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REVIEW DRAFT
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October 12, 1978COUNTRY PROGRAM PAPERTHAILAND

		<u>FY74-78</u>	<u>FY79-83</u>	<u>FY80-84</u> /b
1977 Population: 44.1 million /a	IBRD (TW)	676.4 (26.0)	2,001.4	2,316
1977 per capita GNP: \$410 /a	IDA	40.1	60.0	37
	<u>Total</u>	<u>716.5 (26.0)</u>	<u>2,061.4</u>	<u>2,353</u>

Current population
growth rate: 2.5% p.a.No. of loans/
credits 19

38

38

Current exchange rate:
Baht 20.1 = US\$1.00 /cNo. of loans/
credits/
mln popul. .43

.86

.86

Average Lending Per Capita Per Annum: Current \$ (Constant FY78 Commitment \$)

IBRD/IDA	3.2 (3.6)	9.3 (7.7)	10.7 (8.4)
IDA	0.2 (0.2)	0.3 (0.3)	0.2 (0.1)

/a World Bank Atlas 1978 (forthcoming)

/b The FY77-81 program proposed in this CPP compares with the program for the same period approved in the last CPP review in February 1976 as follows:

	<u>FY77-81 Lending Program</u>		<u>Percentage change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>proposed/approved</u>
No. loans and credits	25	32	+ 28%
Current \$ million	1,030.0	1,345.9	+ 31%
Constant FY78 Commitment \$	962.0	1,234.1	+ 28%
Per Capita per annum (Constant FY78 Commitment \$)	4.4	5.6	+ 30%

The most recent allocation of IBRD funds in June 1978 gave Thailand an allocation for FY79-83 which compares with the proposed program as follows:

	<u>FY79-83 Lending Program</u>		<u>Percentage change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>proposed/approved</u>
No. loans and credits	36	38	+ 6%
Current \$ million	1,782.0	2,061.4	+ 16%
Constant FY78 Commitment \$	1,485.0	1,702.2	+ 15%
Per Capita per annum (Constant FY78 Commitment \$)	6.7	7.7	+ 15%

/c The exchange rate was 20.4 = US\$1.00 until August 1978.

A. INTRODUCTION

1. The last CPP on Thailand was reviewed by Mr. McNamara in February 1976./1 A Basic Economic Report has just been issued (Thailand: Toward A Development Strategy of Full Participation, Report No. 2059-TH, September 1, 1978). Its findings and the ensuing discussions with Thai officials are the basis for this CPP.

2. Despite rapid overall growth that has dramatically reduced the incidence of poverty over the last decade, 25% of the Thai population remain in absolute poverty. This amounts to some 11 million people who have enjoyed little or no growth in real per capita income over the past two decades: 90% of these live in rural areas, primarily in the North and Northeast. The opportunities for expanding onto additional arable land, the primary engine of past growth, are nearly exhausted. Unless other means are found to raise the incomes of poor farmers dependent on rainfed agriculture, the prospects for continued rapid economic development and political stability will be markedly dimmed. The Thai government has identified and expressed its concern over this issue in the Fourth Plan and is beginning to redirect its activities to try to resolve the problems involved. Thailand is expected to run large current account deficits through the mid-1980s, averaging \$1.8 billion per year as a result of recent price movements in international markets and structural changes associated with rapid growth and modernization in the Thai economy. In these circumstances careful policy management will be crucial to maintaining growth and attracting the necessary foreign capital.

3. The recent reorientation of the Bank lending program toward projects aimed at reducing poverty should be sharply accelerated through an increase in the amount of the lending program, the number and size of such projects and the Bank's manpower devoted to Thailand in order to prepare the additional projects and to aid in the concomitant institution building. In order to accommodate the additional rural poverty oriented projects and still maintain a desirable number of operations in more traditional areas, it is proposed that the number of Bank projects be increased from 36 to 38 in FY80-84 and the total lending program increased from an estimated \$2.0 billion for FY80-84 /2 to about \$2.3 billion. (The FY79-80 program remains as currently approved.) This would better accord with Thailand's high creditworthiness, large transfer needs in the coming years, high absorptive capacity in key infrastructure sectors (e.g. power, highways), and low total program in relation to "explicit Bank norms"/3 (currently \$3.3 billion for Thailand).

/1 A subsequent CPP was reviewed by Mr. Husain in August 1977. Since no major issues were raised or program changes proposed, it was decided not to pursue the review process at that time.

/2 Assuming 5% growth in the approved lending programs.

/3 As elaborated in "An Analysis of the World Bank Lending Program FY78-83" PRR, June 14, 1978, which was prepared for the June allocation review.

B. COUNTRY OBJECTIVES AND PERFORMANCEThe Political Situation

4. Despite frequent changes at the top levels of government, there is a fundamental stability in the Thai society and bureaucracy. The coups have not represented major ideological conflicts, but rather struggles for power and control of policy within an established social and political framework. In 1973, popular unrest led by students resulted in the formation of the first democratic government in post-war times. There were three democratically elected governments between 1974 and October 6, 1976, when a group of 24 military officers constituted the National Administrative Reform Council (NARC) and assumed power. They appointed a civilian Prime Minister and a largely civilian cabinet including a number of technocrats. Lacking any other procedure for removing this government, these officers executed another coup a year later because of dissatisfaction with its hard line anticommunist foreign policy and slow return to democracy.

5. A new government was formed in November 1977 under the Prime Ministership of General Kriangsak Chomanan, then Commander in Chief of the Army. The Kriangsak government is again made up largely of technocrats, including several important holdovers from the previous government. The Prime Minister moved initially, and so far successfully, to consolidate Thailand's external position by improving and stabilizing relations with Thailand's Indochinese neighbors and by strengthening relations among its ASEAN partners. He has also consolidated his position with the military and civilian elite, enabling the government to devote more attention to pressing domestic problems. A new constitution will probably be ready by the end of this year and elections are planned for April 1979. Many expect Kriangsak will remain the head of government after next year's elections as it is believed that he can provide the stability needed to realize the country's domestic and foreign policy objectives. Within the basically conservative Thai consensus, there is an increasing concern to achieve a widespread distribution of the benefits from growth as well as to maintain rapid growth. The Fourth Plan has been fully endorsed by the two militarily supported governments in power since 1976. The present government has expressed its concern to ameliorate rural poverty and has begun implementing a number of short and long term projects to this end, including supplying irrigation pumps and granting credit relief. 1979 has been proclaimed the "Year of the Farmer" and rural development issues will receive top priority. Prime Minister Kriangsak has favorably received the recent Basic Economic Report and emphasized his support for its findings to the rest of his cabinet.

6. There are at least four identifiable domestic and/or foreign inspired insurgencies and an estimated 10,000 insurgents in Thailand. The government is devoting some 20% of its budget to defense and security expenditures. Prime Minister Kriangsak and Deputy Minister of Interior Prem Tinsulanonda have explicitly made the connection between the danger posed by these insurgencies and the ability of the government to improve the conditions of the poorest farmers and those living in the more distant areas. While the

insurgencies do not yet constitute a threat to Thailand's overall security, the coincidence of the insecure areas and those that are poor and deprived is high. Projects aimed at these poor areas may face security risks. In May this year, one site of a Bank supported project was attacked and several casualties sustained. The staffing arrangements of that project have been modified. There is thus some inherent short-term danger in continuing to pursue certain rural development projects, but we believe it is important to undertake these projects which will raise incomes and improve well being in these areas. The Government considers rural development an effective way of counteracting insurgency in the long run and it is a recognized part of the Government's development and security policies.

Thailand's Development Policy

7. Thailand is currently in the second year of its Fourth Five Year Development Plan (1977-81). The first two plans concentrated on providing economic infrastructure to facilitate and accommodate the rapid growth that was taking place in the economy. The Government exercised its influence indirectly through conservative fiscal policy and the provision of infrastructure rather than through direct involvement in the productive sectors of the economy. So long as there was adequate opportunity to move into virgin land and the private sector functioned effectively, this was an appropriate strategy which permitted high rates of growth without serious deterioration in income distribution. The Third Plan moved beyond the non-interventionist, growth supporting strategies of its predecessors to adopt the goal of "alleviating problems related to the widening income gap and inequitable distribution of social services." Although the targets stated in the Third Plan were not fully achieved, they began a major shift in the emphasis in public policy that has been continued and expanded in the Fourth Plan, in which the government proposes to play a larger, more direct role in encouraging and directing development. The strategy in the Fourth Plan is very broadly drawn and contains three major elements: 1) rapid industrial growth based on the development of heavy industry in the Bangkok Eastern Seaboard corridor, including natural gas and related industry; 2) rapid growth of commercial agriculture to maintain Thailand's position in export markets, including the expansion of irrigation in the central plain; and 3) alleviation of regional disparities in income distribution and provision of public services, including a major redirection of public expenditure and increased emphasis on provincial planning. The target for annual GDP growth is 7%, based on 5% growth in agriculture and 10% in industry. Proposed public development expenditures are \$12.6 billion compared to \$4.6 billion actually spent during the Third Plan period, a 90% increase in real terms.

8. While this strategy reflects the concurrent need for growth and better income distribution in Thailand, it is formulated at a very general level and does not fully recognize the inherent risks and conflicts among its separate elements. The concentration on heavy industry will absorb a great deal of capital and foreign exchange without creating a correspondingly large number of new jobs or additional exports in the medium term. Nor will increased public expenditure in deprived areas without adequate supporting manpower and programs to raise low agricultural productivity lead to sustained income

growth. These issues were taken up with senior Thai officials during the discussions of the Basic Report and will be the subject of a continuing dialogue with the Thais.

9. The Fourth Plan is largely indicative and does not contain a detailed set of public investment projects or specific operational directions to achieve its poverty amelioration targets. The lack of an effective link between the long-run planning exercise and annual budgeting is reflected in the Plan's failure to provide sufficient guidance for annual budgeting and allocation decisions at national or sectoral levels. The broad range of goals embraced by the Plan is also an indication of the many conflicting economic and political interests which have to be reconciled before any major action can be undertaken in Thailand. The commitment of most senior government officials to reducing income differentials must be balanced against the bureaucratic inertia of operating ministries and powerful vested economic interests favoring Bangkok area development.

Economic Development and Prospects

10. From 1960 to 1977 Thailand achieved an aggregate annual real GDP growth rate of 7.6%, or 4.4% per capita. Real agricultural growth of 5% and export growth exceeding 7% over the period were leading factors in sustaining this expansion. Agricultural growth was due primarily to increasing land under cultivation by about 4% per year, to improved water control and expanded irrigation systems, and to crop diversification from rice into a number of upland cash crops including maize, cassava, kenaf, sugar and rubber. The government maintained price stability throughout the period and encouraged private investment, which contributed to real industrial growth of 10% and real growth of manufactured exports of 30% per year since 1970. Those segments of the urban and rural populations with skills or with access to more land or irrigation for cash crops enjoyed a doubling or tripling of their real incomes during this period. Thailand's income distribution is relatively good for a country at its stage of development and does not appear to have deteriorated significantly with rapid growth. Of greater importance, however, is the fact that the incidence of absolute poverty declined from 52% in 1962 and 34% in 1968 to 25% in 1976./1 With little additional land available as a basis of future growth, further significant reduction in poverty will call for more specific programs directed toward improving incomes on existing holdings or providing off-farm employment. Failing that, unskilled workers and subsistence farmers with no additional land for cash crops will have little better prospects for participating in the benefits of growth in the future than in the past when they experienced only marginal growth in their real incomes. Population grew at 3% p.a. during 1960-76, but an effective family planning program has brought the rate down to 2.5% in 1977./2 The target of 2.1% for 1981 may be optimistic, but should be attained before 1985.

/1 Defined as total per capita incomes of less than \$ 90/year in rural areas and \$ 120/year in urban areas in 1975 prices.

/2 This is a sharp reduction even from the average rate of 2.9% for 1970-75 reported in Attachment 3a.

11. The rate of GDP growth has declined in the 1970s to 6.4% p.a. and agricultural growth to 3.8% as arable land has become scarce and production pushed into less fertile soils. This secular deceleration has been aggravated by the cyclically adverse affects of the rapid increase in the price of oil in 1973, of the general world-wide inflation and recession that followed, and of political uncertainty in Southeast Asia. The full impact of these shocks were delayed and attenuated in Thailand by favorable developments in export prices. The terms of trade rose nearly 30% in 1973-74 over 1971-72. Domestic prices rose 20% a year in 1974 and 1975 as a result of the external inflation, but were contained to about 5% a year in 1975-76 and 8% in 1977. GDP growth dipped to 5.0% in 1974 and 5.5% in 1975 but has since recovered to 6.8% in 1976-77 despite a severe drought that led to a stagnation in agricultural output in 1977.

12. Despite considerable concern over political stability and external security during this period, private domestic investment has remained high at 17-18% of GDP. Public investment fell in nominal terms in 1974 and remained low in 1975 as a result of price stabilization policies which controlled inflation, but slowed output growth and delayed many development projects. Pursuing a more expansionary policy in 1976-77, government investment expenditures rose by 44% in 1976 and 18% in 1977. Budgetary deficits have grown sharply since 1974 and will restrain further development expenditure increases until measures to increase public resource mobilization become fully effective.

13. Balance of payments surpluses in 1973-74 turned into large deficits in 1975-77 as the terms of trade (1975 prices) fell more than 20% and government policy became more expansionary. The 1977 current account deficit reached \$1,092 million, or 6% of GDP, and the overall deficit rose to \$352 million. Net reserves fell to \$1,395 million at the end of the year, equivalent to three months of imports compared to over a five month cushion in 1974. To finance these deficits the government has significantly increased its foreign borrowing from traditional sources, from the Euro-dollar market and from the IMF. In March of this year the government raised tariffs on a list of 141 "non-essential" imports, increased excise taxes on a number of items, most notably gasoline (which raised the pump price 25%), and linked the Baht to a basket of currencies rather than the US dollar as part of a program to contain the balance of payments deficits. In August the Baht was revalued 0.8% vis-a-vis the US dollar. This is viewed as an indication that the government will be following a more flexible exchange rate policy in the future.

14. Income distribution studies, household surveys and the analysis of typical households throughout the country show that regional location is the most important explanation of income differentials and access to economic and social infrastructure. The regions themselves are very different in terms of topography, climate, soils, etc. and present quite distinct problems for future development. The degree of urbanization is the second most important factor. The Center Region, including Bangkok, has the highest average per capita income and is better served by roads, telecommunications, schools, public health and other services than the other three regions, the North, Northeast and South. Within these regions there is also considerable variation.

Table 1: REGIONAL POVERTY INDICATORS

Region	Population 1976 ('000)	Per capita income (\$ 1976)	% rural	Incidence of poverty 1976
Bangkok	4,546	939	0	9
Center (ex. Bangkok)	9,497	525	90	12
North	9,046	271	94	27
Northeast	14,793	158	96	36
South	5,331	354	89	25
Kingdom	43,213	369	83	25

15. The Northeast is both the most populous and the poorest region in Thailand; per capita incomes are only 40% of the national average. Three quarters of rural households are engaged in agriculture. Agricultural growth and diversification into cassava and kenaf over the past ten years have rapidly increased incomes in some areas, and the incidence of absolute poverty declined from 70% in 1962/63 to 38% in 1975/76. However, in many areas, farmers have been unable to move out of a basically subsistence environment because of a lack of education, uncertain weather conditions, low productivity technologies, a lack of access to land for cash crops, and a lack of economic infrastructure and other services.

16. The North is the largest of the four regions, but more than 50% of the land is mountainous and unsuitable for agriculture. It is the second poorest region. Incomes in the Lower North and in some of the irrigated valleys of the Upper North have risen rapidly as farmers have been able to shift into maize or benefit from multiple cropping in the irrigated areas. In the rest of the region, farmers are able to cultivate only very small holdings and earn barely subsistence incomes because of the terrain, poor economic services, and the low level of technology.

17. The South is the smallest of the four regions. Nearly 90% of the population live in rural areas and 60% of rural households are engaged in agriculture. The relative income position of the South declined in the 1960s as rubber yields stagnated and prices fell. Although tin mining provides relatively high incomes in some areas, most inhabitants of the South rely on rainfed rice for subsistence and earn cash from rubber. The average incomes of agricultural households in the South are below those of the North and the incidence of poverty is 25%. Prospects for the South are improving as rubber prices rise and new high yielding varieties are introduced. Irrigation is being developed to improve rice production as well.

18. The Center is the richest region in Thailand and the most urbanized. Incomes are highest and the incidence of poverty the lowest. Within agriculture there has been a very substantial diversification into maize, cassava and sugar and a substantial investment in irrigation which has led to improved

rice yields and double cropping. Most farms are mechanized and most farmers use fertilizers and other commercial inputs. Some farmers have shifted to entirely commercial production and agricultural incomes have doubled or tripled over the past 15 years. There has also been a substantial shift of population from agriculture to nonagricultural activities with even higher average incomes.

19. Although the government's policies have kept the economy relatively free from price distortions and have provided and maintained a level of infrastructure that has facilitated rapid aggregate growth, the structure and procedures of the Thai bureaucracy have aggravated and perpetuated the regional and subregional differences described above. The ministries and the vast majority of their senior staff are concentrated in Bangkok. They generally have only limited interest in, or experience with, the problems of the more distant parts of the country. The ministries are highly centralized at the level of the Directors-General. These officials have a great deal of independence within their respective ministries and delegate relatively little authority within their departments. This structure impedes cooperation in integrated development projects within and among ministries and leaves little scope for independent initiative or action by field officials. As a result of these factors, both the quality and quantity of public services tend to diminish as a function of distance from Bangkok and coordination among agencies in the field is deficient. The budgetary process, as it has developed over the past century, tends to have a detrimental impact on development by reinforcing past differences among and within regions. Funds are allocated on an annual basis with little direct guidance from the Five-Year Plan. Because of the complex procedures, resources are allocated largely on the basis of past expenditures rather than on current needs. Consequently, the well-off provinces receive high allocations while the disadvantaged areas are left with a disproportionately small share of public resources.

20. Regardless of the fluctuating impact of external economic factors, which are currently less favorable to Thailand, the principal long run elements affecting Thailand's growth prospects are internal. Thailand is in the early stages of a major transition in its pattern of economic development. In the past, economic growth and job creation have resulted largely from the extension of traditional agriculture practices onto new land, from diversification into new crops and from the expansion of consumer oriented industries to satisfy growing domestic demand. The labor force is expected to grow at 3% per year over the next decade as a result of the high population growth rate in the past. Given the increasing scarcity of agricultural land, absorption of this labor in subsistence agriculture would reduce average holding size and lead to further stagnation or declines in subsistence incomes. As labor is highly mobile in Thailand, low subsistence incomes would also imply comparably low unskilled wage rates in nonagricultural sectors.

21. Continued reliance on the past development model would lead to a deceleration in agricultural and overall growth in the next decade resulting in persistently large balance of payments deficits, higher rates of unemployment or underemployment, and stagnating or declining real incomes of the poorer segments of the population, especially in rural areas. In order

to continue rapid rates of growth and to extend the benefits from this growth, agriculture, which produces one-third of GDP, employs 70% of the labor force, and provides 75% of exports, will remain the key sector. But a shift will have to be made from existing extensive techniques to techniques that promote planting a larger proportion of land already within holdings, more frequent cropping of land under cultivation and more emphasis on yield improvements. Fertilizer prices and rice premium policies will have to be revised to encourage greater use of yield increasing commercial inputs.

22. Industrial growth will have to emphasize labor intensive industry along the lines of Thailand's comparative advantage in light manufactures for domestic and export markets while developing the basis to expand into appropriate intermediate and capital goods industries and more diversified industrial exports. Scarce industrial capital should be used extensively to provide employment for as many workers as possible. Policy will have to be more concerned with the effects of the levels of effective protection granted industries, export promotion measures, and public actions on pricing and availability of goods, and on increasing overall resource mobilization. Industry needs to be dispersed to reduce the congestion of Bangkok and provide more modern sector jobs and development for regional centers.

23. Development management needs to be modernized to improve coordination among agencies, to increase the delegation of responsibility and authority within agencies and to direct more attention and staff away from Bangkok. If significant progress is achieved along the lines suggested above, Thailand can maintain or exceed its past growth rates while reducing the incidence of poverty and income disparities. ←

C. EXTERNAL ASSISTANCE

24. During the coming 5 - 10 years, there will be significantly greater demands on external resources than has been the case in the past. Our median projections for 1977-90 assume that a substantial transition to intensive agriculture can be achieved and that the sector will be able to grow at nearly 5%. Extension of industry and manufactured exports along the lines of Thailand's comparative advantage would continue industrial growth at 9%, and a 7% rate of GDP growth would be attained. Real export growth is expected to exceed 8%, led by 17% growth in manufactured exports. This latter is conservative given recent past performance (30%, 1970-76) and the small share of Thailand in most markets, but it takes into account recently applied textile quotas on Thailand and the restrictive potential of other protectionist measures in developed country markets. Despite buoyant exports and some improvement in the terms of trade, our projections indicate that Thailand will continue to have large current account deficits until the mid 1980s for structural reasons. Although aggregate domestic savings is adequate, the demand for intermediate and capital imports to support the increased pace of industrialization and for modern inputs to raise agricultural productivity imply an import growth rate of 7%, which, starting from the current trade imbalance, will lead to trade account deficits averaging about \$1.4 billion a year until 1983. Current account deficits will average nearly \$1.8 billion a year until 1986 because of rising service payments. In the longer term, the exploitation of the natural gas fields in the Gulf of Thailand, the continued

growth of manufactured exports, and the development of Thai industries should restore external equilibrium and significantly reduce the current account deficits. It would be possible to reduce the deficits more sharply in the near term, but the necessary policy action would be detrimental to growth in general and to programs aimed at improving rural incomes.

25. It is unlikely that variation in the projections of GDP growth will significantly affect the analysis of external borrowing requirements. The most likely cause of lower growth would be a deceleration in the growth of agriculture, which would not reduce external capital requirements because of the associated decline in commodity export earnings. Lagging growth rates, however, will make the pursuit of concessional official capital all the more imperative to mitigate the burden of debt service payments. Higher aggregate growth rates could well increase the external capital requirements, but they would also increase the country's debt carrying capacity. Thailand could then attract more private capital without impairing her creditworthiness. We will thus concentrate our analysis on the capital requirements associated with the 7% growth alternative.

26. Historically, Thailand's level of foreign borrowing has been low for its level of development and debt carrying capacity, in part because extensive borrowing was not needed to sustain rapid growth and in part because of Thai conservatism about borrowing abroad. Sharp increases in the current account deficits in recent years have led to a significant revision of these attitudes and increased foreign borrowing. Official donors, particularly Japan and the development banks, have been able to expand their programs to offset the decline in American aid since 1975 and to meet in part the rising requirements. Thailand was able to meet the rest of its needs in the Eurodollar and bond markets and by using reserves. Capital inflows rose more than 60% in 1977 over 1976. Thailand has also negotiated access to IMF resources for 1978/79 totaling about \$200 million in the Compensatory Finance, Trust Fund, and Credit Tranche facilities. In light of the rising foreign borrowing requirements, the government has established a Foreign Loan Policy Committee to coordinate and approve all foreign borrowing by the government and public sector. The Bank of Thailand is also establishing procedures for recording private borrowing abroad in order to keep track of total foreign debt.

Table 2: NET FOREIGN CAPITAL INFLOW BY TYPE
(\$ MILLION)

	Actual				Est.		Projected		
	Average 1967-73	1974	1975	1976	1977	1978	1979	1980	1985
Current account balance	-131	-88	-605	-440	-1,092	-1,380	-1,582	-1,706	-1,894
Direct foreign investment	47	136	86	79	106	120	140	157	276
Public long-term /a	28	64	111	198	202	669	752	759	1,310
Private long-term	46	129	64	34	42	131	469	762	543
Short term + nei	50	152	204	125	372	110	120	128	180
<u>Total</u>	<u>171</u>	<u>481</u>	<u>465</u>	<u>436</u>	<u>722</u>	<u>1,030</u>	<u>1,481</u>	<u>1,806</u>	<u>2,309</u>
Memo: Change in reserves									
(+ = increase)	40	393	-140	-4	-352	-350	-100	100	415

/a Including IMF facilities.

27. Our estimated and projected current account deficits and projected means of financing are shown in Table 2. Although the current account deficit does not decline in absolute terms until after 1985, as a proportion of GDP, it declines from over 6% in 1978 and 1979 to 3.4% in 1985 and lower levels thereafter. The decline as a share of imports is even larger, from 24% in 1978 to 14% in 1985. While these levels of foreign borrowing are high in relation to past Thai experience, they are not high in relation to the magnitude of the economic transition that Thailand is now undergoing or in comparison to other countries at similar stages of development. With a dynamic private sector, expanding industrial exports, large absorptive capacity in infrastructure and a long history of conservative monetary and fiscal policy, Thailand should be able to use the resources effectively. Continued capacity to service the debt will depend on appropriate industrial and trade policy, including rationalizing the tariff structure and restraining protection to a level consistent with efficient production for domestic and foreign markets, appropriate exchange rate and domestic pricing policies, and promoting industries appropriate to the factor proportions and market demands in Thailand. These policy adaptations will involve difficult choices and require continual surveillance, but it is our judgment that they will be made as the Thais would not be willing to risk their creditworthiness. Recent conversations with international bankers and other lenders and the increasing amounts they are willing to lend and invest in Thailand indicate they concur in this analysis. The Bank strategy and programs presented below are designed to provide the maximum possible assistance to the Thais to develop programs in agriculture, adopt appropriate industrial policies, establish the necessary institutional structure, and attract the necessary additional foreign capital in order to sustain its growth and creditworthiness. We will carefully monitor these policy developments.

28. In order to achieve the required resource transfer, net disbursements in current terms would have to more than double in current terms for both public and publically guaranteed borrowing and private borrowing by 1985, although in real terms the growth is much less. This implies that commitments on publically guaranteed borrowing will have to increase from \$633 million in 1977 to \$1,620 million in 1980 and \$2,257 million in 1985. Commitments would total \$8.6 billion for the period 1979-83. Thailand has already programmed \$2.9 billion in commitments for FY77-79 and is expected to present its longer term program at the consultative group meeting in December 1978. The public sector borrowing would finance about one third of the total public investment program, a level similar to that achieved in the past. Borrowing by the private sector would be only 14% of total private investment and would be essentially to finance imports.

29. The debt service ratio on public debt rises from 2.5% in 1976 to 6.6% in 1980, 8.6% in 1985, then declines to 7.9% in 1990. The debt service ratio (including direct investment income) on total civilian debt is 11.5% in 1976 and 14.2%, 19.9%, and 15.8% respectively in the subsequent years. In addition, up to \$1 billion of borrowing for military purposes is permitted over the period 1977-81 which is not included in either the import or borrowing projections. At most it would add an additional 1.1% to the debt service ratio in 1985. IBRD exposure in Thailand will fall from 36.3% of public debt in 1976 to 24% in 1985 as other donors increase their programs. When the total foreign debt is considered, the Banks share falls to 15%. Thailand's proportion of the IBRD portfolio will increase from 2.5% in 1978 to slightly more than 4% in 1985. Given the diversification of Thai commodity exports and rapid expansion of manufactured exports, these debt service requirements will be within Thailand's capacity and will not endanger its credit standing. Some concern remains over the political stability of the country and region, but Kriangsak's recent foreign policy successes have considerably reduced these fears. This is corroborated by the resurgence of private foreign investment.

Table 3: SOURCES OF PUBLIC LONG-TERM LENDING, NET DISBURSEMENTS
(\$ MILLION)

	Actual				Est.	Projected			
	1973	1974	1975	1976	1977	1978	1979	1980	1985
World Bank	26.9	23.0	28.4	28.6	57.6	92.1	116.2	142.0	377.3
IDA	.2	1.3	2.7	6.5	5.1	7.3	11.3	15.2	7.9
ADB	4.6	14.9	34.0	43.6	61.0	66.6	94.2	158.4	275.4
Japan	12.4	10.2	31.7	33.8	50.6	72.7	100.1	133.6	346.6
US	1.8	3.4	-2.4	1.2	0.4	4.0	8.5	14.0	29.0
Others /a	-6.7	11.2	16.6	84.3	27.3	426.5	422.2	295.5	274.1

/a Includes suppliers credit, banks, OPEC, IMF, and other official sources.

30. The Bank has traditionally been the principal source of foreign assistance to Thailand, initially through irrigation and traditional infrastructure projects and more recently in rural development projects. The Asian Development Bank (ADB), the second largest donor, continues to concentrate its funds in the more traditional infrastructure projects, often complementing or supplementing World Bank efforts in those areas. The ADB program, however, is growing rapidly and moving into other sectors opened by the World Bank. Japan is the third largest donor and its program is growing fastest. Commitments will exceed \$200 million in 1979 and are expected to more than double by 1984. Japan's program, which carries higher concessionality than either of the development banks, has principally supported industrial infrastructure, but in the future about 50% of Japanese aid is earmarked for broadly defined rural development projects. Aid from other donors is much less, although they occasionally play an important role in developing small, high risk projects that can serve as the prototype for Bank supported projects. US aid is again growing, but from a small base (\$25 million commitments in 1979), and is entirely committed to rural development projects. Contributions from OPEC countries have been small in the past, but the Thais expect to attract much larger amounts in the future, directly and through cofinancing arrangements. Coordination with the ADB is still informal and handled by the Regional Mission, Bangkok. Coordination between the Bank and Japan has been strengthened through regular aid coordination meetings. Due to the increased level of aid from other donors and the increasing concentration on rural development type projects, closer coordination among donors will be necessary. This subject will be addressed at the coming consultative group meeting.

D. PROGRESS TOWARDS PRIOR GOALS

31. In 1972, the Basic Economic Report on Thailand's Third Five Year Plan highlighted the plight of the poor concentrated in the Northeast. This led to a significant change in Bank strategy, increasing the lending program and diversifying it to include projects which directly benefited the rural poor and areas outside the Central Plain in addition to traditional infrastructure and irrigation. Prospects identified in the 1972 Report and since implemented include Livestock I, Northeast Rural Development, Agricultural Extension, Rubber Replanting, Rural Electrification, and Provincial Roads (Highways VI).

32. Achieving this redirection of the lending program has been difficult and time consuming. It has involved a major effort by the Bank staff to identify and prepare projects in new areas with new Thai borrowing agencies. Expertise and appropriate technological packages for the "new" style projects have been developed and Thai agencies have come to direct more of their attention to the poorer areas and to organizing themselves to address these new problems, e.g. the rapid expansion of the Accelerated Rural Development Department (ARD) to build rural roads and other rural infrastructure and the creation of the Office of Agricultural Land Reform (OALR) to issue titles and help develop squatter encroached land being transferred from the Forestry Department. The Bank has assisted the Government in overcoming institutional bottlenecks to more rapid and equitable development, improving the project

preparation capability of various agencies and improving the management of the external borrowing program. Progress toward these objectives has been halting, but in retrospect considerable advances have been made and a firm groundwork laid for accelerating and further diversifying the lending program.

Table 4: DISTRIBUTION OF PROJECTS, 1974-79

	1974	1975	1976	1977	1978	1979 /a
Total projects	4	-	6	3	6	7
"New" style projects	1	-	3	1	3	2
Lending (\$ million)	149	-	228	108	231	248

/a Current schedule.

Nine of the 23 loans totalling \$820 million for the period FY75-79 have been to new borrowers, and ten "new" style projects have been undertaken compared to 11 out of 27 amounting to \$950 million proposed in the 1974 CPP. This represents a real increase in lending of 60% over the FY70-74 period.

33. Disbursements and implementation for projects with public enterprises (e.g. Electricity Generating Authority of Thailand [EGAT]) and with other old borrowers (e.g., highways, ports) have been satisfactory. The rates of disbursements for "new" style projects and to new borrowers has been less satisfactory, although at the last review of problem projects, no Thai project was considered sufficiently troublesome to be raised for SVP review. The delays have been due to a number of causes: new borrowers learning bank procurement procedures, late changes in design or contract specification, difficulty in hiring consultants, or internal institutional obstacles. Once projects are underway, disbursement rates have tended to improve. Underlying many of the obstacles to project implementation is the inherently cumbersome structure of Thai budgetary procedures including preauditing, requirements for cabinet approval of all large projects, and unresponsive budget allocation procedures.

34. These deficiencies have been recognized in past CPP's and by Thai officials and a number of steps taken to alleviate them. The Civil Service Reform Act of 1976 is making fundamental changes in staffing, manpower planning, and personnel administration which will lay the foundation for reforming and modernizing development management. This process will take a long time to be fully implemented. In the meantime the Thais have taken a number of specific steps to improve matters. The Office of Fiscal Affairs in the Ministry of Finance has been strengthened to provide better coordination and monitoring of official foreign borrowing. A successful procurement and disbursement seminar was conducted by the Ministry of Finance in June 1978 to familiarize agencies with Bank procedures and to lay the groundwork for major changes in Thai procurement procedures. Executive committees have been established for irrigation and other projects and authority delegated by the

cabinet to approve major expenditures. The Bureau of the Budget has indicated its willingness to ease its cumbersome procedures and has just adopted a "revolving fund" system of providing reimbursable funds for Bank projects which will eliminate a major source of past project delays. Individually, these are small steps, but together constitute an encouraging record of improving project implementation. The Bank has included technical assistance components in a number of ongoing projects to improve project preparation capacity in addition to its support for institution building through organizational changes, consultant assistance, and internal staff development programs. A number of Thai officials have attended EDI courses, and the returning fellows have provided a core of responsive and sympathetic people for Bank staff to deal with and, through the EDI connection, some basis for interagency communication and cooperation.

35. The management and diversification of Thailand's external borrowing program has been improved. The Ministry of Finance now prepares detailed lists of projects requiring external assistance and has been making strong efforts to enlarge and diversify its sources of external finance, particularly from OPEC sources. The Bank has been assisting by promoting more co-financing. Three of the six loans approved in FY78 involved co-financing totaling \$70 million. The Kuwait Fund and a consortium of private banks headed by the Bank of Tokyo for the Pattani Hydroelectric project, Australia, Norway, CIDA and USAID for the Population project, and CIDA and the OPEC Special Fund for the Accelerated Rural Electrification project. Co-financing for two projects in FY79 has already been agreed, one with IFAD and one with commercial banks.

E. WORLD BANK STRATEGY

36. The first priority in the Bank's strategy is to promote the rapid reduction of disparities in income and access to public services, both among regions and between urban and rural sectors, by raising the incomes and productivity of the poorest segments of the population. The second priority is to continue to facilitate growth and the rapid transition of the Thai economy from one based on extensive agriculture with a single urban center in Bangkok to an economy based on intensive agriculture and efficient industry with a more pluralistic urban structure. To meet the first priority, the reorientation of Bank's lending program must be accelerated to include the maximum feasible number of projects addressing regional and rural development issues. On the basis of our current analysis and estimation of absorptive capacity in these areas, about \$1.1 billion of our program will be committed to some 23 projects of this type. Because of the limited capacity of the Thais to prepare and implement projects focussed on raising incomes in the poorest areas, we doubt that a larger allocation for these projects is feasible at this time.

37. The remaining Bank resources will be directed toward projects in more traditional areas which will have a high impact on overall growth and development. Even with the proposed increase in the lending program, the absorptive capacity in these areas (e.g., power, highways, etc.) greatly exceeds the Bank financial resources available, and our involvement must be limited to those projects where the Bank has an otherwise unique or catalytic role to play.

38. The two priorities of reducing income disparities and promoting growth are complementary. Faster growth and higher incomes in disadvantaged areas will increase exports, create more demands for services and goods from the modern sector, and in the long run raise wages for the whole economy as the wage rate needed to attract additional labor to the modern sector rises. Additional capacity to import and markets for production will accelerate overall growth and facilitate the redirection of resources into poverty alleviation programs. Appropriate institutional development and macro economic policies are necessary to realize both objectives. Progress toward these priorities will be achieved by promoting rural development, agricultural growth, industrial policy improvements, decentralization, continued expansion of economic and social infrastructure, and improved development administration.

39. Rural development and poverty amelioration will require major efforts in research and extension to develop and communicate better techniques to subsistence farmers, land development and improvement programs to increase the productivity of land recently brought under cultivation, and expanded land titling and agricultural credit to provide farmers the security and means to adopt modern inputs. Additional projects containing these components have been added to the Bank's program. The continued rapid agricultural growth that is necessary for overall growth, employment creation, and exports will greatly benefit from the Bank's concentration on institution building and support programs to improve and expand irrigation delivery systems, agricultural research, extension, etc.

40. The Bank is taking on an increasingly important role in influencing industrial policy through its dialogue and projects to assure that protection and incentives are kept to reasonable levels, factor prices are not distorted, and appropriate sectors are encouraged to take advantage of export markets and generate maximum employment. Policy to date has not significantly inhibited growth of industry or manufactured exports, but it is important for the Government to resist pressures for special protection or subsidies from existing or new firms and to promote nondiscriminatory measures that aid exports, such as drawback and duty-free imports for export production. Decentralizing development to regional cities and strengthening the capacities and authority of the provincial governments will lead to a better regional distribution of growth and a reduction in the primacy of Bangkok; accordingly, we are shifting most of our urban lending to support the development of other urban centers. The continued expansion of economic and social infrastructure services is necessary to ameliorate past inequities in the provision of these services and to support rapid growth. Projects in these sectors will be directed primarily to increasing the level of these services in deprived areas. Many of the programs and projects to carry out this strategy depend on major improvements in development administration for their successful implementation. This will be a central issue in our project preparation and policy dialogue with the Government.

41. Implementing the decision to undertake the maximum feasible number of projects aimed at rural development, raising productivity in subsistence areas, and ameliorating income differentials will be the most difficult part of the program. Recent projects of this type, including Northeast Irrigation, Northeast Rural Development, Agricultural Extension, Rubber Replanting, Sites

and Services, and Rural Electrification, have had high Bank manpower requirements and have experienced delays in preparation and implementation. These projects are beginning to bear fruit, but many problems remain to be solved. The proposed projects in these areas will undoubtedly encounter obstacles of insufficient technical knowledge, lack of coordination among Thai agencies and inadequate institutional support in their preparation. Bank staff requirements will be high and some project delays can be expected. We recognize the difficulties and risks of this strategy, but strongly argue that the challenge should be accepted because of the importance of reducing poverty for Thailand's long-run economic stability. More specific rural programs are now necessary because opening new land is no longer a viable strategy. Providing the required additional manpower and technical assistance to design and implement these projects and to improve the absorptive capacities of the Thai agencies in these areas is crucial to the success of our expanded program.

42. The funds remaining in our program will be allocated to projects in the more traditional areas promoting overall growth and development. Thai agencies in the traditional sectors have become mature borrowers with proven absorptive capacity and large development programs (e.g., EGAT, Highway Department). Our limited funds should be reserved for projects where the Bank can play a catalytic role in achieving desirable policy and institutional changes, in mobilizing additional foreign resources, and in freeing more Thai energies and resources for redirection into rural development and ameliorating income differentials. The constraint imposed by the currently approved program (\$1.8 billion for FY79-83 or about \$2 billion for FY80-84) would restrain our involvement in these sectors to such a low level that it would seriously impair our role in institution building and our contribution to Thailand's overall growth. Thus in view of Thailand's high transfer requirement, low allocation in relation to the explicit Bank norms (\$3.3 billion for FY79-83)^{1/} and high creditworthiness, we are proposing to increase the program to \$2.3 billion in FY80-84 (\$2.0 billion for FY79-83) and the number of projects from 36 to 38. The proposed increase has been applied to the outer years of the program and indicates the size of program needed to achieve our objectives. It is recommended for approval at the next Bank-wide allocation: the FY79-80 program is not increased. This modest increase in comparison to the norms will not raise any absorptive capacity problems as it will be directed into sectors with high absorptive capacity. We will carefully monitor progress in the first priority areas of reducing income disparities, alleviating poverty and improving development management, and the effectiveness of measures to increase rates of disbursement and project implementation (see paras. 34 and 35). If that progress is satisfactory, we will press for further increases in the allocation to Thailand in future CPPs. If progress is not satisfactory in these areas, we will have to re-evaluate our support for increasing the program in traditional areas. The tight balance of payments situation makes macro economic and industrial policy crucial to achieving Thailand's objectives in these and other areas. Inappropriate policy could lead to loss of control of the balance of payments and deterioration of domestic growth. The level and growth of our program will be contingent on continued good policy performance.

43. Thailand satisfies IDA eligibility criteria on poverty and absorptive capacity grounds. Because of its favorable balance of payments situation in the past, it has managed to sustain rapid growth without a great deal of concessional

^{1/} "An analysis of the World Bank Lending Program FY78-83", PPR, June 14, 1978.

aid. Deterioration of the balance of payments in 1975 was sufficient for its inclusion in IDA V. Thailand will continue facing large external deficits (see para. 24) with correspondingly higher foreign borrowing and debt service burdens, and it will need significant levels of concessional finance from other donors to sustain the level of borrowing commensurate with 7% GDP growth implied by our projections. We believe it is important to continue Thailand as a "hard-blend" country in IDA VI as a symbolic demonstration of our commitment to the proposition that Thailand merits concessional aid. We have not included any IDA VI in the proposed lending program because Thailand is excluded from the allocation at this time.

44. The Bank has permitted the financing of a significant portion of total project costs where the foreign exchange component of the project was low in order to effect a sufficient level of transfer and have a significant participation in the project. In view of the increased number of high priority projects in agricultural and rural development which are expected to have relatively low foreign exchange components, this policy should be continued.

45. The IMF is currently involved in Thailand with balance of payment support of about \$200 million for 1978/79. As condition for this support, Thailand agreed on 1978-79 targets of 7% growth, 7% inflation, a balance of payment deficit of no more than \$350 million and related monetary and fiscal restraint. We support the short-run stabilization goals of the IMF and believe they are feasible, but our analysis shows that some of the problems are of a longer run structural nature and may require different long-term policy solutions, particularly with regard to the appropriateness of the exchange rate and exchange rate policy. The IMF has been providing technical assistance to the Ministry of Finance to increase income and business tax collections and to study modifications in the property tax. We have also discussed informally with the IMF the possibility of providing assistance to Thailand to investigate a Value Added Tax in place of the Business Tax.

F. BANK GROUP PROGRAMS

Economic and Sector Work Program

46. The three principal objectives of the economic and sector work program are: to expand on the overall economic analysis of the Basic Economic Report with special attention to the production and regional aspects of poverty and rural development, to assist in identifying and preparing projects to raise incomes and productivity in poor areas, and to undertake specific sector studies that will provide the analytic basis for continuing policy dialogue with the government, particularly in development management and industrial policy.

47. Analysis of the final results of the 1975-76 Household Survey and of a special village and rural employment survey we are proposing will essentially complete our study of the characteristics and determinants of poverty. Studies of provincial planning and regional development will contribute substantially

to shaping both our subsequent economic work program and our lending program, particularly in identifying components for projects that will reduce regional differentials and strengthen local development administration. A Rainfed Agriculture Study is now being mounted specifically to identify potential components for rural development projects in rainfed areas. One of the principal objectives of sector studies to be undertaken on provincial planning, regional urban centers and industrial dispersion will be to identify and prepare projects in those areas. Efforts will be devoted to industrial, transport, and energy studies to support an on-going policy dialogue and aid institution building in these areas as we consider them key to the overall development prospects of Thailand. Subsector studies for engineering and export industries, mineral resources and energy policy will be undertaken. We will undertake sector studies in health, sanitation and water supply to identify areas for further institutional and project support (see Attachment 5). To the extent possible Thai counterparts and consultants will be involved in these studies, particularly where survey work in the field is required. Closer ties will be developed with the National Institute of Development Administration and the National Economic and Social Development Board to strengthen their capacities in development analysis and planning.

The Lending Program

48. The lending program has been revised in accord with the strategy presented above. Projects to reduce income differentials and alleviate poverty, particularly in poor, rainfed areas, have been added while other projects in the traditional areas have been modified or converted to sector lending where the institutions are sufficiently strong. Overall nearly 50% of the proposed lending will be for agricultural projects compared to 25% in the last CPP presentation, and some 60% of these will be specifically aimed at improving incomes in subsistence areas. A further 20% of the program will be primarily directed toward poverty alleviation objectives. To the extent possible, all projects will address and attempt to improve institutional and administrative problems. The Thai government is receptive to this reorientation of the program and is making serious efforts to increase its absorptive capacity in recognition of the development and foreign exchange needs of the country.

Poverty Amelioration and Regional Projects

49. In order to reduce income differentials and improve productivity in subsistence agriculture a number of issues must be addressed. Of first importance is raising crop yields and thereby incomes in rainfed agriculture. This must be accomplished by more intensive cultivation and will require appropriate packaging and dissemination of known techniques, fertilizers, and seed stock as well as research to develop new techniques for rainfed agriculture. The first Agricultural Extension project (FY77) is making significant progress in disseminating improved techniques in selected provinces and will be extended to the rest of the country in Agricultural Extension II, which has been advanced to an FY80 standby at Thai initiative. Further research in upland crops is needed and will be aided by an Agricultural Research project in FY81 that will provide an opportunity to reorganize and consolidate the fragmented and diffuse research on upland crops and concentrate

on improving yields. Two agricultural credit projects in FY80 and FY84 will provide credit for on-farm development, farm mechanization, livestock and fisheries. The credit projects will pay particular attention to supplying credit to the poorest farmers to enable them to make the transition to commercial agriculture and to supporting and strengthening the staffs of the Bank for Agriculture and Agricultural Cooperatives and of the cooperatives themselves. Supporting infrastructure for rainfed agricultural development, especially rural roads and village water supply, will be provided through the Rural Infrastructure project (FY80). This will build 2,750 km of rural roads to provide disadvantaged areas better access to markets and drill 4,200 village wells. The Bank is financing a comprehensive study of the organization, maintenance and long-term development of rural roads under the Highways VI loan, and the results of this study will form the basis for two Rural Roads projects (FY81 and FY84) which will standardize rural road planning and assure priority development of roads in poor areas. The Forestry project (FY83) may also include development of woodlots as well as forest management and plantation based industries.

50. The rural areas will also be the primary beneficiaries of the family planning and education projects. Most of the population is rural and poor, and they have the most to gain from expanding birth control and education. Population projects are scheduled for FY82 and FY84 to expand coverage to all provinces. They will include the construction and equipping of health centers and provincial hospitals and thus will improve the distribution of health facilities as well as supporting the family planning program. Expansion of the program to reach most of the people in rural areas will be necessary if the government's target of bringing the overall growth rate to 2% by the mid-1980s is to be achieved. The education projects in FY82 and FY84 will be directed primarily at rural areas. The first will concentrate on adult education and vocational training for rural, non-farm workers and the second will support the expansion of secondary schools in rural areas.

51. The irrigation lending program is being modified to group discrete components of several irrigation systems into a single project rather than structuring the project around a complete irrigation system. This change will improve the project planning and preparation capacity of the Royal Irrigation Department by encouraging it to focus on the needs of each system sooner and to program its work more efficiently. It should also speed project preparation and implementation and allow greater flexibility in the timing of projects. Along with the other projects that improve agricultural productivity, the irrigation program will augment agricultural growth and exports.

52. Urban and regional projects will focus on location specific issues. Urban projects will concentrate on institutional issues for the whole sector and shift the concentration of the Bank program from Bangkok to regional and provincial urban centers where accelerated urban development is needed. The Flood Control and Drainage (FY81) project will assist development of a Bangkok flood control system and will contain a technical assistance component to help strengthen the Provincial Water Authority. A Water and Drainage Project (FY83) will follow with this Authority to develop piped water supply and drainage for provincial urban centers. The National Sites and Services project (FY80) will continue the slum upgrading already begun in Bangkok and

begin developing sites and services projects in provincial cities. A major objective of the projects with the National Housing Authority is to improve its administration and shift its focus from medium to low-cost housing and from Bangkok to the other regions. These projects, however, approach urban problems on a subsectoral level and do not address problems of integrated urban development. A Regional Cities project (FY83) will aim at achieving a more integrated approach to urban development, including adequate city planning and municipal government improvement as well as integrated infrastructure developments. This will require considerable institutional development as existing Thai agencies in the area are weak. Study funds to identify a regional cities project and an Eastern Seaboard urban/subregional project were included in the proposed Bangkok Traffic Management project. Bank participation in the Eastern Seaboard project, like the traffic project, could lead to significant policy improvements and resource saving and would support the recently agreed port development project at Sattahip (FY81). The Eastern Seaboard project is in reserve for FY81 and its inclusion in the program would depend on its potential for achieving institutional building, policy, and resource saving goals. It is not viewed as a potential substitute for other elements in the urban program.

