiveness and solving new challenges to the health and well-being of Thai citizens.

C. Natural Resources and Environmental Management

This subject is rapidly emerging as a significant challenge to Thailand's sustained development. Natural resources in the form of forests and wildlife, water, soils, coastal areas, beaches, aquatic life and atmospheric quality are being degraded and/or depleted at an alarming rate, jeopardizing the country's productive and income earning resource bases. Health risks are increasing from human absorption of foods, water and atmosphere contaminated by industrial and vehicle pollutants, excessive use of agricultural chemicals, and untreated public wastes. The tourism boom is in danger of being checked by these trends.

Fortunately, there is increasing awareness of these problems by the RTG, the private sector and the public at large. While there is also some capability to address the problems, substantial strengthening is needed. Complex policy issues and vested interests favoring the status quo abound. Thai resources being devoted to these problems are still meager in the face of their magnitude.

The Mission's new Natural Resources and Environmental Management project will tackle these multiple problems. It will be an ambitious and complex undertaking, and the challenge is long-term and uphill, requiring substantial efforts to educate the Thai public and government and private sector officials--not only about the problems, but also about the potential solutions in which each group has an important role. Much will remain to be done beyond the seven-year project life. U.S. comparative strengths will be drawn upon--and the U.S. will stand to benefit, given shared national interests in the sustainable management of natural

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resources and the control of environmental pollution throughout the world's biosphere.

D. Policy Dialogue

The absence of a sound economic policy framework tends to vitiate programmatic development efforts and stifle economic growth. Thailand's economic policy framework has many sound features but some deficiencies remain and newly "emerging" problems (e.g., environment) raise new policy issues.

Previous sub-sections dealing with broad sectoral themes (A-C) have described in general terms how current and proposed activities in the Mission's portfolio are addressing these deficiencies, as well as some initial thoughts about potential additional efforts, especially in the private sector trade and investment area.

The Mission's prime vehicle for supporting work that has the potential to improve the policy framework is the "Emerging Problems of Development-II" (EPD II) project. EPD II has funded a number of relatively small sub-projects that have helped identify policy issues and laid a foundation for major bilateral projects, particularly for science and technology, and natural resources and environmental management. Each of the bilateral projects in these theme areas, including the "Rural Industries and Employment" (RIE) project in the Private Sector theme area, has (or will have in the case of the natural resources project now being designed) "policy studies" components that pick up where EPD II has left off. Thus, a definite complementarity exists between EPD II and the core bilateral projects.

In addition, EPD II has the potential for funding sub-projects dealing with policy issues not addressed by the "core" bilateral projects (RIE, S&T, and MANRES-Natural Resources and Environmental Management). In the Private Sector Trade and Investment area, this has already happened, with EPD II funding for additional work in privatization that had been initiated through Private Enterprise Bureau (PRE) central funding. PRE funding has been helpful in other policy areas such as securities market institutional reform. EPD II has the potential to support totally new efforts, such as tariff reform as well as private and public sector training in business and public administration for the coming generation of Thai leadership (see sub-section F below on "Training and Exchanges").

The EPD II project has also funded sub-projects that address the RTG's priority new policy concerns in fields no longer (or never) addressed directly by bilateral projects. Examples include health economics and financing, and higher education policy, both important for Thailand's continued socio-economic progress. Another example is housing and urban development, where EPD resources helped fund the pioneering Bangkok Metropolitan Regional Study which contains major policy proposals, now in the process of being implemented to deal with Bangkok's staggering

problems. Since the Bangkok area dominates the Thai economy, generating a substantial fraction of national product, unless these problems (such as flooding and traffic congestion) are significantly ameliorated, Thailand's continued attractiveness to foreign investment, and thus the pace of its economic progress, could be in jeopardy. Additional policy analysis could be usefully supported in this area, drawing upon both EPD II and RHUDO resources. Similarly, the disturbingly low secondary school enrollment ratio cited in Section VI-B of the main text could be a fruitful subject of policy analysis. Energy policy, including energy conservation, is another emerging critical area where policy analysis could be supported.

Again, the Mission has effectively drawn upon complementary technical assistance from centrally-funded S&T Bureau activities in the health and education fields, and from PRE centrally-funded housing and urban development resources managed by the Mission-located Regional Housing and Urban Development Office (RHUDO). In fact, the total estimated value of centrally-funded resources drawn upon by the Mission has been running between \$6 and \$10 million a year.

Notwithstanding the achievements of the EPD II project, the pace of commitment of obligated funds has been slow, partly owing to a complex administrative structure in need of streamlined procedures and the assignment of additional RTG management staff. The Mission has initiated efforts to restructure the project in this direction and has begun serious thinking about adding an expanded component for training that would respond to the needs identified in the "Training and Exchanges" theme area (sub-section F, below).

