

**The Second Country Study for Japan's Official
Development Assistance to the Kingdom of Thailand**

March 1996

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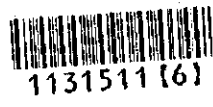
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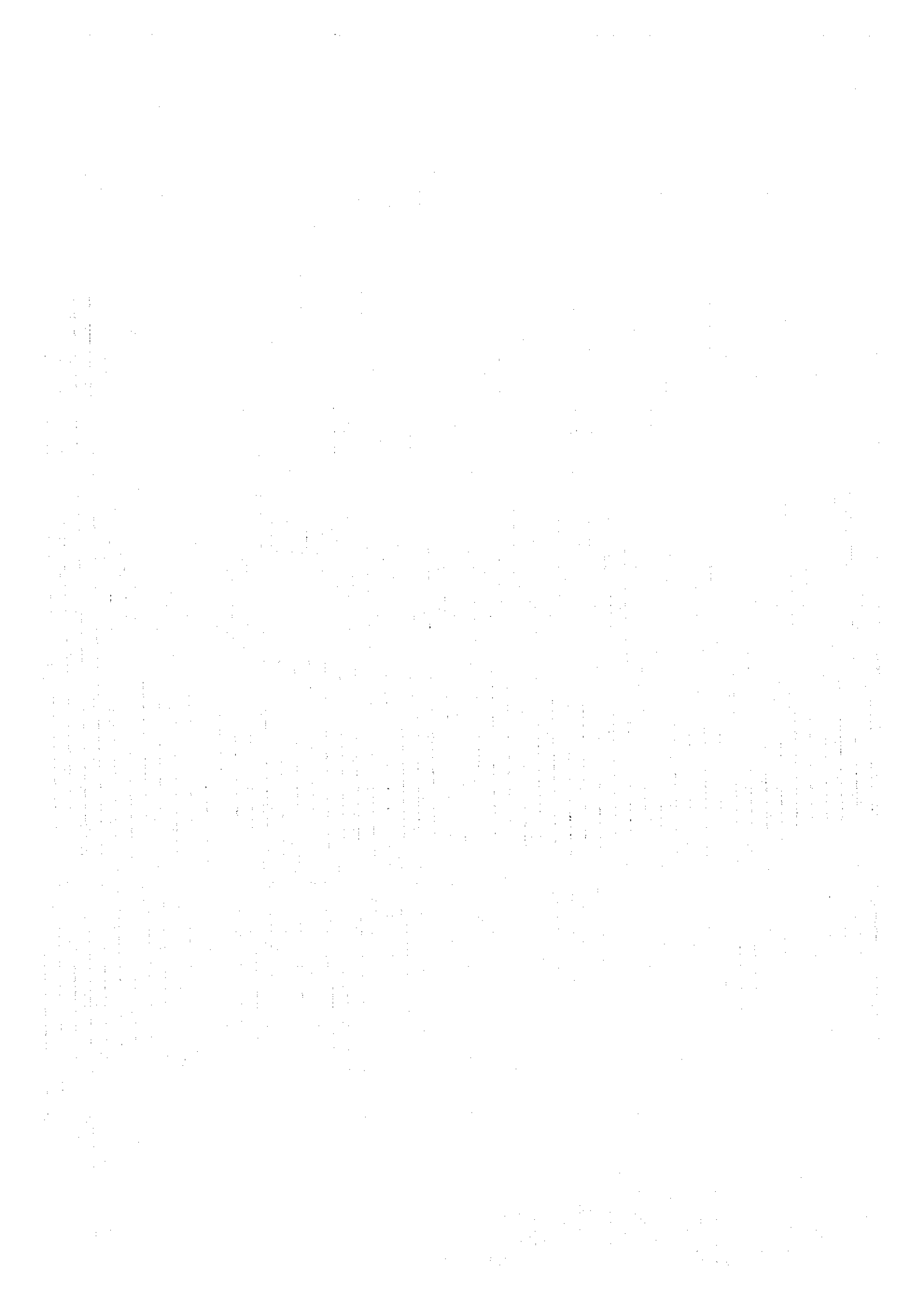
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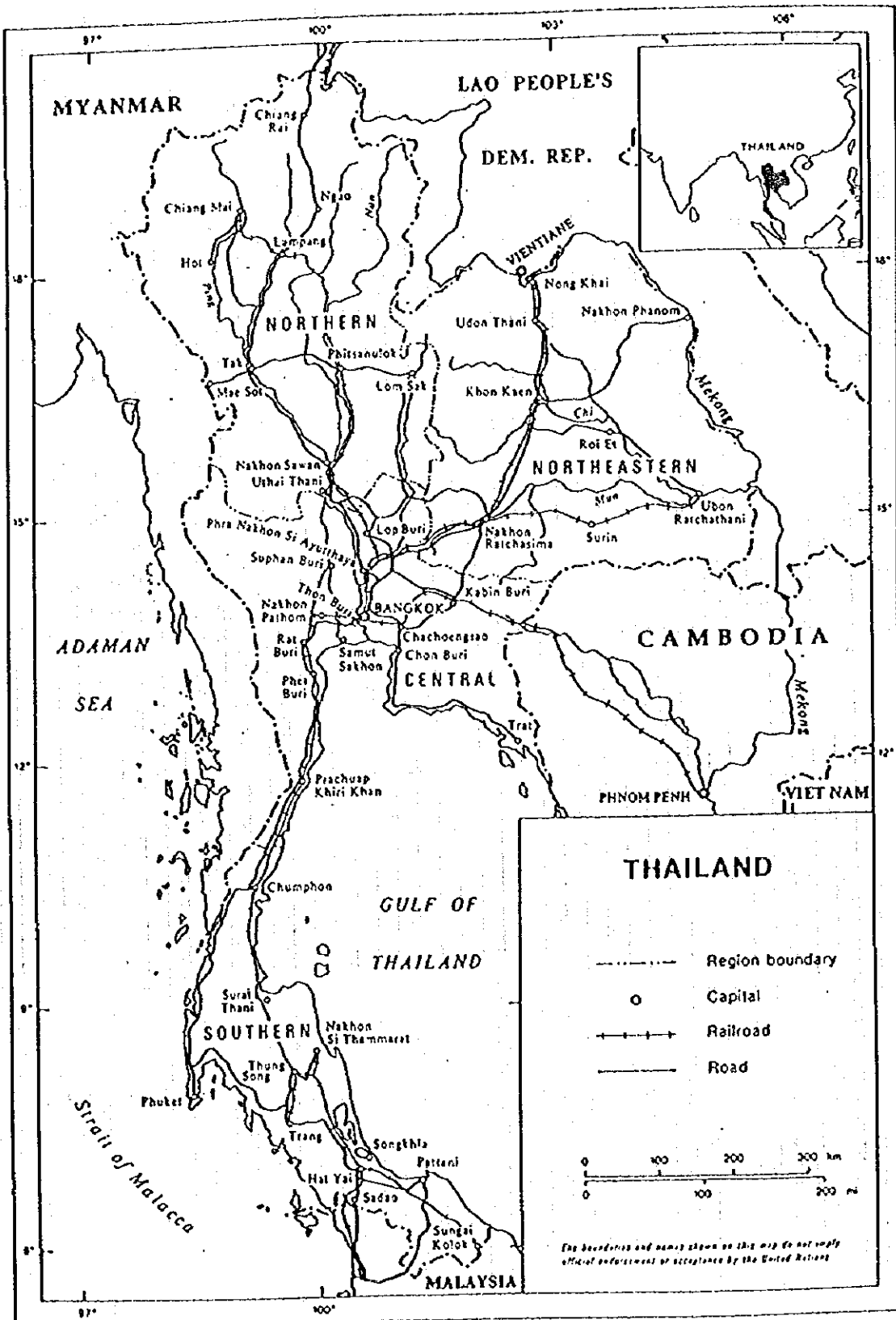
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Foreword