53. In order to promote regional and provincial development that is responsive to the needs of provincial households, the devolution of greater responsibility to local governments is considered essential. Strengthening of local governments has begun with the establishment of provincial planning units. A technical assistance component to assist provincial planning is to be included in the Northern Rural Development project (FY80) and a Provincial Development loan is included in the Bank program for FY83. This will be directed at selected disadvantaged provinces in the Northeast and North for implementation of projects identified through the provincial planning process as being of high local priority but not yet included in the programs of national agencies.

54. Because of regional and subregional characteristics and concentration of poverty, a number of region specific projects are included in the lending program. The proposed program for the Northeast will draw heavily on the experience already gained in our projects there and will focus on raising incomes and commercializing subsistence agriculture. The Squatter Area Development project in FY82 will provide land titling and development services and infrastructure to those areas officially classified as forest but which are already heavily settled and farmed. The Royal Forestry Department has already designated a number of such areas in the Northeast as well as in parts of the North and Central Regions. The Office of Agricultural Land Reform is presently surveying the areas and deciding on the appropriate development measures. The Rainfed Agriculture projects in FY82 and FY84 will address the more general problems of rainfed agriculture outside the encroached areas. Many of their components remain to be identified by ongoing sector work.

55. The North, as well as the Northeast, will benefit from the Squatter Area and Rainfed Agriculture projects and from increased provision of local irrigation facilities to increase yields and make possible the growing of a second and even a third crop in some areas. The Northern Rural Development project (FY79) will cover all eight provinces of the Upper North and will

involve farm development and provision of infrastructure in both upland and highland areas, directly benefiting those people identified in the Basic Economic Report as having been left behind in the development process.

56. In the South the Government has launched a large program of rubber replanting with Bank assistance. Despite some initial delays in procuring fertilizers, the project is progressing satisfactorily and a second phase of Rubber Replanting is scheduled for FY82. Components will be included in the irrigation projects to utilize the waters impounded by the Pattani Hydroelectric project. This will provide significant water control benefits to a larger number of poor rice farmers in the region. The South will also benefit from the Tree Crops project (FY84) which will focus on smallholder palm oil and coconuts and from the Forestry project in FY83.

57. Although the priorities of reducing income differentials and alleviating poverty imply a diversification of Bank lending away from the Center Region, it will also benefit from the national programs in agriculture, education and population, as well as from the Inland Waterways project. The Bank will continue its involvement in irrigation development in the central plain, and the region will benefit from most of the traditional infrastructure projects.

58. The reorientation described above will have a major impact on the lending program's regional allocation, which can be used as a proxy for the rural development and poverty alleviation aspects of the program. Based on the known and projected regional content of allocatable projects, three-quarters of the program will benefit people in the Northeast, North and South compared to half in the FY75-79 program (Table 5). Since these regions contain two-thirds of the population, this implies little more than a regional allocation of funds in proportion to population. By the end of this five-year period the share of the allocatable program affecting poorer areas in the outer regions should be considerably larger.

Table 5: BREAKDOWN OF ACTUAL AND PROPOSED
PROGRAM BY REGION (%)

	1975-79	1980-84	Population 1976
Northeast	16	29	34
North	21	26	21
Center	46	26	33
South	17	19	12
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>

Traditional Infrastructure Projects

59. As noted above the Bank still has a significant role to play in institution building and resource transfer in traditional sectors. These sectors have large absorptive capacity and will easily absorb the proposed increments to the Bank lending program. In these areas we will press for sector lending where appropriate to achieve our sectoral goals.

60. Energy and Power Sector. Bank involvement in the power sector in Thailand dates back to 1957 and with the recent approval of the Accelerated Rural Electrification project covers both generation and distribution. Implementation of all ongoing projects is satisfactory and both EGAT, which is responsible for generation, and the Provincial Electricity Authority, which is responsible for distribution in rural areas, are well run and efficient organizations. Although there is little need for further institution building in each agency, there are major sector issues that remain to be resolved, including the mechanism for overall sector planning, the degree of coordination between the different power agencies which report to different ministries, and the appropriate pricing policy for power. To help the Thai authorities address these issues as well as to provide assurances to other lenders supporting power sector investment, we are proposing power sector loans in FY80 and FY83.

61. Following the sharp increase in oil and other energy prices in 1973, Thailand has redoubled its efforts to increase domestic energy supplies and instituted programs to reduce consumption. Thailand's national hydro resources have been exploited with Bank assistance for power generation. The Bank will continue this involvement in power and will finance an expansion of EGAT's lignite mines with a coal mining project in FY81. Following discovery of commercial natural gas deposits in the Gulf of Thailand in 1976, the Bank has played an essential role in establishing the Natural Gas Organization of Thailand and has provided advice in negotiations with the concessionaire. The Bank made an engineering loan in FY79 to design the gas pipeline and will continue its catalytic role in the sector by financing a modest share of the gas pipeline in FY81.

62. Transport Sector. The Bank has also been involved for many years in the development of highways in Thailand, helping to finance the government's program for both national and provincial roads. Six loans have been made for road construction by the Department of Highways (DOH) and all projects have been executed efficiently, some with substantial cost savings as DOH capabilities in planning construction and administration of roads have been strengthened. In these circumstances it is proposed to provide the required financial assistance through a sector loan for provincial highways in FY82, in addition to the rural roads projects.

63. The Bank has been involved in the development of railways in Thailand since the early 1960s, and the loan scheduled for FY79 will be the fifth to the State Railways of Thailand (SRT). The first four projects were completed satisfactorily and the capacity of SRT to plan and implement an investment program has been increasing steadily. Under the proposed fifth

project, a study and training component should help SRT to improve planning and evaluation, better assess the profitability of different services, and strengthen SRT's long-haul operations. Depending on the outcome of this study, a reserve railway project has been included for FY83.

64. Telecommunications. The Bank has assisted the Telephone Organization of Thailand (TOT) in expanding the domestic telephone network and in improving its managerial, technical and financial performance. A third project, approved in FY79, will help improve the availability of services in rural areas. There is no doubt that a continued expansion of the telephone service is essential, and in the course of supervision of ongoing projects, we shall pay particular attention to the rural and regional components of TOT's program and to the need for untied funds to finance a well balanced system. A telecommunications project is included in the reserve list for FY83, which may be brought into the program if requirements of rural and regional development warrant and funds become available.

65. Industrial Lending. IBRD lending to the industrial sector has consisted of three loans to the Industrial Finance Corporation of Thailand (IFCT) and one loan in FY78 for industrial estate development outside Bangkok. Although commercial and investment banks are the largest institutional source of industrial financing in Thailand, IFCT has played an increasingly important role in medium and long term finance of industrial enterprises, and the availability of Bank resources and support have significantly assisted its growth. Among other objectives, IFCT is now endeavoring to assist in the further development of the capital market, in more decentralization of industrial investment, and in promoting institutional arrangements for small and medium industries. The proposed IBRD program of industrial lending includes a further loan to IFCT (FY83), another industrial estates loan in FY82, and two loans for small and medium scale industry credit in FY80 and FY83. The industrial estates loan will help develop estates some distance from Bangkok to support industrial dispersal. The credit projects will promote small scale industry which has proven to be capital saving and capable of creating a relatively large number of jobs for unskilled workers and has promising export potential. Following an engineering sector study this year, an engineering sector loan may follow and is included in reserve for FY83. This sector is generally labor intensive and has a high potential for import substitution and exports. To increase Bank involvement in industrial policy determination, we are endeavoring to assist the Board of Investment in developing industrial policy and will be the executing agency for a UNDP financed technical assistance project. We will also undertake a study of export promotion policy to aid in maintaining export growth.

IFC

66. IFC is increasing its activities in Thailand. In the past IFC has made equity investments in IFCT and the Mutual Fund Company Ltd., loans to and investments in the Siam Cement group and the United Sugar Terminal Company, and a loan to Concrete Products Ltd. More recently approval was given for further financing of the Siam Cement Group and for a loan to and equity investment in the Bangkok Glass Company. IFC is also helping to finance SMI's

through a loan to Siam Commercial Bank and a loan to an equipment leasing company. A continuing program of operations is planned for Thailand and particular attention will be paid to investment opportunities in agrobusiness. IFC's earlier efforts to promote the development of the capital market will also be continued. IFC intends to relate future operations much more closely to the priorities emphasized in the Bank's economic work. Particular attention will be given to the promotion of industrial development outside of Bangkok and the Central Region.

Regional Mission Bangkok (RMB)

67. The RMB plays a key expediting role in the identification and preparation phase of project processing as well as aiding project implementation. In the Thai context, it is critical to the effective implementation of our lending program to have Bank staff on the scene who can deal expeditiously with key officials to break bottlenecks. While the expediting function will continue to take most of the time of the four staff now working in Bangkok, the office is assuming a larger role in policy and program dialogue. In this connection, the mission is currently working with the Government on the reorientation of the country's investment plan and on industrial policy. Messrs. Kearns and Ruddy will visit RMB in January 1979 to evaluate its role and staffing requirements and recommend any changes which may be needed.

G. CONCLUSIONS AND RECOMMENDATIONS

68. Thailand's overall economic performance has been very satisfactory and the country is fundamentally stable. With the appropriate policies, the economy can sustain rapid growth through its transition to a modern industrial based economy. Large current account deficits expected during this period can be managed with continued good debt and macro policy performance by the Thais supported by additional assistance from abroad. Public service gaps and income disparities have increased along with the general economic development and remedial action needs to be accelerated to include all segments of the population in the development process that they may participate in the benefits of growth. Increasing incomes of the poor is a key element in the Thai development strategy and the top priority for the Bank. To achieve our goals we recommend that:

- (a) the number of projects be increased from 36 to 38 for FY80-84 to include more poverty alleviation and rural development projects and the lending program be increased to \$2.3 billion (\$1.9 billion for FY79-83) in the next Bank-wide allocation (no change is requested for FY79-80) (para. 42);
- (b) Thailand receive an IDA VI allocation similar to that in IDA V (para. 43);
- (c) financing of local currency costs be continued for projects in new areas to achieve sufficient resource transfer and to provide the Bank with a significant share in project financing (para. 44).

GNP Per Capita : 5410 (1977)
Area : 514,000 sq. km
Literacy Rate : 84%

THAILAND: ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY74
(\$ millions)

	Through FY73	FY74	FY75	Actual FY76	FY77	FY78	Current FY79	FY80	FY81	Program FY82	FY83	FY84	Total FY79-83	Total FY74-78	Total FY79-81	Total FY82-84	Reserve projects
Irrigation I, II, III, IV & V	IBRD	75.0															
Irrigation VI (Chao Phya I)	IDA	5.5															
Irrigation VII (N.E. Improvement I)	IDA		2.0														
Irrigation VIII (Phitsanulok I)	IBRD			95.0													
Irrigation IX (Chao Phya II)	IBRD				55.0												
Irrigation X (N.E. Improvement III)	IBRD						17.5										
Irrigation XI	IBRD							70.0									
Irrigation XII	IBRD								99.0								
Irrigation XIII	IBRD									120.0							
Irrigation XIV	IBRD										130.0						
Irrigation XV	IBRD											150.0					
Livestock I	TV			5.0													
N.E. Rural Development	TV			21.0													
Northern Rural Development	IDA						23.0										
Rural Infrastructure	IBRD/IDA							41.0/4.0									
Rainfed Agriculture I	IBRD								30.0								
Rainfed Agriculture II	IBRD									60.0							
Squatter Area Development I	IBRD								40.0								
Squatter Area Development II	IBRD																40.0 (84)
Agriculture Extension I	IBRD				28.0												
Agriculture Extension II	IBRD							40.0*									
Agriculture Credit I, II	IBRD								30.0								
Agriculture Research I	IBRD							25.0									
Agriculture Research II	IBRD																30.0 (84)
Rubber Replanting I, II, III	IBRD			50.0						65.0*							
Forestry	IBRD										30.0						
Fisheries	IBRD																30.0 (82)
Tree Crops	IBRD											50.0					
Provincial Development I	IBRD											60.0					
Education I & II	IBRD	21.4															
Education III	IDA	19.5															
Education IV	IBRD			31.0													
Education V	IDA							11.0*									
Education VI, VII	IBRD								45.0			60.0					
Population I	IDA					33.1											
Population II, III	IBRD								40.0*			60.0					
BKK Sites & Services/Slum Improvement	IBRD					8.6											
National Sites & Services/Slum Imp.	IBRD							15.0									
BKK Traffic Management	IBRD						16.0										
BKK Water Supply	IBRD			55.0													
Drainage & Flood Control (Bangkok)	IBRD								40.0*								
Provincial Water & Drainage	IBRD										50.0						
Eastern Seaboard Development	IBRD																50.0 (81)
Regional Cities I, II	IBRD										50.0						
Power I, II, III, IV, V & VI	IBRD	157.1															
Power VII (Ban Chao Nen)	IBRD		75.0														
Power VIII (Patani)	IBRD				50.0												
Power IX (Rural Electrification)	IBRD				25.0												
Power X (Bang Pakong)	IBRD						80.0										
Power XI (Power Sector I)	IBRD							80.0									
Power XII (Power Sector II)	IBRD										180.0						
Gas Pipeline Engineering	IBRD						4.9										
Gas Pipeline	IBRD								80.0*								
Coal Expansion	IBRD								40.0*								
Small & Medium Scale Mining	IBRD																50.0 (84)
IPCT (DPC) I	IBRD	2.5															
IPCT (DPC) II, III, IV	IBRD		12.0		25.0							50.0					
Industrial Estates I (Lat Krabang)	IBRD					4.8											
Industrial Estates II	IBRD																
Small & Medium Scale Industry I, II	IBRD							15.0			30.0	25.0					
Engineering Industries	IBRD																20.0 (83)
Highways I, II, III, IV & V	IBRD	151.6															
Highways VI, VII (Provincial Roads)	IBRD					110.0											
Rural Roads I, II	IBRD								75.0			110.0					
Railways I, II, III, IV	IBRD	52.0															
Railways V, VI	IBRD						17.0										25.0 (83)
Ports I, II, III	IBRD	20.3															
Inland Water Transport/Sattahip	IBRD										60.0						
Coastal Ports	IBRD																10.0 (82)
Telecommunications I	IBRD	37.0															
Telecommunications II, III, IV	IBRD			26.0			90.0										50.0 (81)
LENDING PROGRAM	IBRD (IV)	516.9	142.0	0 228.0 (76.0)	108.0	198.4	275.4	106.0	415.0	490.0	565.0	540.0	205.0	676.4	2,001.4	2,316.0	545.0
IDA	25.0	7.0	0 0	0	33.1	21.0	17.0	17.0	0	0	0	0	25.0	40.1	60.0	37.0	6
Total	541.9	149.0	0 228.0	108.0	231.5	219.4	292.4	123.0	415.0	490.0	565.0	540.0	230.0	716.5	2,061.4	2,353.0	551.0
No.	29	4	0 6	3	6	7	8	8	8	8	7	10	19	19	38	38	11
(of which IDA)	(2)	(1)	(0) (0)	(0)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(2)	(2)	(2)	(1)	(0)
Lending Program in FY78 Commitment \$		192.0	0	257.3	114.5	231.4	234.3	105.2	348.7	389.2	424.8	385.7	383.5	795.2	1,702.2	1,853.6	
Commitment Deflator (FY78 = 100)		77.6	82.8	88.6	94.3	100.0	106.0	112.4	119.0	125.9	133.0	140.0					
Standby Projects	IBRD																
IDA																	
Total																	
Number																	
IBRD o/a incl. Undis. excl. Undis.		542.9	535.2	736.7	837.8	1057.2	1278.2	1579.9	1974.6	2425.0	2889.9	3364.4					
IBRD Gross Disbursements- Less Amortization		28.2	40.8	37.9	51.3	85.3	124.6	153.4	191.7	244.5	309.5	388.7	147.8	243.5	1,023.7	1,287.8	
Equals: Net Disbursements		11.3	13.5	15.4	19.3	22.4	20.5	24.3	27.8	32.1	39.2	48.6	44.9	87.1	143.9	172.0	
Less: Interest and Charges		16.9	27.3	22.5	32.0	62.9	104.1	129.1	163.9	212.4	270.3	340.1	102.9	161.4	875.8	1,115.8	
Equals: Net Transfer		18.9	20.6	22.3	25.2	28.2	31.5	36.8	48.1	60.2	76.4	97.4	58.4	115.2	255.0	320.9	
IBRD/IDA Gross Disbursements Less Amortization		28.6	42.9	42.0	60.1	91.7	133.9	166.6	208.0	261.4	324.2	400.7	147.8	265.3	1,094.1	1,360.9	
Equals: Net Disbursements		11.3	13.5	15.4	19.3	22.7	20.5	24.3	27.8	32.1	39.2	48.8	44.9	81.9	143.9	172.2	
Less: Interest and Charges		17.3	29.4	26.6	40.8	69.3	113.4	142.3	180.2	229.3	285.0	351.9	102.9	181.4	950.2	1,188.7	
Equals: Net Transfer		18.9	20.6	22.3	25.3	28.3	31.7	39.0	48.4	60.5	76.9	98.0	58.4	115.4	256.6	322.9	
Other Multilateral		-1.6	8.8	4.3	15.5	41.0	81.7	103.3	131.8	168.7	208.1	251.9	64.5	68.0	693.6	865.9	
Commitments from Other Sources (CY):																	
Bilateral of which		77.2	62.7	91.1	47.0	119.2	348.5	300.0	300.0	300.0	318.0	337.1	76.4	387.2	1,566.5	1,555.1	
Germany		200.5	47.7	22.2	118.2	218.6	325.5	475.0	514.8	563.0	611.1	663.2	120.3	407.2	2,489.4	2,827.1	
Japan		7.7	6.1	4.0	-	34.4	10.0	15.0	15.0	20.0	21.0	22.1	9.6	52.2	81.0	93.1	
USA		185.7	38.9	-	109.2	150.9	202.5	300.0	327.0	356.4	388.5	423.5	61.2	484.7	1,574.4	1,795.4	
OPIC		7.1	2.6	4.1	3.0	10.0	28.0	30.0	32.4	35.0	37.8	40.8	32.6	26.8	163.2	176.0	
Other		-	-	1.4	-	9.0	85.0	100.0	108.0	118.6	126.0	136.0	-	12.4	535.6	586.6	
Commercial Borrowing		9.7	18.0	100.0	238.9	409.7	356.4	644.7	673.3	503.9	536.8	572.1	33.2	776.3	2,715.1	2,930.8	

* Standby projects

THAILAND: CUMULATIVE ESTIMATED AND ACTUAL DISBURSEMENTS ON LOANS AND CREDITS

(\$ million)

As of March 31, 1978

Project & No.	Amount:		Date:	Closing	Percent	FY 77				FY 78				FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
	Original	Cancelled				12/31/77	12/31/77	12/31/77	12/31/77	12/31/78	12/31/78	12/31/78	12/31/78						
Industrial Estate 1380 1492	4.7	-	10/10/77 12/ 5/77 1/24/78	Orig: Rev: Act:	12/31/81 9/10/77	-	-	-	-	1.1	1.6	2.1	2.7	4.4	6.7	-	-	-	-
Population Project 1381 767	13.1	-	2/ 7/78 1/27/78 N.E.	Orig: Rev: Act:	12/31/78 1/18/78	-	-	-	-	.3	1.0	6.3	10.9	23.9	32.2	33.1	-	-	-
State Highway 1382 1519	110.0	-	2/14/78 3/23/78 N.E.	Orig: Rev: Act:	12/31/82 1/26/78	-	-	-	-	-	15.0	21.0	27.0	64.0	88.0	104.0	110.0	-	-
Social Project 1383 1527	15.0	-	2/28/78 3/ 9/78 N.E.	Orig: Rev: Act:	6/30/83 2/ 1/78	-	-	-	-	-	2.3	3.7	5.0	11.0	17.0	22.3	25.0	-	-

Controller's
June 12, 1978

TABLE 3A
- SOCIAL INDICATORS DATA SHEET

THAILAND	THAILAND			REFERENCE COUNTRIES (1970)		
	1960	1970	MOST RECENT ESTIMATE	PHILIPPINES	KOREA SOUTH	JAPAN
LAND AREA (THOU KM2)						
TOTAL	514.0					
AGRIC.	238.5					
GNP PER CAPITA (US\$)	100.0	200.0	410.0	230.0	290.0	2720.0
POPULATION AND VITAL STATISTICS						
POPULATION (MID-YR, MILLION)	26.6	36.3	44.1	36.9	32.2	104.3
POPULATION DENSITY						
PER SQUARE KM.	52.0	71.0	86.0	123.0	327.0	280.0
PER SQ. KM. AGRICULTURAL LAND	112.0	152.0	185.0	472.0	1371.0	1744.0
VITAL STATISTICS						
CRUDE BIRTH RATE (/THOU, AV)	47.1	44.3	37.6	44.2	35.0	17.5
CRUDE DEATH RATE (/THOU, AV)	19.8	13.7	9.1	13.2	11.4	7.1
INFANT MORTALITY RATE (/THOU)	84.3/a	..	56.3	81.0	..	13.1
LIFE EXPECTANCY AT BIRTH (YRS)	49.0	..	58.0	55.8	65.0	71.1
GROSS REPRODUCTION RATE	..	3.2	3.1	3.3	2.6	1.0
POPULATION GROWTH RATE (%)						
TOTAL	3.0	3.1	2.9	3.0	2.3	1.0
URBAN	5.1	4.9	4.9	4.0	6.4	4.0
URBAN POPULATION (% OF TOTAL)	12.7	15.0	16.5	27.6	41.2	84.4
AGE STRUCTURE (PERCENT)						
0 TO 14 YEARS	45.1	44.8	43.7	45.6	42.1	24.0
15 TO 64 YEARS	52.9	52.3	53.2	51.6	54.5	68.9
65 YEARS AND OVER	2.0	2.9	3.1	2.8	3.4	7.1
AGE DEPENDENCY RATIO	0.9	0.9	9.0	0.9	0.8	0.5
ECONOMIC DEPENDENCY RATIO	1.0/b	1.1/a	1.1/a	1.5	1.4	0.8
FAMILY PLANNING						
ACCEPTORS (CUMULATIVE, THOU)	..	405.6	2680.2	320.0	4424.7	..
USERS (% OF MARRIED WOMEN)	..	14.0	37.0	2.0	42.0	..
EMPLOYMENT						
TOTAL LABOR FORCE (THOUSAND)	12800.0	16200.0	18500.0	12400.0	10200.0	53300.0
LABOR FORCE IN AGRICULTURE (%)	82.0	78.0	76.0	55.0/a	50.4/a	19.0
UNEMPLOYED (% OF LABOR FORCE)	0.6	1.2	1.0	7.6	4.5	1.2
INCOME DISTRIBUTION						
% OF PRIVATE INCOME REC'D BY-						
HIGHEST 5% OF HOUSEHOLDS	21.8	23.8	14.0/b	..	17.1	14.2
HIGHEST 20% OF HOUSEHOLDS	50.9	49.7	42.2	54.0	44.5	37.6
LOWEST 20% OF HOUSEHOLDS	6.2	6.1	7.6	3.6	7.1	8.8
LOWEST 40% OF HOUSEHOLDS	14.9	15.9	19.1	11.7	17.7	22.3
DISTRIBUTION OF LAND OWNERSHIP						
% OWNED BY TOP 10% OF OWNERS	..	..	..	43.0	28.0	..
% OWNED BY SMALLEST 10% OWNERS	..	..	..	2.0	2.0	..
HEALTH AND NUTRITION						
POPULATION PER PHYSICIAN	..	8420.0	8380.0	..	2110.0	880.0
POPULATION PER NURSING PERSON	..	3340.0/c	1960.0/c	..	2170.0/b	240.0
POPULATION PER HOSPITAL BED	1340.0/d	890.0	800.0	3840.0/b	1900.0	80.0
PER CAPITA SUPPLY OF -						
CALORIES (% OF REQUIREMENTS)	96.0/e	103.0	107.0	88.0	114.0	108.0
PROTEIN (GRAMS PER DAY)	43.37/e	..	50.0	45.0	65.0	78.0
-OF WHICH ANIMAL AND PULSE	8.4/e	..	14.6	22.0	19.0	45.0
DEATH RATE (/THOU) AGES 1-4	..	..	..	8.6	..	1.0
EDUCATION						
ADJUSTED ENROLLMENT RATIO						
PRIMARY SCHOOL	..	81.0	86.0	114.0	105.0	100.0
SECONDARY SCHOOL	8.0	17.0	22.0	50.0	43.0	91.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)	12.0	12.0	12.0	10.0	12.0	12.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)	19.0	24.0	12.0/d	6.0	16.0	20.0
ADULT LITERACY RATE (%)	..	79.0	84.0	..	87.0	99.0
HOUSING						
PERSONS PER ROOM (URBAN)	..	..	..	..	2.7	1.0
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)	..	..	..	76.0	80.0/c	5.0
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)	..	63.0/d	..	23.0	50.0	..
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)	..	13.0/e	..	7.0	30.0	..
CONSUMPTION						
RADIO RECEIVERS (PER THOU POP)	6.0	78.0	136.0	72.0	126.0	551.0
PASSENGER CARS (PER THOU POP)	2.0	5.0	7.0	8.0	2.0	84.0
ELECTRICITY (KWH/YR PER CAP)	23.0	124.0	193.0	235.0	307.0	3391.0
NEWSPRINT (KG/YR PER CAP)	0.7	1.0	1.3	2.0	3.5	18.9

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, (e.g., GNP per capita and population), data for 1960 refer to any year between 1959 and 1961, for 1970 between 1969 and 1971, and for Most Recent Estimate between 1973 and 1976.

* Although Japan's GNP per capita is much higher than that of Thailand, Japan has been selected as an objective country because Thailand's development process can reasonably be measured against that of Japan, and Asian country which is highly trade oriented, has moved from an agriculturally based to an industrially based economy, and in doing so has retained its cultural distinction.

THAILAND 1960 /a 1964/65; /b Ratio of population under 15 and 65 and over to total labor force; /c 1962-63, rural only; /d 1962; /e 1961-65 average.

1970 /a Ratio of population under 15 and 65 and over to total labor force; /b 1968; /c Including assistant nurses and midwives; /d As percentage of population in Bangkok metropolitan areas; /e Other 67 provinces.

MOST RECENT ESTIMATE: /a Ratio of population under 15 and 65 and over to total labor force; /b Preliminary data, these figures represent upper limits on incomes received for lower income households, and lower limits on upper income groups due to uncorrected under reporting of higher incomes; /c Including assistant nurses; /d Only upper secondary divided between vocational and academic, lower secondary is unified classes - 849,000 in lower secondary, 110,000 upper academic, 130,000 in upper vocational.

PHILIPPINES 1970 /a As percentage of employment; /b Government personnel only.

KOREA REP. OF 1970 /a As percentage of employment; /b Registered, not all practicing in the country; /c Piped water inside.

R13, July 25, 1978

DEFINITIONS OF SOCIAL INDICATORS

Land area (thou km²)

Total - Total surface area comprising land area and inland waters.

Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1975-77 basis); 1960; 1970 and 1977 data.

Population and vital statistics

Population (mid-year million) - As of July first; if not available, average of two end-year estimates; 1960, 1970 and 1977 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Service provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded. **Years of schooling provided (first and second levels)** - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/vr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newsprint (kg/vr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

ECONOMIC DEVELOPMENT DATA SHEETS

	ACTUAL					EST.					PROJECTED				
	1965	1970	1976	1977	1978	1979	1980	1985	1990		1965	1970	1976	1977	1978
NATIONAL ACCOUNTS (1) (MILLIONS OF US\$ AT 1975 PRICES)															
GROSS DOMESTIC PRODUCT	6843.8	10323.0	15712.6	16685.5	18022.2	19395.2	20692.9	29256.7	41030.3		29256.7	20692.9	29256.7	20692.9	29256.7
GAINS FROM TERMS OF TRADE	-44.3	42.8	-507.7	-978.1	-629.0	-572.9	-533.8	-513.2	-753.8		-513.2	-533.8	-513.2	-533.8	-513.2
GROSS DOMESTIC INCOME	6799.5	10365.8	15204.9	15707.4	17393.2	18922.3	20159.1	28739.5	40276.5		28739.5	20159.1	28739.5	20159.1	28739.5
IMPORTS	1659.9	2989.4	3699.1	4460.8	4700.6	5082.8	5440.4	7507.8	10429.6		7507.8	5440.4	7507.8	5440.4	7507.8
EXPORTS - VOLUME	-1593.2	-2274.8	-3808.4	-4506.9	-4145.1	-4431.1	-4862.1	-7449.5	-11317.7		-7449.5	-4862.1	-7449.5	-4862.1	-7449.5
EXPORTS - TT. ADJUSTED	-1548.9	-2317.5	-3300.7	-3526.8	-3516.2	-3908.1	-4328.3	-6920.3	-10562.9		-6920.3	-4328.3	-6920.3	-4328.3	-6920.3
RESOURCE GAP - TT. ADJUSTED	111.0	671.9	398.4	932.1	1184.5	1174.7	1112.1	577.5	-134.3		577.5	1112.1	577.5	1112.1	577.5
TOTAL CONSUMPTION	5302.3	8007.0	11709.5	12370.3	13839.7	14809.7	15740.4	21253.9	28592.6		21253.9	15740.4	21253.9	15740.4	21253.9
INVESTMENT	1608.2	3030.6	3693.8	4269.2	4738.0	5187.2	5530.8	8062.0	11549.4		8062.0	5530.8	8062.0	5530.8	8062.0
NATIONAL SAVINGS	1576.4	3030.6	3693.8	4269.2	4738.0	5187.2	5530.8	8062.0	11549.4		8062.0	5530.8	8062.0	5530.8	8062.0
DOMESTIC SAVINGS	1497.2	2358.7	3495.5	3337.1	3553.5	4012.6	4418.7	7484.6	11633.6		7484.6	4418.7	7484.6	4418.7	7484.6
GDP AT CURRENT US\$	4052.9	6543.3	16284.3	18156.9	20917.6	24093.0	27401.6	55355.9	103289.6		55355.9	27401.6	55355.9	27401.6	55355.9
SECTOR OUTPUT (SHARE OF GDP AT 1975 PRICES)															
AGRICULTURE	0.391	0.346	0.301	0.281	0.272	0.264	0.258	0.229	0.207		0.229	0.258	0.229	0.258	0.207
INDUSTRY	0.208	0.227	0.269	0.288	0.296	0.304	0.309	0.335	0.350		0.335	0.309	0.335	0.309	0.350
SERVICES	0.401	0.427	0.430	0.431	0.431	0.432	0.432	0.437	0.443		0.437	0.432	0.437	0.432	0.443
PRICES (1975 = 100)															
EXPORT PRICE INDEX	46.43	48.04	91.65	89.35	103.13	113.40	123.48	172.32	220.61		172.32	123.48	172.32	123.48	220.61
IMPORT PRICE INDEX	47.76	47.15	105.75	114.12	121.58	130.03	138.71	185.20	236.35		185.20	138.71	185.20	138.71	236.35
TERMS OF TRADE INDEX	97.22	101.88	86.67	78.30	84.83	87.21	89.02	93.04	93.34		93.04	89.02	93.04	89.02	93.34
GDP DEFLATOR (US\$)	59.22	63.39	103.64	108.82	116.07	124.22	132.42	189.21	253.20		189.21	132.42	189.21	132.42	253.20
ANNUAL AVERAGE EXCHANGE RATE	20.80	20.80	20.40	20.40	20.40	20.40	20.40	20.40	20.40		20.40	20.40	20.40	20.40	20.40

ATTACHMENT 3 B

ECONOMIC DEVELOPMENT DATA SHEETS

	GROWTH RATES			1976 SHARE OF GDP
	1965 1977	1977 1979	1979 1985	

NATIONAL ACCOUNTS (1)
(MILLIONS OF US\$ AT 1975 PRICES)

GROSS DOMESTIC PRODUCT	7.7	7.8	7.1	7.0	100.0
GAINS FROM TERMS OF TRADE					-3.2
GROSS DOMESTIC INCOME	7.2	9.5	7.3	7.0	96.8
IMPORTS	8.6	6.7	6.7	6.8	23.5
EXPORTS - VOLUME	9.1	-0.3	8.8	8.7	24.2
EXPORTS - TT. ADJUSTED	7.1	5.2	10.0	8.8	21.0
RESOURCE GAP - TT. ADJUSTED					2.5
TOTAL CONSUMPTION	7.3	9.4	6.2	6.1	74.5
INVESTMENT	8.5	10.2	7.6	7.5	24.8
NATIONAL SAVINGS	6.4	9.5	10.0	9.6	22.1
DOMESTIC SAVINGS	6.9	9.7	10.9	9.3	22.2
GDP AT CURRENT US\$	13.3	15.2	14.9	13.4	

PRICES (1975 = 100)

EXPORT PRICE INDEX	5.6	12.7	7.2	5.1
IMPORT PRICE INDEX	7.5	6.7	6.1	5.0
TERMS OF TRADE INDEX	-1.8	5.5	1.1	0.1
GDP DEFLATOR (US\$)	5.2	6.8	7.3	6.0

SELECTED INDICATORS	1965-77	1977-79	1979-85	1985-90
ICOR	3.56	3.32	3.80	3.97
IMPORT ELASTICITY	1.09	0.87	0.95	0.97
AVERAGE NATIONAL SAVINGS RATE	0.24	0.20	0.23	0.26
MARGINAL NATIONAL SAVINGS RATE	0.18	0.25	0.32	0.35
IMPORTS/GDP	0.27	0.26	0.26	0.26
INVESTMENT/GDP	0.27	0.26	0.27	0.28
RESOURCE GAP/GDP	0.04	0.06	0.04	0.01

(1) COMPONENTS MAY NOT ADD UP BECAUSE OF ROUNDING

ATTACHMENT 3 C

IMPORT DETAIL

	1972	1973	1974	1975	1976	1977	1978	1979	1985
CONSTANT 1975 PRICES (MILLIONS OF DOLLARS)									
1.1 FOOD	101.9	111.5	102.4	98.1	101.5	117.2	92.6	93.5	99.3
1.2 OTHER CONSUMER GOODS	346.7	385.7	332.4	334.7	322.7	353.4	476.1	490.4	577.9
2. PETROLEUM, OIL, LUBRICANTS	649.5	774.2	668.9	697.8	761.3	874.2	826.4	895.6	1209.8
3. OTHER INTERMEDIATE GOODS	1061.2	1292.7	1100.8	937.6	1237.3	1741.5	1489.0	1653.9	2804.5
4. CAPITAL GOODS	717.9	895.7	1114.2	1094.9	889.0	1037.4	1344.8	1443.8	2120.2
5.1 TOTAL GOODS (CIF)	2877.2	3459.7	3338.7	3163.1	3311.8	4123.7	4223.8	4582.3	6811.6
5.2 TOTAL GOODS (FOB)	2836.6	3418.3	3285.8	3122.8	3261.0	4063.3	4229.8	4582.3	6811.6
6. NON-FACTOR SERVICES	341.9	371.7	322.0	364.5	438.1	392.6	471.8	500.5	696.1
7. TOTAL GOODS AND NFS	3178.5	3790.0	3607.8	3487.3	3699.1	4460.9	4700.6	5082.8	7507.7

PRICE INDEX 1975 = 100

1.1 FOOD	57.69
1.2 OTHER CONSUMER GOODS	62.42
2. PETROLEUM, OIL, LUBRICANTS	23.06
3. OTHER INTERMEDIATE GOODS	54.42
4. CAPITAL GOODS	65.51
5.1 TOTAL GOODS (CIF)	51.19
5.2 TOTAL GOODS (FOB)	51.19
6. NON-FACTOR SERVICES	51.19
7. TOTAL GOODS AND NFS	51.19

CURRENT VALUES
(MILLIONS OF DOLLARS)

1.1 FOOD	58.8
1.2 OTHER CONSUMER GOODS	216.4
2. PETROLEUM, OIL, LUBRICANTS	149.8
3. OTHER INTERMEDIATE GOODS	577.5
4. CAPITAL GOODS	470.3
5.1 TOTAL GOODS (CIF)	1472.8
5.2 TOTAL GOODS (FOB)	1452.0
6. NON-FACTOR SERVICES	175.0
7. TOTAL GOODS AND NFS	1627.0

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1.1 FOOD	57.69	61.70	88.56	100.00	114.83	112.58	121.20	121.93	165.74
1.2 OTHER CONSUMER GOODS	62.42	71.84	96.27	100.00	106.97	117.35	125.56	132.47	139.87
2. PETROLEUM, OIL, LUBRICANTS	23.06	29.52	89.45	100.00	107.49	116.51	119.54	132.57	192.63
3. OTHER INTERMEDIATE GOODS	54.42	66.41	100.40	100.00	102.74	111.33	119.12	126.63	180.13
4. CAPITAL GOODS	65.51	70.19	87.15	100.00	107.00	115.87	123.99	131.80	187.49
5.1 TOTAL GOODS (CIF)	51.19	59.59	92.94	100.00	105.75	114.12	121.52	130.05	185.26
5.2 TOTAL GOODS (FOB)	51.19	59.59	92.94	100.00	105.75	114.12	121.52	129.80	184.65
6. NON-FACTOR SERVICES	51.19	59.59	92.94	100.00	105.75	114.12	121.52	130.03	185.20
7. TOTAL GOODS AND NFS	51.19	59.59	92.94	100.00	105.75	114.12	121.52	130.03	185.20

1.1 FOOD	58.8	68.8	90.7	98.1	116.5	131.9	112.2	114.0	164.5
1.2 OTHER CONSUMER GOODS	216.4	277.1	320.0	334.7	345.2	414.7	597.8	654.6	1097.3
2. PETROLEUM, OIL, LUBRICANTS	149.8	228.5	616.2	697.8	818.4	1018.5	987.8	1187.3	2320.5
3. OTHER INTERMEDIATE GOODS	577.5	858.4	1105.2	937.6	1271.2	1938.8	1773.7	2100.7	5051.8
4. CAPITAL GOODS	470.3	628.7	971.0	1094.9	951.2	1202.1	1667.4	1902.3	3975.1
5.1 TOTAL GOODS (CIF)	1472.8	2061.5	3103.1	3163.1	3502.3	4706.0	5138.9	5953.4	12319.1
5.2 TOTAL GOODS (FOB)	1452.0	2036.8	3053.9	3122.9	3448.6	4642.8	5138.9	5959.4	12319.1
6. NON-FACTOR SERVICES	175.0	221.5	299.3	364.5	463.3	448.0	576.2	649.7	1265.4
7. TOTAL GOODS AND NFS	1627.0	2258.3	3353.2	3487.3	3911.9	5090.8	5715.1	6609.1	13904.5

ATTACHMENT 3 D

EXPORT DETAIL

CONSTANT 1975 PRICES
(MILLIONS OF DOLLARS)

1.1 RICE
1.2 RUBBER
1.3 MAIZE
1.4 TAPIOCA & TAPIOCA PRODUCTS
1.5 SUGAR
1.6 TIN
1.7 JUTE AND KENAF
2. MANUFACTURED GOODS
3. ALL OTHER GOODS
4. TOTAL GOODS (F.O.B.)
5. NON-FACTOR SERVICES
6. TOTAL GOODS AND NFS

	1972	1973	1974	1975	1976	1977	1978	1979	1985
1.1 RICE	637.5	256.2	310.7	286.9	595.7	895.2	377.8	371.5	346.8
1.2 RUBBER	163.1	200.6	186.2	170.3	191.9	204.7	218.0	229.1	335.2
1.3 MAIZE	244.9	184.1	305.8	279.6	321.3	204.8	350.7	381.6	551.2
1.4 TAPIOCA & TAPIOCA PRODUCTS	123.9	173.6	226.5	225.5	351.8	374.9	333.2	354.7	490.8
1.5 SUGAR	191.4	129.0	208.3	279.2	527.4	775.7	536.6	536.6	544.0
1.6 TIN	142.6	149.1	136.1	110.2	129.6	136.1	145.9	152.2	158.6
1.7 JUTE AND KENAF	51.1	52.9	49.5	31.5	27.7	16.2	17.6	18.0	20.5
2. MANUFACTURED GOODS	183.1	349.6	350.8	314.9	460.3	529.2	645.6	787.7	2233.8
3. ALL OTHER GOODS	542.7	378.1	291.7	477.5	699.9	870.4	958.0	1054.3	1873.9
4. TOTAL GOODS (F.O.B.)	2280.4	1873.2	2065.7	2175.6	3305.7	4007.4	3583.4	3885.7	6554.9
5. NON-FACTOR SERVICES	950.0	927.6	670.6	620.9	502.8	499.6	561.7	595.4	893.6
6. TOTAL GOODS AND NFS	3230.5	2800.8	2736.3	2796.5	3808.4	4506.9	4145.1	4481.1	7448.5

PRICE INDEX (1975 =100)

1.1 RICE
1.2 RUBBER
1.3 MAIZE
1.4 TAPIOCA & TAPIOCA PRODUCTS
1.5 SUGAR
1.6 TIN
1.7 JUTE AND KENAF
2. MANUFACTURED GOODS
3. ALL OTHER GOODS
4. TOTAL GOODS (F.O.B.)
5. NON-FACTOR SERVICES
6. TOTAL GOODS AND NFS

	1972	1973	1974	1975	1976	1977	1978	1979	1985
1.1 RICE	33.46	68.97	154.27	100.00	70.81	73.65	83.37	96.71	167.94
1.2 RUBBER	54.86	111.79	132.58	100.00	135.33	145.68	151.69	165.80	254.21
1.3 MAIZE	40.91	79.02	97.43	100.00	86.58	80.07	96.65	117.63	188.92
1.4 TAPIOCA & TAPIOCA PRODUCTS	60.03	71.66	82.99	100.00	104.89	100.68	106.48	116.07	156.52
1.5 SUGAR	31.76	44.10	85.01	100.00	63.61	46.80	57.79	69.29	144.52
1.6 TIN	56.10	66.94	111.51	100.00	112.38	163.52	167.48	167.65	246.68
1.7 JUTE AND KENAF	102.32	97.68	83.77	100.00	102.59	126.33	165.64	151.90	217.10
2. MANUFACTURED GOODS	68.77	77.23	96.49	100.00	102.97	112.93	120.83	128.44	182.71
3. ALL OTHER GOODS	45.94	101.33	164.96	100.00	92.39	86.42	92.47	98.94	140.75
4. TOTAL GOODS (F.O.B.)	45.86	81.78	116.29	100.00	89.51	86.27	100.16	110.89	170.64
5. NON-FACTOR SERVICES	51.19	59.59	92.94	100.00	105.75	114.12	122.11	129.80	184.65
6. TOTAL GOODS AND NFS	47.42	74.43	110.56	100.00	91.65	89.35	103.13	113.40	172.32

CURRENT VALUES
(MILLIONS OF DOLLARS)

1.1 RICE
1.2 RUBBER
1.3 MAIZE
1.4 TAPIOCA & TAPIOCA PRODUCTS
1.5 SUGAR

	1972	1973	1974	1975	1976	1977	1978	1979	1985
1.1 RICE	213.3	176.7	479.3	286.9	421.8	659.3	314.9	359.3	582.5
1.2 RUBBER	89.5	224.2	246.9	170.3	259.7	300.3	330.7	379.9	852.1
1.3 MAIZE	100.2	145.5	297.9	279.6	278.2	164.0	338.9	448.8	1041.3
1.4 TAPIOCA & TAPIOCA PRODUCTS	74.4	124.4	188.0	225.5	369.0	377.5	354.8	411.7	768.3
1.5 SUGAR	60.8	56.9	177.1	279.2	335.5	363.0	310.1	371.8	786.2

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	1972	1973	1974	1975	1976	1977	1978	1979	1985
1.6 TIN	80.0	99.8	151.8	110.2	145.7	222.6	244.3	255.2	391.2
1.7 JUTE AND KENAF	52.3	51.7	41.5	31.5	28.4	20.5	29.2	27.3	44.6
2. MANUFACTURED GOODS	125.9	270.0	338.5	314.9	474.0	597.6	780.1	1011.7	4001.4
3. ALL OTHER GOODS	249.3	383.1	481.1	477.5	646.6	752.2	885.8	1043.2	2637.5
4. TOTAL GOODS (F.O.B.)	1045.7	1532.0	2402.1	2175.6	2958.9	3457.0	3589.0	4308.8	11185.1
5. NON-FACTOR SERVICES	486.3	552.7	623.3	620.9	531.7	570.1	685.9	772.9	1649.9
6. TOTAL GOODS AND NFS	1532.0	2084.7	3025.4	2796.5	3490.6	4027.1	4274.9	5081.7	12835.0

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ATTACHMENT 4 A

BALANCE OF PAYMENTS AND EXTERNAL ASSISTANCE

	1981	1982	1985	1990	1995
1. EXPORTS (INCLUDING NFS)	7045.7	8261.6	12835.0	24957.7	
2. IMPORTS (INCLUDING NFS)	8541.2	9606.0	13904.5	24650.4	
3. RESOURCE BALANCE	-1495.5	-1344.3	-1069.5	317.3	
4. NET FACTOR SERVICE INCOME	-376.9	-508.0	-925.0	-1412.5	
1. NET INTEREST PAYMENTS	-310.5	-433.5	-766.9	-1170.7	
OF WHICH ON PUB M< LOANS	-223.4	-279.0	-487.1	-882.0	
2. DIRECT INVESTMENT INCOME	-92.6	-102.5	-192.5	-290.0	
3. WORKERS REMITTANCES (NET)	26.2	28.1	34.4	48.2	
5. CURRENT TRANSFERS (NET)	90.0	100.0	100.0	110.0	
6. BALANCE ON CURRENT ACCOUNT	-1782.4	-1752.3	-1894.5	-985.1	
7. PRIVATE DIRECT INVESTMENT	175.6	196.7	276.3	487.0	
8. GRANTS & GRANT-LIKE FLOWS	.0	.0	.0	.0	
PUBLIC M< LOANS					
9. DISBURSEMENTS	1202.7	1417.2	1960.4	2697.6	
10. AMORTIZATION	-291.2	-370.4	-620.1	-1092.7	
11. NET DISBURSEMENTS	911.5	1046.8	1340.3	1604.9	
OTHER M< LOANS					
12. DISBURSEMENTS	1193.9	1126.6	1393.0	462.2	
13. AMORTIZATION	-357.1	-468.3	-850.6	-1167.9	
14. NET DISBURSEMENTS	836.8	658.3	542.4	-705.6	
15. USE OF IMF RESOURCES	-30.0	-30.0	-30.0	.0	
16. SHORT-TERM CAPITAL TRANSACTIONS	137.4	147.0	180.1	252.6	
17. CAPITAL TRANSACTIONS NET	.0	.0	.0	.0	
18. CHANGE IN RESERVES (- = INCREASE)	-248.6	-266.2	-414.8	-654.5	
19. NET FOREIGN EXCHANGE RESERVES (END OF PERIOD) (1)	1293.6	1559.8	2634.5	5320.9	

PROJECTED

SUMMARY OF BALANCE OF PAYMENTS

GRANT AND LOANS COMMITMENTS

	1972	1973	1974	1975	1976	1977	1978	1979	1A
1. OFFICIAL GRANTS	.0	.0	.0	.0	.0	.0	.0	.0	.0
2. TOTAL PUBLIC M< LOANS	141.4	87.1	436.5	223.4	372.3	633.0	1031.0	1454.0	1619.7
.1 IBRD	81.0	15.0	142.0	95.0	158.0	137.8	211.0	272.0	380.0
.2 IDA	.0	25.0	7.0	.0	.0	.0	27.0	30.0	20.0
.3 OTHER MULTILATERAL	23.0	6.4	77.2	62.7	92.1	47.0	119.0	384.0	300.0
.4 GOVERNMENTS	37.4	24.0	200.5	47.7	22.2	106.4	254.0	350.0	475.0
.5 OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.0	.0	.0	.0	.0	.0	.0	.0	.0
.6 SUPPLIERS	.0	.0	.0	.0	.0	.0	85.0	90.0	97.2
.7 FINANCIAL INSTITUTIONS	.0	16.7	9.7	18.0	100.0	341.9	255.0	278.0	297.5
.8 BONDS	.0	.0	.0	.0	.0	.0	70.0	.0	.0
.9 PUBLIC LOANS NET	.0	.0	.0	.0	.0	.0	.0	50.0	50.0
3. OTHER M< LOANS (WHERE AVAILABLE)	247.3	178.9	415.9	392.5	360.2	348.9	531.8	672.0	1028.7

MEMORANDUM ITEMS

1. GRANT ELEMENT OF TOTAL COMMITMENTS	29.800	44.600	31.400	16.700	11.500	10.200	14.869	14.690	13.630
2. AVERAGE INTEREST (PERCENT)	.060	.044	.057	.076	.081	.080	.072	.073	.074
3. AVERAGE MATURITY (YEARS)	28.900	29.100	23.800	23.500	18.500	14.000	12.832	13.463	12.746

1/ NET FOREIGN ASSETS: US\$ EQUIVALENT OF LINE 31.