Thailand's populous Northeast Region will continue to contain large numbers of households in relative and absolute poverty for some time. Rather than initiate a new project focussed on this problem, the Mission believes significant elements of the six major themes can, and in several cases already are, address causes of poverty in the Northeast. Current core projects, in addition to EPD-II, which support elements and sub-activities in the Northeast, include Science and Technology for Development, Agricultural Technology Transfer, Rural Industries and Employment, and PVO Co-Financing II. The new Natural Resources and Environmental Management Project will also tackle problems of land, forests and water depletion and degradation in the Northeast. The Thai Government and other donors can provide the capital resources required to further develop the Northeast.

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E. PVO Strengthening and Collaboration

Thanks to the combined efforts of professional FSN and U.S. staff, augmented in early 1987 by an outstanding PSC consultant, the Mission's PVO-COFinancing program (now represented by the "PVO-CoFi II" project) is beginning to make modest but significant contributions to improving the livelihoods of Thailand's socially and economically disadvantaged populations--both in rural and urban areas--not only through U.S. PVOs ("Private and Voluntary Organizations") but increasingly through indigenous Thai PVOs (or NGOs, Non-Governmental Organizations, as they are known in Thailand). The PVO program is one of the few channels the Mission has under its current strategy to benefit directly the economically and socially disadvantaged. Moreover, the RTG is increasingly recognizing the complementary roles of Thai PVOs to that of government at the local level (the Sixth Five Year Plan emphasizes the role and importance of NGOs as agents of development).

intended to strengthen Thai PVO capabilities in a collaborative manner. Achievement of the indigenous PVO strengthening objective implied above will require a long-term effort.

Managing the PVO Co-Fi program has been a labor-intensive process compared to other project areas. If one or two U.S. PVOs become effective intermediaries, that could reduce the burden on Mission staff, as the U.S. PVOs could be performing functions including making grants to Thai PVOs, which the Mission performs now.

F. Training and Exchanges

A high proportion of senior RTG officials and a large number of private sector leaders are the former recipients of training grants from USAID and predecessor organizations. When interviewed, they consistently cite training as the most important thing the U.S. has done for Thai development.^{4/} The volume of USAID participant training grants has declined however as funding shrinks, and the "next generation" of leadership in the RTG and universities is not as likely to be trained in the U.S. They are more likely to be trained in Thailand or third countries and perhaps less receptive to U.S. views and influence. This evolution suggests the desirability of a renewed emphasis on training and personal exchanges in business and public administration for selected future leaders. There will also be a continuing need for sophisticated training and exchanges at graduate levels in a range of fields, because although Thai training capacity will increase, economies of scale imply that much specialized training will still need to be done in industrial countries.^{5/}

Finally, Thailand is becoming an increasingly important locus for training and study observation tours for students and officials from other developing countries who view Thailand as a model to emulate. The USAID Mission facilitates well over a hundred such visits a year and could continue to do so. Over time such visits are bound to increase.

^{4/} Observations in this and the following sentence based on extensive interviews to be reported in the previously cited forthcoming monograph by Robert Muscat.

^{5/} See Steinberg, Future of Thai-American Economic Cooperation, op. cit., P. 10.

Annex II: General Principles of Continuing
Development Cooperation

This annex describes some general principles which the Mission believes ideally should characterize the philosophy and operations of any organizational form chosen for continuing U.S.-Thai development cooperation.

1. Management of Resources

Cooperation should focus on the management of resources and not on the transfer of capital resources. External capital is not currently a binding constraint to Thai development. Plentiful external capital is available at concessional or competitive terms to Thailand, and with improved policies (management of resources), domestic capital mobilization should not be a significant constraint.

A programmatic corollary of this principle is that U.S.-Thai development cooperation should focus on technical assistance; training; and promoting conferences, exchanges and the like. It should not involve financing of infrastructure, major plant and equipment or general commodity imports. Support for research and related small-scale equipment and supplies could be included. Limited operating expense support for PVOs or for new, innovative efforts or pilot programs could be justified if they contribute to self-sustainability.

2. Catalytic Role

Cooperation should seek through such activities as policy reform, strengthening of intermediate institutions, selected training and exchanges and conferences, to have a catalytic or "spread" impact. A corollary is that staff efforts should emphasize brokering, facilitating and innovation.

3. Mutuality

Cooperation should ideally be characterized by a partnership approach, rather than one side viewing the other as a "client". This should go beyond mutual respect to recognition that both sides should benefit in a variety of ways from the relationship. It implies that activities will be chosen that provide clear and specific benefits to the U.S. as well as activities that provide specific benefits to Thailand. It also implies mutuality in terms of governance and administration of the development cooperation organization.