2/ INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

DATE OF LATEST UPDATE 10/06/78

GRANT AND LOANS COMMITMENTS

	1981	1982	1985	1990	1995
1. OFFICIAL GRANTS					
2. TOTAL PUBLIC M< LOANS	1753.1	1867.0	2257.9	3057.4	
.1 IBRD	465.0	500.0	570.8	763.8	
.2 IDA	.0	.0	.0	.0	
.3 OTHER MULTILATERAL	300.0	300.0	357.3	478.2	
.4 GOVERNMENTS	514.8	563.1	719.8	1020.4	
.5 OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.0	.0	.0	.0	
.6 SUPPLIERS	105.0	113.4	142.8	209.8	
.7 FINANCIAL INSTITUTIONS	318.3	340.6	417.2	535.1	
.8 BONDS	.0	.0	.0	.0	
.9 PUBLIC LOANS NET	50.0	50.0	50.0	.0	
3. OTHER M< LOANS (WHERE AVAILABLE)	1193.7	1126.4	1393.1	463.0	

MEMORANDUM ITEMS

1. GRANT ELEMENT OF TOTAL COMMITMENTS	13.076	13.738	13.840	25.278	
2. AVERAGE INTEREST (PERCENT)	.075	.075	.074	.063	
3. AVERAGE MATURITY (YEARS)	12.471	13.018	13.181	19.466	

1/ NET FOREIGN ASSETS: US\$ EQUIVALENT OF LINE 31.

2/ INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA, NORTH KOREA, NORTH VIETNAM.

DATE OF LATEST UPDATE 10/06/78

DEBT AND CREDIT WORTHINESS

	1972	1973	1974	1975	1976	1977	1978	1979	1980
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	ACTUAL					EST.	PROJECTED		
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MEDIUM AND LONG TERM DEBT (DISBURSED ONLY)

TOTAL DEBT OUTSTANDING (DOD END OF PERIOD)	894.0	903.9	1160.7	1345.6	1606.8	1931.9	2217.4	3339.3	4890.3
INCLUDING UNDISBURSED	1158.6	1182.4	1770.0	2009.5	2404.0	3145.9	4054.7	5813.8	7973.5
PUBLIC DEBT SERVICE	-43.6	-54.9	-60.4	-73.2	-87.7	-126.4	-193.1	-297.2	-396.6
INTEREST	-19.9	-25.1	-28.1	-34.5	-44.3	-59.6	-95.5	-133.1	-174.5
OTHER M< DEBT SERVICE	-191.7	-255.8	-266.8	-314.5	-245.9	-326.6	-421.9	-565.2	-777.1
TOTAL DEBT SERVICE	-235.3	-310.7	-327.2	-387.7	-333.6	-453.0	-614.9	-562.4	-773.7

DEBT BURDEN

DEBT SERVICE RATIO	15.4	14.9	10.8	13.9	9.6	11.3	14.4	11.1	12.9
DEBT SERVICE RATIO (1)	17.1	16.2	12.0	16.2	11.5	13.1	15.8	12.6	14.2
DEBT SERVICE/GDP	3.0	2.9	2.5	2.7	2.0	2.5	2.9	2.3	2.9
PUB. DEBT SERVICE/GOV. REVENUE	4.0	4.3	2.5	3.5	3.7	4.4	.0	.0	.0

TERMS

INT. ON TOTAL DOD/TOTAL DOD	5.1	5.7	5.5	5.6	5.4	5.7	5.2	5.9	5.8
TOTAL DEBT SERVICE/TOTAL DOD	11.2	12.4	11.8	11.9	10.7	12.0	27.7	16.8	15.8

DEPENDENCY RATIOS FOR M< DEBT

GROSS DISB./IMPORTS (INCL.NFS)	18.3	11.0	12.6	12.9	13.3	10.9	21.0	22.5	27.0
NET TRANSFER/IMPORTS (INCL.NFS)	3.8	-2.8	2.8	1.8	4.8	2.0	10.2	14.0	16.8
NET TRANSFER/GROSS DISB.	21.0	-25.3	22.5	13.6	36.0	18.4	48.7	62.2	62.1

EXPOSURE

IBRD DISB./GROSS TOTAL DISB.	10.1	14.8	8.0	9.1	8.3	12.0	9.3	9.2	8.3
BANK GROUP DISB./GROSS TOTAL DISBURSEMENTS	10.1	14.8	8.3	9.7	9.5	13.6	9.9	10.0	9.0
IBRD DOD/TOTAL DOD	21.4	24.2	20.8	20.0	18.6	17.9	20.2	16.9	14.4
BANK GROUP DOD/TOTAL DOD	21.4	24.2	20.9	20.4	19.2	18.9	21.3	17.9	15.5
IBRD DEBT SERVICE/TOTAL DEBT SERVICE	8.2	8.0	8.5	8.3	10.9	9.8	7.8	10.0	9.1
BANK GROUP DEBT SERVICE/TOTAL DEBT SERVICE	8.2	8.0	8.5	8.3	10.9	9.8	7.8	10.0	9.1

DEBT AND CREDIT WORTHINESS

	1981	1982	1985	1990	1995
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PROJECTED

MEDIUM AND LONG TERM DEBT (DISBURSED ONLY)

TOTAL DEBT OUTSTANDING (DOD)	6638.5	8343.6	13923.5	20885.6
END OF PERIOD)	10271.9	12426.4	18220.9	27614.6
INCLUDING UNDISBURSED	-514.6	-649.4	-1107.2	-1974.7
PUBLIC DEBT SERVICE	-223.4	-279.0	-487.1	-882.0
INTEREST	-538.1	-723.2	-1257.7	-1672.1
OTHER M< DEBT SERVICE	-1052.7	-1372.6	-2364.9	-3646.9

DEBT BURDEN

DEBT SERVICE RATIO	14.9	16.6	18.4	14.6
DEBT SERVICE RATIO (1)	16.3	17.9	19.9	15.8
DEBT SERVICE/GDP	3.4	3.8	4.3	3.5
PUB. DEBT SERVICE/GOV. REVENUE	.0	.0	.0	.0

TERMS

INT. ON TOTAL DOD/TOTAL DOD	6.1	6.4	6.5	6.6
TOTAL DEBT SERVICE/TOTAL DOD	15.9	16.5	17.1	17.5

DEPENDENCY RATIOS FOR M< DEBT

GROSS DISB./IMPORTS (INCL.NFS)	28.1	26.5	24.1	12.8
NET TRANSFER/IMPORTS (INCL.NFS)	15.7	12.2	7.1	-2.0
NET TRANSFER/GROSS DISB.	56.1	46.0	29.5	-15.4

EXPOSURE

IBRD DISB./GROSS TOTAL DISB.	8.9	10.8	13.3	19.9
BANK GROUP DISB./GROSS TOTAL DISBURSEMENTS	9.7	11.5	13.6	19.9
IBRD DOD/TOTAL DOD	13.4	13.6	15.8	20.5
BANK GROUP DOD/TOTAL DOD	14.4	14.6	16.7	21.1
IBRD DEBT SERVICE/TOTAL DEBT SERVICE	7.8	7.5	8.7	13.1
BANK GROUP DEBT SERVICE/TOTAL DEBT SERVICE	7.8	7.5	8.8	13.2

OUTSTANDING DEC. 31, 1977

EXTERNAL DEBT (DISBURSED ONLY)

	AMOUNT	PERCENT
IBRD	345.7	32.9
BANK GROUP	365.2	34.7
OTHER MULTILATERAL	137.5	13.1
GOVERNMENTS	379.7	36.1
OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.0	.0
SUPPLIERS	13.2	1.3
FINANCIAL INSTITUTIONS	156.6	14.9
BONDS	.0	.0
PUBLIC DEBT NET	.0	.0
TOTAL PUBLIC M< DEBT	1052.1	100.0
OTHER PUBLIC M< DEBT	.0	.0
OTHER M< DEBT	879.8	83.6
TOTAL PUBLIC DEBT (INCLUDING UNDISBURSED)	2266.1	215.4
TOTAL M & LT DEBT (INCLUDING UNDISBURSED)	3145.9	299.0

DEBT PROFILE

TOTAL DEBT SERVICE 1978-82/TOTAL DOD END OF 1977 226.5

1/INCLUDING NET DIRECT INVESTMENT INCOME
2/INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA,
NORTH KOREA, NORTH VIETNAM.

OUTSTANDING DEC. 31, 1985

EXTERNAL DEBT (DISBURSED ONLY)

	AMOUNT	PERCENT
IBRD	2188.5	24.0
BANK GROUP	2303.4	25.3
OTHER MULTILATERAL	1718.7	18.9
GOVERNMENTS	2897.5	31.8
OF WHICH CENTRALLY PLANNED ECONOMIES (2)	.0	.0
SUPPLIERS	482.1	5.3
FINANCIAL INSTITUTIONS	1467.3	16.1
BONDS	21.0	.2
PUBLIC DEBT NET	225.0	2.5
TOTAL PUBLIC M< DEBT	9115.1	100.0
OTHER M< DEBT	.0	.0
TOTAL PUBLIC DEBT (INCLUDING UNDISBURSED)	5226.8	57.3
TOTAL M & LT DEBT (INCLUDING UNDISBURSED)	13594.1	149.1
	18820.9	206.5

1/INCLUDING NET DIRECT INVESTMENT INCOME

2/INCLUDES CMEA COUNTRIES, PEOPLES REPUBLIC OF CHINA,
NORTH KOREA, NORTH VIETNAM.

ECONOMIC AND SECTOR WORK PROGRAM FY79-81SUMMARY TABLE

	Man-weeks				
	<u>AEA</u>	<u>AEP</u>	<u>CPS</u>	<u>DPS</u>	<u>OTH</u>
<u>FY79</u>					
<u>Economic Work</u>	<u>30</u>	-	-	<u>13</u>	<u>28</u>
Study of Locational and Production Characteristics of Income Distribution	28	-	-	13	20
Statistical Assistance to NESDB	2	-	-	-	8
<u>Sector Work</u>	<u>18</u>	<u>125</u>	<u>18</u>	-	<u>15</u>
Rainfed Agriculture Study	10	55	-	-	15
Higher Agricultural Education	-	40	-	-	-
Power Efficiency Study	-	10	-	-	-
Engineering Industry Study	8	20	18	-	-
<u>General Economic Work of AEA</u> (including CPP, CG, Economic Modeling, participation in project identification)	<u>40</u>	n.a.	n.a.	n.a.	n.a.
<u>Total</u>	<u>88</u>	<u>125</u>	<u>18</u>	<u>13</u>	<u>43</u>
<u>FY80</u>					
<u>Economic Work</u>	<u>50</u>	-	-	<u>20</u>	<u>20</u>
CEM on the Progress of the Poverty Alleviation Strategy	30	-	-	10	-
Village and Rural Employment Study	20	-	-	10	20
<u>Sector Work</u>	<u>25</u>	<u>45</u>	<u>75</u>	<u>30</u>	<u>25</u>
Coal and Mineral Resources Study	-	-	30	-	-
Provincial Planning Study	10	-	-	20	10
Provincial Urban Center Study	5	-	35	-	-
Industrial Export Study	5	5	10	10	-
Rainfed Agriculture Followup	5	40	-	-	15
<u>General Economic Work of AEA</u>	<u>20</u>	n.a.	n.a.	n.a.	n.a.
<u>Total</u>	<u>95</u>	<u>45</u>	<u>75</u>	<u>50</u>	<u>45</u>
<u>FY81</u>					
<u>Economic Work</u>	<u>50</u>	-	-	<u>20</u>	<u>35</u>
Study on Regional Economic Development	30	-	-	10	-
Regional Institutional Development	10	-	-	-	20
Village and Rural Employment Study (continuation)	20	-	-	10	15
<u>Sector Work</u>	<u>25</u>	<u>45</u>	<u>55</u>	<u>20</u>	<u>20</u>
Regional Industrial Development	5	20	15	10	-
Health Sector Study	10	-	20	-	20
Energy Policy Memo	5	5	10	-	-
Water Sector Study	5	20	10	10	-
<u>General Economic Work of AEA</u>	<u>20</u>	n.a.	n.a.	n.a.	n.a.
<u>Total</u>	<u>95</u>	<u>45</u>	<u>55</u>	<u>50</u>	<u>55</u>

SECTOR DISTRIBUTION OF THE WORK PROGRAM

	<u>FY79</u> -----	<u>FY80</u> (man-weeks)	<u>FY81</u> -----
<u>Macroeconomic Work</u>			
Assistance to NESDB	10		
CEM on Progress of Poverty Alleviation Strategy		40	
<u>Microeconomic Work</u>			
Study of locational and production characteristics of income distribution	61		
Village and Rural Employment Study		50	45
<u>Regional Work</u>			
Provincial Planning Study		40	
Provincial Urban Center Study		40	
Study of Regional Economic Development			40
Regional Institutional Development			30
Regional Industrial Development /a			50
<u>Agricultural Sector Work</u>			
Rainfed Agriculture Study	80	60	
Higher Agricultural Education	40		
<u>Industry Sector Work</u>			
Engineering Industry Study	46		
Industrial Export Study		30	
Coal and Mineral Resources Study		30	
Regional Industrial Development /a			50
<u>Social and Economic Infrastructure Work</u>			
Power Efficiency Study	10		
Energy Policy Memo			20
Health Sector Study			50
Water Supply Study			45

/a Fits into both categories.

Title and Description	Responsible Department	Total Man Weeks Required
<u>FY1979</u>		
<u>Economic Work</u>		
<u>SES on Locational and Production Characteristics of Income Distribution</u>	AEA	61
<p>This Special Economic Study will concentrate on completing the household profiles with reference to production characteristics and obstacles to the use of modern techniques and on completing the income distribution analysis. The 1975-76 household survey and additional data processing that we have requested will be tabulated by early 1979. A mission is scheduled then to complete the data gathering and begin the analysis. The Special Economic Study is to be completed in the fall of 1979.</p>		
<u>Statistical Services Assistance to NESDB</u>	AEA	10
<p>At the request of NESDB, we will provide some assistance to the National Accounts Division to modify their procedures and methodology to coincide better with the UN SNA system, to coordinate better with their input output table and to improve the usefulness of their data to its users.</p>		
<u>Sector Work</u>		
<u>Rainfed Agriculture Study</u>	AEP	80
<p>A major mission will be mounted in the spring of 1979 to study the particular problems of developing rainfed agriculture in the North and Northeast, reviewing available knowledge and techniques that could be usefully applied, identifying areas where additional research and development is needed, and identifying projects in rainfed agriculture. This study will also indicate what further sector work in rainfed agriculture should be undertaken and will make a key contribution to developing projects in rainfed agriculture.</p>		

Title and Description	Responsible Department	Total Man Weeks Required
<u>Higher Agricultural Education</u>	AEP	40
This study will review the results of the past loan to Kasestart University to promote agricultural education and assess the role for future Bank involvement in agricultural training.		
<u>Power Efficiency Study</u>	AEP	10
This study will assess the efficiency of investment and power policies of EGAT, PEA, and MEA with special regard to pricing policy, capacity requirements, and development of alternative energy sources.		
<u>Engineering Industry Subsector Study:</u>	AEP	46
The study will investigate the potential of the engineering industries in Thailand for export expansion and job creation. It will examine the constraints on further growth of the subsector and suggest policies to promote engineering industries. To the extent possible it will indicate specific product lines that would be promising, and it will try to identify a bankable project in support of this subsector. Some of the AEA manpower in this study could also review progress on the BOI technical assistance project to be executed by the Bank.		
<u>FY80</u>		
<u>Economic Work</u>		
<u>CEM on the Progress of the Poverty Alleviation Strategy</u>	AEA	40
This memo would integrate the results of the income distribution, production profile and sector studies of FY79 into the aggregate economic framework and evaluate progress in raising the incomes of the poorest and ameliorating income differentials. The CEM would also analyze the effects of the balance of payments problems of 1978-79 on the longer term prospects of the country, particularly with respect to their impact on the poor target groups.		

Title and Description	Responsible Department	Total Man Weeks Required
<u>Village and Rural Employment Study</u>	AEA	50

This study would follow the Employment Study with a specific examination of off-farm employment opportunities in rural areas to estimate the size and potential of this sector in employment creation and income generation and its wage structure in relation to the modern urban sector. To the extent possible this would include analysis of the available data on characteristics of village production and organization with particular attention to the use of assets, production constraints, individual and group response to economic change and incentive, provision of basic needs, etc. Much of this work would be done by Thai consultants under our supervision and attempts will be made to develop this into a research project.

Sector Work

Coal and Mineral Resources Study

IPD

30

This study will review the mineral resources of Thailand, particularly coal, and indicate promising areas for future development. It will also try to identify potential projects.

Provincial Planning Study

AEA

40

This study will review the RTGs plans for developing and implementing provincial planning and increasing the responsibility of provincial governments in the development process, including a review of such questions as increasing changwat fiscal autonomy and implementation capacity. It will draw on the work done under the technical assistance component of the Northern Rural Development Project for aiding provincial planning. This study should also help identify and prepare the Provincial Development loan planned for FY83.

Title and Description	Responsible Department	Total Man Weeks Required
<u>Provincial Urban Center Study</u>	URB	40
<p>This study would concentrate on the problems and potentials of the provincial urban centers. It would attempt to indicate their prospects as regional or national growth poles, their urban infrastructure requirements, and the kinds of policies needed to promote their development. This study would also identify and help prepare the regional cities projects in the lending program.</p>		
<u>Industrial Export Study</u>	AEA	30
<p>This study would examine and analyze the current promotion policies for manufactured exports and suggest policy changes as needed to accelerate the growth of manufactured exports. This would be closely coordinated with the BOI technical assistance program.</p>		
<u>Rainfed Agriculture Followup</u>	AEP	60
<p>Continuing the work of the FY79 Rainfed Agriculture Study, further study in the area will be programmed by AEPGA in FY80 and possibly FY81 to pursue additional research in rainfed agriculture and particularly to identify and prepare projects based on the results of the study.</p>		
<u>FY81</u>		
<u>Economic Work</u>		
<u>Study on Regional Economic Development</u>	AEA	40
<p>This study will undertake a regional economic analysis integrating the past and current sector work with regional aspects into a coherent examination of regional economic development, the role and importance of spatial factors and regional production differences, and the potential for greater interregional exchange. The study will incorporate the work on regional institutional questions and regional industrialization and should highlight important regional policy questions.</p>		

Title and Description	Responsible Department	Total Man Weeks Required
<u>Regional Institutional Development</u>	AEA	30
<p>This study will be coordinated with the regional economic analysis and concentrate on regional and provincial institutional issues, particularly the relation between the central and local authorities in shaping the economic determinants of development.</p>		
<u>Continuation of Village and Rural Employment Study</u>	AEA	45
<p>This would be the continuation and conclusion of the Village and Rural Employment study begun in FY80.</p>		
<u>Sector Work</u>		
<u>Regional Industrial Development</u>	AEP	50
<p>This study would focus on the problems of industrial dispersion from Bangkok, identification of products that would be likely candidates and discussion of necessary incentives, institutions, and alternatives to accelerate development. The study would also try to identify projects that would promote regional dispersion of industry.</p>		
<u>Health Sector Study:/1</u>		50
<p>This study would be the first comprehensive health sector study in Thailand. It would review the current status of public health policy and facilities and evaluate the Thai objectives and programs in the sector. It should pay particular attention to public health factors which affect the health and productivity of people in poor areas (e.g. sanitation, parasites) and attempt to identify a general health project for bank lending.</p>		

/1 Supervising department to be determined.

Title and Description	Responsible Department	Total Man Weeks Required
<u>Energy Policy Memo</u>	EWT	20
<p>This memo will combine the results of the Power Efficiency Study and the sector elements of the gas pipeline appraisal and whatever additional work is necessary to produce an overall analysis of the energy sector with particular attention to policy questions and recommendations. The ADB is also planning an energy sector study and the scope of this study may be modified depending on the results and timeliness of that study.</p>		
<u>Water Sector Study</u>	AEP	45
<p>The study will complement the health sector study and investigate the distribution and availability of safe potable water in Thailand. It will also look at waste water disposal and sanitation questions related to water systems. The study should indicate appropriate policies to follow and identify potential projects.</p>		
<u>FY82</u>		
<u>Economic Work:</u>		
<u>CEM Reviewing the State of the Economy</u>	AEA	50
<p>Economic work this year would produce a CEM reviewing the major developments in the economy since the last Basic Economic Report and identifying significant developments in the economy that deserve more detailed investigation in the Basic Economic Report planned for FY83-84. It would also summarize the principal policy findings of the sector work program to date and comment on the status of the policy dialogue with the government.</p>		

Title and Description	Responsible Department	Total Man Weeks Required
<u>Sector Work</u>		
<u>Financial Sector Study:</u>	AEP	50
<p>This study would survey the financial sector as it affects industrial development including the availability and cost of long term loans, sources of equity financing, the adequacy and efficiency of intermediation etc. It would draw on the experience of the small scale industry credit project, loans to IFCT as well as the experience of IFC in the sector and would investigate other areas where the Bank could support industrial development through projects.</p>		
<u>Transport Sector Study</u>	AEP	25
<p>This study should attempt to look at the whole transport sector in view of the transition of Thailand to a modern, industrial based economy. It will pay particular attention to intermodal linkages and try to develop a long-term transport strategy for Thailand.</p>		
<u>Sector Reviews:</u>		
<p>Additional sector reviews will be scheduled in preparation for the Basic Economic Report scheduled for FY83. Their exact content would be determined by the state of our knowledge and concern at that time.</p>		
<u>FY83</u>		
<u>Economic Work:</u>		
<u>Basic Economic Report:</u>		
<p>The focus of the report should be a detailed analysis of the progress Thailand is making in its transition from extensive to</p>		

Title and Description	Responsible Department	Total Man Weeks Required
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intensive agricultural and its expansion of labor using industry for domestic and foreign markets. The report should identify principal problems encountered, analyze their causes and suggest appropriate solutions. It should also assess the progress made in rural development and reducing interregional and interpersonal income differentials. The long-run impact of this strategy should be re-evaluated and modifications indicated for the future.

Sector Work

Sector work will be scheduled as necessary to complete the Basic Economic Report.



G. Briefs for Field Trips

BRIEFS FOR FIELD TRIPS

A. VISIT TO CHAINAT (May 16)

(Resident Mission to insert details)

B. NORTHEAST THAILAND VISIT (May 17)

Stop 1: Agricultural Extension/Pump Irrigation - Tha Kok Hare, Ubol Ratchathani

1. The Bank is currently assisting the Department of Agricultural Extension to expand and improve its extension services under two loans. An \$840,000 component of Ln. 1198T-TH (Northeast Rural Development Project, \$21 million) initiated activities in four northeast provinces, and Ln. 1393-TH (National Agricultural Extension I, \$28.0 million), is helping establish the training and visit system of agriculture extension in these and 29 other provinces throughout the country. A recently appraised National Agricultural Extension II will cover the remaining 39 provinces.

2. All these projects provide for an increase in the number of trained agricultural extension staff; construction of regional training centers, provincial and district extension centers, and staff houses; procurement of equipment, furniture and vehicles; overseas fellowships and study tours. USAID is supporting the training program.

3. The program has experienced delays in construction of civil works during the first two years, but the situation has recently improved and disbursements are expected to be back on schedule during 1979.

4. Consultants for extension (Israeli) and for civil works design and supervision (local) are performing well. Present deficiencies in the regularity of the training and visit system and the quality of extension advice reflect the lack of experience on the part of many of the recently recruited staff and the shortage of subject matter specialists, but these shortcomings are recognized by senior department personnel and should be rectified in a year or two.

5. The Kok Hare Pump Irrigation Village has been chosen because it has one of the few extensive areas of land under crop to be found in Ubol Province at this time of year (toward the end of the dry season). Irrigation water is lifted from a nearby river by an 8-inch pump which RTG provided as a grant under the 1977 Drought Relief Program. The villagers themselves dug the ditches. The pump was removed for safety and servicing during the 1978 wet season, when the village experienced severe flooding which damaged or destroyed much of the main padi crop. It was returned to the site to provide an emergency irrigation supply for the present 600 rai (100 ha) off-season padi crop. The percentage of Northeast farmers that can have access to such schemes is unfortunately small.

6. The extension service, through its village-level extension worker, has encouraged the farmers to plant a nonphotosensitive, nonglutinous padi variety (RD7), using improved field management practices. The farmers have taken to the new system with great enthusiasm.

Stop 2: Village Infrastructure/Sericulture - Ban Kuang Kam, Ubol Ratchathani

A. Tubewell and Hand Pump

The Office of Accelerated Rural Development (ARD) is carrying out the village water supply component (\$2.3 million) of the Northeastern Rural Development Project by expanding its well drilling program through the construction of about 4,000 tubewells. The wells, sited in villages poorly supplied with dry season water sources, are being bored using recently procured, medium-size, mobile rigs. The start-up of the program was very slow, due to difficulties in procurement, but should expand rapidly in the next few months, now that the first large consignment of rigs has been delivered and are being assembled, tested and commissioned.

Variations in water quality and yield between different boreholes are considerable. The water is not always drinkable, due to salinity, but the additional supply is always welcome for nonpotable domestic uses or for backyard vegetable or other small-scale agricultural purposes.

B. Sericulture

Domestic silkworm rearing, spinning and silk weaving is traditional in the Northeast, and is carried out by several families in Ban Kuang Kam. In other areas RTG agencies are introducing improved silkworm rearing technology and providing credit for large-scale mulberry planting and rearing houses.

Stop 3: Village Electrification - Ban Muang Phai Village

The Provincial Electricity Authority (PEA) is being assisted under the rural electrification component (\$3.0 million) of the Northeastern Rural Development Project in electrifying 346 villages in ten provinces in the Northeast. An estimated 27,000 consumers are likely to benefit from this program in the initial stages. (About 3,825 villages in the Northeast will receive electricity supply under Ln. 1527-TH (Accelerated Rural Electrification Project: \$25 million).

PEA has good data and a pragmatic weighting system for assessing relative priority of all villages for electrification. The selection system and the benefits which accrue in electrified areas will be outlined during the briefing.

Stop 4: Secondary Education - Diversified Secondary School,
Yang Talad, Kalasin

This school (including part of the building, equipment and furniture) was one of 32 such schools supported under the Third Education Project (Credit 369-TH, \$19.5 million); a further 50 schools are being supported under the ongoing Fourth Education Project. A principal objective of the Third Education Project is to support a new secondary school curriculum, introducing science and practical subjects in addition to the previous stress on academic subjects, and for the production of teachers through establishment of seven new teachers colleges.

Under the Diversified Secondary Schools program, students typically spend 25% of their time on practical arts but some spend up to 50%. Generally, students leaving these schools have had a good record in continuing education or finding employment. Implementation of the project is about 18 months behind schedule; principal problems have been design, contracting and budgeting difficulties. You will be briefed on details of the curriculum, the background of the student body and the disposition of graduates.

Stop 5: Agricultural Research - Yang Talad Upland Crops Research Station,
Kalasin

This is one of seven research stations being upgraded under the upland crop improvement component (\$1.3 million) of the Northeast Rural Development Project (Loan 1198T-TH). Project staff will give a briefing on the Upland Crops Research Program. This component attempts to bring together the efforts of several divisions and branches of the Department of Agricultural Techniques (DOAT), RTG's principal agricultural research agency working on crop rotation, cropping systems, intercropping, etc., for possible use by farmers in upland (i.e., nonpaddy) areas of the Northeast. The briefing will illustrate the difficulties and complexities in: (a) developing low-investment, low risk packages for such areas; (b) focussing research onto immediate and real problems of a target group of small farmers; and (c) coordinating the efforts of functionally-defined administrative units in tackling small-farmer problems (which are multidisciplinary). This component is an extremely small part of DOAT's total activities; it received little high-level attention in early years, but a change in project management about one year ago has resulted in a marked improvement in the conception and execution of the research program.

Stop 6: Livestock Development - Ban Kaeng Noi, Maha Sarakham

This village contains some of the activities supported by the Northeast Livestock Development Project (Loan 1199T-TH, US\$5.0 million).

The project attempts to upgrade communal pasture through oversowing about 80,000 ha of fallow and native pasture with tropical legumes and upgrading native herds through 900 imported Brahman stock and provision of AI. The project had many early administrative problems (lack of local budget, staff shortages and lack of familiarity with Bank procedures). You will see village seed production, backyard forage plots, and improve village herds. The project raises a number of points:

- (1) Upgrading of communal-pasture or individual backyard pasture and fodder plots appears to offer a low-cost way of providing a small improvement in income for large numbers of target group farmers, and
- (2) In an attempt to provide better coordination among disciplines and decentralized control, the project is being implemented by a project unit located in the Northeast. This has not been successful so far since other (functional) divisions of the Livestock Department do not regard themselves as being involved in the project, and give it minimal support. Because of legal requirements and administrative traditions many matters (even trivial ones) continue to be referred to Bangkok.

C. SOUTHERN THAILAND VISIT (May 18)

Stop 1: Rubber Replanting - Nam Noi Rubber Farms, Songkhla

Rubber research has been one of the more successful programs of the Department of Agricultural Techniques in recent years. It has benefited from twelve years of FAO/UNDP technical assistance support, through which rubber production technology first developed in Malaysia, and has been transferred and adapted to Southern and Southeast Thailand conditions. Virtually all Thailand's rubber is grown by smallholders. It is most unlikely that the Bank would have been able to support the RTG Smallholder Replanting Program on the scale of our First Replanting Loan (see below) were it not for the improved rubber smallholders management systems developed at this center.

The RTG Rubber Replanting Program, financed largely from a replanting cess collected on exported rubber, is being accelerated from an average preproject 20,000 ha/year to 50,000 ha/year with the aid of funds provided under Ln. 1243-TH (Rubber Replanting Project, \$50.0 million).

A highly experienced administrator who was director of the Office of Rubber Replanting Aid Fund during the preparation and appraisal stages of the project cycle unfortunately retired in the month prior to effectiveness (January 1977), and was succeeded by a senior RTG official with weak administrative skills and very little familiarity with the technical aspects of the replanting program. A personal ailment also contributes to his relative ineffectiveness.

Project implementation in the first 21 months was slow and beset by serious problems of a managerial and technical nature. Morale within the agency slipped badly and for a few months the project was in danger of floundering. Fortunately, operations at the field level were largely unaffected, and replanting standards were maintained at a high level. A young, capable and experienced director was appointed in October, 1978 and an immediate improvement took place. The recovery has been spectacular. A reorganization recommended by management consultants financed through the loan has been carried out successfully; two competent deputies have been appointed; morale has improved markedly; much needed additional staff have been recruited and trained; procurement difficulties hinging on the appropriateness of rubber fertilizer specifications have been overcome; and prospects for attaining physical and disbursement appraisal targets have brightened.

The small rubber farms to be visited show the contrast between old, low yielding seedling rubber and high yielding clonal budded material supplied under the replanting program.

Development activities supported under the Rubber Replanting Project include 400 group marketing organizations. Several neighboring farmers market their sheet rubber jointly at intervals of about two weeks, and in this way obtain a useful premium based on bulk sale. A cheap pocket calculator belonging to the group considerably eases the arithmetical problem of dividing out the proceeds.

Stop 2: Higher Education - Prince of Songkhla University

The University was opened in the late 1960s, as part of RTG's decision to develop regional universities (until 1965 all universities were in Bangkok). The University is still under development and enrollment (currently about 3,400) continues to grow rapidly. A continuing issue for the University is its extent of operational autonomy vis-a-vis central government ministries in Bangkok. You will be briefed on the role that education and the University have played in the development of the South, and the rural sector in particular. You will also be informed on the composition of the student body, the curricula and placement of graduates.

The Faculty of Science, which was partly financed under Credit 369-TH (Third Education Project, \$19.5 million) has an enrollment of about 600. The total project cost for the Science Faculty was estimated at \$2.6 million including \$0.8 million of technical assistance. The Science Faculty suffered some delays in construction and there were delays and disagreements in recruiting technical assistance personnel.

Stop 3: Health and Family Planning - Ban Prik, Songkhla

Thailand's family planning program is one of the most successful in the world, having reached both its operational and demographic targets since its inception in the early 1970s. It is based on a high degree of integration with the health delivery system and is marked by a number of innovations including the utilization of paramedics and of village health volunteers, the use of injectable contraceptives and the mutual reinforcement of public and private activities. Credit 767-TH (Population Project, \$33.1 million) made in 1978, coupled with assistance from Australia, Canada, Norway and the United States is supporting this effort through a project which will help bring 20 disadvantaged provinces up to the national norm by 1981. The three-year project will: (a) expand the rural health infrastructure from about 5,400 service points in 1976 to about 7,000 in 1980; (b) increase the supply and quality of paramedics and volunteer health workers especially at the village level; (c) stimulate demand for integrated family planning and health services and encourage broad community support through an expanded information and education program; and (d) improve evaluation and research capabilities.

The project has been in operation for one year. After initial delays due to problems in securing timely budgetary support, all project components are progressing satisfactorily except evaluation. Service delivery,

training and information and education activities are generally on schedule, the majority of staff required have been recruited and posted and the implementation machinery has been established and project management is taking charge. Construction, after six months delay, is now ready to move ahead; bidding documents have been prepared and approved. Particularly encouraging is the high level of support for the project and effective functioning of coordinating mechanisms.

The briefing will review village health problems, organization and implementation of innovative programs to tackle these problems, and description of the role and function of Village Health Volunteers (VHVs), Village Health Communicators (VHCs), etc.

H. Other Donors

ACTIVITIES OF OTHER EXTERNAL DONORS

The attached table (Annex I) indicates the size and sectoral composition of commitments entered into by other multilateral and bilateral donors during 1977 and 1978.

In addition, Table 1 below provides some detail on estimated and projected net disbursements for 1977-85. The current terms and conditions for some of the aid agencies are contained in Table 2. The large increase in the "others" category for 1977/78 in Table 1 is due primarily to drawings from the IMF and, to a lesser extent, increased borrowings from private banks and suppliers credit. For 1980 and 1985 it is expected that about 15-20% of this category will come from other official sources, 25-30% from OPEC, and 50-60% from private financial institutions.

Table 1: SOURCES OF PUBLIC LONG-TERM LENDING, NET DISBURSEMENTS
(US\$ million)

	Actual				Est.	Projected			
	1973	1974	1975	1976	1977	1978	1979	1980	1985
World Bank	26.9	23.0	28.4	28.6	57.6	92.1	116.2	142.0	377.3
IDA	0.2	1.3	2.7	6.5	5.1	7.3	11.3	15.2	7.9
ADB	4.6	14.9	34.0	43.6	61.0	66.6	94.2	158.4	275.4
Japan	12.4	10.2	31.7	33.8	50.6	72.7	100.1	133.6	346.6
US	1.8	3.4	-2.4	1.2	0.4	4.0	8.5	14.0	29.0
Others /a	-6.7	11.2	16.6	84.3	27.3	426.5	422.2	295.5	274.1

/a Includes suppliers credit, banks, OPEC, IMF, and other official sources.

Source: 1978 Thailand CPP.

Table 2: TERMS AND CONDITIONS OF LOAN AS OF JUNE 1978

Sources	Maturities (yr.)	Grace period (yr.)	Interest rate (% p.a.)	Commitment charge (% p.a. undisbursed amount)	Other
IBRD	20	5	7.50	0.75	Untied
ADB	20	5	7.70	0.75	Untied
OECD	25	7	3.25	-	Untied
KFW	30	10	2.00	0.25	Untied
AID	30	10	2.00-3.00 (1st 10 yr)/(last 20 yr)	-	Tied
CIDA	50	10	-	-	Tied
OPEC Fund	20	5	-	-	Untied
Saudi Fund	20	5	2.00-4.00	-	Untied
Kuwait Fund	25	5	3.50	-	Untied

Source: Ministry of Finance, Fiscal Policy Office.

As regards future programs of external assistance, it is still early to predict with any confidence the performance of other donors. However, some background on their current activities is provided below:

Japan

Following recent negotiations between the Thai and Japanese governments the Sixth Yen Loan was signed in January 1979. The loan is untied, highly concessional (3.25% interest, 30 years repayment including 10 years grace), and intended to finance the following projects:

	<u>US\$ Million Equivalent</u>
Bangkok Water Works (MWWA)	44.3
Don Muang Airport Modernization	29.0
Expressway	32.0
Tambol Rural Electrification	37.0
BAAC (Agriculture Credit)	20.0
EGAT - Oil Barge	6.3
Land Reform Ayuthaya - Engineering	0.7
Model Villages Program	30.0

About US\$200.0 million
(yen 39 billion)

Japan has become the second largest donor (after the Bank) in Thailand and its program is expanding rapidly. Commitments are expected to double to \$400 million before 1984. Japan's program has been directed primarily towards industrial and Bangkok-oriented infrastructure, but in future about 50% of Japanese aid is earmarked for broadly defined rural development projects. A start in this direction has been made in the Sixth Yen loan through the inclusion of the Model Villages Program.

OPEC

Contributions from OPEC countries are growing and OPEC donors are likely to participate in the financing of several Bank projects. At the moment Kuwait has a \$30 million loan under consideration for the Bang Pakong Thermal Power Project; the OPEC Special Fund is considering a \$5-7 million commitment for a small-scale industrial development project; and the Saudi Fund is contemplating commitments of \$30 million for EGAT's Mae Moh Lignite Thermal unit and \$20 million for PEA's rural electrification program.

ADB

Lending operations under consideration by the ADB are listed in Annex II.

Others

Aid from other donors is much less significant, although they sometimes play an important role in developing small projects that can serve as the prototype for Bank or ADB-supported projects. US aid may be growing, but from a very small base (perhaps \$25 million in 1979, including grant assistance), and is entirely committed to rural development projects. Countries like the Netherlands, the Scandinavian countries, the UK, and France have not included Thailand, on per capita income grounds, in the group of countries receiving their aid. Germany is the exception and now lends an average of DM 20 million per year to Thailand, with emphasis on rural electrification, vocational education and irrigation in the Northeast.

Coordination with the ADB is informal but effective, and handled by the Regional Mission in Bangkok. Coordination between the Bank and Japan has been strengthened through regular aid-coordination meetings: in Paris, where the Consultative Group for Thailand meets about every 18 months, and in Bangkok through meetings of the Development Assistance Group for Thailand. The press release for the most recent (December 1978) meeting of the Consultative Group is attached as Annex III.

ANNEX I

LOANS COMMITTED FROM OTHER DONORS
BY SECTOR, 1977-78, AS OF MAY 1978
(US\$ millions)

	1977	1978	Total	(%)
ADB				
Agriculture	-	-	-	-
Industry	-	-	-	-
Power	47.0	87.7	134.7	81.0
Public utilities	-	30.0	30.0	18.0
Social	-	-	-	-
Transport	-	1.5	1.5	1.0
Total	47.0	119.2	166.2	100.0
CDC				
Agriculture	6.0	-	6.0	100.0
Industry	-	-	-	-
Power	-	-	-	-
Public utilities	-	-	-	-
Social	-	-	-	-
Transport	-	-	-	-
Total	6.0	-	6.0	100.0
CIDA				
Agriculture	-	-	-	-
Industry	-	-	-	-
Power	-	-	-	-
Public utilities	-	8.0	8.0	55.9
Social	-	6.3	6.3	44.1
Transport	-	-	-	-
Total	-	14.3	14.3	100.0
Japan (OECF) /a				
Agriculture	21.5	20.0	41.5	15.2
Industry	-	-	-	-
Power	75.5	6.1	81.6	30.0
Public utilities	24.3	26.6	50.9	18.7
Social	-	-	-	-
Transport	-	98.2	98.2	36.1
Total	121.3	150.9	272.2	100.0
KFW				
Agriculture	-	21.4	21.4	62.2
Industry	-	-	-	-
Power	-	13.0	13.0	37.8
Public utilities	-	-	-	-
Social	-	-	-	-
Transport	-	-	-	-
Total	-	34.4	34.4	100.0
Kuwait Fund				
Agriculture	-	-	-	-
Industry	-	-	-	-
Power	-	20.0	20.0	100.0
Public utilities	-	-	-	-
Social	-	-	-	-
Transport	-	-	-	-
Total	-	20.0	20.0	100.0
OPEC				
Agriculture	-	-	-	-
Industry	-	-	-	-
Power	-	-	-	-
Public utilities	-	7.0	7.0	100.0
Social	-	-	-	-
Transport	-	-	-	-
Total	-	7.0	7.0	100.0
USAID				
Agriculture	3.0	4.5	7.5	57.7
Industry	-	-	-	-
Power	-	-	-	-
Public utilities	-	-	-	-
Social	-	5.5	5.5	42.3
Transport	-	-	-	-
Total	3.0	10.0	13.0	100.0

/a Includes \$12.0 million in 1977 for power from the EXIM Bank.

Source: Fiscal Policy Office, Ministry of Finance.

PROSPECTIVE ADB LENDING OPERATIONS IN THAILAND /1

Executing Agency	Proposed Amount (US\$ million)	Tentative Project Description	Present Status
Office of Accelerated Rural Development (ARD), Bangkok	22.0 (R)	Integrated Rural Development - Project includes necessary inputs including physical infrastructure, agricultural support facilities, community services, irrigation, etc. in northern Thailand. Sector: Rural Development and Agricultural Credit	Board papers under preparation. Cofinancing with EEC envisaged.
Electricity Generating Authority of Thailand (EGAT), Bangkok	70.0	Third Mae Moh Power - Installation of one lignite-fired thermal generating unit of about 150 MW at Mae Moh in the Northern region including provision of a generating unit, boiler and transmission facilities. Sector: Power	Appraisal mission scheduled for mid-1979. Cofinancing envisaged.
National Housing Authority (NHA), Bangkok	to be determined	Bang Po Bank Phli New Town - Development of a new town including an industrial estate, residential areas, commercial and shopping areas, schools, hospitals and recreation areas in the Samut Prakarn area about 42 km east from Bangkok. Precise scope of Bank financing is yet to be decided. Sector: Urban Development	Various aspects of the project under review by the Executing Agency.

Executing Agency	Proposed Amount (US\$ million)	Tentative Project Description	Present Status
Metropolitan Water Works Authority, Bangkok	57.0	Bangkok Water Stage I Phase II - Improvements and extension to the water distribution system in Metropolitan Bangkok. Sector: Water Supply	Project study and costs being re-viewed by the Executing Agency
Industrial Estate Authority of Thailand (IEAT)	3.5	Southern Industrial Estate - Development of an Industrial Estate, involving provision of infrastructure facilities such as road, power, water supply, sewerage and drainage in the Haad Yai-Songkhla area, Southern Thailand. Sector: Industry	Feasibility study under Bank-financed technical assistance being prepared.

/1 Source: Monthly Operational Information - February 1979, Asian Development Bank.

FOR IMMEDIATE RELEASE



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BANK NEWS RELEASE

December 7, 1978

CONSULTATIVE GROUP FOR THAILAND

The following announcement was issued on December 6 at the World Bank's European Office in Paris at the end of the Consultative Group meeting on Thailand, which was chaired by the World Bank.

The meeting, which was held in Paris on December 5 and 6, was attended by representatives from governments and institutions interested in supporting the development effort in Thailand. Present were representatives from the Governments of Australia, Canada, France, Germany, Italy, Japan, New Zealand, United Kingdom, United States, Thailand, Spain, and Switzerland. Also present were representatives of the Asian Development Bank, the International Finance Corporation, the International Monetary Fund, the Organization for Economic Cooperation and Development/DAC, and the United Nations Development Programme.

The Thai government was represented by a delegation led by the Minister of Finance, H.E. Suphat Sutatum.

The meeting reviewed the current economic situation of Thailand, discussed the direction of development policy and considered financial and technical assistance requirements for the remaining three years of the Fourth Five-Year Development Plan which began in 1977.

During the past 15 years, Thailand has managed to attain economic growth of more than 7% per annum. The group noted with satisfaction the analysis and conclusions of the World Bank's recent economic report which showed that over this period the incidence of absolute poverty had fallen from about 50% in 1962 to about 25% in 1976. The fruits of this rapid growth during this period have been spread among a large number of people, most notably those segments of the rural population where irrigation was extended and markets were opened for cash crops. During the same period, the national family planning program has reduced the rate of population growth from over 3% per annum in the sixties to about 2.5% per annum now. According to the World Bank, however, there remain some 11 million people who continue to live in poverty. These are largely concentrated in rural areas that depend on rainfed rice for a subsistence living, mostly in the North and Northeast. Reducing this poverty is a major objective of the Thai government.

.../

Despite a record of high rate of growth of her industrial production, Thailand is primarily an agricultural producer and exporter and no less than about three fourths of the population are farmers. The key to future growth remains the agricultural sector but it was noted that the historic basis of agricultural growth had been the rapid expansion of cultivation into new lands. Since the availability of new lands was seen to be diminishing rapidly, major shifts in the structure of Thai development are estimated to be necessary, as recognized by the Fourth Economic and Social Development Plan 1977-81. Productivity in agriculture must be increased so that it can continue to play a crucial role in future Thai development. Industrial production, both for the domestic market and for exports, will gradually have to play an increasing role in sustaining growth and employment creation. The members of the group concluded that the need to reduce the high incidence of poverty in rural areas and the need to raise agricultural productivity to sustain growth were mutually reinforcing and called for giving high priority to poverty alleviation and accelerating rural development.

The Fourth Development Plan underscores this point and recent policy actions were commended by the group. These actions include expanding agricultural extension services and other support to impoverished rural areas, allocation of US \$80 million in 1978 to the rural areas for the development of water resources and essential rural infrastructure at the village level and the dedication of the coming year, 1979, as the Year of the Farmer. The Thai delegation also explained two significant new programs to revitalize the economic and living conditions of the rural sector. One was to strengthen provincial planning to develop local project identification and implementation and the second was a new village development program which will mobilize some US \$200 million for the next three years to help some 4,000 villages in the poorer areas of the Northeast, North and South.

The group noted that current account deficits have increased during the past three years as a result of the decline in the Thai terms of trade since 1974 and the need to sustain the modernization of agriculture and the expansion of industrial production. The group recognized the dynamic role that the private sector would continue to play in conjunction with the Fourth Plan's strategy calling for greater public involvement in promoting development in Thailand. One key implication of the Fourth Plan's program is a considerable increase in foreign and domestic resource requirements over the coming years. The meeting recognized that commitments of nearly US \$5 billion public borrowing from abroad will be required in 1979-81. It is highly desirable for the level of support at concessional terms from official donors to be expanded further to ensure the success of Thailand in achieving its commendable development objectives.

IMF RELATIONS WITH THAILAND

Thailand made its first substantial purchase from the IMF of SDR 67 million under the Compensatory Financing Facility in August 1976. In July 1978 Thailand made a further purchase, equivalent to SDR 68.75 million, under the same facility in relation to the export shortfall estimated for the 12-month period ended September 1978. During the first period (July 1976 to June 1978) of the Trust Fund operations Thailand received approximately SDR 55 million under the Trust Fund program. More recently, in December 1978, Thailand drew SDR 32.5 million in the reserve tranche and in January 1979 purchased SDR 45.25 million in the first credit tranche under a standby arrangement approved in June 1978. Also in January 1979, following approval of a new SDR allocation to member countries, Thailand received a new allocation of SDR 18.84 million. Thailand will receive further allocations of about SDR 19 million annually during the next two years and is also eligible to receive approximately SDR 41 million in allocations from the Trust Fund over the second period ending June 1980.

Under the standby arrangement of last June Thailand was required to remain in close consultation with the Fund. Progress made in the implementation of the Government's financial program (as outlined in the annexed letter from the Governor of the Bank of Thailand) was examined at the time of the IMF's Article IV consultation mission to Bangkok from January 24 to February 2, 1979. The report on the findings of that mission is expected to be ready by mid-March.

Bangkok, Thailand
June 8, 1978

Annex to Stand-by Arrangement

Dear Mr. Witteveen:

1. In July 1977, the Government of Thailand undertook a financial program for the 12-month period through June 30, 1978, in connection with the use of Trust Fund resources. The major objectives of the program were to strengthen the balance of payments position and to achieve a growth rate of 7 per cent, while containing price rises to about 7 per cent. Performance under the program has not been entirely satisfactory. The growth target of real GDP was achieved despite a serious setback in agricultural production on account of adverse weather conditions. Output in other sectors of the economy accelerated and there was a revival of private investment. Consumer prices rose faster than anticipated and were 8.7 per cent above the previous period. Special factors affecting price movements were the drought-induced shortage of food and upward adjustments of domestic prices of oil products and public utility rates. In contrast to the program's objectives, the balance of payments deteriorated markedly. The overall deficit in the second half of 1977 of about SDR 290 million compares with a target for this period of SDR 160 million, and a further deficit of SDR 90 million is expected in the first half of 1978. This deterioration was due primarily to the combination of a sharp rise in imports in response to increased output in the industrial sector and a slowdown in the growth of exports because of bad crops. The rate of domestic credit expansion was considerably faster than anticipated and as total liquidity rose in accord with the calculations underlying the program, there was an offsetting loss of net foreign assets.

2. When the severity of the deterioration in the balance of payments became evident towards the end of 1977, the Government took a number of measures to alleviate the situation. These included increased taxation, principally of certain petroleum products and beverages, tightening of credit policies by raising interest rates, and import prohibitions and higher customs duties on imports of less-essential consumer products. Changes have also been made in exchange rate policy to permit market forces to have greater scope in setting the rate and to provide the basis for adjustments of the rate in response to changes in the relative values of the currencies of the major trading nations. Despite these policy changes, the Government believes that the outlook is still uncertain and that further policy adjustments may be necessary. The balance of payments is the main area of concern since it will be some time before exports recover to their previous trend and imports are continuing to rise in both volume and price. Because of this, the Government intends to implement a stabilization program. To support this effort, the Government requests from the International Monetary Fund a first credit tranche stand-by arrangement for a period of one year through June 1979 in an amount equivalent to SDR 45.25 million.

3. The principal objectives of the program are to achieve an economic growth rate of 7 per cent, to reduce price increases to about 7 per cent, and by reducing the current account deficit to limit the overall deficit to less than SDR 300 million during the 12 months through June 1979.

4. The aim of financial policy will be to provide the liquidity needs of the economy consistent with the rate of growth and the price and balance of payments objectives set out above. To this end, monetary and fiscal policy will be tightened in order to limit the expansion of total domestic credit to 21 per cent during the period of the program. Accordingly, total domestic credit, which amounted to B 185 billion at the end of February 1978, will not be permitted to exceed B 219 billion through December 31, 1978, and B 230 billion through June 30, 1979. Within the credit program, the Bank of Thailand is using selective credit measures to foster certain development objectives, particularly agricultural development and expansion of exports.

5. The Bank of Thailand's traditional means of controlling expansion of domestic credit are changes in the bank rate and the commercial banks' cash reserve ratio. During 1977 excess reserves of commercial banks fell by B 0.2 billion and at the end of the year amounted to B 1.1 billion or 12 per cent of required reserves. There was a slight increase in reserves during the first quarter but the present level is not regarded as such as to handicap Central Bank control of credit. Commercial banks are free to borrow abroad to finance domestic lendings, and such borrowing expanded rapidly during 1977 and the first quarter of 1978. The Bank of Thailand expects such borrowing to slow down in 1978 because of a narrowing of the differential between domestic and external interest rates. If such borrowing seems likely to become excessive and so threaten achievement of the credit program set out in the previous paragraph, the Bank of Thailand is prepared to take steps either to limit such borrowing or to offset it by sales of government securities or raising reserve requirements. Efforts are being made to broaden the domestic money market in order to enable the Bank of Thailand to undertake in the near future its open market operations more effectively.

6. In order to achieve a higher growth rate and compensate for the lack of buoyancy in private investment at the outset of the fiscal year, the Central Government budget for 1977/78 aimed at stimulating the economy. Revised estimates indicate that the cash deficit of the Government will rise from B 12 billion last year to B 14.2 billion in the current fiscal year ending September 30 and amount to about 3.4 per cent of estimated GDP. Revenues are expected to increase by 19 per cent, partly as a result of the implementation of new tax measures. Total expenditures are also to rise 19 per cent, including an increase of 21 per cent in current expenditures partly to meet national security requirements and a growth of 13 per cent in capital spending. The pattern of financing the deficit will remain broadly the same as in 1976/77, with the banking system providing almost all of the financing.

7. The budget for the fiscal year beginning October 1978 has not been completed, but preliminary decisions have been made regarding its main structure. Tax and other revenues are expected to rise by about 17 per cent. Somewhat less than half of the increase is attributable to the higher tax rates introduced early in 1978, the remainder is due to improved administration and the increase in the tax base. Total expenditures are expected to rise by 16 per cent. Three quarters of this increase is current expenditures, mainly salary increases, larger welfare transfer payments, and higher interest payments on public debt. Capital expenditures, mainly for ongoing projects, rise at about the same rate as total expenditures. The overall cash deficit is estimated at B 15.7 billion, 10 per cent more than in 1977/78 and a slightly lower proportion of GDP. Because of an increase in external borrowing, banking system financing of the deficit is expected to decline by more than 10 per cent from 1977/78. As indicated above, these budget estimates have not been finally approved. Major efforts are being made to find further economies with regard to expenditures. Moreover, the Government is ready, if the financial position deteriorates markedly during 1978/79, to increase taxes or cut spending in order to reduce dependence on credit from the banking system.

8. In line with the budget policy outlined above, net claims on the Government, which amounted to B 51 billion on February 28, 1978, will not be permitted to exceed B 65 billion through December 31, 1978, and is expected to decline somewhat below this level by June 30, 1979.

9. The authorities are concerned that as a result of recent tax measures and excessive credit expansion, considerable pressures on domestic prices will persist in coming months. Moreover, the acceleration of consumer price increases in late 1977 will inevitably create pressures for larger wage increases than in the last two years. As part of its policy of income redistribution, the Government has decided to raise substantially minimum wages. Despite these increased pressures on costs and continued increases in the prices of exports and imports, it is expected that with the policy of credit restraint and better agricultural crops, increases in consumer and wholesale prices will be limited to about 7 per cent during the program period. This reduced rate of inflation should provide the basis for lower nominal wage increases in future years.

10. The balance of payments outlook for the 1978/79 program period is uncertain. In view of the favorable prospects for recovery of agricultural production, the outlook for a substantial increase in the volume of exports of primary commodities in 1979 seems favorable. Together with further increases in exports of manufactures, exports, measured in dollars, are expected to rise by 11 per cent. At the same time, we expect that the measures being taken to restrain domestic credit expansion, as well as other measures, will keep the increase in imports to 6 per cent. These developments, together with some increase in net services and transfer receipts, are expected to reduce the current account deficit by about \$80 million to about \$1.4 billion. With nonmonetary capital inflows

remaining at about the same level as last year, the overall balance of payments deficit is expected to decline to about \$355 million, equivalent to SDR 286 million during the program period.

11. External debt has increased considerably during 1977 and the opening months of 1978. The increase is due in part to substantial foreign borrowing the Government undertook with a view to avoiding a decline in international reserves. For the coming years, we anticipate a large external imbalance to persist and our development program to involve increased reliance on foreign borrowing obtained on concessionary terms. As a result, external debt will continue to rise at a substantial rate. Total outstanding external debt, which was stable at about 10 per cent of GDP until 1976, increased to 11 per cent by the end of 1977 and is expected to rise to 15 per cent by 1980. Debt service payments are projected to rise from about 10 per cent of exports of goods and services during 1973-76 to 13 per cent in 1980. Despite the rapid increase, the debt service ratio would still be moderate. The authorities are of the view that although debt servicing does not pose immediate difficulties, it will be necessary to continue to monitor carefully foreign borrowing.

12. Since March 9, 1978, the value of the baht is no longer pegged to the U.S. dollar, but is linked within margins to a basket of currencies of Thailand's major trading partners. Under the new exchange arrangement, the authorities are taking steps to enhance the operating efficiency of the exchange market and to permit market forces to play a larger role in determining daily exchange rates. Efforts are also being made to encourage transactions in currencies other than the dollar. Following a depreciation of the trade-weighted rate of about 7 per cent in the six months ending February 1978, the baht has been relatively stable. The Government at this time foresees no need for any major change in the baht exchange rate.

13. The exchange and trade system is free from restrictions on payments and transfers for current international transactions. At various times during 1977 and early 1978, temporary import surcharges of 10 to 40 per cent were introduced for protective purposes as part of a program of promotion privileges granted by the Board of Investment. The items affected included caustic soda, plasticizers, menthol, yarns, steel wires, induction motors, and chemical fertilizers. Moreover, faced with the serious deterioration in the balance of payments, the Government introduced in early 1978 a series of domestic and external measures, principally higher tariffs, designed to curb the growth of less-essential imports. Included among these measures was the temporary prohibition of imports of 18 luxury consumer goods. These items, which amount to slightly more than 1 per cent of imports, have also been made subject to higher tariff rates. The Government will review the import bans introduced recently, and will remove all or at least most of them before the end of 1978. In addition, during the period of the proposed stand-by arrangement, the Government of Thailand does not intend to introduce any multiple currency practices or impose new or intensify existing restrictions on payments and transfers for current international transactions or enter into any bilateral payments arrangements with Fund

members. Furthermore, the Government of Thailand does not intend to introduce new or intensify existing restrictions on imports for balance of payments reasons.

14. The authorities believe that the measures described in this letter are adequate to achieve the objectives of the program, and are prepared to take any further measures that may be required. During the period of the stand-by arrangement, the authorities will consult the Fund on any measures that may prove necessary, either at the initiative of Thailand or whenever such consultation is desirable in the opinion of the Managing Director. In particular, the Thai authorities propose to examine the progress made in the implementation of the above measures at the time of the Article IV consultation in early 1979.

15. Before making purchases under the stand-by arrangement, the Government of Thailand will consult with the Managing Director on the particular currencies and the amount of each currency in terms of the special drawing right or on the amount of special drawing rights to be included in the purchase from the Fund.

Very truly yours,

/s/

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Governor
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SUMMARY AND MAJOR POLICY CONCLUSIONS

Economic Change and Participation

1. The past two decades have been a period of unprecedented rapid economic development in Thailand. Even allowing for external factors such as the buoyancy of international commodity markets of importance to Thailand, the rate of growth achieved has been impressive and is matched by few developing countries. From 1960 to 1977, GDP growth averaged 7.6% a year and was broadly based, with all sectors participating in the growth process. A sustained growth of agriculture, at about 5% a year, was based mainly on expansion of cultivated area, which has doubled since the 1950s, mostly into upland areas. A significant industrial sector concentrated in and around Bangkok has also emerged. A high and rising level of investment was maintained throughout the period, exceeding 25% of GNP since the mid-1960s, and was largely financed by domestic savings. The public sector has contributed to the growth process mainly by providing an environment for the private sector to operate effectively and by facilitating development through the construction of basic infrastructure and through prudent and cautious economic management. Thailand today possesses basic economic infrastructure that compares favorably with most developing countries and is fairly well maintained.

2. Despite an acceleration of population growth to 3.2% per year due to the improvement of public health and a significant fall in the mortality rate during the 1950s, income per person about doubled over the past two decades. Internal migration has also increased, by far the larger proportion being farmers moving between rural areas in search of new land. While agricultural households remain the largest group in the country, the emergence of a growing industrial sector and the dynamism of agriculture itself have generated substantial employment and income opportunities outside of agriculture, and the number of nonagricultural households has been increasing very rapidly, especially in rural areas. Urbanization has also increased, but from a very small base and at a more gradual rate than in most developing countries. The Thai population of some 43 million in 1976 thus comprised three large groups: the urban households, representing about 18% of total households, almost two thirds of the group being in Bangkok and growing at a rate of 5% per year; the rural households not engaged in agriculture, representing about a quarter of total households and growing at least as rapidly as the number of urban households; and the agricultural households, accounting for more than half of all households but growing by less than 2% per year. Average income of urban households is clearly the highest and farm households the lowest, but significant income and welfare disparities as well as persistent poverty exist within each group.

3. The vast majority of the country's population have participated in and benefited from recent growth, but the degree and nature of participation have differed significantly among the four regions and among different population groups. Among agricultural households, those in the Central Region, representing about a fifth of total population, have experienced the greatest change. On both sides of the Central Plain, about half of the

households have abandoned their traditional practice of growing rice and now rely entirely on the production of maize, cassava or sugar, the first time in Thai history that a significant group of farm families have done so. Typical households that have made this change have experienced a doubling or tripling of real income since 1960 and now have a level of income about twice that of a typical farm household in the country as a whole. In the Central Plain itself, public investment in irrigation during the 1950s has begun to yield benefits in the form of improved water control throughout the area, and some farmers have begun to grow an extra crop in the dry season. But even for the majority who have not yet done so, the techniques of farming have begun to change through greater use of fertilizers and mechanical equipment and their incomes have risen by about 40% since 1960, about half of which come from the higher price of rice relative to the cost of living since 1973. Compared to farm households in other parts of the country, farmers in the Central Region are generally better served by economic and social services, are better educated, and have been working in a more commercial environment for many generations. These factors are undoubtedly the major reasons why they have been able to respond to economic opportunity to an extent matched by few other Thai farmers.

4. Economic change since 1960 has also spread to many rural areas of the North and Northeast which together account for two thirds of all agricultural households. In response to the expanding demand for upland crops, about half of the farmers in the Northeast and the North (mainly the Lower North) have cleared some forest or used some other land to grow upland crops in addition to their subsistence rice production. Incomes from the new upland crop - usually maize in the lower North and kenaf or cassava in the Northeast - and from the higher price of rice since 1973 have resulted in a total rise in their income since 1960 of the order of 60-80%, giving them incomes in 1976 up to 20% above that of a typical farm household in the country.

5. The other half of the farm population in the North and Northeast, however, have not yet been able to participate in the diversification process and still grow mainly rice under rainfed conditions in much the same way as did their fathers. In the North, most of the rainfed rice farmers are in the upper part of the region where the terrain and the low level of technology only allow farmers to cultivate very small holdings; in the Northeast, holdings are much larger but much of the land is not planted in a normal year. These farmers have been unable to move out of a basically subsistence environment mainly because of their lack of education, uncertain weather conditions and the lack of roads and other services. They have benefited the least from the past two decades of economic change and are now among the poorest people in Thailand with income about a third less than that of a typical farm household. In the South, most farmers also did not experience a substantial improvement in their incomes over the past two decades. Diversification into rubber began much before 1960 and by then most farmers in the South were growing rubber as well as rice and enjoyed a level of income much above the national average. Since then yields of rubber and rice have virtually stagnated and rubber prices have fallen in relative terms. As a result incomes of farmers in the South have increased very slowly but they remain some 10-50% higher than those of subsistence farmers in the Upper North and Northeast.

6. The existence of these farm households that did not significantly benefit from past growth explains to a large extent the virtual stagnation of real wage rates among unskilled workers. In Thailand, labor mobility is high and poor farmers are usually ready to accept employment as unskilled workers if wages are significantly above their incomes. Since the number of farmers whose incomes have not gone up significantly is much larger than the number of unskilled jobs created by economic growth since 1960, unskilled wage rates for year-round employment have barely kept up with inflation over the past decade and a half. Many households engaged in nonagricultural activities without either capital or skills were therefore not able to benefit significantly from the growth process. Average real incomes in the nonagricultural sector, however, have risen sharply and there is little doubt that many households with capital or skills, have benefited greatly.

7. Although not all groups of the population have participated in the development process, economic change since 1960 has clearly lifted a large number of people out of absolute poverty. The proportion of the country's population living in absolute poverty has declined from about half in the early 1960s to a quarter in recent years. Nonetheless, the latter figure means that more than 11 million people in Thailand today remain in absolute poverty. The large majority, over 90%, of these poverty households live in the rural areas. In fact, nearly three-quarters of all poverty households - about 8 million people - are in the rural North and Northeast, most of them farmers growing rice under rainfed conditions. By contrast, only 11% of urban households are estimated to be living in poverty, most of them the unskilled worker families.

INCIDENCE OF POVERTY, /a 1962-76

	Population with income below poverty line as % of total population			Population as % of total in the country 1976
	1962/63	1968/69	1975/76	
<u>Rural</u>				
Northeast	75	60	38	33
North	60	31	28	19
Center	35	13	12	20
South	41	31	26	11
<u>Kindgom</u>				
Rural	57	37	28	83
Urban	28	11	11	17
<u>Total</u>	<u>52</u>	<u>34</u>	<u>25</u>	<u>100</u>

/a Poverty line is defined to be B 150/month/person in rural areas and B 200/month/person in urban areas, in 1975/76 prices.

Emerging Problems of Development

8. Analysis of emerging and long-run economic trends indicates that in the coming years, Thailand may face increasingly difficult problems of development. Some of these are related to the near exhaustion of opportunities for the type of economic growth that has hitherto characterized development in the country; others are concerned with the more fundamental issue of the extent to which different segments of the population are likely to participate in and benefit from development in the future.

9. Over the past two decades, the main feature of agricultural growth remained, as in the preceding century, the application of a constant and low-productivity technology to an expanding land area and yields per hectare for the major crops have shown no discernible improvement. The problem of persistent low productivity is now urgent since available data indicate that, at the current rate of expansion, the expansion of agricultural holdings will come to an end in all regions by the early 1980s. Although ongoing programs of agricultural research, irrigation and rubber replanting and the recently started National Agricultural Extension Program will likely result in a continued agricultural growth rate above the population growth rate, the possible consequences of increasing pressure on land and stagnant yields are particularly serious for low-income farmers in the North and Northeast. The easy availability of new land has hitherto allowed these subsistence farmers to maintain a size of holding as large as they can work on, but they may face in the coming decade the necessity of breaking up their holdings and the real possibility of a fall in an already low level of income. Income disparity may therefore widen within the rural sector and unskilled wage rate may stagnate or even fall.

10. In addition to the increasing difficulty of agricultural development, the maintenance of a continued low level of unemployment will be more difficult in the coming decade. The growth of the population rose sharply during the 1950s and 1960s and children born during those two decades will be entering the labor market in the 1970s and 1980s. Consequently, labor force growth in the coming years will be close to 3%, compared to 2.0-2.5% in the 1960s and early 1970s. Industry, especially manufacturing exports, has emerged in recent years as a major growth sector and an increasingly important source of employment opportunity but probable labor absorption by the nonagricultural sectors is still small relative to the number of entrants to the labor force, the majority of which will still have to be absorbed in agriculture. The accelerated growth of the country's labor force in the coming decade will therefore exert additional pressure on land and on unskilled wage rates.

11. A slower growth of agriculture in the coming years may also exacerbate the already emerging problems in the country's balance of payments. In the first half of the 1970s, buoyant commodity exports followed by sharp increases in export prices in 1973/74 contributed to a strong balance of payments position, a sharp increase in oil prices notwithstanding. But a structural deficit seems to be emerging as export prices have stagnated while import prices and volumes continued to rise. As a consequence, the current account deficit rose

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sharply to over \$1 billion in 1977, representing about 5% of GNP. Current trends show that unless the growth of agriculture is revived, the country's balance of payments will continue to deteriorate in the coming years as a consequence of the slower growth of agricultural exports which cannot yet be fully compensated for by the growing importance of manufacturing exports.

12. Indeed, in the present circumstances of Thailand, an overambitious thrust into rapid industrialization, especially if concentrated in heavy industries, without a concomitant growth in agriculture could prove costly. The import requirement of a development strategy based on heavy industry is likely to be high and will lead, at least for some time, to increasing balance of payments deficits and heavy reliance on foreign capital and perhaps unmanageable debt servicing requirements. There are also strong tendencies for industries to locate only in the Central Region and rapid industrialization with stagnating agriculture is likely to result in widening disparity of income between regions and between population groups.

13. These long-run trends are already beginning to have an impact on development in Thailand: growth in all sectors of the economy in the last few years has been discernibly lower than in the 1960s and early 1970s. More important, rising expectations are spreading faster than economic change and there is much dissatisfaction and impatience among the sizeable proportion of the country's population left behind in the development process. This increasing impatience is shared by the country's economic planners and national leaders who have also often voiced their concern about the need for a more dispersed pattern of economic growth. But there is little evidence that these concerns actually govern activities of the public sector. Indeed, current economic policies in Thailand appear to be in an uncertain phase between a Development Plan that would facilitate broader public participation in the growth process and operating decisions that seem to appeal particularly to higher income groups as well as foreign investors. There is little evidence that the country's Development Plan systematically guides or governs activity of the public sector; it is difficult to discern a sense of direction and purpose in public sector behavior and policy framework that is comparable to the Government's stated social objectives and priorities.

14. Without changing its traditional role of facilitating the process of development through private initiatives, there is in fact much the Government can do to ease the problems of transition from extensive development of agriculture to further growth based on rising agricultural productivity as well as industrialization. The crucial task in the coming years will be to ensure that all segments of the population participate in the development process while maintaining growth at a rate at least equal to the past rate. Indeed, because of Thailand's distinctive economic and social structure - wide ownership of land, a mobile labor force and open social system - there should be no major trade off between economic growth and equity in the foreseeable future. The Government's effort to improve national security through its Accelerated Rural Development Program is a reflection of the fact that insurgent activities in the country are most frequent in those areas where the bulk of the population have been left behind by the growth process. Further efforts to bring those that have been neglected in the development process into the mainstream of economic growth would help establish a healthier economy and more stable political situation, thus freeing more public resources for development and growth.

Toward a Strategy of Full Participation

15. In assessing the economic prospects of Thailand, it is important to bear in mind those qualities of the people and the distinctive economic structure of the country that has, in the past, given it wider choice and greater freedom from built-in distortions and inflexible characteristics of supply than the great majority of developing countries. Thailand possesses the rare advantage of widely diffused land ownership, with nearly all farmers owning their own land, in most cases as much land as they can handle with present techniques of production. No large group of people has yet been driven into marginal service activities or open unemployment in the cities. The economy is relatively open, and careful fiscal and monetary management in the context of a well-functioning price system has produced one of the lowest rates of inflation in the world. Active entrepreneurs are ready to respond to new opportunities and the labor force moves easily in response to job openings and earning differentials. Industrial ownership is predominantly national rather than foreign. The society has an almost tangible sense of confidence that the country can determine its own fate, not undermined by the demoralizing feeling of dependence or sensitivity to foreign ideas that sometimes results from a long period of colonial domination. These assets have enabled the country to follow a well-integrated process of development in the past and will undoubtedly help it in the coming years to overcome emerging trends that have adverse implications for growth and equity.

16. A development strategy that would allow all groups in the society to participate in future growth must be based on a rising level of agricultural productivity in all parts of the country. Rising agricultural productivity, especially in the poorer areas of the country, will not only directly benefit farm households but will eventually also push up unskilled wages and thus enable a large proportion of those engaged in industrial activity - the unskilled workers - to benefit from industrial expansion.

17. Assistance to Low-Income Farmers. Special assistance by the public sector will be necessary to ensure that low-income farmers, in particular the farmers growing rice under rainfed conditions in the Northeast and North, are able to participate in future development. This assistance should initially be focused on helping these farmers improve the use of their assets - their land and labor - and in the longer-term, to upgrade the quality of these assets through technological change and education. Many of the rainfed rice farmers are growing a subsistence rice crop in areas often more suited to other cash crops. Furthermore, their holdings are substantially under-utilized and in a normal year one third of the cropland is not planted. In the poorer areas, off-farm income opportunities are much more limited than in areas closer to Bangkok and substantial labor is underemployed in the off-season. While these features are an explanation of the current low level of incomes, they are also indicators of substantial potential to increase incomes of these farmers.

18. To encourage these farmers to improve the use of their holdings, they should be given land titles as quickly as possible because without title or other security of tenure it is very unlikely that farmers will be able or willing to undertake the land development measures necessary for permanent cultivation. At present, however, many farmers are operating in areas officially classified for forest use and it will therefore be necessary to formulate a land-use policy and a more realistic classification of areas now presently designated as forest land before an expanded titling program can go ahead. In order to enable farmers to change to more stable systems of farming, government assistance is also needed in land clearance, construction of erosion control structures and other forms of land development.

19. Greater emphasis must also be given to agricultural research on the suitability of different crops and cropping systems to the upland areas of the country, and to the development of appropriate rotational practices that would prevent deterioration of upland areas and enable a higher level of yields to be maintained. Attention should also be focused on the scope for integrating livestock into mixed farming systems. In addition further work is necessary on the development of rainfed rice varieties appropriate to the ecological conditions of the Northeast and North.

20. Accelerated development of neglected areas of the Northeast and Upper North also requires a substantial improvement in agricultural and infrastructure services. As farm households move from subsistence to more commercially-oriented agriculture there will be a substantial increase in the demand for credit, and a redirection in the emphasis and operations of the Bank for Agriculture and Agricultural Cooperatives is essential if the needs of poorer farmers are to be met. With such assistance the constraints on access to commercial inputs or machinery services will be eased and the private sector should be able to respond. An adequate extension service is also a necessary element in the move to commercial agriculture and the Government's new extension program should be expanded as rapidly as possible. A further constraint to agricultural development is inadequate road access and the outlying provinces of the Northeast and North require a substantial improvement of road infrastructure if access to farms is to be adequate for the transportation of inputs and outputs, the entry of cultivation equipment and the provision of regular extension services.

21. The effects of inadequate services such as water supplies, health and education on the population of the poorer areas of the country will take a long time to correct. To assist low-income rural families, public current and capital expenditures should be redirected towards an improvement of the distribution and quality of basic social and economic amenities in the poorer areas. A new set of criteria and procedures for public resource allocation will have to be devised to ensure that the disadvantaged provinces have access to a relatively greater share of available resources each year per head of population. The present budgetary system which is heavily influenced by the historic levels of financial support and therefore tends to accentuate rather than redress disparities in services, must be substantially modified before the Government's objective of a spatial balance in the country's development can be achieved.

22. To compensate for the wide disparity that now exists in economic and social infrastructure among the different regions, the Government should consider a regular program of special capital grants to the poorer provinces to enable them to undertake the construction of much-needed schools, health centers, roads, wells, and other rural improvement projects too small to be capable of efficient execution from Bangkok. The tambon program of 1975 and 1976 represented a positive step in this direction, but a far larger, more continuous and sustained effort is required and this could perhaps be more appropriately handled at the provincial level. A program of infrastructure development of this type would have the additional benefit of generating additional income and employment opportunities in the poorer provinces at a time when pressure on land is increasing and agricultural development becoming more difficult.

23. It is important that any program of enhanced financial support, from the central Government to the provinces is accompanied by the strengthening of local government institutions and capabilities necessary to ensure that a greater volume of financial resources, channeled into small, well distributed rural projects and programs, can be effectively utilized. A start has already been made with the recent establishment of provincial planning units, although the personnel in these offices are still inexperienced. An improvement in the quality of provincial planning is a prerequisite to the devolution of greater responsibility for development to local government. Decentralization of decision-making and control over financial resources is also essential if the needs of rural families in scattered localities and hamlets are to be adequately served. Toward the objective of reducing poverty, the Government's initial efforts should be focused on those provinces which have been most neglected in the past and which should be given priority in the allocation of manpower to improve their planning capacity and in the allocation of financial resources to implement development programs.

Options for Industrial Development

24. The industrial sector in Thailand has generally functioned well and has good prospects for sustained growth, in particular for increasingly diversified industrial production. Within industry, manufacturing export has in recent years shown a growing capacity to compete in the world market and, compared to import-substituting industries, a greater ability to generate employment. Strategy for the further industrial development should therefore avoid measures that would handicap exports. Assistance to exporters on development of market contacts, quality control and vocational training and actions to reduce administrative obstacles to new investment are clearly helpful and should be expanded as rapidly as possible.

25. The present industrial incentive system favors production for the domestic markets instead of export. Recent efforts to reduce part of this bias through tariff exemptions, tax refunds and tax holidays have, on the other hand, introduced further distortions. Capital goods industries, in particular, suffer from disincentives caused by higher protection for consumer industries relative to capital good industries and from the special exemption given to exporters who import equipment. This is a significant handicap for long-term growth and employment. Domestic capital goods producers would be

better able than foreign equipment producers to develop the kinds of equipment best suited to cost conditions in Thailand and to develop technology appropriate to Thailand's resource endowment. In fact, domestic production of the capital equipment and engineering goods would be a more appropriate direction in which to look for new activities offering learning opportunities than some of the heavy industrial projects the Government seems to be considering. A massive steel mill or paper plant is hardly the place to look for a continuing stimulus to technological innovation.

26. A balanced industrial policy framework might therefore include the following three elements at once:

- (a) a move toward a uniform and lower level of protection for all industry by reducing protection of those industries where protection is higher than average; this can be achieved by using excise or business taxes to reduce protection while maintaining tariffs at the present level; whenever tariffs are raised on luxury goods (as in early 1978) they should be matched by excise or business taxes on local production of such goods to ensure that total consumption is reduced, and not just imports being replaced by domestic production;
- (b) raising the level of protection for engineering and other capital goods to the present average for all industry and offering special incentives to firms producing agricultural equipment both to stimulate development of this industry and to assist the process of technological change in agriculture; industrial promotion measures that increase the costs of inputs and equipment to farmers must, however, be avoided;
- (c) replacement of the present complex tariff exemptions and tax advantages for industrial exports by a uniform subsidy equivalent to about 10% of value added;

27. The exchange rate is a powerful development policy instrument that has hitherto not been used in Thailand. If it is necessary to give further stimulus to exports, it would be a much better promotional device than an increase in payments given only to industrial exporters. A lower exchange rate would raise incomes of agricultural producers who can export as well as industrial producers. Many developing countries have found that continual small changes in the price of foreign exchange, a controlled movement that increases the price slowly, can both favor industrial exports and avoid any inflationary or other negative repercussions.

28. The most direct and effective way that industrialization can help to reduce poverty in Thailand is to create jobs and income opportunities in locations close to rural areas. This will generate demand for agricultural products and permit farmers and members of their households to participate in the industrialization process without abandoning farming as their major source of income and employment. In Thailand specific policy measures will be needed to overcome the strong tendency that exists for industries to concentrate in Bangkok and the richer Central Region. The combination of policies

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and programs suggested above to raise income in areas away from Bangkok and to equalize access to economic and social services should act strongly to reduce this centripetal tendency.

29. Changes in incentive policy can also help the process of industrial dispersal. Present economic policies are meant in principle to favor redistribution of economic activity toward the regions in which the problem of poverty is most serious, but in fact not much effort is being expended to this end. Elimination of tax holidays and other fiscal advantages for firms that locate in or near Bangkok would be a first step to furthering location of firms in the poorer areas. Increased fiscal incentives could also be given to firms located outside the Central Region, preferably tied to employment rather than investment spending.

30. Combined with measures to raise agricultural income, these measures should result in a continued rapid growth of industrial exports; in a reorientation of industrial growth away from consumer goods chiefly directed to middle and higher income urban consumers toward more production of consumer goods for lower income households, agricultural equipment, and all kinds of machinery and equipment than can be adapted specifically for cost conditions in Thailand; and finally, in more industrial growth and employment in areas outside Bangkok and surrounding areas.

The Development Of Human Resources

31. In addition to policies and measures to redirect the future growth of production, Thailand will have to improve the development of its human resources if all segments of the population are to participate in future development. While Thai society like most East Asian societies has always regarded education as an end in itself, improvement of the education system is critical now that the economy is moving into a period of growth based on accelerated technological change in both agriculture and industry.

32. A better balanced educational system is needed to satisfy the future manpower needs of the economy. At a time when universal primary education is not yet achieved, too much is invested in expansion of upper secondary and higher education places. In the coming years, highest priority should be given to the achievement of universal primary education and the equalization of educational opportunities throughout the country. To meet the needs of future development, more subprofessional agricultural technicians are needed with rural backgrounds and interests who are trained in field work and thus suited to employment in extension services or rural development agencies. At the same time vocational education for trade and industry should be directed toward subprofessional institutes offering courses of varying duration for job-entry training, on-the-job training, or upgrading courses for those already employed.

33. Most of these weaknesses of the education system are well known in Thailand and in June 1974, an Educational Reform Committee was appointed by the Cabinet to conduct a comprehensive review of education in Thailand and to make a series of fundamental recommendations for change. The implementation of these recommendations would be an important step by the Thai Government to equalize educational opportunity and improve the education system.

34. Since good health is one of the most fundamental components of welfare, disparity in health facilities and personnel among the different regions needs to be eliminated rapidly. The number of people per health center is much higher in the Northeast and North than elsewhere and these differences are reflected in very substantial differences in life expectancy. The Fourth Plan explicitly recognizes the need to reduce urban-rural differentials in health care, but regional differentials are not explicitly discussed. Closely related to problems of health is the lack of potable water in many rural areas. This is reflected in a high incidence of water-borne diseases. As the population becomes more densely settled, this problem will become even more acute.

35. A continued decline of the population growth rate will facilitate the equalization of education and social services throughout the country. The Government's objective is to reduce the growth rate to 2.1% by 1981 and it is in the process of introducing an Accelerated Family Planning and Rural Health Program in twenty disadvantaged provinces in the four regions. Such a program will need to be continued and expanded, taking into account regional differences in desired family size and in contraceptive usage as well as differences in the availability of health facilities. In all areas the expanded provision of family planning services should result in increased contraceptive usage by those who want no more children but are not currently accepting. The Northeast appears to be the most promising area for new accepters from simple expansion of services; in the South there may be some cultural resistance to family planning. In addition to increasing usage levels through provision of supplies, creation of demand through a reduction in desired family size should be considered, especially in the Northern and Central Regions where the acceptance rate is already high.

36. A major problem in the provision of education, health and other social services to rural areas in the poorest regions is that of attracting well qualified personnel. Improved incentive systems are potentially useful for solving this problem, but it is quite difficult to compensate for the vast differences between urban and rural areas. While much discussion and experimentation seems to be underway in this area, it should receive much greater attention from the Government in the future.

Macro-Economic Prospects

37. A development strategy based on continued expansion of agriculture through more intensive use of land, accelerated growth of incomes in the poorest areas, a balanced and better dispersal pattern of industrial growth based on domestic as well as foreign markets, and more equal access to economic and social services should enable Thailand to aim at an aggregate growth rate of at least 8% per year in the 1980s, or a per capita income growth of close to 6% per year, significantly faster than in the 1960s or 1970s. More important, incomes of poor farmers in the North and Northeast should be able to grow substantially. If high-yielding rice varieties suitable for rainfed conditions can be developed, they should need only part of their land holdings for their subsistence production, and be able to use those parts of their holdings not suitable for rice for the growing of other cash crops. With increases in the incomes of the poorest group of farmers, the opportunity cost

of unskilled labor should begin to rise by the late 1980s and unskilled workers throughout the economy could expect to benefit from a significant increase in real wages. Industrial expansion by then would also include an increasing component based on skilled workers and deepening technology.

38. The development strategy proposed above requires an increase in the level of public spending as well as a reorientation of government policy and programs. Recurrent expenditure of the Government will need to rise from the current level of 12-13% of GDP to 14%-15% in the 1980s, while investment expenditure of the public sector will need to be expanded from the current 6% of GDP to 8-9%. The mobilization of domestic resources to finance this level of public expenditure should not be unduly difficult. Considerable potentials exist for improved revenue generation, including expansion of the tax compliance program of the Revenue Department to assure full and fair collection of revenues; broader use of property taxes in the urban areas and land tax in the rural areas to provide more equitable and efficient taxation; increased excise taxation of motor fuels for passenger vehicles; extension of personal income tax to include all forms of income; and possible development of the business tax into a value-added tax.

39. A high growth rate of agriculture and manufactured exports should also help to alleviate the emerging problem in Thailand's balance of payments. A substantial current account deficit through the late 1970s and the early 1980s, averaging about \$1.7 billion in current prices equivalent to 4.5% of GDP, may be difficult to avoid. But continued growth of agriculture, increasing importance of manufacturing exports and an increasingly diversified structure of exports should allow the country to remain highly creditworthy for substantial borrowing from both private and official sources. The size of the balance of payments deficit should begin to decline by the second half of the 1980s to about 3% of GDP and the country's debt service ratio should not present a problem at any time.

Administrative Reforms

40. Present institutional and administrative arrangements are likely to impede the Government's attempts to ensure broader participation in future development. In particular the highly centralized nature of the Government and the phenomenon of excessive functional duplication and overlap of responsibilities between government departments seriously hinder the public sector from dealing effectively with emerging issues of development; annual allocations of public resources tend to be influenced by historic patterns of expenditure and by institutional or informal pressures rather than by national development priorities. Many institutional difficulties will only be resolved by the gradual evolution and modernization of civil service practices and personnel administration, since these condition the behavior and attitudes of officials as well as affecting the efficiency of all public sector agencies involved in development. A national commission of public administration experts might be the most effective means of drawing up a comprehensive program of institutional reform, covering such issues as the development of a uniform job classification system, public sector training and reform of the structure of emoluments and fringe benefits.

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41. In the meantime highest priority should be given to the introduction of procedural changes designed to give greater policy and strategy authority to the central coordinating agencies of government while achieving greater administrative decentralization. The most urgent need is for much greater delegation of executive authority to officials lower down the bureaucratic hierarchy. Within departments this would mean transferring control over the resources employed in program execution to line managers through streamlining procedures for tendering and procurement and modifying regulations and practices concerning budgetary and commitment control. But it would also be desirable to delegate greater authority for the planning and implementation of development programs to local governments. For such authority to be effective, however, it would be necessary not only to increase the degree of control of local governments over the allocation of financial resources but also improve the quality of provincial and municipal planning and increase the degree of coordination between staff engaged in developmental functions in the various provinces.

42. In addition to encouraging greater decentralization it is necessary to review the relationships between the central planning agency (NESDB) and the agencies responsible for budgeting, fiscal policy and personnel administration, for the present institutional linkages between these agencies are serious impediments to the coordination of their activities. Irrespective of the institutional relationship between the NESDB and the Budget Bureau, the two agencies should make a determined effort to reduce the duplication of executive functions throughout the Government. Funds are now sometimes wastefully allocated to two or more government agencies so that each may provide identical and competing services. While this problem will only be properly solved when pressures within the bureaucracy creating this situation are reduced through more fundamental institutional reforms, the agencies that control the allocation of financial and human resources could take the initiative to eliminate some duplication of departmental activities.

Concluding Remarks

43. This report has been focused on the issue of participation in the broader sense of the population's participation in the process of economic change and evolution as well as in the narrower sense of participation in the benefits of economic growth. Analysis of economic change in Thailand over the past two decades clearly shows that rapid and sustained growth has lifted a very substantial proportion of the population out of absolute poverty but that a significant proportion of the rural population, particularly in the outer regions, have been left out of the process of economic change. An examination of the emerging trends in the economy also shows that careful formulation of a long-run development strategy is now imperative because emerging trends indicate that growth is becoming more difficult to achieve and too concentrated in high income areas.

44. Because of its distinctive social and economic structure and the still favorable resource endowment relative to the size of the population, Thailand has the potential in the coming years of achieving rapid growth with all groups in the society being brought into the mainstream of economic growth and change. Thailand should not, and indeed, need not follow the type of

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development strategy that enables the bulk of the population to improve their standard of living only through the slow "trickling down" of benefits from the top. A development strategy of full participation should be based on raising the productivity and incomes of the poorest farmers. The faster productivity of farmers can be raised by intensifying land use in agriculture and jobs can be created by expansion of labor intensive activity outside agriculture, the earlier wages can rise and the benefits of growth be widely distributed. Such a strategy would not require a drastic departure from the historical pattern of development or from the traditional role of the public sector; indeed it would be a logical continuation of the process of economic change that began in the middle of the nineteenth century, with development based mainly on indigenous capital and skills as well as the gradual assimilation of foreign technology that proved useful and appropriate to the country's needs.

also improve the quality of provincial and municipal planning and increase the degree of coordination between staff engaged in developmental functions in the various provinces.

43. In addition to encouraging greater decentralization it is necessary to review the relationship between the central planning agency (NESDB) and the agencies responsible for budgeting, financial policy and personnel administration, for the present institutional linkages between these agencies are serious impediments to the coordination of their activities. Irrespective of the institutional relationship between the NESDB and the Budget Bureau, the two agencies should make a determined effort to reduce the duplication of executive functions throughout the Government. Funds are now sometimes wastefully allocated to two or more government agencies so that each may provide identical and competing services. While this problem will only be properly solved when pressures within the bureaucracy creating this situation are reduced through more fundamental institutional reforms, the agencies that control the allocation of financial and human resources could take the initiative to eliminate some duplication of departmental activities.

Concluding Remarks

43. This report has been focused on the issue of participation in the broader sense of the population's participation in the process of economic change and evolution as well as in the narrower sense of participation in the benefits of economic growth. Analysis of economic change in Thailand over the past two decades clearly shows that rapid and sustained growth has lifted a very substantial proportion of the population out of absolute poverty but that a significant proportion of the rural population, particularly in the outer regions, have been left out of the process of economic change. An examination of the emerging trends in the economy also shows that careful formulation of a long-run development strategy is now imperative because emerging trends indicate that growth is becoming more difficult to achieve and too concentrated in high income areas.

44. Because of its distinctive social and economic structure and the still favorable resource endowment relative to the size of the population, Thailand has the potential in the coming years of achieving rapid growth with all groups in the society being brought into the mainstream of economic growth and change. Thailand should not, and indeed, need not follow the type of

COUNTRY DATA--THAILAND

AREA	POPULATION	DENSITY
514,000 sq km	44.1 million (mid-1977) Rate of growth 2.5%	86 per sq km 185 per sq km of agricultural land
POPULATION CHARACTERISTICS (1977 est.)		HEALTH (1977)
Crude birth rate (per 1,000): 37		Population per physician: 8,383
Crude death rate (per 1,000): 9		Population per hospital bed: 800
Infant mortality (per 1,000 live births): 56		
INCOME DISTRIBUTION (1976 est.)		DISTRIBUTION OF LAND OWNERSHIP (1974 estimate)
% of income, lowest quintile: 7.6		% of holdings of less than 2.4 ha: 30
highest quintile: 42.2		% of holdings of 9.6 ha or more: 12
ACCESS TO PIPED WATER (1970)		ACCESS TO ELECTRICITY (1971)
% of households - urban: 61		% of households - whole country: 26
- rural: 3		% of households - Greater Bangkok Area: 84
NUTRITION (1971)		EDUCATION (1975)
Caloric intake as % of requirements: 100		Adult literacy rate %: 84
Per capita protein intake (grammes): 56		Primary school enrollment %: 86

GNP PER CAPITA IN 1977 /a: US\$410

GROSS NATIONAL PRODUCT IN 1977

	US\$ mln.	%	ANNUAL RATE OF GROWTH (%, constant prices)		
			1960-65	1965-70	1970-77
GNP at market prices	18,085	100.0	7.5	8.5	6.8
Gross domestic investment	4,737	26.2	14.4	13.5	5.0
Gross national saving	3,730	20.6	11.8	11.3	5.6
Current account balance	-1,088	-6.0	..	..	..
Exports of goods, NFS	4,027	22.2	9.9	6.7	7.0
Imports of goods, NFS	5,088	28.0	11.3	12.6	5.2

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1977

	Value Added /b /c		Labor Force /c		Average V.A. per Worker	
	US\$ mln.	%	Million	%	US\$	% of average
Agriculture	5,169	28.5	13.4	71.4	386	39.9
Industry	5,125	28.2	2.0	10.7	2,562	265.3
Services	7,865	43.3	3.4	17.9	2,313	239.5
Total/Average	18,159	100.0	18.8	100.0	966	100.0

GOVERNMENT FINANCE /d

	Consolidated Public Sector			Central Government		
	(US\$ mln.)	% of GDP /e		(US\$ mln.)	% of GDP /e	
	FY77	FY77	FY75-77	FY77	FY77	FY75-77
Current receipts	2,871	16.2	15.4	2,606	14.7	14.1
Current expenditures and transfers	2,406	13.6	13.0	2,449	13.8	13.3
Current surplus	465	2.6	2.4	157	0.9	0.8
Capital expenditures	1,451	8.2	6.4	763	4.3	3.6
External assistance (net)	216	1.2	0.8	36	0.2	0.1

/a Calculated on the same basis as the figures in the World Bank Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

/b At current market prices.

/c Estimated.

/d Thai fiscal years ending on September 30.

/e Estimates for GDP during fiscal year t were derived by adding 1/4 of GDP at calendar year t-1 to the 3/4 of GDP for year t.

.. Less than 0.1 percent.

COUNTRY DATA--THAILAND

MONEY, CREDIT AND PRICES

	1970	1971	1972	1973	1974	1975	1976	1977
	(Billions of Baht outstanding end period)							
Money and quasi money	46.2	53.7	66.6	81.9	98.3	113.4	136.3	163.6
Bank credit to central government	13.0	19.7	27.0	29.6	25.7	30.8	41.5	51.2
Bank credit to private sector	27.8	30.8	34.6	49.4	66.2	81.4	96.9	124.9
	(Percentages or index numbers)							
Money and quasi money as % of GDP	33.9	37.1	40.4	37.8	36.6	38.8	41.0	44.2
GDP deflator (1962 = 100)	113.5	111.6	121.8	145.3	172.4	177.3	185.9	195.2
Annual percentage changes in:								
GDP deflator	-0.6	-1.7	9.2	19.3	18.7	2.8	4.9	5.0
Bank credit to central government (net)	53.5	51.2	37.4	9.5	-13.2	20.0	34.7	23.4
Bank credit to private sector	21.5	10.7	12.2	42.9	34.9	21.4	19.0	28.9

BALANCE OF PAYMENTS

	1973	1974	1975	1976	1977
	(US\$ million)				
Exports of goods, NFS	2,085	3,025	2,796	3,491	4,027
Imports of goods, NFS	2,259	3,353	3,487	3,912	5,091
Resource gap (deficit = -)	-174	-328	-691	-421	-1,064
Interest payments (net)	7	36	69	26	32
Other factor payments (net)	-28	-37	-64	-68	-105
Workers' remittance	..	..	..	..	..
Net transfers /a	146	241	80	23	45
Current balance	-49	-88	-606	-440	-1,092
Direct foreign investment (net) /b	67	137	87	79	106
Net MLT borrowing					
Disbursements	248	512	536	521	555
Amortization	-253	-262	-343	-289	-328
Subtotal	-5	250	193	232	227
Capital grants	..	..	..	..	..
Other capital (net) /c	42	63	132	135	268
Other items n.e.i. /d	58	121	51	-10	122
Increase in reserves (+)	113	482	-143	-4	-369
Gross reserves (end year)	1,295	1,858	1,775	1,893	1,915
Net reserves (end year)	1,082	1,564	1,369	1,484	1,219
<u>Fuels and Related Materials</u>					
Imports	229	629	684	769	1,018
of which: Petroleum (crude)	175	519	578	650	806
Exports	18	15	11	5	-
of which: Petroleum (product)	18	15	11	5	-

RATE OF EXCHANGE

Through July 1973
 US\$1.00 = B 20.8, B 1.00 = US\$0.048

Since July 1973
 US\$1.00 = B 20.4, B 1.00 = US\$0.049

/a Includes official and private transfers.

/b Equity capital only.

/c Includes short-term public and private capital and portfolio investment.

/d Includes SDR allocations, profits from exchange realignments, and errors and omissions.

/e Ratio of debt service to exports of goods and non-factor services.