4. Comparative Advantage

Both parties should draw on strengths that are relatively unique to each other, and among other countries. U.S. comparative strengths in such fields as S&T, natural resources and environmental management and certain aspects of private sector development tend to be superior to those of Thailand now. But as time goes on, Thai experience and strengths should be of increasing interest to the U.S. Some accomplishments, such as those mentioned in the "S&T theme" discussion (Annex I, Section B) should be of interest to the U.S. now.

5. Flexibility and Responsiveness

Development cooperation between mature partners should be characterized by administrative procedures that are sufficiently streamlined and flexible to permit quick responses to opportunities that come along within mutually agreed theme areas. This should not imply inadequate accountability, but neither should it imply audits that are punitive or unnecessarily restrictive or intrusive into program details. Flexibility and responsibility also need not imply lack of direction nor passively responding to any "target of opportunity". Pro-active programming can and should be accomplished by mutual agreement.

6. Contributions by Benefited Parties

Institutions and institutional linkages benefited by development cooperation between the U.S. and nascent advanced developing countries should be supported to an important degree, increasingly over time, by contributions by the institutions themselves. An example would be a linkage between a U.S. university and a Thai university, partly sustained by contributions from each partner, although the U.S. university would normally be expected to contribute more financially to the relationship than the Thai university. Mission resources and possibly centrally-funded resources through the new "BIFAD Linkages" Project would supplement institutional resources sufficiently to deepen and sustain the linkage.

7. Private Sector Linkages

A main, but not exclusive focus, of U.S.-Thai development cooperation should be to support linkages between private sector institutions, including private business enterprise associations as well as PVOs and universities. The latter are often public sector institutions, under the national government in Thailand and under state governments in the U.S. But such universities--in both countries--enjoy considerable autonomy. Linkages between U.S. states and Thailand, or Thai provinces, offer another possibility.

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B. Grant Funding

The development cooperation relationship between the U.S. and a country like Thailand is best funded on grant terms. This follows in part from principles already stated, i.e. the relationship should be characterized by technical assistance, training and the like. Moreover, programmatic theme areas are likely to represent innovative, pioneering efforts involving emerging problems and policy issues. They often involve taking some risk on the part of both parties. The benefits are likely to be more indirect, long-term and more difficult to factor into the standard rate of return analysis typically imposed by loan terms. For these reasons, the Mission has learned from experience that grant funding is best, given the current stage of our relationship. Our experience trying to finance such assistance on loan terms has, on balance, not been good. Technical assistance on loan terms has tended to be resisted and get snarled in tax issues, etc.

Secondly, and of equal import, the less concessional loan terms we would have to charge Thailand now, for relatively small amounts of assistance, would probably be rejected (and were rejected in the case of the ill-fated "PWA Project") in view of the greater degree of concessionality available from other donors more flush with resources, especially Japan. Even for A.I.D.'s most concessional loan terms (for which Thailand is no longer eligible) this is true.

Loan funding is appropriate for a program characterized mainly by capital assistance and modest complementary technical assistance. Grant funding is appropriate for a program characterized exclusively by efforts to improve the management of resources.

Annex III - Derivation of South Korean Per Capita
Gross Domestic Product (GDP) Levels in
1986 Prices, 1975-1986

The derivation was performed by dividing the U.S. GDP deflator and the U.S. Wholesale Price Index, each with a base of 1986=100, into South Korean per capita GDP figures expressed in current dollars as reported by the Korean government. These are two approaches (but not the only ones) to producing a series in 1986 prices that can be compared with projections of future Thai GDP per capita levels (in 1986 prices).

The following table compares the results of such an exercise. The Thai GDP per capita projections are also based on "real" terms, at 1986 prices. The methodology is explained in Section VI-B of the text and in the footnotes to the table. It will be noted that depending upon how South Korean per capita GDP is adjusted, and which Thai GDP growth rate assumptions are used (5% or 6%), Thai GDP per capita would reach the 1975 level of South Korean per capita GDP some time between 1992 and 1998, and reach the 1976 level sometime between 1997 and 2003.