MERCHANDISE EXPORTS (AVERAGE 1975-77)

	US\$ mln.	%
Rice	456	15.8
Rubber	244	8.4
Corn (maize)	241	8.3
Tapioca products	324	11.2
Tin (metal)	159	5.5
Sugar	326	11.3
Shrimp	56	1.9
Manufactured goods	634	21.9
All other commodities	454	15.7
Total	2,894	100.0

EXTERNAL DEBT, DECEMBER 31, 1977

	US\$ mln.
Public debt, incl. guaranteed	1,052
Non-guaranteed private debt	880
Total outstanding & disbursed	1,932

DEBT SERVICE RATIO FOR 1977

	%
Public debt, incl. guaranteed	3.1
private	
Non-guaranteed private debt	8.1
Total public & private non-guaranteed debt	11.2

IBRD/IDA LENDING, JUNE 30, 1977 (US\$ mln.)

	IBRD	IDA
Outstanding & disbursed	345.7	19.4
Undisbursed	466.1	12.6
Outstanding incl. undisbursed	811.8	32.0

CURRENT POLITICAL AND ECONOMIC SITUATION

Political Situation

The political situation has been stable since the "coup" in 1977 which brought Prime Minister Kriangsak to power. A constitution was promulgated in December 1978 and elections for one of two legislative houses took place on April 22, 1979. The other house will be appointed by the National Policy Council before it dissolves itself. The Prime Minister and Cabinet members will be selected by the Joint Houses of the Legislature and need not come from among the legislators. Kriangsak did not run for Parliament but his supporters captured a plurality of elected seats. As they control a majority of all seats in both houses, he will continue as Prime Minister. As of April 24, the new Cabinet had not yet been formed. Some of the current Ministers are likely to remain, but the composition of the new Cabinet will probably reflect the changing electoral strength of the parties.

The previous Government generally took strong action in raising taxes and prices where necessary (e.g., petroleum, railway tariffs) despite their unpopularity. Because of its short lifespan the Government favored more politically popular actions, such as increasing the minimum wage and instituting rice price supports, and development programs aimed primarily at achieving quick and visible results, such as the pump program in 1977 and the flood relief program in 1978. The 20 billion Baht (US\$1 billion) allocated to the "Year of the Farmer" is mostly a repackaging of existing programs with only about 2 billion Baht (US\$100 million) of new funds. When the new Government is installed for a fixed four-year term, we hope it will shift its priorities to implementing longer term programs necessary to achieve its objectives of rural development and poverty alleviation.

Economic Situation in 1977 and 1978

The overall economic situation is quite buoyant. GDP grew at 8.7 percent in 1978 compared to 6.6 percent in 1977. The 1978 harvest was quite good despite the floods in November, and agricultural output grew at 9.4 percent, which provided a major impetus to overall growth. Expansionary credit and fiscal policy also contributed to the rapid growth.

	<u>GDP Growth</u>	<u>Percent, in Real Terms</u>	
	<u>1977</u>	<u>1977-78</u>	<u>1978</u>
Agriculture	-1.7	3.7	9.4
Industry	14.7	13.5	12.4
Tertiary	7.8	6.8	5.6
GDP	6.6	7.6	8.7

Credit expanded at 26 percent in 1978 and the budgetary deficit amounted 19 billion Baht (US\$ 950 million) for FY78 (4.4 percent of GDP). Accompanying this expansion has been a sharp increase in inflation in 1977-78, nearly 9 percent per year in the Consumer Price Index, compared to 4 percent per year in 1975-76. While the recent high levels of investment are encouraging, there is a growing and justifiable concern that the economy is overheating and that more restraint is needed to prevent inflation from accelerating.

The current account deficit increased to US\$ 1.3 billion in 1978 from a level of US\$ 1.1 billion in 1977. This represents nearly 6 percent of GDP in both years. Imports demand grew at 7.3 percent in volume terms with the greatest increase in capital goods. Export volume was up by 5.7 percent. Despite sharp increases in both public and private foreign borrowing, the balance of payments deficits totalled over US\$ 700 million for the two years 1977 and 1978. Because of reserve revaluations and increases in banking sector liabilities abroad, gross reserves have increased slightly, but net reserve have fallen from US\$ 1.4 billion end 1976 to US\$ 680 million end 1978. Thailand has drawn nearly US\$ 200 million from various IMF facilities on a standby negotiated last June. In the IMF consultation completed this January, the Fund placed a great deal of emphasis on resource mobilization, concentrating on the monetary aspects, including higher interest rates to encourage saving and discourage capital flight, slower credit expansion, and credit allocation. The Fund did not concentrate on revenue or budgetary policy, which is of continuing concern to the Bank.

The prospects for 1979-81 are not significantly changed from those presented in the CPP in October 1978. Growth will continue at about 7 percent. Inflation may be on the order of 6-8 percent, but could be higher if expansionary policy continues. The budgetary and current accounts deficits are likely to remain at about the same absolute levels and domestic resource mobilization is a critical constraint on achieving the

Fourth Plan's objectives. Measures are being considered to raise both public and private saving, but major policy changes will probably not occur until after elections. At present Thailand is still sufficiently creditworthy to finance most of those capital requirements from abroad, including foreign borrowing for Baht expenditures in the Government investment program. The level of debt and the debt service burden will rise sharply, but should be sustainable if good overall economic management is maintained and the deficits significantly reduced by the mid-1980's. The economy is undergoing major long run structural changes shifting to more diversified, market-oriented agriculture and to greater reliance on modern industry to support growth and exports. High levels of foreign borrowing for a limited period of time would greatly facilitate this transition. The IMF has indicated it would support such a strategy with additional medium term loans, and commercial banks are generally willing to increase their lending to Thailand as well. In the coming years the Thai Government will have to resolve difficult conflicts between short run stabilization objectives and long run development objectives while retaining popular support.

The recent events in Cambodia have led to some hesitancy in the private sector to embark on new activities until the situation is clearer, but the impact has not been significant yet. Longer term uncertainty has increased. This adds urgency to the need for successful implementation of rural development projects which will improve welfare and solidify popular support for the Thai Government.

The commitment to make real and significant improvements in the conditions of the rural poor is increasing at senior levels of the Government and appears to be real and deeply held. The commitment of the technical level staff in rural areas to improve things is also becoming widespread. Both of these phenomena are in sharp contrast to the attitude of "benign neglect" that was prevalent only a few years ago. As a result, there has been real progress in poverty alleviation in rural areas due to Government action, as well as to the dynamic private sector. The impact of Government action has been quite uneven, however, due to inherent structural problems of the Thai bureaucracy and the lack of commitment of many middle and upper middle level managers. The excessive centralization of authority in Bangkok, duplication of function among agencies, and lack of cooperation between agencies are the principal structural problems inhibiting project preparation and implementation. In addition to the resource mobilization constraint discussed above, development management capacity and coordination is the principal constraint on Thai development.

Open in Sub

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9 islands

THAILAND

The Royal Family

Open in Central

SEA security

Local devt: from 1970 NE
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PJ May

Queen: Son. Vajiravudh

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cult of food
crops + 400
5000 + 10000

3. Forest area

fire control
report.

* 5m 1DA

6/12

1. The history of the present dynasty started with the sacking of the former Thai capital city of Ayudhya by the Burmese in 1767. The ruling Thai king was killed along with his family and most of the court, the survivors of which were scattered without trace. A man called Taksin, a general in the Ayudhyan army, managed to rally the Thais and eventually drove the Burmese out of the country. He founded the city of Thonburi, which is situated on the right bank of the Chao Phya river opposite Bangkok, and proclaimed himself king.

2. King Taksin, however, became subject to fits of insanity, and Chao Phya /1 Chakri, one of Taksin's most successful generals, but in no way related to Taksin nor to the Ayudhyan royal family, was recalled from campaigning in Cambodia by members of the ruling council to take over the throne. King Taksin was put to death, and Chao Phya Chakri became king in 1782; the dynasty was thus founded, and is known as the Chakri dynasty. The dynastic name Rama I was derived from the names of the great kings of the Ayudhyan era. Indeed King Rama I made every effort to recreate the Ayudhyan way of life. He moved the capital from Thonburi to Bangkok, and tried to build it as a water city in the same style as Ayudhya. Rama I died in 1808. He was succeeded by his son, Rama II, who ruled until his death in 1823. His son, Rama III ruled until 1850. He was succeeded by his half-brother King Rama IV, perhaps better known as King Mongkut, who had spent 27 years of his life in a monastery before becoming king. He is well known in the West for hiring Mrs. Anna Leonowens to teach his children English, but the importance of this association has been very much exaggerated.

3. King Mongkut died in 1867; his son, Crown Prince Chulalongkorn, was only fifteen years old, so a regency was set up and for the next fourteen years the country was run by the Chief Minister, Phya Suriyawongse, although technically Chulalongkorn became king in 1873. On the death of Phya Suriyawongse, King Chulalongkorn assumed full control of the kingdom, and during his long reign he introduced many of the reforms which helped to shape modern Thailand. He died in 1910.

4. His successor was his son King Vajaravudh (Rama VI) who was educated in England (Oxford and Sandhurst; his father encouraged Thais to study abroad). He was not attracted to women and it was with great difficulty that he produced a daughter by one of the ladies of the court just before his death in 1925. As a woman cannot become the monarch in Thailand, the succession fell to Vajaravudh's younger brother Prajadipok (educated at Eton and Woolwich) who became King Rama VII. His marriage, however, failed to produce any children, and when he abdicated in 1935, three years after the revolution which overthrew the absolute monarchy, the throne was offered by the revolutionary leaders to the son of Prajadipok's half brother, Ananda, who was 10 years old at the time and attending school in Switzerland. King Ananda visited his kingdom once in 1937 but returned to Switzerland to complete his studies. After the war he returned again, but a few months later (in 1946) he was found shot dead in his bedroom in the Grand Palace (Barompimarn Hall). The mystery of his death was never properly solved, although two royal pages were executed as a result.

/1 A meritorious title granted to commoners, but abolished in 1932.

5. Thus the present king, Bhumipol, Ananda's younger brother, came to the throne as King Rama IX, though the official coronation was not until 1950, which was the same year as his marriage to Queen Sirikit. King Bhumipol's father, Prince Mahidol of Songkhla, was educated at MIT and Harvard where he earned the degree of doctor of medicine. King Bhumipol himself was born in Cambridge, Massachusetts though he was educated in private schools in Switzerland. He was in Switzerland studying science at the time of his brother's death and in order to prepare himself for his role as the ninth King of the Royal House of Chakri he changed his course of study to political science and law. His coronation took place in Thailand on May 5, 1950, although he went back to Switzerland after the coronation to continue his studies. Since his accession to the throne, on his return to Thailand in 1951, the King has been particularly interested in the development of his country and in the welfare of his people. He celebrated the silver jubilee of his accession to the throne in 1971. The king is an accomplished saxophonist and a keen yachtsman.

6. Queen Sirikit also comes from royal stock, having the rank of Mom Rachwong by birth; her great grandfather was King Mongkut, her grandfather being Mongkut's son by one of his minor wives, thus branching away from the ruling part of the family. The Queen was born on August 12, 1932. She began her studies in Bangkok, but when her father was appointed Minister to France and to Denmark, and later Ambassador to Great Britain, she accompanied him and continued her education in those countries. She was studying in Switzerland when she met King Bhumipol. The Queen's interest in charitable works and social welfare have made her popular throughout the country. She became President of the Thai Red Cross Society in 1956. Since 1961 Queen Sirikit has also been Honorary President of the Council of Social Welfare of Thailand, an organization which comprises nearly 300 private and public social welfare bodies throughout Thailand and which is a member of the International Conference of Social Works. When the King entered the monkhood in 1956 Queen Sirikit acted as regent for the period and in recognition of her able performance of her duties the Government recommended that she be given a title of higher distinction, so that she is now addressed as "Somdech Phra Boromarajininath," a title accorded to a Queen who has successfully performed the functions of Head of State on behalf of the King.

7. The King and Queen have one son and three daughters; the eldest daughter, Princess Ubolrat, is 28 years old and lives as a commoner in the United States. Under no circumstances should her name be mentioned. Her current status is a rather sensitive subject for the family as she has given up her title in order to marry an American whom she met while studying nuclear physics at MIT in the early 1970s. Crown Prince Vajiralongkorn, aged 27, was married on January 3, 1977 to Princess Soamsawali Kitiyakara who gave birth in December 1978 to a daughter, Princess Bhajara Kitiyabha - the King's first grandchild. The two youngest daughters are both attending university in Thailand. Princess Sirintorn, the elder of the two, is working on her master's degree at Ramkhamhaeng University; Princess Chulabhorn, the youngest, is a student at Kasetsart University.

The Chakri Family Tree

Rama I (Chao Phya Chakri)
1782-1808
28 wives, 17 sons, 25 daughters

Rama II
1808-1823
38 wives, 38 sons, 35 daughters

Rama III
1823-1850
35 wives, 51 children

Rama IV (Mongkut)
1850-1867
35 wives, 82 children

Rama V (Chulalongkorn)
1867-1910
92 wives, 32 sons, 45 daughters

Three major wives of King Chulalongkorn

Queen Saovabha

Queen Sawang

Queen Sukumala

Majirunhis
d. 1895

Rama VI
(Vajjaravudh)
1910-1925
Princess Petcharat
Rajasudha

Asdang
d. 1925

Chatadhu
d. 1923

Prince Boripatra

Rama VII
(Prajadipok)
1925-1935
married Queen
Rambhai Bharni
but no offspring

Prince Mahidol of Songhkla
d. 1929

Princess Galyani
married Prince Varanon

Rama VIII
(Ananda)
1935-1946

Rama IX
(Bhumipol)
1946-
married Queen Sirikit

Princess
Ubolrat
(1951-)

Crown Prince
Vajiralongkorn
(1952-)

Princess
Sirindhorn
(1955-)

Princess
Chulabhorn
(1957-)

Princess Bhajara Kitiyabha
(1978-)

The King's role in developing Thailand



A monarch who is genuinely loved by his subjects, His Majesty is pictured here greeting an elderly woman who had waited a day to see His Majesty.

In his 28 years as King of Thailand, His Majesty King Bhumibol has become world-renowned for his tireless work in developing his realm and improving the social welfare of his people. Newspaper photographs as often show him in jungle fatigues inspecting a development project as officiating at formal functions at the palace.

In a way, His Majesty is forwarding the tradition of public service established by his illustrious royal forebears. What has marked King Bhumibol as unique has been his drive to expand the range and scope of royal development works to include even the remotest corners of the kingdom.

Another mark of his unique approach has been his personal involvement in each of the projects he initiates. The only king in Thai history ever to visit all 72 of the nation's provinces, His Majesty can be found for up to five months out of each year personally supervising royal-sponsored projects in all parts of the kingdom.

It has been estimated that His Majesty spends several hundreds of millions of baht from his personal funds each year for improvement projects. The majority of these are devoted to the agro-industries upon which 80-90 per cent of the nation's population depend for their livelihood. It is little wonder that earlier this year, political leaders sought to append the title "The Great" to His Majesty's name (only the fourth time in Thai history that a monarch would have been so honoured); an honour which His Majesty quietly declined.

His Majesty's approach to rural development is to tackle large problems in small steps and with a maximum concern for social benefits and for the environment. He outlined his credo in a recent speech to graduates at the King Mongkut Institute of Technology when he said: "... I request that our intellectual and technological efforts be directed toward... works that do not appear to be large programs but are of high quality and efficiency which produce direct beneficial results... projects and programs which utilize natural resources, knowledge, ability and labor of a maximum number of people and create the least amount of waste and destruction." "Small is beautiful" in action.

The most visible of these projects are those within the palace grounds. Visitors passing the Chitralada Palace are often startled to see cows grazing just inside the ironwork fence. The project was begun in 1962 as an experimental farm to discover ways of improving the quality and quantity of local milk which up to that time had been imported in tinned and powdered form.

In the same year, His Majesty set up a small-scale pilot plant for producing powdered milk. The results of the experiment, together with detailed plans, were offered to farmers who lived in areas without refrigeration.

In another project using the palace grounds, His Majesty has instructed experimenters to plant trial plots of improved rice strains to boost the yield of the crop of which Thailand ranks as the number one exporter in the world.

Continued on page 6



The Royal Family have always shown their concern for the youth of the nation. Here Their Majesties are shown on a visit with a troop of Thai Boy Scouts.

Continued from page 4

The most publicized of his projects up-country are his opium-substitution programs for the hilltribes in the North. There, he is seeking to establish modern, organized agriculture instead of the swidden or slash-and-burn methods which have done untold damage to the forestlands and watersheds of the northern hills.

Two of the main crops the program is centering its efforts on propagating are vegetables and fruit orchards. Lettuce grown in the vicinity of Doi Pui has cut opium cultivation by two-thirds. The produce is sold in the markets of Singapore and Hong Kong. Marketing has been organized by co-operatives set up under another royal-sponsored project.

To preserve the vegetables, food canneries have been set up at Fang Mae Chan and at Chiang Mai University. Tins are marketed under the brand name of "Doi Kham". At present, the factories are canning baby corn, peaches in syrup, evaporated soy bean milk and other vegetables.

Under the guidance of royal-sponsored extension teams from local and Bangkok universities, hilltribesmen and farmers are planting and grafting local peaches, apples, pears and chestnuts. In addition, livestock breeding techniques are being taught to interested farmers and biogas plants using animal droppings have been set up to produce gas for cooking and heating purposes.

Equally important, His Majesty has created a rice bank and rice mill which are now being operated by the hilltribesmen themselves.

The improvements in terms of increased real income are impressive. Farmers formerly earning 9,000 baht a year growing opium now make 50,000 baht selling strawberries to Bangkok markets. In addition, kidney beans bring about 5,400 baht, coffee 75,000 baht, pyrethrum 12,500 baht, chrysanthemums 50,000 baht and peaches 147,600 baht, all resulting in a dramatic increase in their standard of living.

Similar projects have been instituted in the Northeast. A canning factory has been established in Ubon province. Irrigation canals are also being constructed to bring water to this drought-plagued area.

In the South, where His Majesty spent two months this year, giant drainage projects are creating nearly 450,000 rai of land for cultivation in Narathiwat province. The land thus produced will be suitable for cultivation of maize, groundnuts, vegetables and other crops. Livestock will also graze the area.

Ancillary projects designed to aid the farmers have included a rain-making scheme pursued successfully over the past 20 years by M.L. Dheparith Devakul and under His Majesty's sponsorship. In co-operation with His Majesty, M.L. Dheparith also designed and produced the "Iron Buffalo" for tilling fields. Moreover, His Majesty has designed a rudderless boat for use in the shallow canals which divide the rice paddies and which serve as main "roads" through the farming areas.

An important part of rural development is land reform, which His Majesty has promoted by allocating his own Crown lands for use by landless farmers. Three years ago he donated 50,000 rai of farmland in the Central Plains for this purpose. Under this scheme, the land title is presented to Co-operative associations. Families that work the 25-rai plots are given unrestricted use of it but cannot sell it or break it up into smaller plots.

As a result of His Majesty's efforts and his personal dedication to improving the lot of the nation's 35 million farmers, regions once considered problems areas incapable of ever fending for themselves, are booming. Moreover, the former concentration on aiding the urban and industrial areas at the expense of the up-country regions has given way to a realization that for some time to come agriculture will remain the mainstay of the nation and must be up-graded if Thailand is to survive.

It is His Majesty, King Bhumibol, who has instilled the fervor which is now evident in all development efforts and which will continue to bear fruit in the decades to come. If nothing else were to justify the appending of "The Great" to his name, this would be enough.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: Mr. S. Shahid Husain (RVP, AEN)
SUBJECT: THAILAND - Meeting with Prime Minister Kriangsak Chomanan

DATE: February 2, 1979

1. You will meet with Prime Minister Kriangsak Chomanan at 2:00 p.m. Monday, February 5, 1979 in Blair House. A briefing paper for your meeting is attached.
2. General Kriangsak became Prime Minister in November 1977 when the group of senior military officers forming the National Administrative Reform Council, which has guided the country since seizing power in October 1976, removed his predecessor because of dissatisfaction with his hard anticommunist policies and slow return to democracy.
3. General Kriangsak has consolidated his position while in office by judicious appointments in the military, and he stands a good chance of continuing as Prime Minister after the elections which are expected to be held in April 1979.
4. The Prime Minister chaired a meeting of his economic ministers to discuss the Bank's basic economic report and questioned its authors on the validity of the policies it proposed for the development of the country. He has called on the Bank to help resolve particularly difficult issues such as Bangkok traffic and the choice of site for Thailand's next deepwater port (Sattahip), and is in fairly regular touch with Mr. van der Heijden in Bangkok. He now looks to the Bank to lend its support in furtherance of his program to make 1979 "the year of the farmer."

cc: Messrs. Husain
E. Stern
W. Clark
Koch-Weser
Please

NAGibbs:je

THAILAND

BRIEFING PAPER FOR MEETING WITH
PRIME MINISTER KRIANGSAK CHOMANON

February 5, 1979

A. Prime Minister Kriangsak may raise the following subjects with you during your meeting:

Your Visit to Thailand

1. The Prime Minister is expected to reconfirm that the proposed dates are satisfactory. A copy of the outline program for your visit which is now being prepared in Thailand is attached.

Increasing the Size of the IBRD Lending to Thailand

2. The Prime Minister is expected to seek an understanding that IBRD lending to Thailand will be increased to about \$500 million per annum over the next five years. At the recent CPP review meeting (October 25, 1978) it was agreed to work towards an annual lending program which would exceed \$500 million by 1983. At the Consultative Group meeting last December in Paris Bank staff stated that we were working on a program of more than \$2.0 billion for the five-year period 1980-84. However, we have explained to the Thai authorities that achievement of this lending program target will depend, among other things, on the timely identification and preparation of projects aimed at improving the well-being of the poor, especially in the outer regions of the country.

IDA VI Allocation for Thailand

3. The Prime Minister may request that, as a consequence of expanding Thai borrowing requirements and a shift towards increased rural public investment, Thailand should receive a substantially higher share of IDA's Sixth Replenishment. The recent CPP recommends that Thailand should continue as a "hard-blend" country in IDA VI as a symbolic demonstration of our belief that Thailand merits concessional aid. At the review meeting a decision on this question was deferred. The Prime Minister is expected to raise the question of the size of the US contribution to IDA VI as well as seeking U.S. support for a generous IDA allocation to Thailand at his meetings with US authorities.

Disbursement Procedures

4. The Prime Minister may wish to report that his Government is introducing new procedures to help speed procurement under Bank-financed projects. This step is welcome and is the direct outcome of procurement seminars conducted in Thailand in July 1978 with the participation of Bank staff. The total amount of loans and credits undisbursed at December 31, 1978 was \$545 million.

Exchange Risk Burden

5. The Prime Minister is expected to express Thailand's concern for the burden of exchange risks that it bears on the hard currencies disbursed by the Bank. You may wish to explain to him the proposed pooling arrangements.

Absorptive Capacity Constraints

6. The Prime Minister may request the Bank to help the Government increase its capacity to prepare and implement new style development projects in areas such as agriculture and rural development which would directly benefit the less privileged segment of the population. This is indeed a fundamental issue of development in Thailand and, to the extent possible, our projects address and attempt to improve institutional and administrative problems. You might refer specifically to the Northeast Rural Development project, where through strengthened project institutions it has been possible to develop national programs attracting external finance in agricultural extension, rural electrification, village infrastructure (access roads and wells) and to begin preparation of a national agricultural research project. We expect that through our support for the Northern Agricultural Development project, for which a credit of about \$25.0 million is being considered, it will be possible for the Government to extend similar projects into other parts of the North and Northeast. You may wish to inform the Prime Minister that because of the importance we attach to overcoming this constraint you intend to give it special attention during your visit to Thailand, and you may express your wish that you will have an opportunity to discuss this issue with the Prime Minister in Thailand.

7. While seeking ways in which the Bank can assist the Government you might draw attention to our concerns about the extent to which the bureaucratic process and institutional arrangements are impeding development management in Thailand. Our views are summarized in para. B.3.

Indepth Analysis of Thai Growth Prospects

8. The Prime Minister may request that the Bank undertake an indepth quantitative analysis of the growth prospects of the Thai economy through 1990. Such an analysis has already been done as part of the work of the basic economic mission and for this purpose the Bank staff developed a long-term projection model of the Thai economy in close collaboration with staff of NESDB and the Bank of Thailand. If it is the wish of the Prime Minister, Bank staff would be pleased to discuss with NESDB and the Bank of Thailand possible areas for further collaboration.

Project Issues

9. The Prime Minister may raise the following project issues:

- (a) Gas pipeline. The Prime Minister may seek assurances that the Bank will support his project with a loan of significant size. The project, which has an estimated total cost of \$750 million, is included in our program for \$80 million in FY81. Chase Manhattan (Asia) has been retained to prepare a financing plan for the project and there have been widespread expressions of interest in cofinancing this project with us. In view of our other priorities in Thailand, we do not intend a large contribution to this project but would rather be a catalyst to help raise funds on suitable terms. In the course of our appraisal we shall want to satisfy ourselves that the project will be a well justified use of scarce domestic and foreign resources in light of alternative sources of energy, particularly lignite, in Thailand.
- (b) Bangkok Water Supply Project (Stage 2). The Bank (\$55.0 million) and ADB (\$19.6 million) cofinanced the first stage of this project. The project has been plagued by weak management and poor financial performance but better progress is now being made. The Prime Minister may urge the Bank to participate in the financing of Stage 2, up to \$20 million, to complement financing to be provided by ADB (\$60 million) and OECF of Japan (\$44 million). You might inform the Prime Minister that our reluctance to continue participating in this project does not stem from any disenchantment with the performance of our Borrower (the Metropolitan Waterworks Authority), but rather that we wish to limit our involvement in Bangkok to projects which minimize investment and release scarce funds for investment in rural areas. Given that the Bank's resources are constrained it is our policy to direct our efforts increasingly to assist the rural population; this policy is particularly appropriate in view of the involvement of ADB in the project. We shall continue to exercise close supervision of this project and our Borrower's performance through our regular supervision missions.
- (c) Lending Conditions. The Prime Minister may refer to the statement of the Under Secretary of State for Finance to the 1978 Annual Meeting in which he criticized the performance criteria placed upon borrowers of Bank loans and urge that the Bank relax the conditionality of lending particularly on financial matters. The Prime Minister may suggest that the tariffs and rates charged by public enterprises for their services is an internal matter and that the Bank should rely on general undertakings of the Government rather than require specific adjustments of rates and tariffs as conditions of lending. The Prime Minister should be informed that aside from the requirement of any prudent lender that it have good prospects of being repayed the Bank is more concerned that public enterprises are not a drain on budget resources required for an expanding investment program, and should be largely self-financing. Our more general concerns about resource mobilization are discussed under para. B.5.

B. You may wish to raise the following matters with the Prime Minister.

Development Management Issues

1. The basic economic report emphasizes the problems of and opportunities for economic growth in the backward rural areas of Thailand and the importance of such development for the future economic and political stability of the country. If the potential for development in the outlying areas of the Northern and Northeast provinces, where the bulk of the population has not benefited from the growth process, is to be achieved, the Government will need to take a more active role and become more responsive to the needs of these areas, and development management must be improved.

2. A major reason for the Government neglect of these outer regions is the concentration of Government decision-making in Bangkok. This is recognized by the Prime Minister and in a major effort to decentralize government authority and provide local input into the planning process, his Government recently introduced provincial planning in all 71 provinces, and allocated 1% of its budget to support the provincial plans. While the Bank supports these efforts, our analysis suggests that the institutions at the provincial level are not yet strong enough to plan and manage a large development program. Accordingly, the Bank has included a technical assistance component in its Northern Agricultural Development Project to assist provincial planning. This component would provide for an overall evaluation of provincial planning, for the assessment of the training needs of provincial planning officers and for the preparation of pilot planning studies for 3 or 4 provinces. We have programmed a provincial development project in FY83 to follow this technical assistance and to support implementation of provincial plans in the outer regions.

3. In addition to the lack of planning capability at the provincial level, the analysis of development management and administration identified several other areas of concern, including the weakness of the central planning agency, the tendency of the budgetary procedures to favor richer provinces at the expense of the poor and less developed provinces, and the fragmentation and duplication of activities among government agencies which make cooperation difficult and lead to gross waste of resources.

4. Certain of the measures recommended by the basic report to improve operational performance and efficiency within the public sector in Thailand (e.g. decentralization of planning and review of the relations between the central planning and budgeting agencies) are being considered by the Government, and this should be encouraged. However, while these measures could result in short-term improvements, more profound changes will eventually be required within the bureaucracy. We have emphasized the need for the Thai Government to initiate overall administrative reforms and have proposed that a national commission of public administration experts be established to draw up a comprehensive program to modernize the bureaucratic process, the organization of the civil service and the system of personnel administration. You should stress to the Prime Minister the need for such fundamental bureaucratic reforms if Thailand is to improve its development management and that such reforms are unlikely to take place without the personal initiative of the Prime Minister himself.

5. Resource Mobilization. Thailand is currently undergoing a major structural transformation, from a primarily traditional agricultural country to one embarking on modernization of both agriculture and industry. It is doing this at a time when external factors are not favorable. Its terms of trade have deteriorated over the past three years, and there is growing uncertainty over the potential expansion of some traditional export markets, e.g., cassava, sugar. Although Thailand has maintained good economic management and achieved a real growth rate in excess of 6% per annum during this period, this growth has been accompanied by a burgeoning current account deficit and an increasing Government budgetary deficit. These large deficits are expected to continue beyond the end of the current plan period in 1981. For the longer term, if the major reorientation of development effort to reduce income disparities and promote rural development and poverty alleviation is to be achieved, we project that there will be major resource deficits to be filled.


6. Total government revenues averaged 13 to 14% of GDP over the past several years. This is below the average level for countries at Thailand's income levels. The share of government revenues in total GDP should be raised to 16 to 17% of GDP over the next four or five years to support the Government's public investment program. Tax rates will have to be modified, and in the longer run it will be necessary to make more fundamental revisions in the tax structure. Because of the overall public resource constraint, great care should be exercised in undertaking large projects with major government participation. Some of these projects are important for the maintenance of growth, but their economic justification should be reviewed carefully in light of resource scarcity over the next several years.

7. With regard to the balance of payments deficit, the Government estimates that it would have to raise \$2.5 billion in net disbursements over the next three years to meet the objectives of their plan. An additional \$2.5 billion of private capital will have to be raised to finance the projected balance of payments deficits without exhausting reserves. While these levels are high, they are within the capacity of the Thai economy to handle if appropriate development, industrial, and trade policy is followed.

8. Industrial Policies. Thailand will become increasingly reliant on industrial growth and exports to provide an impetus to overall economic growth and job creation in the coming years. So far industrial policy has been rather haphazard, but has not been a major impediment to rapid industrial growth. We are concerned however that increasing distortions are being introduced in the industrial sector that will be inimicable to the longer run interests of the economy. We do not have much project activity in the industrial sector, but we are undertaking economic and sector work to support our industrial policy dialogue with the Government, including missions to review prospects in engineering industries and to evaluate industrial policies and incentives during 1979. The objective should be to encourage industries consistent with Thailand's comparative advantage, i.e., those that are labor-intensive, probably relatively small-scale but which are competitive in world

markets for exports or import substitution without a great deal of protection. Instead of some of the large-scale, capital-intensive projects that the Government is considering, engineering industries producing equipment needed for the country's own industries and agriculture will be a more appropriate direction for Thailand to look for new activities and learning opportunities. We also want to encourage development of industries outside of Bangkok to the extent possible to contribute to urban as well as industrial decentralization.

TO: Memorandum for the Record

FROM : S. Shahid Husain (RVP, AEN) 

DATE: February 5, 1979

SUBJECT: THAILAND - Mr. McNamara's Meeting with Prime Minister Kriangsak Chomanan

1. Mr. McNamara, accompanied by Mr. Husain, called on General Kriangsak Chomanan, Prime Minister of Thailand, at the Blair House today. Khun Sunthorn Hongladarom, Deputy Prime Minister of Thailand; Dr. Phisit Phakasem, Director, Economic Planning Division, NESDB; Khun Charnchai Leetavorn, Under Secretary of Finance; and Khun Kasame Chatikavanij, Minister of Industry, were also present.
2. The Prime Minister said that he was looking forward to Mr. McNamara's visit to Thailand in March. Mr. McNamara said that he would then hope to have detailed discussions with the Prime Minister and his colleagues on Thailand's development and the Bank's assistance.
3. The Prime Minister said that his Government was undertaking a restructuring of economic development so that more would be done for Thailand's depressed regions and for the less privileged people. He said that the problem of unrest in the rural areas could, in the last analysis, be tackled only through economic development. Apropos this, he made particular mention of the rural development program being initiated by the Government.
4. The Prime Minister mentioned that he had recently visited Japan and had concluded an agreement for Japan's aid of US\$300 million in 1979. Of this, \$60 million would be grant and \$240 million loan at an interest rate of 3.25 percent with a grace period of 10 years and repayment of 20 years. Mr. McNamara welcomed this expansion of Japan's assistance to Thailand, which was in keeping with Japan's policy to expand the economic cooperation with countries of East Asia, particularly the ASEAN countries.
5. Turning to the World Bank operations, the Prime Minister referred to the recent meeting of the Consultative Group for Thailand and expressed the hope that during the next three years Bank/IDA lending in Thailand would increase to about \$500 million. Mr. McNamara said that the Bank generally agreed with Thailand's current economic priorities. He expected that the Bank lending would increase to about \$500 million by the early '80s, provided that the Government took steps for an equitable development of Thailand, a more vigorous mobilization of domestic resources than in the recent past, and formulation and implementation of projects suitable for Bank financing. Mr. McNamara made particular mention of the need to improve the planning and implementation machinery in the regions.

February 5, 1979

6. The Prime Minister suggested that, in view of the continuing substantial poverty in Thailand and the country's large resource needs, IDA lending should be increased to about \$70 million. Mr. McNamara said that countries much poorer and more populous than Thailand have substantial claim on IDA resources. He said that, in any case, it would be more appropriate to discuss the allocation of IDA funds after agreement on the Sixth Replenishment of IDA. He was doubtful that as much as \$70 million of IDA funds could be allocated to Thailand. He was, however, hopeful that, provided the above-mentioned conditions were made, Bank lending to Thailand could be substantially expanded.

7. Dr. Phisit requested assistance in economic planning. Mr. McNamara assured him that assistance in economic planning would be forthcoming.

8. The Minister of Industry mentioned the gas pipeline project, and Mr. McNamara said that, subject to economic feasibility, the Bank would participate in financing the project, but the bulk of finance would have to come from other sources.

9. Talking of the industrial sector, Mr. McNamara made special mention of the readiness of IFC to assist in the development of private industry in Thailand.

cc: Messrs. E. Stern (o/r)
Qureshi
Please
Kirmani (o/r)
Hasan (o/r)
Gibbs

SSHusain:bce

CONFIDENTIAL

OFFICE MEMORANDUM

TO: Mr. William Clark

FROM: D.R. Clarke *DR6*

SUBJECT: *7* Visits to Countries in South and East Asia

DATE: December 8, 1978

Please see my summary report on visits to Sri Lanka, Thailand and the Philippines.

Separate reports are being prepared on developments in ASEAN Group, the Asian Development Bank and a further note on the perception of the World Bank's role in international development.

Attachment

General Summary Report
Visits - Sri Lanka, Thailand, Philippines (Asian
Development Bank in particular)
November 9-December 2, 1978

This report paints a broad summary of impressions on visits to Sri Lanka, Thailand and the Philippines in the light of a round of discussions with Ministers, senior officials and responsible opinion leaders in these countries. The visits were undertaken after full country briefings by the Regional Departments (where the cooperation was unstinted) and through whom the arrangements for the visits were organized. The assistance of the Resident Representative in Sri Lanka (David Thomas) and in Thailand (Hendrik van der Heijden) was an essential ingredient in the success of the mission.

As in my previous report on visits to West African countries, I should again enter the caveat of the impressionistic nature of these observations given the limited range of individuals interviewed and the briefness of the visit. But the comments might be of some use in bringing a fresh and international perspective to country discussions.

Terms of Reference

The Executive Director for India and Sri Lanka, the Alternate Executive Director for the Philippines, Regional Vice Presidents for South Asia and East Asia and their officers, cooperated fully in organizing meetings through the resident missions in Colombo, Bangkok and Manila, with the following broad terms of reference:

- (a) The country's Third World posture on the global economic issues being pursued in the North-South dialogue,
- (b) The role of the World Bank in international development as perceived by the country.
- (c) Country reaction to the Bank's development philosophy and the atmosphere in which Bank activities are being pursued and, consequently, attitudes to the Bank.

Persons Interviewed

In Sri Lanka and Thailand, I had discussions with a broad cross section of official leadership outside of the Bank's normal operational contacts in the Ministry of Finance. These included, in Thailand, the President of the Chamber of Commerce, the Executive Secretary of ESCAP, the Rector of the National Institute of Development Administration, the Ministry of Foreign Affairs and the Deputy Prime Minister; in Sri Lanka, the Minister of Finance, Financial Secretary of the Cabinet, Governor of the Central Bank, the Resident Representative of the UNDP, Special Adviser to the President on International Economic Affairs, the Secretary of the Ministry of Trade, the Marga Institute and leading businessmen, and the Executive Secretary of the Colombo Plan; in the Philippines, attention was concentrated on the Asian Development Bank (as key Philippine officials were in Paris attending the Aid Consortium Meeting) where interviews included the Vice Presidents of the Bank - Mr. Stanley Katz and Mr. A.T. Bambawale - the Directors of the Country and Infrastructure Department, the Treasurer and the Post Evaluation Officer. As well, in the Philippines, discussions were held with the Senior

Deputy Governor of the Central Bank, the Chairman of the Development Bank of the Philippines (Placido Mapa) and a group of private development bankers, also the Deputy Director General of the National Development Administration.

Reception

My reception was warm and welcome in all the country visits. Naturally, explanations had to be given in some detail as to my terms of reference and the special concern which the Bank was now expressing through my appointment in Third World sensitivities, particularly in the changing world environment since the oil crisis and the 6th and 7th Special Sessions of the UN in 1974 and '75 and the emergence of the North-South dialogue. Many officials welcomed the opportunity for a relaxed and off the cuff discussion on the Bank with an official with a developing country background. My visit to Deputy Prime Minister Sun Thoin, of Thailand, was the subject of national television coverage with the theme of the discussions - the role of the Bank in world development.

Regional Background - Shifting Currents

Strongest impression right across the Southeast Asian region was a shifting current away from radical left wing governments and economic policies and a return towards the philosophy of the market economy. These trends are being strongly reinforced by current developments in China (modernization and acceptance of outside technology and capital), the success stories in the free market economies in East Asia (South Korea and Thailand) and the object lessons of the Vietnam refugees from com-unist South Vietnam. These trends have obvious implications for the Bank with a more hospitable environment for the Bretton Woods Institutions guided by market economics and for the North-South dialogue in which a regional approach through ASEAN is being forged aimed at identifying a mutuality of interests and concrete deals with major industrialized nations.

Bank Image

Given the shifting economic and political trends in the region, particularly in Sri Lanka, the Bank's image, certainly in the official circles, is held in the very highest esteem as the top professional development institution, although there were reservations on detail which will be referred to later. The President's Special Adviser referred to the Government's "complete faith and confidence in Mr. McNamara and the Bank". Under President Jayewardene, the Sri Lankan Government was now regarded as strong enough to accept the economic advice of the World Bank and the Fund on matters such as exchange rates and subsidies and the dismantling of controls in the economy. The Bank appears to be caught in a pivotal role, both in Sri Lanka and Thailand, in assisting countries to achieve the right balance between sustainable equity and growth. The UNDP Representative in Colombo and the Asian Development Bank in Manila suggest a delicate situation in playing this role. In Sri Lanka, the Bank's visibility is described as "high". We are being perceived as the institution dictating policy changes, such as increased electricity tariffs and reduced rice subsidies. The Government is regarded as raising public expectations too high for the priority development projects, particularly the Mahaweli Ganga Development Project, in overtaking the employment problem whilst the economic results from these projects may be of slow gestation. At the same time, some commentators consider that we have been used in a "clever political stunt" to take responsibility for the Government in packaging the highly ambitious Mahaweli Project on which the

political fortunes of the Government now largely depend. The liberalization of imports is also beginning to lead to the charge that doors are being opened to luxuries for the elite, eroding the concept of socialism and widening the gap between the rich and the poor. To quote a local press article, "I hope Mr. Robert McNamara did not see the well stocked shelves in our department stores which are literally crammed with fabulous, steeply priced luxury goods." As well, we could well be associated with the comment by a leading businessman that Government has perhaps gone too far in granting concessions on the free trade area to foreign investors with no limits on the level of foreign ownership, generous import duty and income tax concessions. Whilst Government representatives described these efforts as seeking to "open a window to the world" some people see dangers of political repercussions from a society which has had a radical socialist administration for seven years and still maintains a Marxist rump party, the JVP, not represented in Parliament but currently attracting huge crowds at public meetings.

The only reservation on the Bank which I picked up from the authorities was concern about the delays in the preparation and development of projects. Whilst accepting that the fault was mainly on the side of the bureaucrats in the Government, there was a hint that there was perhaps not enough clarity of instructions from the Bank about the preparation of feasibility studies, etc. This was probably sparked by the atmosphere of nervousness and extreme anxiety which I detected in the Government about the need for speed in the preparation of projects on which the life of the Government depended. The last seven Sri Lankan governments had changed at the polls and the present Government was desperately attempting to stabilize the political and economic situation by introduction of major development projects combined with a presidential system of government and proportional representation in the voting system which they hoped would minimize political swings.

In Thailand, there is full support for the Bank strategy in its basic economic report for redress of poverty and improving the balance between the accelerated growth in the country over the last 15 years and the low quality of life of the poor in the regions. Whilst the Deputy Prime Minister was full of praise and appreciation for the World Bank's assistance to Thailand and the contribution of the "clear and convincing" World Development Report, there were some critical comments, mainly about our style of operations, coming from the Ministry of Finance officials and from the National Economic and Social Development Board. On subtle enquiry about the inspiration for the critical Annual Meeting statement by the Governor for Thailand on the Bank, particularly on the conditions of World Bank loans, the Finance Ministry referred to the need for "more patience and understanding on the part of the World Bank in the conditions imposed." More precisely, the Director General in the Fiscal Policy Office explained that the Governor's speech was a result of a Ministerial reaction in the Thai Cabinet to what was perceived as infringement by the World Bank in the country's sovereignty in the conditions imposed in loan covenants, such as the requirement for consultations with the Bank on appointments to posts involved in World Bank projects. (Van der Heijden mentioned the difficult impasse on the approval of the appointment of the General Manager of the IFCT and the requirement for consultation on appointments under the Highway Traffic loan.)

Dr. Phisit, of NESDB, was more generally critical:

- the Bank was too paternalistic, largely as a result of a management which was US businessmen dominated and by ex colonial officials;
- the Bank pursued its own priorities in the country very often out of tune with national priorities. Bank staff tended to operate on their own in the country developing projects and pipelines without reference to the top leadership in the country in order to meet their own lending targets. As a result, there was the inevitable problem of ineffective implementation and slow disbursement since there was a lack of country political commitment to the project;
- there is a credibility gap between President McNamara, whose "noble statements everybody applauded", and the operational activities of the field staff which was becoming too large and fragmented "churning out standard stereotyped economic reports for countries";
- World Bank projects tended to be monolithic, e.g., the rural development prototype which is adopted for all countries;
- the World Bank was "running out of ideas";
- the current world situation, with political and economic instability, called for a far more urgent and massive attention to the developing countries than could be effectively applied by the World Bank's project method; in Thailand, for example, a \$400 million per annum Bank allocation could not be absorbed by projects which had to be identified and developed entirely by the World Bank;
- the Bank's rural development projects did not go far enough in attacking the rural poverty problem on a massive scale. Accordingly, Thailand was showing an interest in village development of the "bottoms up" type, of the South Korean model, with the assistance of a Japanese yen loan of \$100 million.

Even in the limited contacts in the private development banking community in the Philippines, a strong signal was received that the Bank as a development institution for the Third World was being damaged by the exchange risk problems which the Philippine development banks faced in a very practical way from the allocation of hard currencies for repayment of World Bank loans. The Private Development Corporation of the Philippines, for example, had been sued on grounds of equity for requiring repayment by a borrower in Deutch marks and had to settle out of court in order to avoid a class action which could have paralyzed the Bank. \$6.8 million of the Bank's loans had been prepaid by borrowers from loans raised in Switzerland to avoid the exchange risk in World Bank loans; this had seriously affected the earning capacity of the PDCP. The same cries were heard in Thailand from the IFCT Development Bank and from the Thai Central Bank asking the question: "Why not borrow yen or Swiss francs directly in the capital market at a lower rate of interest than face the uncertainty of allocations for currency repayments in hard currencies by the World Bank without any notice?" I explained that the management and Board had been concerned with this problem, particularly during this period of floating exchange rates. A proposal was going forward to the Board shortly to help meet the problem. Influential officials like Placido Mapa and others were still saying that the Bank was US dominated, although admittedly less so in recent

years, with the evidence I produced on the management's position on commodities and lending to Vietnam. Whilst the Bank's proposed expanded role in Energy, as explained, was much appreciated it was also seen as evidence of US oriented policies favoring US oil companies. Question was raised about Bank assistance in financing nuclear power plants for diversified supply as the massive development in Japan currently and projected had shown that the environment problems could be technically overcome. *Sum!*

Third World Postures

The broad picture which emerged throughout Southeast Asian countries visited was a more conciliatory and cooperative position to the North with the focus on ASEAN as the negotiating body with the major industrialized countries. In Sri Lanka, whilst the Special Adviser to the President on International Economic Affairs claimed that there was no change in substance in the country's position to the NIEO and in the Group of 77, there was a change in style - more moderate - under President Jayewardene who was opposed to confrontational approaches and leaned towards pursuing mutual interests on a cooperative basis. Some officials (Ministry of Finance) consider that attention to international matters under the previous administration, which had been hyper-activists internationally, had been overdone at the expense of attention to domestic economic management. Even the holding of the Non-Aligned Meeting in Colombo in 1976 seemed to have attracted little attention locally. The Sri Lankans were obviously becoming much more preoccupied domestically due to pressures of national economic problems. In Thailand, some officials explained the moderate and low profile position in the global G77 Meetings as due to the Thais perception of an absence of substance in the North-South dialogue. There was a strong feeling among officials, in particular the Central Bank and the National Institute of Development Administration, that Thailand had to look more to their domestic efforts for their economic development with the managerial constraint being the main obstacle rather than inequitable international structural economic relationships. The ASEAN Group provided a concrete instrument towards taking specific action such as liberalizing trade with the EEC, US and Japan. The Philippines have had a leadership role in the 77 in UNCTAD in Geneva, but it was difficult to detect (perhaps because of my limited contacts) even in discussions in the Ministry of Foreign Affairs, much grasp or feel of the vital importance attached to the UNCTAD negotiations. The main concern was administrative planning for the UNCTAD V Meeting to be held in Manila in May next year and the prospect of attracting Heads of State (and hopefully the President of the World Bank).

Nevertheless, there was general interest in the UNCTAD Common Fund negotiations because of the outlook for commodities on which the Southeast Asian countries depend (tea, rubber, sugar, tin, timber, jute, vegetable oils). The Thais are quite happy about an integrated program with voluntary contributions and are not greatly concerned about the establishment of a soft window, but would go along with the 77. There was great disappointment that the US Congress had not ratified the International Sugar Agreement despite the pressures that had been put on Thailand by the US Administration to become members of the ISA.

Apart from commodities, the priority item on the North-South agenda for Southeast Asian countries, is access to markets. The ASEAN Group is the chosen instrument for current negotiations with the industrialized countries.

In recent discussions with Japan, a special STABEX-type proposal, an expansion of the GSP tariff system, a relaxation of non-tariff barriers and assistance the establishment and development of industries in ASEAN states are said to be under consideration. Trade negotiations have also been pursued by ASEAN Foreign Ministers with the EEC recently in Brussels. The ASEAN movement has gained such momentum that it is reported that Sri Lanka is seeking membership and the Thais would like them to join. (A special note on current developments in ASEAN will be prepared.)

On Debt, there was little interest in pursuing this issue further in the North-South dialogue since Sri Lanka had already gained significantly under the retroactive term agreement for ODA negotiated in UNCTAD and the Thais were becoming very sensitive about pursuing debt questions in the light of their approaches to the external capital markets.

Bearing in mind one of the central themes for UNCTAD V coming from the UN Trade and Development Board is the system of international financial cooperation which is coming under strong criticism in Geneva, it was surprising that there was little or no feedback on this issue in Southeast Asian capitals. In fact, it was difficult to flush out current ideas about subjects to be pressed at UNCTAD V apart from trade and protectionism. From discussions with a Geneva G77 contact "en route", it seems clear that the 77 in Geneva are completely out of touch with developing countries position and activities in Washington in the Group of 24 and the Development Committee. Consequently, much of the G77 work on IFIs is repetitious, lacking in facts and reality. Perhaps we should assume some responsibility for the lacuna. Responsible observers do not think the Bank is having any impact on the development dialogue in UNCTAD, whether in the 77 or the "B" Group. I have mentioned the President's initiative in strengthening our policy input at the UN and with a Resident Mission in Geneva this position should improve.

D.R. Clarke
December 8, 1978

THAILAND LENDING PROGRAM
(Approved April 18, 1979)

Below is the table showing the approved lending ceiling for Thailand for the period FY80-84 as established in the Bank Review Group on April 18, 1979. The numbers in parentheses show the lending program approved in the CPP:

<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>
<u>----- US\$ million -----</u>				
370 (343)	415 (415)	560 (490)	580 (565)	625 (540)

This revised lending program is not yet project specific.

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COUNTRY PROGRAM PAPER

THAILAND

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Postscript

69. The CPP was reviewed at a meeting chaired by Mr. McNamara on October 25, 1978. The principal conclusions were as follows:

- (a) The redirection of the Bank's strategy was appropriate and well supported by the lending and economic and sector work programs; the proposed Lending Program for FY80-84 of \$2.3 billion for 38 projects was approved, subject to the outcome of the semi-annual review of the Bank's overall lending operations;
- (b) Concern was expressed over Thailand's absorptive capacity for a large increase in rural development projects, and it was agreed that this should be monitored and the pace not forced beyond the ability of the Thais to respond;
- (c) It was agreed that a decision on the question of an allocation for Thailand from IDA-VI should be deferred;
- (d) There was no objection to continuing to allow financing of local currency costs for projects in new areas to achieve sufficient resource transfer and to provide the Bank with a significant share in project financing;
- (e) It was agreed that the Region would work with the Thai Government to develop specific quantitative targets to achieve their objectives of improving the quality and distribution of public services and of alleviating poverty; ← what progress
- (f) Concern was expressed about improving development administration, and it was agreed that the Region would examine whether the Bank could play a constructive role in this area;
- (g) It was agreed that CPS would provide a "revised" section on population and demographic factors for this CPP, and that a "prototype" section be developed for future CPPs;
- (h) It was agreed that the Region would provide an alternative projection examining the effects on Thailand's balance of payments and credit-worthiness of less optimistic assumptions concerning growth of manufactured exports, import propensities and marginal savings rates, and that this be appended to the Postscript.

Attachment

East Asia & Pacific Regional Office
November 13, 1978

Sensitivity Test of Thailand's CPP Projections

To examine the implications of less favorable external circumstances or internal developments, projections have been made under more pessimistic assumptions than those of the CPP. The real rate of growth of manufactured exports has been reduced sharply in stages to 13% p.a. in 1982 and thereafter, which reduces total exports 10% by 1990.

Since the growth of manufactured exports in the first half of 1978 over the first half of 1977 is 35% (at least 25% in real terms), a more rapid deceleration does not seem reasonable. The real agricultural growth rate was slowed to 4% p.a. from 5%. Sectoral import elasticities were raised to at or above their historical levels except for petroleum imports, which was raised somewhat less. Substitution of domestic natural gas and lignite for petroleum imports and the effects of sharply higher energy prices are assumed to constrain this elasticity below its historical level. The savings propensities are reduced, but because the model is trade constrained this has little effect on the ex post marginal savings rate, which is determined by the resource balance. The implications of these more pessimistic assumptions for key variables are compared with their CPP values in Table I. Because of multiple potential interactions and responses resulting from these more pessimistic assumptions, ranges of values are presented. The principal result is to extend the period of transition and structural difficulty in the balance of payments; the economy remains stable and under control. GDP growth rates will fall to about 6.5% as a result of slower growth of manufacturing exports and lower agricultural growth. The current account deficit will continue rising in absolute terms through 1990, although its share of GDP will still decline, albeit at a slower pace. The resource (trade) deficit begins to decline in absolute terms by 1990, indicating long-run stability for the economy. Assuming that all the additional borrowing will be from private sources at commercial terms, the overall debt service ratio will rise to 26-29%. The economy is clearly in a more delicate situation than that presented in the CPP projection, but one that remains tenable if economic management remains as good as in the past. Although the debt service ratio begins to decline by 1990, it is unlikely that the Thai authorities will find this situation acceptable. They will probably exercise their remaining options of restraining imports or reducing growth to about 6% in order to maintain its external balance and keep the debt service ratio to about 20% despite the fact that this will delay achievement of Thailand's distributional objectives. These alternative projections indicate considerable downside stability and strength on the part of the Thai economy in the face of much more adverse developments than assumed in the CPP.

Table I: COMPARISON OF VALUES OF KEY VARIABLES

	CPP		Sensitivity tests with more pessimistic assumptions	
	1979-85	1985-90	1979-85	1985-90
1. GDP growth (% p.a.)	7.1	7.0	6.2-6.5	6.3-6.7
2. Current account balance (\$ million - end of period)	1,782	985	2,638-2,851	3,313-4,119
3. Import elasticity	.95	.97	1.02-1.00	1.05-1.03
4. Marginal savings rate (%)	32	35	28-27	31-29
5. Debt service ratio (% - end of period) <u>/a</u>	19.9	15.8	23.7-24.6	25.8-28.6

/a Including Direct Investment Income, which is about 1.5%.

OFFICE MEMORANDUM

TO: See Distribution Below

FROM: Nicholas A. Gibbs, Division Chief, AEADA

SUBJECT: THAILAND - CPP: Revised Section on Population

DATE: January 2, 1979

At the CPP review meeting of October 25, 1978, it was concluded that revised material on population and demographic factors in Thailand should be prepared by CPS. The material requested is attached and should be read as a supplement to the CPP dated October 12, 1978.

Distribution:

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Chief, CPP Division, PAB
Director, Policy Planning and Program Review Department
Chief, Program Review Division, PPPR.

JShilling:ag

THAILAND - Suggested Coverage for CPP (by CPP sections)

Introduction

1. Thailand's 1977 population was about 44 million persons, and is growing at the rate of 2.5% per annum. Although the population growth rate has fallen from 3.0% in 1970, the goal of the Government's National Family Planning Program (NFPP) is for a further reduction to 2.1% by 1981. Such a reduction should help to ease the pressures in rural areas to expand onto marginal agricultural land, and to reduce the rate of growth of the labor force after the 1990's.

Country Objectives and Performance

2. Recognizing the problems caused by rapid population growth, the RTG established the NFPP in 1970. Although the NFPP has succeeded in reaching its earlier operational and demographic targets, the current age structure (about 45% of the population under the age of 15) and still high fertility will almost inevitably produce a population 80-100% larger in the year 2000 than it was in 1970. In 1977, the crude birth rate was about 34 per 1000, while the crude death rate had fallen to about 9 per 1000 (about the same as Europe's). The expectation of life at birth is now about 58 years. Thailand's labor force is growing at about 3% per year and is expected to continue at this rate over the next decade as a result of the high population growth rate in the past. The rapid growth of the labor force will require a high rate of job creation to prevent increasing under an unemployment. Efforts to improve educational levels will also be made more difficult as the number of school age children grows rapidly. Thailand's rapid population growth has been accompanied by a movement of population from the country to the towns, although not as rapid as experienced in many developing countries. The proportion of population residing in urban areas has increased from 10% in 1947 to around 17% in 1976 with more than half residing in the Bangkok metropolitan area.

(Spatial distribution adequately covered in CPP text.)

Progress Towards Prior Goals

3. The RTG's NFPP has successfully reached both its initial operational and demographic targets, contributing to a significant reduction in the rate of population growth. Nevertheless, there remains considerable unmet demand for family planning services which can not be effectively reached until the health delivery system is extended further into the rural areas. In most areas, the NFPP is still supply rather than demand constrained in terms of service delivery points and personnel to staff them.

World Bank Strategy

4. The association's first population project was designed to assist the RTG in further reducing its population growth rate to 2.1% by 1981 by providing family planning services throughout Thailand. Experience to date has shown that increasing the number of service delivery points leads to an immediate increase of acceptors. The three-year project, which is in its initial stages of implementation, focuses on accelerating the expansion of new family planning and rural health services and improving the quality of existing services in 20 selected disadvantaged provinces. These are regionally distributed and characterized by low to moderate contraceptive practice, high population concentration and poor health facility coverage.

World Bank Program

5. The IDA is currently financing a US \$33.1 million credit for a population project, with additional IBRD population projects scheduled for FY82 and FY84. An analysis of the supply and demand constraints affecting family size decision in Thailand indicates that in order to reduce the rate of population growth below 2% during the next plan period, the service delivery system will have to be further extended into underserved rural areas (e.g., the Northeast and South) and the demand for services increased through a broad-based information, education and community involvement program designed to reach specific target groups (Muslims in the South, etc).

6. The second and third population projects will: (a) support the expansion of the health delivery and family planning system to underserved rural areas (focusing inter alia, on strengthening management and the quality of care); (b) increase the demand for and utilization of health and family planning services through an improved interagency information, education and community involvement program (involving in particular the mobilization of community groups and the active involvement of extension workers in other disciplines); and (c) carry out research in areas where population-development linkages require further clarification (education, female labor force participation, etc).

Conclusion and Recommendations

7. Although Thailand's NFPP has been successful in helping to reduce the population growth rate to the current 2.5% p.a., further reductions in the population growth rate are necessary to support the Government's strategy of alleviation of regional disparities in income distribution and provision of public services.

OFFICE MEMORANDUM

TO: Mr. J. Shilling, Economist, AEADA

DATE: February 5, 1979

FROM: Mr. Harold W. Messenger, *Chief*, Operations Division, POPSUBJECT: THAILAND CPP: Additional Note on Demographic Factors

Further to your memorandum of January 22, 1979, the following are the answers to Mr. Stern's questions:

1. According to PHRD projections (see Attachment 1)^{1/} the best estimate of Thailand's total population by the year 2000 is 68.5 million.
2. This estimate is based on the following assumptions: a further decline in mortality and a corresponding rise in life expectancy at birth from 58.0 years for the 1970-75 interval to 67.6 years for the 1995-2000 period; a decline in the total fertility rate from 4.5 in 1975-80 to 2.5 during the 1995-2000 interim. No international migration is assumed. This fertility decline seems quite rapid, but is in fact more conservative than the target projections of the Thai government. Even with this rapid decline, which is premised on the continued efficacy of Thailand's National Family Planning Program, the population in the year 2000 will be 90% larger than the 1970 population of 36 million.
3. At present we estimate that the net reproduction rate will equal 1 in the year 2005 when each couple will simply be replacing themselves. However, due to the momentum caused by the young age structure of the population, the stationary population size of 104 million will not be reached until a little before 2075.
4. The best available data on the Thailand's fertility rate is the World Fertility Survey, 1975. Retrospective birth histories permit computation of age-specific fertility rates (ASFRS). The rates for the two five-year periods 1965-69 and 1970-74 are presented in Annex 1. The total fertility rate^{2/} shows a significant decline of around 20% from 1965-69 to 1970-74, especially for the ages 25-34. These data strongly support the conclusion that fertility has fallen rapidly since the mid-sixties. The data also support the conclusion that there has been a substantial increase in contraceptive practice. Thirty-seven percent of the currently married non-pregnant women are currently practicing contraception, a prevalence rate which compares most favorably with other developing countries. If the targeted fertility decline is to be achieved (i.e., TFR of 2.5 during the 1995-2000 interim), about 63% of a random sample of women in reproductive ages should be practicing effective contraception in 1995-2000.

1/ Revised WDR projections for WDR II.

2/ The average completed fertility if ASAFRS prevailing at a time were to remain constant.

February 5, 1979

5. Thailand's NFPP is credited with assisting the RTC in reaching its national demographic target of reducing the rate of population growth from over 3% in 1970 to about 2.5% in 1977. The crude birth rate is estimated to have dropped from 42 per thousand in 1970 to below 34 per thousand in 1976.

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Attachment

Cleared with and cc: Mr. King, PHRD
Dr. Kanagaratnam, POP
Mrs. Maraviglia, POP
Mr. Cuca, POP

cc: Mr. Hall, POP
Mr. van Ommen, POP
Division Files

PAHall/SHCochrane:gsr
THAILAND CPP/POP

THAILAND CPP: TOTAL FERTILITY RATE

AGE GROUP	15-19	20-24	25-29	30-34	35-39	40-44	45-49	TFR
ASFR 1965-1969	.07	.25	.29	.26	.21	.15	(.03)**	6.25
1970-1974	.07	.22	.22	.18	.17	.08	.03	4.85

**Assumed figure

Source: International Statistical Institute, World Fertility Survey, (April 1978), p.5.

THE STATUS OF BANK GROUP OPERATIONS IN THAILAND

A. STATEMENT OF BANK LOANS AND IDA CREDITS
(As of February 28, 1979)

Loan or Credit Number	Year	Borrower	Purpose	Amounts (\$ million)		
				Less Cancellations		
				Bank	IDA	Undisbursed
Twenty-four loans and one credit fully disbursed				388.9	5.5	-
822	1972	RTG	Education	15.4	-	5.9
864	1972	TOT	Telecomm	37.0	-	3.2
870	1972	RTG	Highways	28.6	-	0.9
369	1973	RTG	Education	-	19.5	5.3
461	1974	RTG	Irrigation	-	7.0	1.2
977	1974	EGAT	Power	75.0	-	17.9
992	1974	IFCT	Industry	12.0	-	0.7
1021	1974	MWWA	Water	55.0	-	12.6
1149	1975	RTG	Irrigation	95.0	-	76.1
1198	1976	RTG	Rural Dev.	21.0 (TW)	-	11.6
1199	1976	RTG	Livestock	5.0 (TW)	-	3.5
1243	1976	RTG	Rubber	50.0	-	41.4
1253	1976	TOT	Telecomm	26.0	-	9.8
1271	1976	RTG	Education	31.0	-	25.2
1327	1976	IFCT	Industry	25.0	-	20.1
1393	1977	RTG	Agriculture	28.0	-	24.7
1468	1977	RTG	Irrigation	55.0	-	46.8
1485	1977	EGAT	Power	50.0	-	41.8
1492	1977	IEAT	Industry	4.8	-	4.5
767	1978	RTG	Population	-	33.1/a	33.1
1519	1978	RTG	Highways	110.0	-	100.8
1527	1978	PEA	Power	25.0	-	25.0
1556	1978	RTG	Housing	8.6	-	8.5
S-10	1978	NGOT	Energy	4.9	-	3.8
1620	1978	TOT	Telecom	90.0	-	90.0
1630	1978	RTG	Irrigation /b	17.5	-	17.5
1638	1979	RTG	Urban /b	16.0	-	16.0
Total				<u>1,274.7</u>	<u>65.1</u>	<u>647.9</u>
of which has been repaid				189.6	-	
Total now outstanding				<u>1,085.1</u>	<u>65.1</u>	
Amount sold /c				68.6		
of which has been repaid				<u>37.1</u>	<u>31.5</u>	
Total now held by Bank and IDA				<u>1,053.6</u>	<u>65.1</u>	
Total undisbursed				<u>608.3</u>	<u>39.6</u>	

/a Of which \$3.1 is Norway grant participation.

/b Not yet effective.

/c Of which \$43.3 million sold to the Bank of Thailand.

B. STATUS OF PROJECTS IN EXECUTION /1
(As of February 28, 1979)

Loan No. 822 Second Education Project (Kasetsart University); \$15.4 Million
Loan of May 24, 1972; Effective Date: August 22, 1972;
Original Closing Date: June 30, 1978; Current Closing Date:
July 31, 1980

This project involves development of Kasetsart Agricultural University and the relocation of the faculty of Veterinary Science and expansion of the faculties of Agriculture, Engineering and Economics and Business Administration on a new campus. Although the technical assistance and educational aspects of the project are largely on schedule, civil works are about three years behind schedule with consequent delays in furniture and equipment procurement. The delays in civil works result from (i) 10-15 months delay in contracting architectural consultants; (ii) 15-20 months delay in completing tender documents; and (iii) 3-9 months delay in awarding contracts. Progress has improved on contract awards: all civil works and 70% of equipment packages have been awarded. Furniture and the remaining equipment packages are being contracted. Contracted construction is progressing satisfactorily. The specialist services program under the project is nearly completed. Out of 26 experts, 21 have completed their assignment, two are in post and three are being recruited. Recommendations of experts for improvement of teaching, research and extension activities are considered worthwhile and have been implemented by the university staff. All the fellowships have been awarded; 94 recipients have completed their training. The fellowship program has greatly improved the qualifications of the staff. Total project cost will exceed appraisal estimates by about 35%.

Credit No. 369 Third Education Project; \$19.5 Million Credit of April 11,
1973; Effective Date: August 8, 1973; Closing Date:
June 30, 1979

The project finances construction and equipping of a National Curriculum Development Center (NCDC), ten Teacher Training Colleges, of which three require only equipment, and 32 Rural Secondary Schools (RSS) of which 11 require equipment only, all under the Ministry of Education; an extension of the Prince of Songkla University and supporting technical assistance. Project implementation is about 20 months behind schedule due to (i) ineffective project management, (ii) cumbersome review of procurement; and (iii) shortage of budget funds. However, substantial progress was made during the last three years. Contracting has reached 98% of civil works and 77% of equipment. Almost 75% of the construction at project institutions has been completed. All project schools have started operation. The NCDC is playing a key role in

/1 These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.

the development of new curricula at primary and secondary levels as part of a comprehensive educational reform program. An in-depth evaluation of RSS is being carried out, but preliminary indications are that the new curriculum for diversified secondary education is working well in the RSS. The expert services program is virtually completed and ninety-five percent of fellowship funds have been committed. The component of the project with greatest problems is that including the ten teacher training colleges where physical execution is slow and status of the colleges is in a state of flux as teacher training is being upgraded from secondary to postsecondary level. The Government is likely to submit to IDA a request for a postponement of the Closing Date by about nine months.

Loan No. 1271 Fourth Education Project; \$31 Million of September 13, 1976;
Effective Date: February 9, 1977; Closing Date:
June 30, 1982

The project finances construction of 50 diversified secondary schools (DSS) and the first phase of a nationwide adult education system (AES). Progress in project implementation follows the appraisal estimate with minor delays (3-6 months), mainly related to the AES component. Of the civil works which are carried out in three phases, the first phase is almost completed, the second is under construction and the third is still to be awarded. Equipment contracts have been awarded as follows: 70% for DSS and 25% for AES. Construction at four secondary schools has been completed. Technical assistance contracts have been signed for both components. Out of 100 DSS principals and assistant principals, 52 have completed an overseas training program on education and 24 are being trained. Out of 46 fellowships for AES, 11 have been concluded and 13 are ongoing. Five out of eight experts are in post. Satisfactory progress is being made with the implementation of special covenants in the loan agreement. An Interministerial Committee has studied procurement review procedures and has submitted a report to the Steering Committee of Ministry of Education.

Loan No. 864 First Telecommunications Project; \$37 Million Loan of December 5,
1972; Effective Date: March 1, 1973; Original Closing Date:
December 31, 1977; Current Closing Date: December 31, 1979

The project is generally maintaining the revised time schedule established in 1975, following initial delays. The Bank loan is fully committed and US\$33.4 million (90%) disbursed up to February 28, 1979. Over 90% of the local telephone network expansion has been completed; the balance is expected to be completed by June 1979. After a year's delay in procurement under a bilateral loan, the installation of the long distance transmission equipment is now progressing satisfactorily. The project is expected to be completed by the end of September 1979, two years and nine months behind schedule.

Loan No. 1253 Second Telecommunications Project; \$26 Million of June 11, 1976; Effective Date: August 25, 1976; Closing Date: December 31, 1980

The project is progressing satisfactorily. Procurement action on all Bank-financed items is complete. The Bank loan is fully committed and US\$16.2 million (62%) disbursed up to February 28, 1979. Local telephone network expansion is expected to be completed on schedule by mid-1979. After a year's delay in procurement under a bilateral loan, the installation of long distance transmission equipment is progressing satisfactorily. The project is now expected to be completed by the end of September 1980, nine months behind schedule.

Loan No. 1620 Third Telecommunications Project; \$90 Million Loan of October 4, 1978; Effective Date: January 3, 1979; Closing Date: September 30, 1983

The loan was effective on January 3, 1979. Bid documents for procurement of all project items are expected to be issued by mid-1979. Action has been initiated on the following items as required under institutional covenants: (a) maintenance of waiting lists for potential telephone subscribers, (b) better utilization of installed capacity in local telephone networks, and (c) the Economic Study of Telecommunications in Thailand.

Loan No. 870 Fifth Highway Project; \$28.6 Million Loan of December 26, 1972; Effective Date: March 26, 1973; Original Closing Date: December 31, 1977; Current Closing Date: December 31, 1978

Works under the project have been divided into nine contracts, of which four have now been completed. Work on seven of the contracts was interrupted in 1974 because rapid increases in costs led to financial problems for the contractors. Work was resumed on three contracts after renegotiation of the contract prices with the Government. The other four contracts were terminated by agreement between the Government and the contractors; new contracts were awarded and work was resumed in early 1976. Over 80% of the work has been completed. Because of higher prices in the bids for completing the unfinished work, total cost of the project is expected to be around \$75 million, or about 30% above the appraisal estimate, with Government financing the overruns. Despite these difficulties the project is likely to be completed no more than one and a half years behind the original schedule. The highway maintenance study and feasibility studies for future projects have been completed, and detailed engineering of the roads found to be feasible has been completed.

Loan No. 1519 Sixth Highway (Provincial Roads) Project: \$110 Million
of March 23, 1978; Effective Date: June 22, 1978;
Closing Date: December 31, 1982

The Loan was declared effective on June 22, 1978. Procurement of maintenance equipment is under way, with most contracts expected to be awarded in early 1979. Construction of project roads is well under way, with most contracts on schedule. Bids for the final group of road contracts are being evaluated and awards are expected to be made during the first half of 1979. Overall progress is satisfactory.

Credit No. 461 Northeast Irrigation Improvement Project; \$7 Million Credit
of February 19, 1974; Effective Date: October 7, 1974;
Closing Date: June 30, 1979

The project will be completed two years behind schedule as a result of initial delays in appointing consultants and in procuring earthmoving equipment. During the 1977/78 working season there was a marked improvement in the pace of construction, especially on the tertiary canals. Work on rehabilitation of main canal systems has been satisfactory and will be completed in 1979. The estimated project cost is \$30.3 million, compared with \$12.5 million at appraisal. In part, the increased cost is due to price inflation being higher than foreseen at appraisal. Also, a large part of the increase is due to a decision to provide new tertiary canals over an area of 34,700 ha rather than the 21,500 ha assumed at appraisal, and the adoption of higher standards for tertiary development than envisioned at appraisal. The higher costs are compensated for by increases in projected commodity prices and the economic rate of return is now estimated at 24% compared to 22% at appraisal. Progress on the rainfed rice component is satisfactory.

Loan No. 1630 Second Northeast Thailand Irrigation Improvement Project:
\$17.5 Million of November 14, 1978; Effective Date:
Closing Date:

Signed on December 4, 1978 but not yet effective.

Loan No. 1149 Phitsanulok Irrigation Project; \$95 Million Loan of
July 25, 1975; Effective Date: October 31, 1975;
Closing Date: June 30, 1983

Although the start of major construction was delayed by about a year, prospects are good that the project can be completed on schedule in 1984. A contract for the diversion dam was awarded in October 1977 and the first of three contracts for canal construction was signed in April 1978. Most of the equipment for the project is now delivered or on order. The on-farm works are proceeding on schedule, with four pilot projects in operation and construction of the first large block under way. The consulting services for the project were recently reorganized to provide a nucleus of resident staff and a greater level of assistance in project management.

Systems for monitoring project benefits and water-associated diseases are being established and the reporting of project progress has improved. The first phase of the Chao Phya Basin Study, also financed from the loan, has been completed and the next phase is continuing. Consultants appointed in August 1978 for the RID Administration and Organization Study will shortly complete their first phase reports.

Loan No. 1468 Second Chao Phya Irrigation Improvement Project;
\$55 Million of September 23, 1977; Effective Date:
December 23, 1977; Closing Date: June 30, 1983

Equipment procurement is progressing satisfactorily. Rehabilitation and on-farm development works on about 5,300 ha were completed in the 1978 construction season. Project preparation for about 40,000 ha in the Stage II area of Maeklong should be completed in first half of 1979. A project monitoring system is being set up and the Chao Phya Project area is now served by the National Agricultural Extension Project.

Loan No. 1198T Northeast Thailand Rural Development Project; \$21 Million
Loan of February 27, 1976; Effective Date: June 29, 1976;
Closing Date: June 30, 1981

After a delay of one year in appointing consultants good progress is being made on the engineering of the village roads. The first contract for construction of 114 km has been completed and work has begun on two contracts for a total of some 250 km. Procurement problems have delayed the water supply components, but most of the drilling equipment has now been delivered and drilling crews have been recruited and are being trained. Progress on rural electrification is excellent and this component will be completed in June 1979. Progress on agricultural extension, upland crop and land settlements is satisfactory. After a slow start-up, the upland crop components are progressing satisfactorily.

Loan No. 1199T Livestock Development Project; \$5.0 Million of February 27,
1976; Effective Date: May 25, 1976; Closing Date: June 30,
1981

The seed production and pasture development programs are progressing reasonably well and the loaned-bull and artificial insemination programs, hitherto hindered by the delay in importation of cattle, are expected to improve with the delivery of 400 imported Brahman cattle. Furthermore, the number of permanent project staff has been increased from the initially approved 121 to 223, and the New Zealand Government has agreed in principle to provide additional technical assistance for the remaining project period. Disbursements are still considerably behind schedule but are expected to increase with improvement in the preparation of procurement documents and importation of cattle. The Department of Livestock Development has agreed to

reallocating project funds to take account of the fact that some of the project components are either being financed from other sources or are no longer considered to be of higher priority.

Loan No. 1243 Rubber Replanting Project; \$50 Million of September 13, 1976;
Effective Date: January 14, 1977; Closing Date: June 30,
1981

The project is about one year behind schedule as a result of a corresponding delay in loan effectiveness. Otherwise, progress of the project is satisfactory.

Loan No. 1393 National Agricultural Extension Project; \$28 Million of
May 17, 1977; Effective Date: September 1, 1977;
Closing Date: December 31, 1982

Project implementation in the field is progressing well with most staff appointments completed in fifteen provinces. There is already some encouraging evidence of adoption of new technology by farmers as a result of improved extension services. Procurement is on schedule, but the civil works program is about one year late because the scope and cost of the proposed civil works program was larger than envisaged at appraisal and allowed by the Budget Bureau. A reduced construction program was agreed to and rebidding is in progress for works in eleven provinces. Disbursements are also behind schedule because of the delays in the civil works program. Both the civil works program and disbursements are expected to progress as scheduled during 1979. Extension and civil works consultants provide DAE with excellent assistance. A second agricultural extension project has recently been appraised.

Loan No. 977 Srinagarind (Ban Chao Nen) Hydroelectric Project; \$75 Million
Loan of April 15, 1974; Effective Date: June 14, 1974;
Closing Date: December 31, 1980

The overall progress of civil works is about 85% complete. Construction of the dam embankment was completed on May 14, 1978 with a total volume of a little over 12 million cu m. All other works are being carried out satisfactorily. The installation of the turbine generating units is proceeding and is expected to be completed not later than March 1980, as scheduled. The diversion tunnel was closed in August 1977 but in the first wet season the reservoir did not reach the level anticipated. 1978 has been a good hydro year and the water situation in the reservoir is much better. Project costs are likely to be about 20% over estimate, due mainly to additional grouting work required beneath the main embankment. Disbursements indicate that the foreign costs will increase further as a result of the recent devaluation of the US dollar against the Japanese yen. The progress of resettlement has been satisfactory, and almost all of the 814 families involved have now been moved into their new homes.

Loan No. 1485 Pattani Hydroelectric Project; \$50 Million of September 23, 1977; Effective Date: December 20, 1977; Closing Date: December 31, 1982

The construction of the main civil works is proceeding satisfactorily. Implementation is about one month behind schedule. Initial delay was caused by slow mobilization of the contractor and poorer than expected rock conditions at the downstream ends of the diversion tunnels. Orders for all major equipment (financed by the Kuwait Fund) have been placed. Construction of the resettlement project is progressing according to schedule. Disbursements are generally in line with appraisal estimates.

Loan No. 1527 The Accelerated Rural Electrification Project; \$25 Million of March 9, 1978; Effective Date: June 7, 1978; Closing Date: June 30, 1983.

The project covers the electrification of about 4,500 villages, mainly in northeast Thailand. The project is in the early stages of implementation. After an initial delay of about four months in the preparation of bid documents procurement is now under way and should present no further problems. Field construction crews have been organized and have been working on pole setting and conductor stringing since the middle of 1978, utilizing materials available in stock.

Loan S-10 Natural Gas Development Engineering Project, \$4.9 Million of July 28, 1978; Effective Date: September 25, 1978; Closing Date: June 30, 1980

Loan declared effective on September 25, 1978. The engineering work is proceeding on schedule. The follow-up project loan has been appraised.

Loan No. 1021 Bangkok Water Supply Project; \$55 Million Loan of June 28, 1974; Effective Date: December 2, 1974; Closing Date: June 30, 1979

Physical work on the project is proceeding satisfactorily. The quality of construction and the performance of consultants on supervision of construction of the IBRD portion of the project is good. The quality of work on the ADB portion of the project - the transmission and distribution of pipes - has not been satisfactory but MWWA is taking corrective measures. Because of the initial delays in contract awards, the project is expected to be completed in late 1979, about 20-21 months behind the original schedule. Extension of the June 30, 1979 Closing Date by about 9-12 months will be required for full disbursement of the loan. Due to inadequate tariffs, which were last revised in May 1972, MWWA's financial performance continues to be poor. MWWA's proposals for raising the water tariffs in line with the increased operating costs have been recently reviewed by the Cabinet which has

approved in principle that water tariffs may be substantially increased from July 1, 1979 (when some water benefits from the project are expected to materialize). It is still unclear whether the water tariffs will be raised to enable the MWWA to meet the rate of return covenant. MWWA has, however received approval to increase tariffs every two years following the initial increase so as to enable MWWA to achieve its covenanted rate of return of 8%.

Loan 1556-TH Bangkok Sites and Services Project; \$8.6 Million of June 15, 1978; Effective Date: September 22, 1978; Closing Date: December 31, 1981

Loan declared effective on September 22, 1978. Project implementation is progressing satisfactorily.

Loan No. 1638 Bangkok Traffic Management Project; \$16 Million Loan of January 25, 1979

The Loan has been signed but has not yet been declared effective. However, the implementation of the project is generally ahead of schedule. Signal equipment will be installed this spring, some two years earlier than had been expected, as a result of the consulting and procurement work done under contracts for which the Bank provided retroactive financing.

Loan No. 1492 The Minburi (Lat Krabang) Industrial Estate Project; \$4.75 Million of December 5, 1977; Effective Date: March 24, 1978; Closing Date: December 31, 1981

Project implementation is progressing satisfactorily. Construction of on-site infrastructure is proceeding on schedule and land sales are well ahead of the appraisal estimate.

Loan No. 992 Second Industrial Finance Corporation of Thailand (IFCT) Project; \$12.0 Million Loan of June 4, 1974; Effective Date: September 4, 1974; Original Closing Date: September 30, 1978; Current Closing Date: September 30, 1979

The full amount of the \$12 million Loan has been committed. The commitment was more rapid than originally estimated. Disbursements have also been very satisfactory. Since June 1974 when the loan was made, IFCT's financial condition has continued to be good.

Loan No. 1327 Third IFCT Project; \$25 Million of December 8, 1976; Effective
Date: March 14, 1977; Closing Date: December 31, 1980

Loan commitment rate has been slower than expected because of sharply depressed investment climate in 1976. Capital structure and liquidity position have improved, however, with success of share capital increase. Satisfactory progress has been made on institution-building aspects of project.

Credit No. 767 Population Project; \$33.1 Million of February 27, 1978;
Effective Date: July 6, 1978; Closing Date:
December 31, 1981

RTG has, in accordance with the Credit Agreement: (a) established and staffed the Project Coordinating Committee, which has met frequently; (b) established and staffed the Project Administration and Financing Unit (PAFU), which is responsible for coordinating project administration; (c) appointed a project director, deputy director and two assistant project directors and a health planner/economist; and (d) initiated most of the key project activities at the national level and in the 20 Accelerated Family Planning and Health Provinces. With regard to the civil works, furniture and equipment, vehicle and special equipment components of the project, satisfactory progress has been made in completing design work, preparing vehicle and equipment lists/specifications and in selecting and acquiring sites. IDA approval has been given to all designs. The furniture and equipment lists and related cost estimates for all project facilities, except for the rural health facilities, have also been reviewed and generally approved. However, due to delays in staffing PAFU, the high turnover of the staff of the Special Project Unit in the Construction and Design Division, and delays in securing Budget Bureau approval for the supplementary budget for FY1978, key project activities were held up initially and major elements are around six months behind schedule. During the last four months, the supplementary budget for FY1978 has been allocated, external donor support secured, and most of the important national, provincial and district level posts established and funded and the project is now ready to move ahead with implementation. The major contributing factors to the problems facing the project have been weak project management and insufficient attention to project coordination and to removing the impediments to speedy implementation. The Ministry of Public Health is aware of this situation and is taking appropriate action to ensure that the Project Director and his Deputy are more directly involved in project execution.

FUTURE BANK/IDA PROJECTS

SCHEDULED FOR FY79 (NOT YET APPROVED), FY80 AND FY81

Northern Agricultural Development Project (\$22 million, IDA)

Two matters which are critical for this project and will have an importance for agriculture far wider than the project itself are the allocation of land for agriculture and land tenure. Virtually all of the land in the highland sites of the project is classified as forest reserve, and the proposal is that land suitable for stable agriculture (in contrast to shifting agriculture in areas which should remain in forest) would be allocated to this purpose and that land-use certificates would be issued to those farming in the designated zones. Implementation of the highland component of the project depends, in the short term, on the first condition and, in the long term, on the second. Beyond the project, the resolution of these questions will have a substantial impact on aggregate agricultural production and on raising the incomes of the poor. Negotiations on this project started April 23.

Second National Agricultural Extension Project (\$40 million, IBRD)

This project will extend to the rest of Thailand the benefits of the first Agricultural Extension Project (FY77), which is making significant progress in disseminating improved techniques in selected provinces. The second project has been advanced to FY80 at Thai initiative. Negotiations are scheduled to begin May 21, 1979. The issues paper for this project expressed concern that suitable fertilizers are not always available in a timely manner at reasonable prices. Although the benefits of the project are still expected to be adequate to justify Bank support, the impact of the fertilizer situation on agricultural production could be substantial. Fertilizer use in Thailand is relatively low as a result of low crop/fertilizer price ratios, irregular supplies, and the lack of appropriate types of fertilizers. These conditions in turn derive from the high cost, limited capacity, and restricted product line characteristics of the domestic fertilizer industry and resultant efforts to protect it, and from export taxes on certain crops, particularly rice. A change in fertilizer policy could have a greater short-term impact on agricultural production than any other measure. At the request of the Government the International Fertilizer Development Center (TVA) and Bank staff in collaboration with the Fertilizer Committee of Thailand (under the Ministry of Industry) will carry out a study to help Thailand develop a national fertilizer strategy. The study, will give particular emphasis to distribution and prospects for developing future production based primarily on domestic raw materials, specifically, an ammonia plant based on natural gas; any fertilizer production proposals for Thailand will have to be consistent with the framework of the ASEAN Agreement.

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First Agricultural Credit Project (\$15 million, IBRD)

This will be the first agricultural credit project to be financed by the Bank in Thailand. The Bank for Agriculture and Agricultural Cooperatives

(BAAC) will be the implementing agency. Various agencies have in the past been involved in meeting the credit needs of farmers, and BAAC has hitherto not been in a strong position either to coordinate their activities or to stipulate common procedures. Credit programs in the country are characterized by high arrears. The project will focus on institution-building (staffing, training, credit procedures) and is expected to strengthen BAAC's position with a view to enabling it to function as an apex bank in the longer run. RTG has evinced much interest in the preparation of the project and a Long-Term Credit Advisory Committee, chaired by the Deputy Minister for Agriculture has steered project preparation in the final stages.

The project would also benefit from a recent comprehensive report on the reorganization of cooperatives prepared by Dr. Schott (a consultant provided by USAID). The Prime Minister has taken a personal interest in the findings and recommendations of Dr. Schott, and it is expected that the cooperative structure will undergo far-reaching changes in the near future. The appraisal mission has recently returned.

Agricultural Research Project (\$30 Million, IBRD)

Discussions with the Government concerning the preparation of an agricultural research project to be supported by the Bank have occurred over a period of several years, but until recently they have founded on the opposition of Dr. Prakob Kanjanasoon, Director General of the Department of Agricultural Techniques (DAT), the government department mainly responsible for agricultural research. He objected, in particular, to an earlier recommendation of the Bank that DAT be split into a Department of Agricultural Research and a Department of Agriculture. The Bank no longer supports this recommendation. Furthermore, both Messrs. Husain and Please, during their visits to Thailand at the end of 1977 and in mid-1978, respectively, stressed the importance of strengthening the research effort in order to provide further inputs to the extension system, in general, and to develop technology packages for rainfed agriculture, in particular. Dr. Prakob's resistance to the project now appears to have lessened, and the appraisal mission has recently returned.

Irrigation XI (\$70 Million, IBRD)

Irrigation XII (\$90 Million, IBRD)

The irrigation lending program is being modified to group discrete components of several irrigation systems into a single project rather than structuring the project around a complete irrigation system. This change will improve the project planning and preparation capacity of the Royal Irrigation Dept. by encouraging it to focus on the needs of each system sooner and to program its work more efficiently. The project is in its appraisal stage.

Second Rural Infrastructure Project (\$41 Million, IBRD)

This project will build 2,750 km of rural roads to provide disadvantaged areas better access to markets and will drill 4,200 village wells. Because of difficulties with the implementing agency, this project may well be deferred for some time. X

Rural Roads Project (\$75 Million, IBRD)

The Bank is financing a comprehensive study of the organization, maintenance and long-term development of rural roads under the Highways VI loan. The results of this study will form the basis for two rural roads projects (this project and a further one in FY84) which will strengthen rural road planning and assure priority development of roads in poor areas.

Inland Waterways Project (\$60 Million, IBRD)

This project is intended to improve the efficiency of inland waterway transport (Chao Phrya river) through deepening/widening of navigational channels, construction of river ports and development of new river craft. In addition the project will strengthen the Harbor Department through technical assistance and training.

Flood Control and Drainage Project (\$40 million, IBRD)

This project will assist development of a Bangkok flood control system and includes construction of flood protection works in one of the poorer areas of Bangkok. The project will contain a technical assistance component to study ways to strengthen Bangkok Metropolitan Authority's investment program and financial planning. It will also help the Provincial Water Authority study the development of provincial water supply systems.

National Sites and Services Project (\$35 million, IBRD)

This project will continue the slum upgrading already begun in Bangkok and begin developing sites and services in provincial cities.

Small and Medium Scale Industries Credit Project (\$15 million, IBRD)

In keeping with the Thai Government's industrial strategy, which aims to increase employment creation and to achieve a better regional distribution of industries, the Government has included in its Fourth Five-Year Plan a proposal to establish a new financial institution specialized in the financing of small-scale industries. The funding requirements of the new institution have been tentatively estimated at \$15 million to cover the foreign exchange needs of a two-year lending program and some technical assistance. The Government has not yet made any official request for World Bank Group assistance in setting up and financing the proposed institution, although Thai authorities are fully aware of the Bank's willingness to consider such a request favorably. Should an official request for our assistance be presented, we might be faced with a potential issue on the question of lending rates. It is generally recognized in Thailand that the unavailability of finance, rather than its cost, is the major constraint faced by SSI entrepreneurs. However, increasing lending rates to SSI from the present 9.5% per annum to 11-12% is considered in some government circles in Thailand as

politically undesirable. The Government has practically committed itself to the public not to raise lending rates to small-scale industries above the current level of 9.5% p.a. We calculate that in order to cover its expenditures, an institution specialized in SSI lending needs to operate with an interest spread of 5% to 6% over and above the cost of its funds. A 9.5% lending rate implies that the average cost of funds to the new institution should not exceed 3% to 4%, which is substantially higher than the current IBRD lending rate. We understand that other aid agencies have indicated to the Thai Government their willingness to finance the proposed project at concessional interest rates. The Government might consider such alternative sources of funds favorably in view of its desire to keep lending rates to SSI at a low level.

Fifth (Multipurpose) Education Project (\$35 million, IDA)

The project will pursue three broad objectives: (a) to continue the program to diversify secondary education by creating centralized workshop complexes to provide practical instruction to students from nearby academic secondary schools and by providing community (lower) secondary schools in disadvantaged rural areas with practical facilities; (b) to equalize the quality of school education and expand the coverage of out-of-school education through educational radio by strengthening the center for Educational Technology and establishing a second national radio network to be used for educational broadcasting; and (c) to improve government management and planning by creating one center each for in-service training of civil service officers and for educational administrators; and implementing various studies on education such as a comprehensive program of school location planning. The project would further support the permanent establishment of a central procurement unit in the MOE to assist it to overcome inefficiencies in project implementation. The project would assist the Government to further develop cost-effective models for diversified secondary education; provide more relevant education for some 27,000 secondary students annually, about 75% of whom would come from relatively disadvantaged economic areas; and expand access to education for a radio audience of about 12 million per annum. The education system, and country as a whole, would benefit from the improved efficiency of government management.

Power Sector Loan (\$80 million, IBRD)

Two power sector loans (this one and further loan in FY83) are being proposed to a) help the Thai authorities to address such issues as the mechanism for overall sector planning, the degree of coordination between the different power agencies which report to different ministries, and the appropriate pricing policy for power; and (b) to provide assurances to other lenders supporting power sector investment.

Second Gas Pipeline Project (\$80 million, IBRD)

Development of offshore gas fields will be the responsibility of Union Oil of California and Texas Pacific, two US oil companies. The Government, through the Natural Gas Organization of Thailand, will finance the transmission and distribution facilities at a cost of about US\$750 million. Gas will be substituted for fuel oil and will help reduce the cost of fuel imports with an annual net saving in foreign exchange of about US\$140 million. The Bank's proposed share of the financing is US\$80 million or 12% of total cost. The balance will be financed by supplier credits and commercial banks. In view of our other priorities in Thailand, we do not intend a large contribution to this project but would rather be a catalyst to help raise funds on suitable terms.

Coal Expansion Project (\$40 million, IBRD)

Project preparation is underway for a US\$40 million loan to the Coal Division of the Electricity Generating Authority of Thailand (EGAT) to assist in the financing of mining equipment to be used for the expansion of the Mae Moh open pit lignite mine. The lignite will be used for power generation and substitute for imported fuel oil. The total cost of the project is estimated to be US\$50 million. Since EGAT is a state-owned public utility and since no coal will be exported, the Government is questioning the applicability of the guarantee fee normally charged on loans for industrial projects.

IFC INVESTMENTS IN THAILAND

(Provided by IFC)

I. PAST IFC INVESTMENTS

IFC has made commitments in 9 companies in Thailand totaling US\$83.1 million equivalent. As of January 31, 1979, IFC held US\$32.1 million equivalent for its own account (including undisbursed balances).

IFC's activities have been primarily in industry and in financial institutions development aimed at mobilizing domestic resources and providing financing to smaller enterprises. In industry IFC's assistance has led to production capacities being installed for cement manufacturing and distribution, steel reinforcing bars, asbestos sheet and pipe, glass containers and bulk sugar handling facilities. In institution development IFC has helped to create the Thai Mutual Fund Co., Thai Orient Leasing Co., and has provided a credit line to finance small businesses with Siam Commercial Bank. IFC has also provided extensive technical assistance to the Government regarding capital market development.

A summary of IFC's investments in Thailand is attached as Annex I.

II. FUTURE IFC PROGRAM IN THAILAND

IFC expects to continue to help traditional manufacturing projects where its participation will make a valued contribution. There is also a continuing need for IFC's assistance in financial institution and money market development. IFC is now helping the Bank of Thailand to formulate strategies to develop money markets and is considering joining in creation of a new entity for financing small scale enterprises.

Thailand, with its freely convertible currency, presents an increasingly competitive banking environment. Commercial banks are providing long-term financing for the better projects, limiting IFC's traditional role in this area. However, IFC can provide a unique service by becoming actively involved in larger capital intensive projects in the private sector, and in projects of interest to the Government. A summary of projects which are under consideration for future IFC investments is attached as Annex II. Consultations with the Government have identified several areas in which IFC's services are needed in the early stages. These include:

1. Large, Complex Projects

The Government has asked for IFC's assistance in examining the merits of two difficult projects of national interest - a sponge iron project and a soda ash project.

2. Project Identification/Promotion in Close Cooperation with IBRD

Over the next few months IBRD will be conducting studies:

- (a) to review alternate natural gas uses and identify optimum strategies. IFC has already given the Government technical advice on approaches to this problem;
- (b) to help prove up potash reserves;
- (c) to review Thailand's fertilizer needs and suggest a supply strategy; and
- (d) to review engineering industry's plans.

Building on this work IFC, in consultation with the Government and IBRD, will seek to identify and promote specific projects which appear to be feasible either as private or joint private/Government undertakings.

3. Agribusiness

Projects in the agricultural sector are particularly important to the Thai Government and several possibilities exist for IFC involvement. IFC is considering some large scale plantation proposals, and possible involvement in the distribution/warehousing of agricultural products. The Corporation will also build on the findings of an upcoming IBRD study on marketing and distribution of agricultural products. The most difficult area is the small-holder sector where there is a need to examine incentives and support mechanisms (such as crop insurance) necessary to attract entrepreneurs. IFC will consult with the Government to develop a program in this area.

STATEMENT OF IFC INVESTMENTS AS OF MARCH 31, 1979

Investment Number	Year	Obligor	Type of Business	Equity	Loan	Total (US\$ millions)	Total Held by IFC	Undisbursed
19-TH	1959	Concrete Products & Aggregate Co., Ltd.	Cement & construction materials	-	0.3	0.3	-	-
71-TH 185-TH	1964 1970	Industrial Finance Corp. of Thailand	Development Finance	0.4	-	0.4	-	-
147-TH 321-TH 419-TH	1969/ 1975 1978	Siam Cement Group	Cement & construction materials	3.9	28.3	32.2	1.9	-
368-TH	1977	The Mutual Fund Company, Ltd.	Money & capital market	0.3	-	0.3	0.3	-
373-TH	1977	United Sugar Terminal	Food & food processing	0.2	2.5	2.7	2.6	-
401-TH	1978	Small & Medium Scale Industrial Enterprises	Money & capital market	-	2.0	2.0	2.0	2.0
425-TH	1979	Bangkok Glass Industry Co., Ltd.	Glass containers	0.2	4.9	5.1	5.1	5.1
426-TH	1979	Siam City Cement Co., Ltd.	Cement & construction materials	4.0	36.0	40.0	20.0	36.0
433-TH	1979	Thai Orient Leasing Co., Ltd.	Money & capital market	0.1	-	0.1	0.1	-
TOTALS				9.1	74.0	83.1	32.0	43.1

DESCRIPTION OF IFC INVESTMENTS AS OF MARCH 31, 1979

Concrete Products & Aggregate Co., Ltd. - 19 TH - Cement and Construction Materials

IFC's loan has been fully repaid.

Industrial Finance Corporation of Thailand (IFCT) - 71/185 TH - Development Finance

IFC's equity investment in IFCT has been sold.

Siam Cement Group - 147/321/419 TH - Cement and Construction Materials

In 1969 IFC made an investment of approximately US\$22.1 million in this Group to finance a first expansion program. IFC's second investment helped finance expansions of four companies in the Group. The projects have been completed and are operating satisfactorily. IFC subscribed to a rights issue in 1978.

The Mutual Fund Company, Ltd. - 368 TH - Money and Capital Market

The Company, sponsored by IFCT, develops and manages mutual funds, initially of a "closed-end" type for sale primarily to small investors. They have issued two such funds, totalling about US\$10 million in size, and both were oversubscribed.