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TABLE

Comparison Between Projected Thailand GDP Per Capita and
Historical South Korean GDP Per Capita
(both in U.S. Dollars and in 1986 Prices)

| <u>Year</u> | <u>Thailand</u> | | <u>Year</u> | <u>South Korea</u> | |
|-------------|-----------------|------------|-------------|--------------------|------------|
| | <u>(1)</u> | <u>(2)</u> | | <u>(3)</u> | <u>(4)</u> |
| 1986 | 807 | 807 | -- | -- | -- |
| 1987 | 850 | 850 | -- | -- | -- |
| 1988 | 880 | 888 | -- | -- | -- |
| 1989 | 911 | 928 | -- | -- | -- |
| 1990 | 942 | 970 | -- | -- | -- |
| 1991 | 975 | 1014 | -- | -- | -- |
| 1992 | 1010 | 1059 | 1975 | 1223 | 1059 |
| 1993 | 1045 | 1107 | 1976 | 1473 | 1349 |
| 1994 | 1081 | 1157 | 1977 | 1797 | 1611 |
| 1995 | 1119 | 1209 | 1978 | 2248 | 1983 |
| 1996 | 1158 | 1263 | 1979 | 2678 | 2252 |
| 1997 | 1199 | 1320 | 1980 | 2360 | 1882 |
| 1998 | 1241 | 1379 | 1981 | 2324 | 1839 |
| 1999 | 1284 | 1441 | 1982 | 2225 | 1901 |
| 2000 | 1329 | 1506 | 1983 | 2247 | 2008 |
| 2001 | 1376 | 1574 | 1984 | 2321 | 2103 |
| 2002 | 1425 | 1645 | 1985 | 2242 | 2116 |
| 2003 | 1475 | 1719 | 1986 | 2354 | 2354 |

Column (1) begins with 1986 Thai GDP per capita in current dollars projected from 1986 to 1987 on the basis of a 6.8 percent estimated growth of real DGP in 1987 and a 1.6 percent population growth rate, followed by an assumed 5.0 percent annual real GDP growth rate and 1.5 percent population growth rate for the balance of the period.

Column (2) is constructed the same way except that a 6.0 percent GDP growth rate is assumed for the 1987-2003 period.

Column (3) is South Korean per capita GDP in current dollars divided by the U.S. GDP deflator, 1986=100, to convert per capita GDP figures into 1986 prices.

Column (4) reflects the same procedure except that the U.S. Wholesale Price Index (1986=100) is used.

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ANNEX IV

Analysis of Joint Foundation Funding and
Income Options

DRAFT

Scope of Work

Objective

USAID wishes to identify possible methods of establishing an endowment fund or ensuring a steady means of financing for a joint U.S./Thai Foundation which may be created as an administrative unit for the continuation of development assistance activities in Thailand. The purpose of this contract is to analyze, from a financial and economic perspective, the relative merits of financing options to the USG and RTG.

Discussion

A proposal has been made to create a joint U.S./Thai Foundation which would continue development assistance in parallel with, and as the USAID Mission is phased out.

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Since this entity would not receive annual appropriations (at least not in the normal budgetary sense) from either the USG or the RTG, some method of ensuring continued financing is sought.

The most attractive means identified thus far to finance this entity is to make available to the Foundation proceeds from the repayment of loans by the RTG to the USG. This could either be in the form of an annual USG allocation of funds to the Foundation in the amount of RTG loan repayments or it may involve a prepayment of loan principal by the RTG and subsequent allocation of said amount for the endowment of the Foundation.

There are many institutional and political questions associated with the creation and financing of the Foundation. However, the purpose of this contract is to assess the financial and economic costs and benefits to the participants of the options.

Statement of Work

Develop and assess arguments that could be used to answer the following questions:

(1) From a financial viewpoint, why might the USG wish to pursue the creation and financing of a Foundation?

In developing a discussion on the above question, costs to the USG in both nominal and discounted present value terms should be determined assuming first, the prepayment by the RTG of outstanding loan balances with the resultant creation of an endowment fund and, second, the continuation of amortization payments which are then appropriated for the Foundation.

Above costs should then be compared with what might be construed as "benefits", i.e., the value to the USG of the Foundation assuming the development assistance role in place of USAID/Thailand. Assume the Mission's activities would terminate in 5 years and 10 years, thereby eliminating normal annual DA appropriations for Thailand (ESF and special activity assistance should be excluded from this comparison). This is essentially a least cost analysis.

Consideration should also be given to possible continuation of Mission activities (all or most) after creation of Foundation. Increased costs and higher assistance levels should be discussed.

- 2) From a financial and economic viewpoint, why might the RTG wish to pursue the creation and financing of a Foundation?

For the prepayment option, the financial effects relative to continued annual repayments should be assessed assuming first, that the endowment is invested as desired by the Foundation board of directors and, second, that it is invested partly or fully in RTG financial instruments. The RTG foreign exchange levels and budget situation should be taken into consideration in the analysis.

The economic effects to Thailand should also be assessed assuming a prepayment and reallocation to the Foundation.

- 3) What investment and financing options would be available?

For this analysis, assume all investments are made in Thailand. Both prepayment and bond issue options should be discussed. Decapitalization of the endowment fund over a period of time should also be considered.