United Sugar Terminal - 373 TH - Food and Food Processing

IFC helped finance construction of storage and shiploading facilities and transportation equipment to handle raw sugar in bulk for export. The project was completed early in 1978, but is operating rather below planned throughput due to quota restrictions on Thailand's sugar exports.

Small and Medium Scale Industrial Enterprises - 401 TH - Money and Capital Markets

The project consists of a non-revolving line of credit of US\$2 million for small and medium scale industrial enterprises (SMSIE) administered by the Siam Commercial Bank Limited, one of the major private commercial banks in Thailand.

Bangkok Glass Industry Co., Ltd. - 425 TH - Glass Containers

IFC helped finance construction of a plant to produce annually 30,000 tons of glass containers for the pharmaceutical industry and also for other industries. The project is under construction and is due to be completed in 1980.

Siam City Cement Co., Ltd. - 426 TH - Cement and Construction Materials

IFC helped finance a 4,000 tons per day cement plant to increase the Company's total capacity to 5,600 tons per day. The project is under construction and is due to be completed in 1981.

Thai Orient Leasing Co., Ltd. - 433 TH - Money and Capital Market

The Company, sponsored by IFCT and Orient Leasing Company of Japan, provides financial services particularly to small and medium scale enterprises.

FUTURE IFC INVESTMENTS IN THAILAND

Projects which are under consideration for future IFC investments are as follows:

Nylon Tire Cord Project - A project to manufacture nylon tire cord, the first of its kind in Thailand is under active consideration. The transaction is expected to be completed in the latter half of 1979.

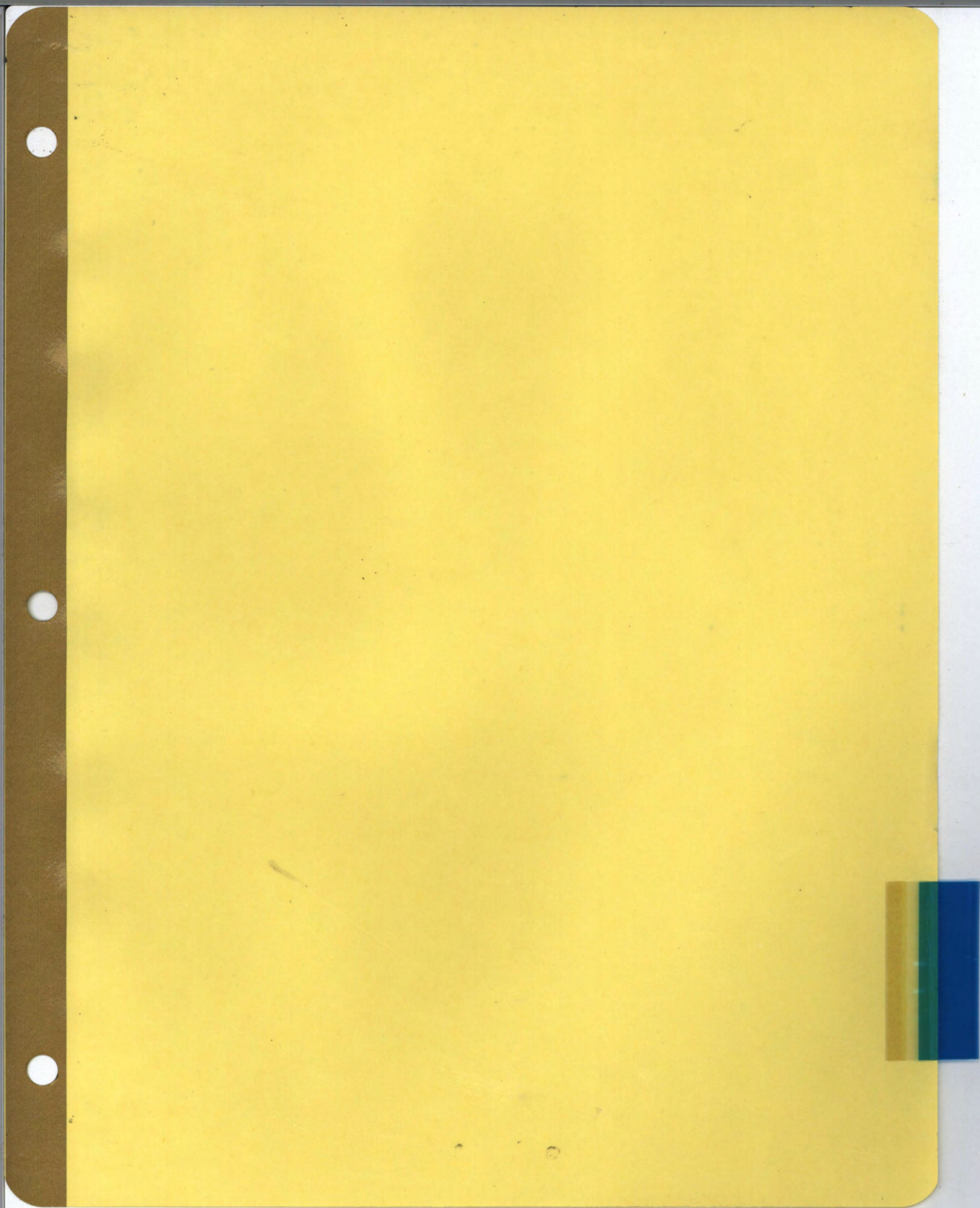
Sponge Iron Project - This project to be located near Sri Racha, southeast of Bangkok, would involve the direct reduction of iron ore using natural gas from the Gulf of Thailand. Melting capacity would be on the order of 520,000 tons/year and would cost about \$1.5 billion. Issues are whether the product would be a good substitute for imported scrap, which is volatile in price and availability, and how the project would fit into Thailand's present electric steel making capacity.

Soda Ash Project - This project, which is designed to serve the ASEAN community would be based on rock salt deposits in northeast Thailand. It will be necessary to determine whether the project would be an efficient way to meet the ASEAN's soda needs. The project may also be a base for a broader salt based chemical industry which could help develop northeast Thailand.

Pineapple Plantation Project - IFC is considering a large scale plantation project to grow pineapples for export. The \$17 million project would utilize 20,000 acres now planted with lower value sugar cane to grow and pack approximately 6 million cases of pineapples per year.

Projects to improve distribution/warehousing of agricultural products - Possibilities for future projects exist in the areas of grain storage and supply of fresh fruits and vegetables to the Bangkok market.

Small Scale Enterprise Project - IFC is considering participating in the creation of a new entity for the financing of small-scale enterprises in Thailand.



REF ID: A711112
February 1973

NEWS MEDIA IN THAILAND

With a tradition of close association with the British before World War II, the country's English-language newspapers are technically among the best in Southeast Asia. They are well written, printed on modern offset presses, and give good coverage of both local and foreign news.

Of 18 dailies published in Bangkok, 11 are in Thai, 4 in English, and 3 in Chinese. By far the papers with the largest circulations are in Thai. The two most popular Thai-language papers, Thai Rath and Daily News, have circulations of 500,000 and 320,000 respectively. However, the Bangkok Post (circulation: 25,000) and The Nation (circulation: 14,000), the two leading English-language dailies have a far greater influence on opinion-makers than reflected by their small circulations.

Thai-language dailies are generally standard-size papers with striking front-page makeups. A lot of photographs appear under large, bold headlines on the front page. Crime, sports, and human interest stories fill up their pages; foreign news receive fair coverage and appear in the inside pages.

The English-language daily field is dominated by the Anglo-Canadian Thomson organization, which controls the Bangkok Post (morning) and the Bangkok World (afternoon). The Bangkok World used to represent American interests until the paper was bought by the Thomson organization. Thai sentiment among the English-language press is represented by The Nation.

Since October 1977, Thailand's press has enjoyed limited independence from government control. Its uneasy relationship with the government is manifested in self-censorship.

The press has suffered most in times of national crisis. Immediately after the 1976 coup, the Thanin government banned all newspapers. Subsequently, most were permitted to resume publication under strict censorship, which was formally lifted after the coup of October 1977. Sensitive subjects are political ideas detrimental to the country, religion, or monarchy.

Bangkok has a number of English-language periodicals which serve the business community. Foremost among them is Business Review, a monthly edited by veteran business writer, John Stirling. Business in Thailand, another business monthly, is edited by Julian Spindler. A newcomer to this field is the year-old Business Times, a weekly edited by John Leicester. Business Times has recently branched out into the English-language daily field. Business Times Daily is edited by Sonthi Limthongkul.

A mimeographed business daily, News Synopsis, founded in 1946, is edited by M. L. Tod-aksorn Singhara. It is popular with the business community.

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The Bank receives excellent coverage in the English-language press, both daily and periodical. Almost every week the Bangkok Post or The Nation carries stories of Bank projects under discussion with the government, quoting official sources. Bank announcements of loans appear in the dailies, sometimes in full. (The Nation recently carried the full text of the press release on the Bangkok traffic management loan; Business Times Daily also printed the story in full.) Last year, the Annual Report, Mr. McNamara's speech, and the World Development Report received good coverage.

The Bangkok press has printed confidential Bank documents. In December 1978, Business Times weekly published what it called "an authorized summary" of the Bank's recent basic economic report on Thailand, after the same document appeared first in the Hong Kong-based Far Eastern Economic Review and later in the Asian Wall Street Journal. In March 1976, Business in Thailand monthly published the Bank's 1975 report on the Thai economy.

Some Selected Newspapers

Bangkok Post. Circulation: 25,000; publisher: Michael Gorman
managing editor: Ian J. Fawcett
business editor: Mrs. Sunissa Hancock

A standard-size daily with a business section from Monday to Friday. It is the most popular English-language daily in Thailand, read by western-educated people and the foreign community. Conscious of its foreign ownership (Thomson organization), the paper is more "Thai" than Thai-language newspapers. It is aggressive about its defense of the country's interests vis a vis Thailand's neighbors. Its business reporting is excellent, covering both international and local news. The paper generally supports the government in power.

Bangkok World. Circulation: 11,000; publisher and editor: Prasit Lulitanond

A former rival of the Bangkok Post, this paper (after its acquisition by the Thomson organization) is now an evening tabloid devoted largely to sports and crime stories with an occasional item on business and finance.

The Nation. Circulation: 14,000; managing editor: Suthichai Yoon
business editor: Chao Suethae

Established in 1971 by Thai journalists associated with the Bangkok Post, this paper represents Thai opinion. It is a well respected and responsible newspaper. One of the founders, Suthichai Yoon who now directs the paper's operations, went "underground" during the 1976 crisis.

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Siam Rath. Circulation: 50,000; publisher and editor: Nopporn Boonyarit

Former Premier and well-known writer Kukrit Pramoj owns this Thai-language daily noted for its serious news and liberal views. It has a good reputation among the intelligentsia.

Thai Rath. Circulation: 500,000; editor: Somboon Worabhongse

A Thai-language daily with the largest circulation in the country, Thai Rath caters to the masses, giving only fair coverage to foreign news.

Daily News. Circulation: 320,000; publisher and editor: Prapan Heytrakul

The second most popular daily in the country, this Thai-language newspaper has an ambition to surpass Thai Rath. Its policies are similar to those of Thai Rath.

News Agencies

Thailand has no national agency but the government has a news service to which most papers subscribe. A free daily bulletin in Thai and English distributed by the government's Public Relations Department also supplies newspapers and broadcasting stations with domestic news only. Additional local and international news is available through the correspondents of foreign agencies represented in the country.

AP, UPI, AFP, Reuters, and TASS, which have bureaus in Bangkok, and provincial correspondents, offer daily news services.

Radio

Public broadcasting is conducted by governmental and semi-governmental organizations, including the Public Relations Department, the armed forces, the police, the Post and Telegraph Office, universities, and the Ministry of Education. Income is derived from government subsidies and commercial advertising.

The Thai National Broadcasting Station (Radio Thailand), under the direction of the Public Relations Department, operates 23 medium-wave transmitters, 7 short-wave transmitters, and local FM transmitters. Its home service, in Thai, is on the air for 166 hours a week, of which 124 hours are filled by nationally produced program material. Light entertainment occupies 74 hours a week, news and information 25 hours, educational broadcasts 15 hours, broadcasts for ethnic minorities 15 hours, programs for special audiences (women, young people, etc.) 6 1/2 hours and cultural programs 3 1/2 hours. Radio Thailand (Director: Mrs. Somchit Siddhichai) regularly broadcasts Bank news and makes available Bank press releases, translated into Thai, to the press.

Overseas services of the Thai National Broadcasting Station are beamed to neighboring countries, North America, and Europe and are broadcast for 38 1/2 hours a week in Chinese, Malay, Cambodian, Laotian, French, and English. The home service in Thai is also relayed on short-wave overseas services.

There were approximately 5,360,000 radios in 1976.

Television

Three channels carry news and entertainment to the Thai television audience. In 1976, there were about 761,000 television sets in Thailand. A multiplexing system permits foreigners to hear a simultaneous English translation of any Thai-language program.

The first television station was opened in 1955 by the Thai Television Company, a commercial company with government participation. In addition to its main transmitter in Bangkok, the station now has relay transmitters at Khonkaen, Lampang, and Haadyai and is on the air for 68 hours a week, broadcasting light entertainment (29 hours), educational programs (11 1/2 hours), news and information (10 hours), commercial advertising (5 1/2 hours), and various other cultural, instructive and special programs. Color telecasts (PAL system) began in March 1970.

The Army Television Station, opened in 1958, has a similar governmental/commercial basis, receiving its income from state subventions and commercial advertisements. Operating a main transmitter in Bangkok, with a relay station at Saraburi, it is on the air for 37 hours a week and carries news, entertainment, educational, and special (women's and children's) programs. Color telecasts were introduced in 1968.

In 1961, the Public Relations Department opened a network of three regional stations in Chiangmai, Haadyai, and Khonkaen, to cover the main population centers in the north, north-east, and southern peninsular regions. These broadcast for 4 hours a day; color was introduced in 1970.

Programs are imported from USA, UK, Japan, Federal Republic of Germany, France, Australia, India, Hong Kong, and the Philippines, and exchanges are carried out with members of the Asian Broadcasting Union.

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News Synopsis
January 19, 1979

(A mimeographed daily for
the business community in Bangkok.)

WB PRESIDENT TO VISIT THAILAND

PUBLIC RELATIONS DEPARTMENT, January
15, -- President of the World Bank

Mr Robert S. McNamara will visit Thailand around early March this year. He will be guest of the Prime Minister, as told to Prime Minister General Kriangsak Chomanan by the leader of the World Bank delegation, Mr Henrik Van de Hoijsen, during a brief call at the Government House January 11.

Mr Van de Hoijsen said the co-operation between the World Bank and Thailand under various development projects during past years has been satisfactory. Noting that the project on solving traffic problems in urban areas has recently been approved by the World Bank, other on-going projects such as, the Agricultural and Rural Development in various provinces, Industrial Development and the Gas Pipeline in the Gulf of Thailand have made good progress.

The Prime Minister said during the past year the government put an emphasis on many important projects especially the Rural Development and the Small and Medium Irrigation Works throughout the country, further indicating that natural gas has been discovered in the Gulf of Thailand.

The government will accelerate work on agricultural and rural development in 1979, to which the visitor responded by saying that this has corresponded with a main aim of the World Bank, and further that the President during his forthcoming visit here might want to tour the various development projects particularly in the Northeast whereupon the Thai government has placed an emphasis on the development. The World Bank has ever wanted to expand its cooperation with Thailand, based on the evident success of the various Thai development projects, Mr Hoijsen stated.

Messrs. Gibbs, Htun

World Bank chief here in 3 weeks

WORLD Bank President Robert McNamara will arrive in Bangkok within three weeks for a three-day visit, Deputy Prime Minister Sunthorn Hongladarom said this morning.

He will be a guest of Thai Government and after his arrival on March 10 he will meet Prime Minister Kriangsak Chomanan and other senior Thai officials during his stay in Bangkok.

He will also inspect several agriculture,

education, rubber plantation, family planning and rural health projects financed by World Bank loans in the Northeast and the South.

FOCUSSED

He will arrive by a Lufthansa flight from Germany at 11.30 a.m. and leaves for Singapore on his way to Indonesia on March 13 at 15.30 p.m.

Prime Minister Kriangsak said in

Washington after a meeting with McNamara that the World Bank would be increasing the amount of annual loans to Thailand from US \$300 to \$500 million annually. The aid will be focussed on Thailand's long-term agricultural and rural development projects of up to 10 years.

The Premier said he had been promised the increased loans by the World Bank President but details were not immediately available.

World Bank
News Service of the Department of Information and Public Affairs

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Thailand Into the '80s **and Beyond**

What the World Bank **Thinks of Our Future**

A year ago, 10 expert economists from the World Bank spent two months in the kingdom huddled with senior government officials, talking to farmers and putting the final probing touches on the most exhaustive study in years of Thailand's economy.

The nationwide field work had consumed most of 1977 when the World Bank team under mission chief E.R. Lim arrived near year-end for a last round of surveys to complete the massive research task.

Soon afterward began the authoritative assessments, data compilations and writing — in a rather surprisingly frank manner — that recently resulted in *Thailand: Toward a Development Strategy of Full Participation*.

Now circulating among local and international economic and financial agencies, it's a voluminous 232-page volume that stands as an A-to-Z socio-economic wrapup on Thailand. Reprinted below is the authorized summary of the World Bank's findings, almost identical to a version presented to Prime Minister Kriangsak Chomanan:

Economical Change and Participation

The past two decades have been a period of unprecedented rapid economic development in Thailand. Even allowing for external factors, such as the buoyancy of international commodity markets important to Thailand, the rate of growth achieved has been impressive and is matched by few developing countries. From 1960 to 1977, gross domestic product (GDP) growth averaged 7.6% a

year and was broadly based, with all sectors participating.

A sustained growth of agriculture, at about 5% a year, was based mainly on expansion of cultivated area, which has doubled since the 1950s, mostly into upland areas. A significant industrial sector concentrated in and around Bangkok has also emerged. A high and rising level of investment was maintained throughout the period, exceeding 25% of gross national product (GNP) since the mid-1960s, and was largely financed by domestic savings.

Well-Maintained

The public sector has contributed to growth mainly by providing an environment for the private sector to operate effectively and by facilitating development through the construction of basic infrastructure and through prudent and cautious economic management. Thailand today possesses basic economic infrastructure that compares favorably with most developing countries and is fairly well maintained.

Despite an acceleration of population growth to 3.2% per year due to improvement of public health and a significant fall in the mortality rate during the 1950s, income per person about doubled over the past two decades. Internal migration has also increased, by far the larger proportion being farmers moving between rural areas in search of new land.

While agricultural households remain

the largest group in the country, the emergence of a growing industrial sector and the dynamism of agriculture itself have generated substantial employment and income opportunities outside of agriculture. And the number of non-agricultural households have been increasing very rapidly, especially in rural areas. Urbanization has also increased, but from a very small base and at a more gradual rate than in most developing countries.

The Thai population of some 43 million in 1976 thus comprised three large groups: the urban households, representing about 18% of total households, almost two-thirds of the group being in Bangkok and growing at a rate of 5% per year; the rural households not engaged in agriculture, representing about a quarter of total households and growing at least as rapidly as the number of urban households; and the agricultural households, accounting for more than half of all households but growing by less than 2% per year. Average income of urban households is clearly the highest and farm households the lowest, but significant income and welfare disparities as well as persistent poverty exist within each group.

A vast majority of the country's population have participated in and benefited from recent growth, but the degree and nature of participation have differed significantly among the four regions and among different population groups. Among agricultural households, those in the central region, representing about a fifth of total population, have experienced the greatest change. On both

sides of the central plain, about half of the households have abandoned their traditional practice of growing rice and now rely entirely on the production of maize, cassava or sugar, the first time in Thai history that a significant group of farm families have done so.

Typical households that have made this change have experienced a doubling or tripling of real income since 1960 and now have a level of income about twice that of a typical farm household in the country as a whole. In the central plain itself, public investment in irrigation during the 1950s has begun to yield benefits in the form of improved water control throughout the area, and some farmers have begun to grow an extra crop in the dry season.

Opportunity

But even for the majority who have not yet done so, the techniques of farming have begun to change through greater use of fertilizers and mechanical equipment and their incomes have risen by about 40% since 1960, about half of which come from the higher price of rice relative to the cost of living since 1973.

Compared with farm households in other parts of the country, farmers in the central region are generally better served by economic and social services, are better educated and have been working in a more commercial environment for many generations. These factors are

Cont. Next Page

in the 1980s, subsistence farmers may be forced to break up part of their holdings

undoubtedly the major reasons why they have been able to respond to economic opportunity to an extent matched by few other Thai farmers.

Economic change since 1960 has also spread to many rural areas of the north and northeast, which together account for two-thirds of all agricultural households. In response to the expanding demand for upland crops, about half of the farmers in the northeast and the north (mainly the lower north) have cleared some forest or used some other land to grow upland crops in addition to their subsistence rice production.

Subsistence

Incomes from the new upland crop — usually maize in the lower north and kenaf or cassava in the northeast — and from the higher price of rice since 1973 have resulted in a total rise in their income since 1960 of the order of 60-80%, giving them incomes in 1976 up to 20% above that of a typical farm household in the country.

The other half of the farm population in the north and northeast, however, have not yet been able to participate in the diversification process and still grow mainly rice under rainfed conditions in much the same way as did their fathers. In the north, most of the rainfed rice farmers are in the upper part of the region where the terrain and the low level of technology only allow farmers to cultivate very small holdings. In the northeast, holdings are much larger but much of the land is not planted in a normal year.

These farmers have been unable to move out of a basically subsistence environment, mainly because of their lack of education, uncertain weather conditions and the lack of roads and other services. They have benefited the least from the past two decades of economic change and are now among the poorest

ment in incomes over the past two decades. Diversification into rubber began much before 1960 and by then most farmers in the south were growing rubber as well as rice and enjoyed a level of income much above the national average.

Since then, yields of rubber and rice prices have fallen in relative terms. As a result, incomes of farmers in the south have increased very slowly, but they remain some 10-50% higher than those of subsistence farmers in the upper north and northeast.

The existence of these farm households that did not significantly benefit from past growth explains to a large extent the virtual stagnation of real wage rates among unskilled workers. In Thailand, labor mobility is high and poor farmers are usually ready to accept employment as unskilled workers if wages are significantly above their incomes.

Since the number of farmers whose incomes have not gone up significantly is much larger than the number of unskilled jobs created by economic growth since 1960, unskilled wage rates for year-round employment have barely kept up with inflation over the past decade and a half. Many households engaged in nonagricultural activities, without either capital or skills, were thus unable to benefit much from the growth process. Average real incomes in the non-agricultural sector, however, have risen sharply and there is little doubt that many households with capital or skills have benefited greatly.

Although not all groups of the population have participated in the development process, economic change since 1960 has clearly lifted a large number of people out of absolute poverty. The proportion of the country's population living in absolute poverty has declined from about half in the early 1960s to a quarter in recent years.

Nonetheless, the latter figure means that more than 11 million people in Thailand today remain in absolute poverty. The large majority, over 90%, of these poverty households live in the rural areas

of them farmers growing rice under rainfed conditions. By contrast, only 11% of urban households are estimated to be living in poverty, most of them the unskilled worker families.

Emerging Problems of Development

Analysis of emerging and long-run economic trends indicates that in the coming years Thailand may face increasingly difficult problems of development. Some of these are related to the near-exhaustion of opportunities for the type of economic growth that has hitherto characterized development in the country. Others are concerned with the more fundamental issue of the extent to which different segments of the population are likely to participate in and benefit from future development.

Over the past two decades, the main feature of agricultural growth remained, as in the preceding century, the application of a constant and low-productivity technology to an expanding land area and yields per hectare for the major crops have shown no discernible improvement. The problem of persistent low productivity is now urgent since available data indicates that, at the current rate of expansion, the expansion of agricultural holdings will come to an end in all regions by the early 1980s.

Next Decade

Although ongoing programs of agricultural research, irrigation and rubber replanting and the recently started National Agricultural Extension Program will likely result in a continued agricultural growth rate above the population growth rate, the possible consequences of increasing pressure on land and stagnant yields are particularly serious for low-income farmers in the north and northeast.

The easy availability of new land has hitherto allowed these subsistence farmers to maintain a size of holding as large as they can work on but they may face in

come. Income disparity may therefore widen within the rural sector and unskilled wage rates may stagnate or even fall.

In addition to the increasing difficulty of agricultural development, the maintenance of a continued low level of unemployment will be more difficult in the coming decade. The growth of the population rose sharply during the 1950s and 1960s, and children born during those two decades will be entering the labor market in the 1970s and 1980s. Consequently, labor force growth in the coming years will be close to 3%, compared to 2.0-2.5% in the 1960s and early 1970s.

Industry, especially manufacturing exports, has emerged in recent years as a major growth sector and an increasingly important source of employment opportunity, but probable labor absorption by the non-agricultural sectors is still small relative to the number of entrants to the labor force, the majority of which will still have to be absorbed in agriculture. The accelerated growth of the country's labor force in the coming decade will thus exert additional pressure on land and on unskilled wage rates.

A slower growth of agriculture in the coming years may also exacerbate the already emerging problems in the country's balance of payments. In the first half of the 1970s, buoyant commodity exports followed by sharp increases in export prices in 1973-74 contributed to a strong balance of payments position, a sharp increase in oil prices notwithstanding. But a structural deficit seems to be emerging as export prices have stagnated while import prices and volumes continued to rise.

As a consequence, the current account deficit rose sharply to over \$1 billion in 1977, representing about 5% of GNP. Current trends show that unless the growth of agriculture is revived, the country's balance of payments will continue to deteriorate in the coming years as a consequence of the slower growth of agricultural exports, which cannot yet be fully

compensated for by the growing importance of manufacturing exports.

Indeed, in the present circumstances of Thailand, an overambitious thrust into rapid industrialization, especially if concentrated in heavy industries, without a concomitant growth in agriculture could prove costly. The import requirement of a development strategy based on heavy industry is likely to be high and will lead, at least for some time, to increasing balance of payments deficits and heavy reliance on foreign capital and perhaps unmanageable debt-servicing requirements.

There are also strong tendencies for industries to locate only in the central region and rapid industrialization with stagnating agriculture is likely to result in widening disparity of income between regions and between population groups.

These long-run trends are already beginning to have an impact on development in Thailand: growth in all sectors of the economy in the last few years has been discernibly lower than in the 1960s and early 1970s. More important, rising expectations are spreading faster than economic change and there is much dissatisfaction and impatience among the sizable proportion of the country's population left behind in the development process.

This increasing impatience is shared by the country's economic planners and national leaders, who have also often voiced their concern about the need for a more dispersed pattern of economic growth. But there is little evidence that these concerns actually govern activities of the public sector.

Indeed, current economic policies in Thailand appear to be in an uncertain phase between a development plan that would facilitate broader public participation in the growth process and operating decisions that seem to appeal particularly

farm households.

In the south, most farmers also did not experience a substantial improve-

in fact, nearly three-quarters of all poverty households — about 8 million people — are in the rural north and northeast; most

the coming decade the necessity of breaking up their holdings and the real possibility of a fall in an already low level of in-



Subsistence farming: Vital need for parallel growth in both industrialization and the farming sector

to higher income groups as well as foreign investors.

There is little evidence that the country's development plan systematically guides or governs activity of the public sector. It is difficult to discern a sense of direction and purpose in public sector behavior and policy framework that is comparable to the government's stated social objectives and priorities.

Without changing its traditional role of facilitating the process of development through private initiatives, there is in fact much the government can do to ease the problems of transition from extensive development of agriculture to further growth based on raising agricultural productivity as well as industrialization. The crucial task in the coming years will be to ensure that all segments of the population participate in the development process while maintaining growth at a rate at least equal to the past rate.

Well-Integrated

Indeed, because of Thailand's distinctive economic and social structure — wide ownership of land, a mobile labor force and open social system — there should be no major trade-off between economic growth and equity in the foreseeable future. The government's effort to improve national security through its Accelerated Rural Development Program is a reflection of the fact that insurgent activities in the country are most frequent in those areas where the bulk of the population have been left behind by the growth process.

Further efforts to bring those that have been neglected in the development process into the mainstream of economic growth would help establish a healthier economy and more stable political situation, thus freeing more public resources for development and growth.

Toward a Strategy of Full Participation

In assessing the economic prospects of Thailand, it is important to bear in mind those qualities of the people and the distinctive economic structure of the country that has, in the past, given it wider choice and greater freedom from built-in distortions and inflexible characteristics of supply than the great majority of developing countries.

Thailand possesses the rare advantage of widely diffused land ownership, with nearly all farmers owning their own land, in most cases as much land as they can handle with present techniques of production. No large group of people has yet been driven into marginal service activities or open unemployment in the cities. The economy is relatively open, and careful fiscal and monetary management in the context of a well-functioning price system has produced one of the lowest rates of inflation in the world.

Active entrepreneurs are ready to respond to new opportunities, and the labor force moves easily in response to job openings and earning differentials. Industrial ownership is predominantly national rather than foreign. The society has an almost tangible sense of confidence that the country can determine its own fate, not undermined by the demoralizing feeling of dependence or sensitivity to foreign ideas that sometimes results from a long period of colonial domination.

These assets have enabled the country to follow a well-integrated process of development in the past and will undoubtedly help it in the coming years to overcome emerging trends that have adverse implications for growth and equity.

A development strategy that would allow all groups in the society to participate in future growth must be based on a rising level of agricultural productivity in all parts of the country. Rising

agricultural productivity, especially in the poorer areas of the country, will not only directly benefit farm households but will eventually also push up unskilled wages and thus enable a large proportion of those engaged in industrial activity — the unskilled workers — to benefit from industrial expansion.

Special assistance by the public sector will be necessary to ensure that low-income farmers, in particular the farmers growing rice under rainfed conditions in the northeast and north, are able to participate in future development. This assistance should initially be focused on helping these farmers improve the use of their assets — their land and labor — and in the longer term to the quality of these assets through technological change and education.

Many of the rainfed rice farmers are growing a subsistence rice crop in areas often more suited to other cash crops. Furthermore, their holdings are substantially under-utilized, and in a normal year one-third of the cropland is not planted. In the poorer areas, off-farm income opportunities are much more limited than in areas closer to Bangkok and substantial labor is underemployed in the off-season. While these features are an explanation of the current low level of incomes, they are also indicators of substantial potential to increase incomes of these farmers.

To encourage these farmers to improve the use of their holdings, they should be given land titles as quickly as possible, because without title or other security of tenure it is very unlikely that farmers will be able or willing to undertake the land development measures necessary for permanent cultivation.

At present, however, many farmers are operating in areas officially classified for forest use and it will therefore be necessary to formulate a land-use policy and a more realistic classification of areas now presently designated as forest land before an expanded titling program can go ahead. In order to enable farmers to change to more stable systems of farming, government assistance is also needed in land clearance, construction of erosion control structures and other forms of land development.

Greater emphasis must also be given to agricultural research on the suitability of different crops and cropping systems to the upland areas of the country, and to the development of appropriate rotational practices that would prevent deterioration of upland areas and enable a higher level of yields to be maintained.

New Criteria

Attention should also be focused on the scope for integrating livestock into mixed farming systems. In addition further work is necessary on the development of rainfed rice varieties appropriate to the ecological conditions of the northeast and north.

Accelerated development of neglected areas of the northeast and upper north also requires a substantial improvement in agricultural and infrastructure services. As farm households move from subsistence to more commercially-oriented agriculture, there will be a substantial increase in the demand for credit, and a redirection in the emphasis and operations of the Bank for Agriculture & Agricultural Cooperatives is essential if the needs of poorer farmers are to be met.

With such assistance, the constraints on access to commercial inputs or machinery services will be eased and the private sector should be able to respond. An adequate extension service is also a necessary element in the move to



Sawmilling: There's a vital need for a uniform and lower level of protection for industry in general

commercial agriculture and the government's new extension program should be expanded as rapidly as possible.

A further constraint to agricultural development is inadequate road access and the outlying provinces of the northeast and north require a substantial improvement of road infrastructure if access to farms is to be adequate for the transportation of inputs and outputs, the entry of cultivation equipment and the provision of regular extension services.

The effects of inadequate services, such as water supplied, health and education, on the population of the poorer areas of the country will take a long time to correct. To assist low-income rural families, public current and capital expenditures should be redirected towards an improvement of the distribution and quality of basic social and economic amenities in the poorer areas.

A new set of criteria and procedures for public resource allocation will have to be devised to ensure that the disadvantaged provinces have access to a relatively greater share of available resources, each year per head of population. The present budgetary system, which is heavily influenced by the historic levels of financial support and therefore tends to accentuate rather than redress disparities in services, must be substantially modified before the government's objective of a spatial balance in the country's development can be achieved.

To compensate for the wide disparity that now exists in economic and social infrastructure among the different regions, the government should consider a regular program of special capital grants to the

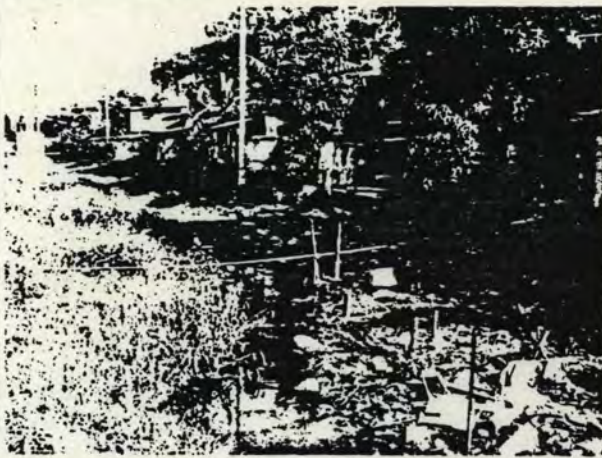
poorer provinces to enable them to undertake the construction of much-needed schools, health centers, roads, wells, and other rural improvement projects too small to be capable of efficient execution from Bangkok. The *Iambon* program of 1975 and 1976 represented a positive step in this direction, but a far larger, more continuous and sustained effort is required and this could perhaps be more appropriately handled at the provincial level. A program of infrastructure development of this type would have the additional benefit of generating additional income and employment opportunities in the poorer provinces at a time when pressure on land is increasing and agricultural development becoming more difficult.

Balanced Policy

It is important that any program of enhanced financial support, from the central government to the provinces, is accompanied by the strengthening of local government institutions and capabilities necessary to ensure that a greater volume of financial resources, channeled into small, well distributed rural projects and programs, can be effectively utilized. A start has already been made with the recent establishment of provincial planning units, although the personnel in these offices are still inexperienced.

An improvement in the quality of provincial planning is a prerequisite to the devolution of greater responsibility for development to local government. Decentralization of decision-making and control over financial resources is also essential if the needs of rural families in scattered lo-

The effects of inadequate services to the poor folk will take a long time to correct



Polluted klong; overcrowded Yaowaraj Road: Non-potable water & unhygienic living will continue to breed disease and discontent

calities and hamlets are to be adequately served.

Toward the objective of reducing poverty, the government's initial efforts should be focused on those provinces that have been most neglected in the past and that should be given priority in the allocation of manpower to improve their planning capacity and in the allocation of financial resources to implement development programs.

Options for Industrial Development

The industrial sector in Thailand has generally functioned well and has good prospects for sustained growth, in particular for increasingly diversified industrial production. Within industry, manufacturing export has in recent years shown a growing capacity to compete in the world market and, compared to import-substituting industries, a greater ability to generate employment.

Strategy for further industrial development should thus avoid measures that would handicap exports. Assistance to exporters on development of market contacts, quality control and vocational training and actions to reduce administrative obstacles to new investment are clearly helpful and should be expanded as rapidly as possible.

Good Device

The present industrial incentive system favors production for the domestic markets instead of export. Recent efforts to reduce part of this bias through tariff exemptions, tax refunds and tax holidays have, on the other hand, introduced further distortions. Capital goods industries, in particular, suffer from disincentives caused by higher protection for consumer industries relative to capital goods industries and from the special exemption given to exporters who import equipment.

This is a significant handicap for long-term growth and employment. Domestic capital goods producers would be better able than foreign equipment producers to develop the kinds of equipment best suited to cost conditions in Thailand and to develop technology appropriate to Thailand's resource endowment.

In fact, domestic production of the capital equipment and engineering goods would be a more appropriate direction in which to look for new activities offering learning opportunities than some of the heavy industrial projects the Government seems to be considering. A massive steel mill or paper plant is hardly the place to look for a continuing stimulus to techno-

logical innovation.

A balanced industrial policy framework might therefore include the following three elements at once:

- (A) A move toward a uniform and lower level of protection for all industry by reducing protection of those industries where protection is higher than average. This can be achieved by using excise or business taxes to reduce protection while maintaining tariffs at the present level. Whenever tariffs are raised on luxury goods (as in early 1978) they should be matched by excise or business taxes on local production of such goods to ensure that total consumption is reduced, and not just imports being replaced by domestic production.
- (B) Raising the level of protection for engineering and other capital goods to the present average for all industry and offering special incentives to firms producing agricultural equipment, both to stimulate development of this industry and to assist the process of technological change in agriculture. Industrial promotion measures that increase the costs of inputs and equipment to farmers must, however, be avoided.
- (C) Replacement of the present complex tariff exemptions and tax advantages for industrial exports by a uniform subsidy equivalent to about 10% of value added.

The exchange rate is a powerful development-policy instrument that has hitherto not been used in Thailand. If it is necessary to give further stimulus to exports, it would be a much better promotional device than an increase in payments given only to industrial exporters.

A lower exchange rate would raise incomes of agricultural producers who can export as well as industrial producers. Many developing countries have found that continual small changes in the price of foreign exchange, a controlled movement that increases the price slowly, can both favor industrial exports and avoid any inflationary or other negative repercussions.

The most direct and effective way that industrialization can help to reduce poverty in Thailand is to create jobs and income opportunities in locations close to rural areas. This will generate demand for agricultural products and permit farmers and members of their households to participate in the industrialization process

without abandoning farming as their major source of income and employment.

In Thailand specific policy measures will be needed to overcome the strong tendency that exists for industries to concentrate in Bangkok and the richer central region. The combination of policies and programs suggested above to raise income in areas away from Bangkok and to equalize access to economic and social services should act strongly to reduce this centripetal tendency.

Changes in incentive policy can also help the process of industrial dispersal. Present economic policies are meant in principle to favor redistribution of economic activity toward the regions in which the problem of poverty is most serious, but in fact not much effort is being expended to this end.

Better Life

Elimination of tax holidays and other fiscal advantages for firms that locate in or near Bangkok would be a first step to furthering location of firms in the poorer areas. Increased fiscal incentives could also be given to firms located outside the central region, preferably tied to employment rather than investment spending.

Combined with measures to raise agricultural income, these measures should result in a continued rapid growth of industrial exports; in a reorientation of industrial growth away from consumer goods chiefly directed to middle and higher-income urban consumers toward more production of consumer goods for lower-income households, agricultural equipment and all kinds of machinery and equipment than can be adapted specifically for cost conditions in Thailand; and, finally, in more industrial growth and employment in areas outside Bangkok and surrounding areas.

The Development Of Human Resources

In addition to policies and measures to redirect the future growth of production, Thailand will have to improve the development of its human resources if all segments of the population are to participate in future development. While Thai society like most East Asian societies has always regarded education as an end in itself, improvement of the education system is critical now that the economy is moving into a period of growth based on accelerated technological change in both agriculture and industry.

A better balanced educational system is needed to satisfy the future manpower needs of the economy. At a time when

universal primary education is not yet achieved, too much is invested in expansion of upper secondary and higher education places. In the coming years, highest priority should be given to the achievement of universal primary education and the equalization of educational opportunities throughout the country.

To meet the needs of future development, more subprofessional agricultural technicians are needed, with rural backgrounds and interests, who are trained in field work and thus suited to employment in extension services or rural development agencies. At the same time vocational education for trade and industry should be directed toward subprofessional institutes offering courses of varying duration for job-entry training, on-the-job training or upgrading courses for those already employed.

Most of these weaknesses of the education system are well known in Thailand and in June 1974 an Educational Reform Committee was appointed by the Cabinet to conduct a comprehensive review of education in Thailand and to make a series of fundamental recommendations for change. The implementation of these recommendations would be an important step by the Thai government to equalize educational opportunity and improve the education system.

Since good health is one of the most fundamental components of welfare, disparity in health facilities and personnel among the different regions needs to be eliminated rapidly. The number of people per health center is much higher in the northeast and north than elsewhere and these differences are reflected in very substantial differences in life expectancy.

The Fourth Plan explicitly recognizes the need to reduce urban-rural differentials in health care, but regional differentials are not explicitly discussed. Closely related to problems of health is the lack of potable water in many rural areas. This is reflected in a high incidence of water-borne diseases. As the population becomes more densely settled, this problem will become even more acute.

A continued decline of the population growth rate will facilitate the equalization of education and social services throughout the country. The government's objective is to reduce the growth rate to 2.1% by 1981, and it is in the process of introducing an Accelerated Family Planning and Rural Health Program in 20 disadvantaged provinces in the four regions. Such a program will need to be continued and expanded, taking into account regional differences in desired family size and in contraceptive

A better balanced educational system is needed to satisfy future manpower needs

Thailand has the potential, in coming years, of achieving rapid growth in all groups

tive usage as well as differences in the availability of health facilities.

In all areas the expanded provision of family planning services should result in increased contraceptive usage by those who want no more children but are not currently accepting. The northeast appears to be the most promising area for new accepters from simple expansion of services; in the south there may be some cultural resistance to family planning.

In addition to increasing usage levels through provision of supplies, creation of demand through a reduction in desired family size should be considered, especially in the northern and central regions where the acceptance rate is already high.

Family Planning

A major problem in the provision of education, health and other social services to rural areas in the poorest regions is that of attracting well-qualified personnel. Improved incentive systems are potentially useful for solving this problem, but it is quite difficult to compensate for the vast differences between urban and rural areas. While much discussion and experimentation seems to be under way in this area, it should receive much greater attention from the government in the future.

Macro-Economic Prospects

A development strategy based on continued expansion of agriculture through more intensive use of land, accelerated growth of incomes in the poorest areas, a balanced and better dispersal pattern of industrial growth based on domestic as well as foreign markets and more equal access to economic and social services should enable Thailand to aim at an aggregate growth rate of at least 8% per year in the 1980s, or a per capita income growth of close to 6% per year, significantly faster than in the 1960s or 1970s.

More important, incomes of poor farmers in the north and northeast should be able to grow substantially. If high-yielding rice varieties suitable for rainfed conditions can be developed, they should need only part of their land holdings for their subsistence production and be able to use those parts of their holdings not suitable for rice for the growing of other cash crops.

With increases in the incomes of the poorest group of farmers, the opportunity cost of unskilled labor should begin to rise by the late 1980s and unskilled workers throughout the economy could expect to benefit from a significant increase in real wages. Industrial expansion by then would also include an

increasing component based on skilled workers and deepening technology.

The development strategy proposed above requires an increase in the level of public spending as well as a reorientation of government policy and programs. Recurrent expenditure of the government will need to rise from the current level of 12-13% of GDP to 14%-15% in the 1980s, while investment expenditure of the public sector will need to be expanded from the current 6% of GDP to 8-9%.

The mobilization of domestic resources to finance this level of public expenditure should not be unduly difficult. Considerable potentials exist for improved revenue generation, including expansion of the tax compliance program of the Revenue Dept. to assure full and fair collection of revenues; broader use of property taxes in the urban areas and land tax in the rural areas to provide more equitable and efficient taxation; increased excise taxation of motor fuels for passenger vehicles; extension of personal income tax to include all forms of income; and possible development of the business tax into a value-added tax.

A high growth rate of agriculture and manufacture exports should also help to alleviate the emerging problem in Thailand's balance of payments. A substantial current account deficit through the late 1970s and the early 1980s, averaging about \$1.7 billion in current prices equivalent to 4.5% of GDP, may be difficult to avoid.

But continued growth of agriculture, increasing importance of manufacturing exports and an increasingly diversified structure of exports should allow the country to remain highly creditworthy for substantial borrowing from both private and official sources. The size of the balance of payments deficit should begin to decline by the second half of the 1980s to about 3% of GDP and the country's debt service ratio should not present a problem at any time.

Administrative Reforms

Present institutional and administrative arrangements are likely to impede the government's attempts to ensure broader participation in future development. In particular the highly centralized nature of the government and the phenomenon of excessive functional duplication and overlap of responsibilities between government departments seriously hinder the public sector from dealing effectively with emerging issues of development. Annual allocations of public resources tend to be influenced by historic patterns of expenditure and by institutional or informal pressures rather than by national development priorities.

Many institutional difficulties will only be resolved by the gradual evolution and modernization of civil service practices and personnel administration, since these condition the behavior and attitudes of officials as well as affecting the efficiency of all public sector agencies involved in development. A national commission of public administration experts might be the most effective means of drawing up a comprehensive program of institutional reform, covering such issues as the development of a uniform job classification system, public sector training and reform of the structure of emoluments and fringe benefits.

In the meantime, highest priority should be given to the introduction of procedural changes designed to give greater policy and strategy authority to the central coordinating agencies of government while achieving greater administrative decentralization. The most urgent need is for much greater hierarchy.

Within departments this would mean transferring control over the resources employed in program execution to line managers through streamlining procedures for tendering and procurement and modifying regulations and practices concerning budgetary and commitment control. But it would also be desirable to delegate greater authority for the planning and implementation of development programs to local governments.

Conclusions

For such authority to be effective, however, it would be necessary not only to increase the degree of control of local governments over the allocation of financial resources but also improve the quality of provincial and municipal planning and increase the degree of coordination between staff engaged in developmental functions in the various provinces.

In addition to encouraging greater decentralization, it is necessary to review the relationships between the central planning agency (NESDB) and the agencies responsible for budgeting, fiscal policy and personnel administration, for the present institutional linkages between these agencies are serious impediments to the coordination of their activities. Irrespective of the institutional relationship between the NESDB and the Budget Bureau, the two agencies should make a determined effort to reduce the duplication of executive functions throughout the government.

Funds are now sometimes wastefully allocated to two or more government agencies so that each may provide identical and competing services. While this problem will only be properly solved

when pressures within the bureaucracy creating this situation are reduced through more fundamental institutional reforms, the agencies that control the allocation of financial and human resources could take the initiative to eliminate some duplication of departmental activities.

Concluding Remarks

This report has been focused on the issue of participation in the broader sense of the population's participation in the process of economic change and evolution as well as in the narrower sense of participation in the benefits of economic growth.

Analysis of economic change in Thailand over the past two decades clearly shows that rapid and sustained growth has lifted a very substantial proportion of the population out of absolute poverty but that a significant proportion of the rural population, particularly in the outer regions, have been left out of the process of economic change.

An examination of the emerging trends in the economy also shows that careful formulation of a long-run development strategy is now imperative because emerging trends indicate that growth is becoming more difficult to achieve and too concentrated in high income areas.

Because of its distinctive social and economic structure and the still favorable resource endowment relative to the size of the population, Thailand has the potential in the coming years of achieving rapid growth with all groups in the society being brought into the mainstream of economic growth and change. Thailand should not, and indeed need not, follow the type of development strategy that enables the bulk of the population to improve their standard of living only through the slow "trickling down" of benefits from the top.

A development strategy of full participation should be based on raising the productivity and incomes of the poorest farmers. The faster productivity of farmers can be raised by intensifying land use in agriculture and jobs can be created by expansion of labor intensive activity outside agriculture, the earlier wages can rise and the benefits of growth be widely distributed.

Such a strategy would not require a drastic departure from the historical pattern of development or from the traditional role of the public sector. Indeed it would be a logical continuation of the process of economic change that began in the middle of the 19th century, with development based mainly on indigenous capital and skills as well as the gradual assimilation of foreign technology that proved useful and appropriate to the country's needs.

From Page One

Since assuming office 14 months ago, Prime Minister Kriangsak has often voiced the urgent need to bridge the yawning chasm between the relatively well-off city folk and the kingdom's impoverished rural people. No specific long-term rural development projects have been launched, but Gen. Kriangsak began last month sounding a recurrent theme: "1979 - Year of the Farmer."

While details of the so-called farmers' year are yet to be worked out, informed government sources told *Business Times* last week that the main idea of the 1979 campaign is to stimulate all government agencies involved in rural development to formulate specific

priority projects aimed at a sizable rural boost.

"In brainstorming sessions," says one senior central banker, "various government agencies have been told to work out special plans and projects to tackle such basic problems as irrigation networks, introduction of new cash crops and new infrastructure and more financing into the agricultural sector."

Although the 1979 budget is already set at about 92 billion baht, those government agencies concerned are being given latitude to shift resources into these priority fields. "And the results will certainly be better than letting these government agencies proceed with their originally planned projects," adds this

central banker. The agencies include the Agriculture & Cooperatives Ministry, the Accelerated Rural Development Office and the Bank for Agriculture & Agricultural Cooperatives.

Others aren't so sure how much promise this holds. "What this country lacks," says one senior government economist, "is a really dynamic personality with a firm philosophy about economic development who could set off to pursue the targets with bold action."

Some development experts put more importance on the continuity than the dynamism of leadership. Explains one: "We all know about these basic structural problems in Thailand, but with so many governments in the past there was little time

and maybe not enough inclination on the part of most regimes to try to initiate concrete action to solve these problems."

The chief result has been that, despite respectable national growth averaging 7.6% over a 17-year span, not all segments of the population have had a chance to participate in the development process and enjoy its fruits.

According to the World Bank, the proportion of Thais living in absolute poverty (reckoned as 150 baht per person monthly in rural areas and 200 baht in the cities) was reduced from about half in the early 1960s to a quarter in the late 1970s. But economists agree that 11 million impoverished people is alarming enough, with added

danger in the fact that more than 90% of them are rural.

Another alarm sounded in the World Bank's view that rural economic growth in the past 20 years was largely due to expanded farmland, while actual yields have stagnated in some areas and declined in others. This is aggravated by its finding that enlargement of farm holdings must end in all regions by the early 1980s.

The report suggests that the only solution is to increase agricultural output. No alternatives remain except rising yields through irrigation, fertilizer and new technology. If, when and how this will happen fast enough to stem a general decline in some rural regions are among the looming questions.

World Bank
News Service of the Department of Information and Public Affairs

This news item appeared on page _____ of the December 14, 1978 issue of:

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WB joins biggest ever plan on traffic jams

● Vehicles charged directly for road use ● Staggered working and school hours ● 100 kms of bus lanes ● Parking charges to soar

THE WORLD BANK yesterday announced approval of a 320-million-baht loan for Thailand to introduce a 680-million-baht project to unsnarl traffic jams "which are placing serious obstacles on the continued economic development of Bangkok."

Under the city's biggest plan so far to solve the capital's traffic problems, vehicles will be charged directly for the use of roads in central Bangkok.

Charges for parking on streets will be increased and the enforcement of parking regulations will be improved.

A programme of staggered working and school hours will be introduced by the Thai government for all public offices and schools beginning in the central area.

The government will also seek similar commitments from large firms and private schools in the same area.

The World Bank loan to this first Urban Traffic Management Project in Thailand is for 20 years, including five years of grace, with interest at 7.35 per cent per annum.

The project is expected to make Bangkok's existing transportation systems more efficient with minimum investments and to strengthen the institutions which have a direct bearing on improving traffic, the World Bank said. "The traffic situation in Bangkok, with a population of 4.8 million, has deteriorated to the point where congestion is placing serious obstacles on the continued economic development of the city," the World Bank said.

.../

A common scene in congested Bangkok: Will the problem be solved this time?

The costs of travel, measured in time spent in vehicles and vehicle operating costs, are very high and promise to climb still higher, the World Bank added.

The principal objectives of the project are to increase travel speeds and the capacity of the vehicles to carry passengers under the existing transportation system to facilitate the continued economic development of Bangkok without diverting scarce resources from other high priority development activities in Thailand.

"The project consists of specific policies to discourage the use of low occupancy vehicles, to strengthen the traffic management, to introduce low-cost measures to increase the capacity of the urban road network, and to improve the management and operation of public transport," the Bank added.

Under the scheme, the staff of the Urban Transportation Planning Office (UTPO), which will carry out the project, will be increased from the 70 people now assigned to it to about 200 permanent staff, including transport planners, economists, and engineers.

Permanent and temporary traffic counting stations, equipment for measuring traffic speeds, and air pollution and noise detection equipment will also be provided to UTPO.

Equipment including motorcycles and radio communications will be provided to the Traffic Police to enhance their mobility and to reduce the need for point duty at individual junctions.

Traffic control through coordination of traffic signals at 92 junctions, upgrading of existing signals, and the further installation of signals at new intersections will also be implemented.

Road flyovers will be built at main road intersections where the greatest time savings can be realized once traffic management procedures (signal timing and intersection channelization) have been improved.

The project also includes the construction of ten missing road links, most of which are less than half a kilometre in length.

To improve public transport availability and speeds, measures will be introduced to give buses priority.

About 100 kilometres of bus lanes will be provided along roads where traffic queues are the longest and the highest volumes of bus passengers are carried.

About 40 extended bus bays and 100 bus shelters will also be constructed.

Consultants will help the Bangkok Mass Transit Authority (BMTA) in organizing management, traffic operations, accounting and finance.

While the technical assistance will cover almost all aspects of BMTA operations, special focus will be on traffic operations, including rationalization of routes and schedules, management and management information system, and establishment of a long-term financial policy.

World Bank

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| <input type="checkbox"/> THE WASHINGTON POST | <input type="checkbox"/> THE JOURNAL OF COMMERCE | <input checked="" type="checkbox"/> FAR EASTERN ECONOMIC REVIEW |

Thailand's broken ricebowl

The traditional image of the happy Thai farmer passively tilling his fields in the rice bowl of Asia is giving way to a picture of increasing discontent among the spreading numbers of rural poor. A World Bank report, in a damning indictment of the bureaucracy and a variety of politicians, says nine million people are living in absolute poverty, while real incomes particularly in



the north and northeast, have stagnated or declined. Even if the disparate politicians could achieve a consensus to wage war on poverty, they would be opposed by a daunting array of vested interests, including powerful segments of the bureaucracy and military and business circles. Prime Minister Kriangsak may have to balance maintaining his power base with pursuing reforms.

By Ho Kwon Ping

Bangkok: "In the water there are fish, in the fields there is rice," was the familiar refrain of an old Thai peasant ballad. Now, the drab litanies of underdevelopment are being intoned above such songs of abundance.

For the past two decades, Western scholars have characterised Thai rural society as a "loosely-structured social system" without social tensions or feudal heritages, and politicians claimed that the Thai farmer's love for nation, monarch and Buddhism was unshakable. However, despite the tenacious reluctance of stereotypes to die, the image of the happy Thai farmer living in the rice bowl of Asia is no longer sustainable. In recent years, fragmentary case studies and outbursts of peasant discontent suggested that rural poverty was more prevalent than most Thais, living under the censorship of military regimes, suspected. Now, a World Bank confidential report may finally bury any vestiges of official optimism on this score.

The most important finding of the 122-page in-house report is that the majority of rain-fed subsistence rice farmers in the north and northeast, and to a lesser extent in the south, have been left out of the economic boom of the 1960s. Their real (inflation-adjusted) incomes either stagnated or declined in the past 15 years. One-third of agricultural households — 9 million people — are living in absolute poverty, and many millions more are barely above that line, while other income groups have grown very rich.

With political activity expected to revive once a new constitution is enacted and general elections announced, the World Bank's findings are potentially sensitive: "Rising expectations," observes the bank mission, "are spreading faster than economic change and there is much dissatisfaction among the sizable proportion of the country's population left behind in the development process."

This groundswell of dissatisfaction will be articulated, once political expression is legalised, by vocal and militant critics of present development policies and the Fourth Five-Year Plan (1977-81). They will be considerably strengthened by being able to cite the World Bank's criticisms, which are heavy and numerous.

Not only have successive governments been merely inactive in alleviating poverty, but, the bank report says, "public sector activities tend to contribute to, rather than help reduce, welfare disparity among the country's population. In recent years it has become increasingly difficult to discern a sense of direction and purpose in public sector behaviour that is in any way comparable to its stated intentions and objectives."

As for the political commitment to development planning, the report observes that there is "little evidence that Thailand's development plans systematically guide or govern the actions of departments or, for that matter, the cabinet itself, in the day-to-day conduct of government affairs."

While this is a damning indictment of the array of politicians who crossed the Thai political stage in the past decade, the present administration has been left largely untainted. Premier Kriangsak Chamanand came to power around the time that the bank mission was completing its report, and since then has demonstrated a political adroitness and flexibility which could possibly be extended to economic affairs. A reformist-minded government could

even use the World Bank document as further ammunition to galvanise the bureaucracy and overcome inevitable resistance from powerful vested interests towards its programmes.

Soon after he assumed power last year, Kriangsak publicly committed his government to "develop the urban as well as rural areas, extending national progress to all the regions ... [and to] support farmers and labourers in other professions so that these people will get what is rightfully theirs by, among other things, speeding up land reform projects."

The bank mission's observation that "growth has been accompanied by a widening disparity of welfare among population groups and among the different geographical areas in the country" was already evident to those who witnessed the transformation of Bangkok in recent years. For over a decade, Thailand's economy had experienced an artificial boom, due mainly to American military spending which accounted for half the growth of gross national product in the 1960s.

BANGKOK was transformed from a pleasant canal-lined capital into a sprawling "primate" city (a metropolis amid underdevelopment) 45 times larger than the next largest city. Rural migrants flocked to run the massage parlours, taxis, tailors' shops and myriad

other services catering for the Americans and the Thai *nouveaux riche*, so that by the 1970s one-third of Bangkok's 4.5 million people and up to half in other towns were made up of these migrants. And, as the price of "modernisation," in 1973 there were 400,000 drug addicts, 300,000 prostitutes, and 55,000 children under five who died of malnutrition.

Less sensational but more problematic is the future of agriculture, which is still the cornerstone of the economy, though its share of the gross domestic product declined from 40% in 1960 to 30% last year. Nearly three-quarters of all exports are agricultural products, and two-thirds of the labour force is in the

rural sector. Much manufacturing activity depends on the processing of agricultural products, and rural household demand is a vital factor for consumer industries. The collection of primary commodities and distribution of consumer goods also account for a large part of the services sector.

And yet Thailand's agricultural productivity remains one of the lowest in Asia, and crop yields are expected to decline. Furthermore, expansion in new uncultivated land — the traditional means of increasing agricultural output — will reach its limit by 1980.

Social relations in the countryside, left untouched for generations, are also being undermined. Like the *kulaks* of Tsarist Russia, a class of relatively well-off land-owning peasants have taken advantage of the commercialisation of cash crops — non-subsistence crops such as sugar and tapioca. With access to credit, irrigation, technology and marketing infrastructure, this class has benefited from economic growth.

At the same time, however, the subsistence rice farmers' incomes have stagnated and in relative (and sometimes even in absolute) terms they are getting poorer.

The steady population increase coupled with exhausted sources of uncultivated land will quicken the pace of landholding fragmentation among smallholders, and may eventually force them to sell to larger landowners, thus becoming indebted tenants. The large-scale pineapple and sugar plantations that dot the Thai countryside are part of a trend to-

wards agricultural businesses which is creating in its wake a landless, non-farming but rural working class.

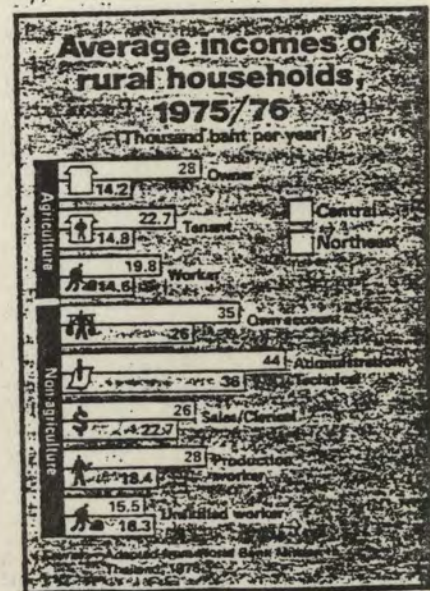
Without skills and in large supply, the landless poor are not expected to increase their wages, and many will spill over into the cities. These migrants will depress the urban unskilled worker's wages, and the seeds of discontent will grow. The World Bank concurs with this grim scenario, unless current trends are quickly reversed.

Agricultural growth in the past two decades was on the momentum of two forces: the expansion of cultivated areas for rice, which almost doubled in the period, and the diversification of central farmers into cash crops such as tapioca, sugar and maize. In the provinces to the east and west of the alluvial Central Plains, more than half the farming households have abandoned rice growing for the more profitable cash crops. This was possible only because of the concentration of irrigation, transport and marketing infrastructures in provinces near Bangkok.

As a result, about 2.5 million farmers — 10% of the national total — have doubled their real income since 1960 and earn twice the national average rural income, though in the process many have become tenants on land owned by urban investors.

Cash cropping has also spread from the Central Plains to the lower fringes of the north and northeast, but no further. The major non-rice upland crop in the lower northeast is kenaf (jute), and in the mid-northeast tapioca cultivation has been adopted by more than half the farmers.

This has been the main source of the near doubling of their average real incomes since 1960, to a level about 45% above the earnings of a farmer in the upper northeast, where the public services



and infrastructure necessary for crop diversification are meagre. The lower north is now one of the major maize-producing regions in Thailand, resulting in a 75% income rise for these cash croppers, so that they now enjoy real incomes about 20% higher than the national rural average.

How the other half lives and farms, however, is another story. Literally half the population of the north and northeast — about 7 million people — have not been able to diversify at all, and continue to grow rice under rain-fed conditions, as did their forebears. Out of these, 40% have holdings too small to produce even a small surplus, according to the bank, and have thus "hardly benefited at all from the economic change over the past two decades."

IN the rubber- and rice-producing south, the bank report concludes that "holding sizes have changed only slightly, rice yields have stagnated, rubber yields are still extremely low, and upland areas remain underutilised and badly managed." The Muslim provinces in the lower south are particularly economically depressed and the average real incomes of the farmers here are 25% below the national rural average, and 65% below that of the maize-producing provinces of the central region.

Since cash income is a minor component of the subsistence farmer's means of survival, a more important criteria for poverty is whether the farmer produces a surplus. In the absence of comprehensive censuses of agricultural production, landholding size is often used to assess whether a farmer is a surplus producer.

This is where the problem arises, for there is no firm consensus on what is the minimum holding size for surplus production. The average holding in the Upper Northeast is from 20 to 35 *rai* (6.25 *rai*=1 hectare) and in the Upper North, where holdings are smallest because of the mountainous terrain, it is less than 15 *rai*. Many economists consider 15 to 25 *rai* as the minimum for producing a surplus, others 60-80 *rai*.

Another confusion arises over the incidence of poverty. Using personal income of Baht 150 (US\$7.50) per month as the poverty line, the World Bank

found that in 1969 less than a third of the southern and northern population, and less than two-thirds of the people in the northeast, were living in absolute poverty.

Defining poverty as household income of less than Baht 500 per month, a government agency found that in 1969 more than half the households in the south and north, and three-quarters in the northeast, were also living in "absolute poverty." Moreover, while the incidence of poverty in terms of personal income appears to have declined in recent years, household poverty has increased in the north, central and northeast regions.

The incidence of poverty is, after all, only a relative figure: in absolute numbers there is little doubt that, as one study based on Thai academic research found recently, "the number of those living below officially-defined poverty lines has increased; the rural-urban income differential is increasing; and rural incomes are becoming more unequal."

Recent visitors to the more remote areas of the Upper North and Northeast have reported more frequent cases of subsistence farmers turning to scavenging and hunting in forests to supplement their declining rice yields.

The means of survival for the rain-fed subsistence farmers have not changed for generations. Because they rely on primitive hand technology, the farmers cannot expand into upland crop cultivation, and face declining productivity owing to excessive cultivation of already poor-quality soil. In the north, only 10% of cultivated land is irrigated and 20% of households have access to all-season water supplies.

Except for the occasional Border Patrol Police (BPP) outposts, a few scattered and run-down primary schools, and some newly-constructed highways for army trucks, there is little infrastructural development in the poorest regions of Thailand. Agricultural extension services and irrigation are virtually non-existent; as a result, poor yields, drought and flooding, are the persistent scourges of the northeast.

The bank mission sets the national tenancy figure at 12% of agricultural households, with 40% tenancy in the Central Plains. Other sources put the national figure at 50% and seven provinces clustered around Bangkok have attained an average tenancy rate of 75%. The burden of tenancy appears to be especially harsh in the north and northeast, where cases have been reported of tenants forced to pre-sell

their rice rent-in-kind to the landlord at a quarter to half the market price.

The absence of tenancy in other areas does not make the farmer any more secure because more than half Thailand's farmers do not possess formal land titles. Some have occupancy certificates, but even these are useless as loan collateral. Without any security on their holdings, farmers have been reluctant to conserve their soil quality or make even small-scale capital investments to increase their productivity.

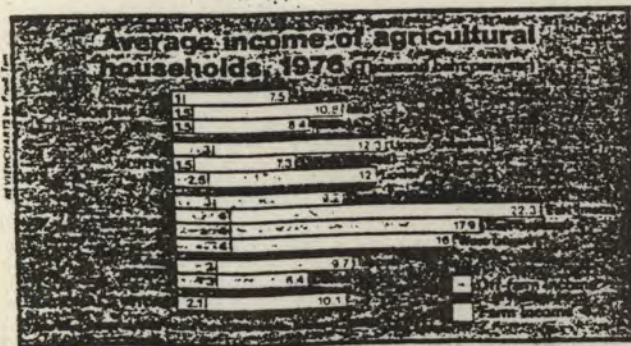
Furthermore, as new uncultivated land becomes scarcer, land developers and investors have increasingly resorted to legal tricks to contest a farmer's land-ownership.

IN the Central Plains, more than 60% of the cultivated land has been irrigated, but only a third of the farmers have adopted double cropping because of the insecurity of tenure and still inadequate agricultural extension services. Interest rates from usurers run as high as 60% a year, and many farmers, particularly those who moved from the crowded Central Plains to the neighbouring provinces for cash cropping, are heavily in debt.

The commercialisation of Thai agriculture has spawned a rapidly growing group of non-farming rural workers (see chart). Virtually non-existent, 20 years ago, they now account for 30% of all households — almost double the urban population — and while the urban and farming populations are growing at 5% and 1% annually respectively, this new group is expanding by 8% annually.

The incomes of unskilled rural workers, such as hired hands — the largest component of this non-farming rural group — are as low as those of subsistence rice farmers of the northeast, and substantially lower than those of farmers in the Central Plains. Because surplus labour in agriculture has outstripped non-agricultural rural demand for labour, real wages have not moved up since the 1960s.

The stagnation of real wages since the 1960s is not only in the countryside but also in the towns. The government has only recently legislated a minimum wage law, and, without non-market intervention, excess supply continually kept wages down. After declining in the 1960s owing to the economic boom, the incidence of urban poverty in the 1970s has remained unchanged at about 9-13%.



The impact has been political. In the 1973 riots against the Thanom regime, many obviously non-student youths, together with some vocational school students (who, unlike university students, also came from poor backgrounds) were at the forefront of the car-burnings, rock-throwing and other assaults against property. These same youths — unemployed, disenchanted with all authority — then became the recruits for the Red Gaur, a paramilitary vigilante group organised covertly by members of the Internal Security Operations Command to disrupt student and labour rallies.

Since the military takeover in 1976, Thailand's new leaders seem to have realised the dangers of a pool of unemployed youths whose only ideology is that of frustration and disenchantment. As members of Red Gaur, or other rightist groups in the 1970s, they were instrumental in creating the general crisis which brought Tanin Kraivixien to power. However, their subsequent disenchantment with Tanin was utilised by his opponents to bring about his downfall.

Having tasted some measure of direct political power and violence in recent years, and ideologically capable of turning in either direction, this politically volatile underclass is unlikely to remain quiescent for long — martial law notwithstanding — unless the present regime can reverse a pernicious trend which the World Bank points to: "There is little doubt that many households with capital or high level of education have benefited greatly, and in a few families great wealth has been accumulated."

"The most serious indication of the government's failure to achieve its distributional goals," the bank report says,

"is the persistent maldistribution of educational opportunities."

A few months ago, a little-known, low-budget Thai film began showing in Bangkok cinemas. Entitled simply "Kru Baan Nok" (loosely, "Provincial Teacher"), it dealt with the frustrations of a young urban schoolteacher sent to the northeast. It became a smash success and the subject of numerous rave reviews and even editorials.

It accentuated the World Bank's own finding: in some provinces, nearly a quarter of the children do not enter school; and in other provinces, more than half do not make it to the fourth grade. Public expenditures for education flow to the provinces with the highest literacy and best school systems. And though farmers account for more than two-thirds of the population, only 6% of university students come from peasant backgrounds.

It is in the fiscal system, however, that the concept of equity has really been turned on its head. "There seems little doubt," says the mission report, "that the tax system increases rather than reduces income disparities," with the result that "the lowest class [has] the highest tax burden and the highest income class the lowest."

The mission continues: "Perhaps a more important question than tax incidence is whether the government has been able to use the revenues collected to benefit the poor more than the rich. The evidence is quite conclusive that it has not; indeed, the data show that the government has not been able to provide a level of service to the poor comparable to that it provides the rich." The poorest provinces receive the least public funds, and their household incomes are growing much more slowly than those in the richer provinces.

Interest groups have never really existed in Thai politics, and in the vacuum a small coterie of soldier-politician cliques and their business clients determine economic policy on the principle of mutual back-scratching. The result, as the bank observes, is that "public policy tends to be shaped by the interests of small, usually urban-based higher income groups, rather than the declared social and economic priorities of the nation. Above all, failure to reconcile planning and budgeting has resulted in a lack of direction and purpose in public sector activity."

WITH such a dismal record, it is not surprising that, given current trends, the future holds only the promise of "a period of increasingly difficult and unbalanced growth." On the basis of its econometric models, the World Bank Mission came up with some ominous projections:

Although the population growth rate is expected to decline, previous high fertility rates will mean a "substantially faster" growth of the labour force in the next 15 years than in the past two decades.

The expansion of area under cultivation has been proceeding at a rate of 4% each year, and even considering the 2.6 million hectares of forest land that can be converted for agriculture, and the portions of the 4.8 million hectares of idle and scrub land (land abandoned after logging operations or overgrown with weeds after shifting cultivation)

that can be settled, by 1980 available new land will be largely exhausted.

Throughout the past two decades, yields of most major crops virtually stagnated. For the next 15 years, rice yields in the Central Plains will increase owing to double cropping. But yields in the north and northeast, where poverty is concentrated, will decline.

The net result is a slowdown in agricultural growth to 3% for the next 15 years, compared with over 5% in the 1960s. If all other economic sectors maintain their present pace, the effect on GDP growth will be slight, because of the declining share of agriculture in GDP. Aggregate GDP growth will still be about 6%.

The effect of slower agricultural expansion will, however, "have serious implications for farm households in the lower income areas and for the country's balance of payments."

One problem arising from labour force

growth is the expected fragmentation of existing landholdings, which by 1990 will be 15% smaller than at present. Particularly the central region, where tenancy is already prevalent, and in the northeast, where farmers are the poorest, pressure on land fragmentation will be accompanied by greater poverty.

If optimistic expectations of present irrigation and crop diversification programmes in the north bear fruit, real incomes of farmers in this mountainous region may also rise by about 3% annually. In the northeast, however, the prognosis is far bleaker. Upland cash croppers, faced with declining soil fertility and holding size, will not enjoy more than a nominal increase in real income up to the 1990s, while for the subsistence rice farmers who are already in absolute poverty, it will be "increasingly difficult to satisfy their own consumption requirements" — in other words, near-starvation.

The implications must be worrying not only to economic planners but to counter-insurgency strategists who realise, as the bank noted, that "it is certainly not a coincidence that insurgent activities are most frequent in those areas of the country where the bulk of the population has not benefited from the growth process. Continued neglect of these areas may lead to increased insurgency."

Even should foreign and domestic investment pick up under a more confident business climate and increased incentives, it will be little more than a drop in the empty bucket. "The activity of the dynamic private sector," cautions the report, "will certainly mitigate some of the adverse consequences of these trends but is unlikely to reverse the trend of widening disparity of income and welfare." The bank sums up the future as promising "increasing disparities in the distribution

% OF RURAL POPULATION AND HOUSEHOLDS BELOW POVERTY LINE

	Personal income		Household income	
	1968-69	1975-76	1968-69	1975-76
Northeast	60	39	73	75
North	31	n.a.	52	54
Central	13	13	26	36
South	31	n.a.	54	45

Source: National Statistical Office of Thailand.

of the benefits of growth among agricultural households, a worsening of income distribution and even an increase in the extent of poverty in some areas."

Thailand's balance of payments, which sank heavily into the red with the double shock of US withdrawal and the oil crisis, will be exacerbated by the decline in agricultural exports which the bank predicts.

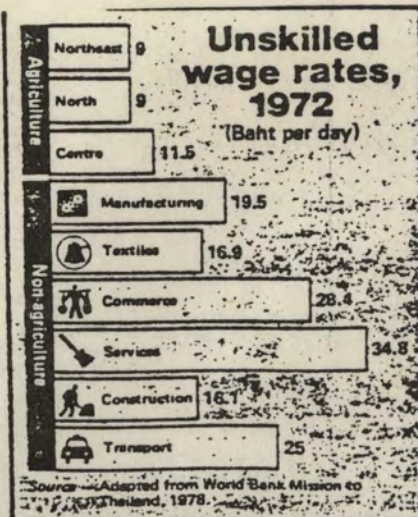
This is simply what the bank sees as a long-term stagnation or decline in agricultural export volumes and prices, coupled with steady increases in import prices and volumes. Even stop-gap measures such as import restraints and resorting to private and public international capital markets, or a drawing down of Thailand's IMF credit tranches, are considered "inadequate to overcome the widening balance-of-payments gap," which in the trade account alone soared more than 2.5 times from an average deficit of US\$300 million during

1973-76 to US\$1.1 billion last year.

Given current trends, there appears no way for the rate of agricultural output to rise in the next 15 years above previous levels. In fact, rice surpluses available for exports are expected to decline, and tapioca and maize production will reach their upper limits by the 1980s. With protectionism in developed countries, exports of manufactured goods, particularly the major export items — textiles and clothing — are also not expected to rise much.

TOTAL export growth, therefore, is projected to fall to an annual rate of 7% up to 1985, compared with 7.4% in the early 1970s and 8.8% in the previous decade.

Even if manufacturing exports grew by 20-25% annually up to 1980, it would not make more than a dent in unemployment. At best — including direct and indirect employment — the manu-



facturing export industry can absorb only 10% of the annual 580,000 new entrants into the labour force.

As formulated, the industrialisation strategy will reinforce the trend of uneven development, according to the mission report. Wages of unskilled workers will, despite the once-for-all increase this year of the minimum wage, continue to stagnate or decline in real terms, as long as incomes of the marginally employed or underemployed in the countryside stagnate.

Industries will still concentrate around Bangkok because of the absence of sufficient infrastructure elsewhere, and this will widen regional disparity. The low level of education, especially in the rural areas which supply Bangkok with labour, means continued dependence on an export strategy based on cheap, unskilled labour rather than

medium-technology manufacturing. The fiscal system is hopeless in dampening consumer demand by high income groups and will lead to further growth of consumer-oriented industries catering to these groups. Finally, the government appears incapable of galvanising the national bureaucracy to work towards fulfilling basic development priorities.

Since the World Bank's first mission to Thailand in 1959, the country has gone through four coups, two short-lived legislative periods, seven prime ministers, and is poised to begin another phase of more-or-less guided democracy. During all these years, farmers have not kept track of the vagaries of Bangkok-centred political trends and intrigues. To many of them, the past 20 years have meant only that the rice bowl for Asia is a near-empty one for their own families.

World Bank

News Service of the Department of Information and Public Affairs

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Thai-ed in Knots?

World Bank Report Sees Tougher Times Coming for Thailand

Variety of Problems Seen Making It Harder to Reap Benefits of a Rich Land

A 'Sense of Confidence'

By EUGENE CARLSON

Special to THE ASIAN WALL STREET JOURNAL

BANGKOK — Among the world's developing nations, Thailand has been unusually blessed.

A rich agricultural country with a generally unified and well-educated population, Thailand has chalked up a creditable economic record in the past 20 years while escaping many of the economic and political pitfalls that have plagued its developing neighbors.

Even the rapid-fire changes of government that have occasionally lent the country a banana-republic image haven't unduly hindered its economic growth.

But time may have caught up with Thailand. An exhaustive study by the World Bank indicates that Thailand may be entering a new phase where the rewards won't be reaped as easily as in the past.

The warning signs of this subtle but measurable shift in the economic winds are already apparent. They include: a slowdown in agricultural output, the backbone of Thailand's economy; an uncomfortably large balance of payments deficit that will stubbornly resist narrowing in the years ahead, a widening of the income gap between the richest and poorest citizens, and a growing disparity between relatively affluent metropolitan Bangkok and the poor countryside.

World Bank Recommendations

In a 145-page analysis, the World Bank makes a number of recommendations designed to counteract what it terms Thailand's "increasingly difficult problems of development." Among the proposals:

— A major switch in budget priorities to sharply increase the flow of public spending to the country's poorest provinces, especially the chronically impoverished northeast. "Insurgent activities... are most frequent in those areas where the bulk of the population has been left behind by the growth process," the bank notes.

— Removal of "distortions" in the tariff and business tax structure, such as tariff exemptions on import of foreign equipment destined for use in the export trade.

— A gradual and controlled devaluation of the baht to stimulate exports and raise incomes of farmers.

— Elimination of tax holidays and other fiscal incentives for new industry locating in Bangkok in order to encourage industrial development in rural areas where unemployment is highest and incomes are lowest.

Nine months in preparation, the World Bank study represents the most comprehensive independent review of the Thai economy published in years. The World Bank issues annual updates on economic trends in its various member countries but basic reports such as the one just completed on Thailand are undertaken by the bank only every five years.

Although the confidential report was published this autumn and recently began circulating among a limited number of economists and diplomats, the research and writing was done almost a year ago. Thus, the findings represent a critique of government and business policies prior to the last November's takeover by the current government headed by Prime Minister Gen. Kriangsak Chamanand.

To a certain extent, the notes of caution raised by the report are an echo of the social tug-of-war common to most developing countries: too many people with too little money demanding an increasing share of the goods and services advertised by a widening electronic and print communications network.

But a large share of the study dwells on problems that are uniquely Thai. Each intertwines with the other and the result, the bank warns, is a "near exhaustion of opportunities for the type of economic growth that has hitherto characterized development in the country."

Some Positive Signs

This gloomy assessment is balanced by a brace of positive signs, including an absence of the land-reform pressure that plagues most developing nations. Nearly all Thai farmers own their land. Economic Society is open, allowing entrepreneurs to seize new opportunities, the labor force is mobile and industrial ownership is mostly Thai rather than foreign.

And the bank adds: "The society has an almost tangible sense of confidence that the country can determine its own fate, not undermined by the demoralizing feeling of a dependence or sensitivity to foreign ideas that sometimes results from a long period of colonial domination."

Here, in summary, are some of the World Bank findings:

AGRICULTURE: For all its reputation as the rice bowl of Southeast Asia, Thailand's farmers are surprisingly meager producers. The persistent low productivity of the farm sector is partly due to the basic richness of the country's central valley where ample harvests are possible year after year without resort to new high-yielding rice varieties and the expensive outlay for fertilizer necessary to reap the benefits of miracle strains.

Heavy taxation of rice exports, a tactic to ensure ample and cheap supplies of rice on the domestic market, has also discouraged all-out production.

With rice yields basically stagnant, expansion in farm output in recent years has come largely through the opening up of new non-irrigated upland areas suitable for maize and cassava, the plant from which tapioca is produced.

But the frontier can only be pushed back so far and all available farm land is likely to be in use by the early 1980s. Unless crop yields then start to climb, the farm sector will begin to deteriorate as an economic force.

Crop Yields				
Average Yields (Ton/Hectare)				
	1959-61	1969-71	1973-75	
Rice	1.5	1.8	1.7	
Rice (Central Plain)	1.6	1.8	1.9	
Maize	1.8	1.9	1.7	
Cassava	17.3	15.9	15.3	
Sugar	33.4	36.3	47.0	
Rubber	0.36	0.36	0.37	

(Source: Agriculture Extension Service)

BALANCE OF PAYMENTS: Bullish commodity exports, access to capital, ample reserves and conservative fiscal and monetary management carried Thailand through the oil crisis in better shape than most countries. But accelerated imports for industrialization and a slide in commodity prices and export volumes since then have widened the trade deficit to \$1.6 billion this year despite import curbs imposed by the government and a big export push.

The World Bank sees little hope for improvement here. Farm exports will just hold their own, with rice yields flat, sugar exports controlled by Thailand's decision to join the International Sugar Agreement and other crops held in check by the limited potential for acreage increase. Textiles and garments the biggest non-commodity exports, are increasingly subject to stringent quotas. Good prospects for rubber and other manufactured exports won't offset the slow growth of farm products until after 1985, the bank study says.

"... Emerging trends clearly show that unless the current course of development is modified, the country's balance of payments will continue to deteriorate in the coming years," the bank says.

Major Exports Per Cent of Total in Current Prices

	1976	1990(est.)
Rice	13.2	3.2
Rubber	8.3	9.0
Maize	8.4	5.7
Cassava	10.9	4.1
Sugar	11.1	5.9
Textiles-Garments	4.7	2.6
Other Manufactures	18.3	56.9
Others	25.1	12.6
	100	100

(Source: Bank of Thailand and World Bank Estimates)

MONETARY AND EXCHANGE RATE POLICY: With the exception of a 20% runup during the 1973-1974 oil crisis, inflation in Thailand averaged 2% a year for the 15 years ended in 1973, 4% in 1975 and 1976 and 8% in 1977. "A remarkable record of stability (that) has in turn maintained the confidence of domestic and foreign investors and the generally favorable business climate in the country despite unstable external and internal political conditions," the study says.

The baht was tied to the dollar at a fixed parity from 1955 to this year but underwent a trade-weighted devaluation against currencies that have strengthened relative to the dollar. The de facto devaluation was 8.8% between 1970 and 1977.

Another series of devaluations actively promoted by the Bank of Thailand would be a boom for exports, the World Bank argues. Farm and manufacturing income would be raised while the inflationary impact resulting from higher import costs could be kept small if the rate changes are carried out in small steps.

POPULATION AND INCOME: Broadly based economic growth from 1960, which was averaged 7.6% a year in terms of gross domestic product, has lifted the income of millions of Thais. Not surprisingly, urban households and farmers who have switched out of rice to maize, cassava or sugar have made the biggest advances.

But an embarrassingly large 25% of the nation's population, or about 11 million people, still live in what the bank terms "absolute poverty." The poverty line is drawn at income of less than \$10 a month per person in urban areas and under \$7.50 a month for rural dwellers.

Ninety percent of these poorest citizens live in the countryside and the bulk of this group is in the north and northeast.

It would be a mistake, the World Bank says, to assume that these poor folks should wait patiently for the benefits of economic growth to trickle down to their level. Instead, the country's development strategy should concentrate on boosting the productivity and income of the poorest farmers. "The crucial task in coming years will be to ensure that all segments of the population participate in the development process while maintaining growth at a rate at least equal to the past rate," the bank study says.

BUREAUCRACY: This traditional scapegoat of economists, politicians and businessmen gets no better treatment from the World Bank. The visiting economists conclude that the country's development is seriously hindered by overlapping responsibilities of government agencies and reluctance of senior civil servants to delegate authority to junior officials.

Also, the goals of the five-year development plan appear to be largely ignored by senior government officials.

In its first draft, the World Bank report suggested merging the government's planning agency, the National Economic and Social Development Board with the Budget Bureau. But after complaints from officials of both agencies, the recommendation was watered down in the final draft to a plea for less duplication of effort by the two departments.

INDUSTRY: Because of traditional reliance on farm exports and the reluctance of government money managers to run up debt, industrialization came late to Thailand. Manufacturing exports are beginning to make an important contribution to the economy but the World Bank warns optimists not to expect a takeoff of the type that occurred in South Korea and Taiwan.

In fact, cranking up the industrial machine much beyond normal growth rates could be harmfully adding to imports and increasing the already heavy urban sprawl around Bangkok.

For those who hope a burgeoning industrial sector will swallow much of the surplus manpower that will hit the labor market in the coming decade, the bank notes that even a healthy 20% to 25% annual increase in manufacturing exports between 1977 and 1980 would create employment for only 10% of the new additions to the labor force during the period.

As for current rules, the bank report says direct export incentives are helpful but Thailand's maze of protectionist measures on the import side "have a very uneven effect

among firms and industries and in many respects do more harm than good." For example, waiving tariffs on equipment imported by companies that manufacture for export works against the long-run ability of local capital-goods producers to turn out this equipment.

The World Bank economists said: "domestic production of capital equipment and engineering goods would be a more appropriate direction in which to look for new activities offering learning opportunities than some of the heavy industrial projects the government seems to be considering. A massive steel mill or paper plant is hardly the place to look for a continuing stimulus to technological innovation."

When import duties are hiked on foreign luxury consumer goods, as the government did last March, the report recommended a parallel increase in business or excise taxes on similar locally-made products "to ensure that total consumption is reduced and not just imports being replaced by domestic production."

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Poverty problem will

POVERTY is expected to remain a major problem for the developing countries at the end of this century and the industrialised countries are urged to take vital actions to increase the flow of development assistance to poor countries, according to the first World Bank report on World Development.

The report stated that at least 600 million people will still be without adequate food, shelter, safe drinking water, sanitation, education, health care and employment at the end of this century.

The number of poor people cannot be decreased unless industrialised countries can assure developing countries of continuing export markets and access to international capitals for development.

"Industrialised countries have a large stake in an international economy and they must support the efforts of developing countries to sustain rapid growth and alleviate poverty as quickly as possible."

The report added that it would be more difficult for the developing countries to expand

their economies in the coming decade than it had been in the past 25 years. Their export earnings growths also appear less favourable for the next decade than for the last two.

CAPITAL FLOW

The report pointed out that of the industrial countries' US\$550 billion worth of exports in 1975, only a quarter went to the developing countries, while the proportion of manufactured exports was 30%. It also noted on the "tremendous difference in the magnitudes of manufacture trade in the two directions." Manufactures exports from industrialised to developing countries were worth about US\$123 billion in 1975, but the reverse flow was only US\$26 billion.

The World Bank expressed uncertainty on the future capital flows to the developing countries. The last few years' extremely rapid growth of commercial lendings to these countries has raised some

problems. Though widespread difficulties in servicing debt do not seem likely, individual countries may run into liquidity problems. The report said that changes in regulations affecting private lendings many possibly cause more general difficulties.

The report further noted that the developing countries' needs for net capital disbursements at market rates are to grow from US\$25 billion in 1975 to US\$78 billion in 1985. This represents a 5% increase in real term a year compared with the rapid expansion of 20% a year in 1970 to 1975. There is some doubts, however, that the flows will actually grow as rapidly as needed.

The poorest countries also depend heavily on Official Development Assistance (ODA), the report said. It pointed out that these countries' investment needs are huge in order to improve the standards of the poor, and it was extremely difficult for them to raise savings at their very low income levels.

"Over the past decade, flows of

remain -WB

concessional capital have consistently fallen short of needs, of expectations, and of the capacity to use them effectively."

It is expected that ODA's net disbursements will rise from US\$19 billion in 1975 to US\$57 billion in 1985 with a gradually rising share of the total going to the low-income countries.

SLOW GROWTH

Official Development Assistance from members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development is projected to rise from US\$14 billion in 1975 to US\$44 billion in 1985. Despite this increase, ODA, as a share of their gross national product, would rise only slightly — from 0.36% in 1975 to 0.39% in 1985. "This would thus still fall far short of internationally declared objectives."

The report stressed that the projected availability of ODA was not likely to be realised unless the three largest contributors, the United States, Germany and Japan, increased their commitments substantially. "The statements made in these three countries in support of a larger aid effort still remain to be acted upon."

According to the report, many of the developing countries are expected to grow more slowly in the next decade than in the last 15 years — especially those whose past dynamic expansion had been based on international trade.

Most of the poorest countries have less open economies. Three-fourths of their people depend on agriculture, the report noted. Though the potential varies among them, the report continued, it would be possible for these countries as a group to double their agricultural growth rates and thus raise their economic growth rate from 3% a year for the last 15 years to 5% a year in 1975 to 1985.

This would require strenuous efforts to reorient their policies, supported by increased flows of concessional capital.

Bangkok Post

July 19, 1978

World Bank warns of incomes gap

ONE of Thailand's biggest problems is the income disparity among regions and occupation groups, a recently published World Bank report asserted, and warned that the country would meet with greater difficulties in development efforts in the future.

It recommended that assistance be given to farmers in the lowest income bracket as a matter of urgency.

The report is an evaluation of economic development efforts in this country in the past decade and painted a gloomy picture for the future.

It conceded that overall economic achievement was dynamic at 7.6 per cent, but vast sections of the population remained outside the orbit of these developments.

One in four Thais remained in a state of

poverty, the report said, and farmers outside irrigated zone or who could only raise a single annual crop still had not reaped the benefits of developments.

The report argued that widespread income growth in rural areas had in turn pushed up labour income, but this only reflected the increased cost of foodstuffs and did not mean an increase in real income.

Because the agricultural sector had not been able to increase production per unit of land but had relied on increased acreage to boost output, things would get more difficult within the next seven years when new arable land will have become scarce, the report warned ominously.

Development efforts should be directed primarily towards the rural sector, especially where there is no irrigation: big water storage ponds and plant crops which can withstand drought, it admonished.

Other recommendations contained in the report included granting title deeds to the tillers of the soil to encourage them to develop it; mobilise more agricultural credit and find work for farmers during the dry season through a continuous community development programme.

It also decried the present policy of protectionism among Thai manufacturers and support of export-oriented industries. Agro-industries and farm tool manufacturing located in farm communities should be encouraged, the report concluded.

Bangkok Post
7/14/78

World Bank urges more even wealth distribution

Report by Pirakit Valaiphatchra

THE World Bank stands ready to extend more loans to Thailand for economic development if the Thai Government is determined to distribute the wealth to the poorer sectors of the economy. Thailand's major problem has been the concentration of growth in big cities, while over two-thirds of the population do not receive the fruits of growth. These are the poorer people in the Northeast and the South of the country.

This view was recently expressed by Mr Stanley Please, the World Bank's Director of Country Programmes in East Asia and the Pacific.

Mr Please paid a business visit to Thailand earlier this month and spent 10 days consulting with local government officials about future World Bank loans to Thailand for economic development.

On his return journey to Washington D.C. last week, Mr Please stopped over in Hong Kong as the guest speaker at a seminar arranged by the International Press Institute (IPI). He told journalists of the World Bank's new policy in providing loans to developing countries for economic development.

The seminar, organised jointly by IPI, the Friedrich-Ebert Stiftung of West Germany and the World Bank, was attended by over 20 journalists from Hong Kong, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Sri Lanka, Taiwan and Thailand.

CONCERN

Pointing out the new direction of the World Bank in providing loans, Mr Please stated that "The World Bank, under the leadership of Mr Robert MacNamara, is very concerned with the poorer sectors of the population in the developing countries."

This philosophy has played a great part in shaping the policy of the World Bank in giving out loans to developing countries.

"The World Bank's loans will be provided for developing countries based on the consideration that the money will be channelled to the development of poorer sectors of the economy."

The World Bank, in order to ascertain that its financial support will serve the development of a country, will hold an economic policy dialogue with the country's government on the direction of economic development of the country prior to extending loans.

"In holding a policy dialogue with a government, the World Bank does not mean to dictate to the government what to do about economic development of the country. But we point out that if the living conditions of the poor in the country are to be improved, then, certain things have to be done."

Mr Please emphasised.

Economic policies vary from country to country. The World Bank clarified that it was ready to provide loans to a sector of the economy of a country which most needs development.

In the case of Thailand, the World Bank sees an urgent need for a wider spread of wealth from the central part of the country to the poorer sectors in the northeastern and southern provinces.

"The problems of Bangkok are not in Bangkok, but rather in the regional areas of the country," Mr Please suggested.

He stated that the per capita income of the people in Thailand was high on the average. The difference in income between people in Bangkok and those in the regional areas, however, showed a wide gap.

This gap must be narrowed in order to stop the people in the rural areas from coming to the capital city for employment. "Thailand must stop the migration of people into Bangkok soon or the country will be in big difficulties in the next 10 years," Mr Please emphasised.

Mr Please has met Prime Minister Kriangsak Chomanan, Deputy Prime Minister Suntiorn Hongladarom, Minister of Finance Suphat Suthatham, and other high ranking officials during his visit to Thailand.

During the visit, he signed an agreement providing Thailand with 172 million baht in loans for the housing development project of the National Housing Authority.

"The Thai Government is very responsive to the World Bank's policy. The policy dialogue with the Thai Government was very favourable," Mr Please noted. He stated that the Prime Minister of Thailand was very conscious of the problems of the poor and the need for development.

There is a need for a lot of ground work in the Northeast as well as other problems such as water management, Mr Please added. "There

has to be a study and planning for the development in the Northeast of Thailand. And this has to be done now so that in the next two years, the World Bank can start providing more loans for development in these areas."

Sacrifice has been made on the part of the people in Bangkok and they must understand the need for a change in the flow of financial resources to the Northeast. "The people in Bangkok must realise that urgent development



PLEASE

is needed in the rural areas. They must be made to understand and be conscious of it."

The World Bank rates Thailand favourably in terms of economic performance during past years. Consequently, it reflects a strong creditworthiness of the country when applying for loans with the World Bank. "Thailand's economic performance has been very good during the past 15 years. The country has had strong economic indicators such as rate of economic growth, savings and balance of payments."

The World Bank has consulted with the Thai Government and it was determined that action would be taken to bring about a balance of development throughout the country.

"If the Thai Government is interested in mobilising the potential resources in the country,

the World Bank will increase its financial support," Mr Please stated.

He further suggested that Thailand had the potential for rapid growth but the potential "has not been properly developed." Furthermore, Thailand has had very little "trigger down" effect on economic growth.

The World Bank envisages the need for the development of Thailand in the regional areas in the fields of agriculture and small and medium size industrial projects.

The increase in agricultural exports will help bring in more foreign exchange to the economy of Thailand.

On industrial development, there is a need for the country to maintain a "positive effect" in the engineering industry. This is to reduce excessive imports of machinery for industrial development of the country.

EMPHASIS

Mr Please, in commenting on the factors which the World Bank considers in providing loans, stated that the World Bank puts great emphasis on the capability of the recipient country to make loan repayments. "Most countries in Asia are considered as having great capability in this matter."

The amount of loans to be provided will depend on the creditworthiness of a country.

The World Bank's loans generally carry a 7.5% interest rate with a 20-year repayment period.

Mr Please, in giving his view on the policy dialogue he had with the Thai Government, stated that he was optimistic that the World Bank would give greater assistance to Thailand in the future.

"Prime Minister Kriangsak shows great determination to bring about development in the rural areas of Thailand."

From Page 17

'Millions still in grip of poverty'

A LARGE segment of the Thai farmers has not yet received any benefits from the Government's development project during the past ten years, even though the national economy registered a rather high growth rate — approximately 7.6 per cent a year — between 1966-1976, according to a World Bank report.

The report said that one-fourth of the Thai population — about

eleven million people — were living in poverty, with an income less than 1,500 baht per capita for the rural inhabitants and lower than 2,400 baht for the urbanites.

The agriculturalists who have not benefitted from the development programmes are those living in areas not covered by the irrigation projects and who have to depend entirely on rain water for their cultiva-

tion to earn just enough income to subsist. The large segment of these people are living in the Northeast and the North, it said.

It was suggested by the World Bank that the Government should accelerate assistance for the poor farmers living outside the areas covered by the irrigation projects by introducing new technology to store rain water and to find new strains of plants which can withstand drought and arid condition.

Issuance of land certificates should be speeded up as an incentive for farmers to improve their land and production while agricultural credits should be extended to reach the hands of the needy farmers, the World Bank further recommended.

The report stated further that industries such as agricultural machinery manufacture should be promoted in rural areas. The steel and paper pulp industries are too big a project for Thailand, it said.

Incentives system for industries should be simplified and protectionism should be reduced, the report concluded.