The Thai economy is presently continuing to grow strongly, stimulated by advancing industrialization that has been catalyzed by foreign capital inflows. Achieving such rapid economic growth in Thailand has, however, brought with it a number of challenges that the country currently faces: growing regional disparities between the rural villages and urban areas, the shortage of middle-level engineers who will be needed in the drive for further economic growth, environmental degradation accompanying the country's rapid industrialization and increasing urbanization, and the AIDS problem, which is being tackled as part of the joint US-Japan Global Issues Initiative Program.

Meanwhile, Thailand has begun to cooperate with its near neighbors, particularly those in Indochina. Through its support for the Thailand International Training Center-plan and the Japan-Thailand Partnership Program agreed two years ago in August, Japan is working to encourage Thai cooperation in neighboring countries through a bilateral framework.

The economic and social situation confronting Thailand both at home and abroad has thus arrived at a new juncture. Against such a background, and aware of Japan's stance as the world's leading donor, the Second Thailand Country Study Committee began in June 1995 its investigation of strategies to provide the assistance required for Thailand, one of the major countries in the region, to make a smooth transition to a middle-income country.

In order to ascertain the present state of development in the country since the conclusion of the First Country Study, we analyzed the economic, political and social situation in Thailand, trends in assistance to Thailand by major aid countries and international organizations, reviewed the Seventh National Economic and Social Development Plan, and assessed the directions of the still-on-the-drawing-board Eighth Development Plan. Based on our awareness of the current scenario, we then sought to extract the major development issues currently confronting Thailand, and summarized the ways assistance can be provided to the country on the basis of these results.

I would like to pay tribute firstly to the members of the Committee for their valuable contributions to the compilation of this report, and express my appreciation to the concerned agencies in the Ministry of Foreign Affairs and other Ministries for their support, and to the Task Force members for their dedicated assistance. I would also like to express my deep gratitude to the Embassy of Japan in Thailand and the JICA Thailand Office for their generous support.

In closing, it is my earnest hope that this report be used to the maximum possible extent by JICA, Ministries and other institutions with an interest in providing assistance to Thailand, and that it can make a contribution to the further development of the friendly ties between our two countries.

March 1996
Fumio Nishino,

Chairperson, Committee on the
Second Country Study for
Japan's Official Development
Assistance to the Kingdom of
Thailand

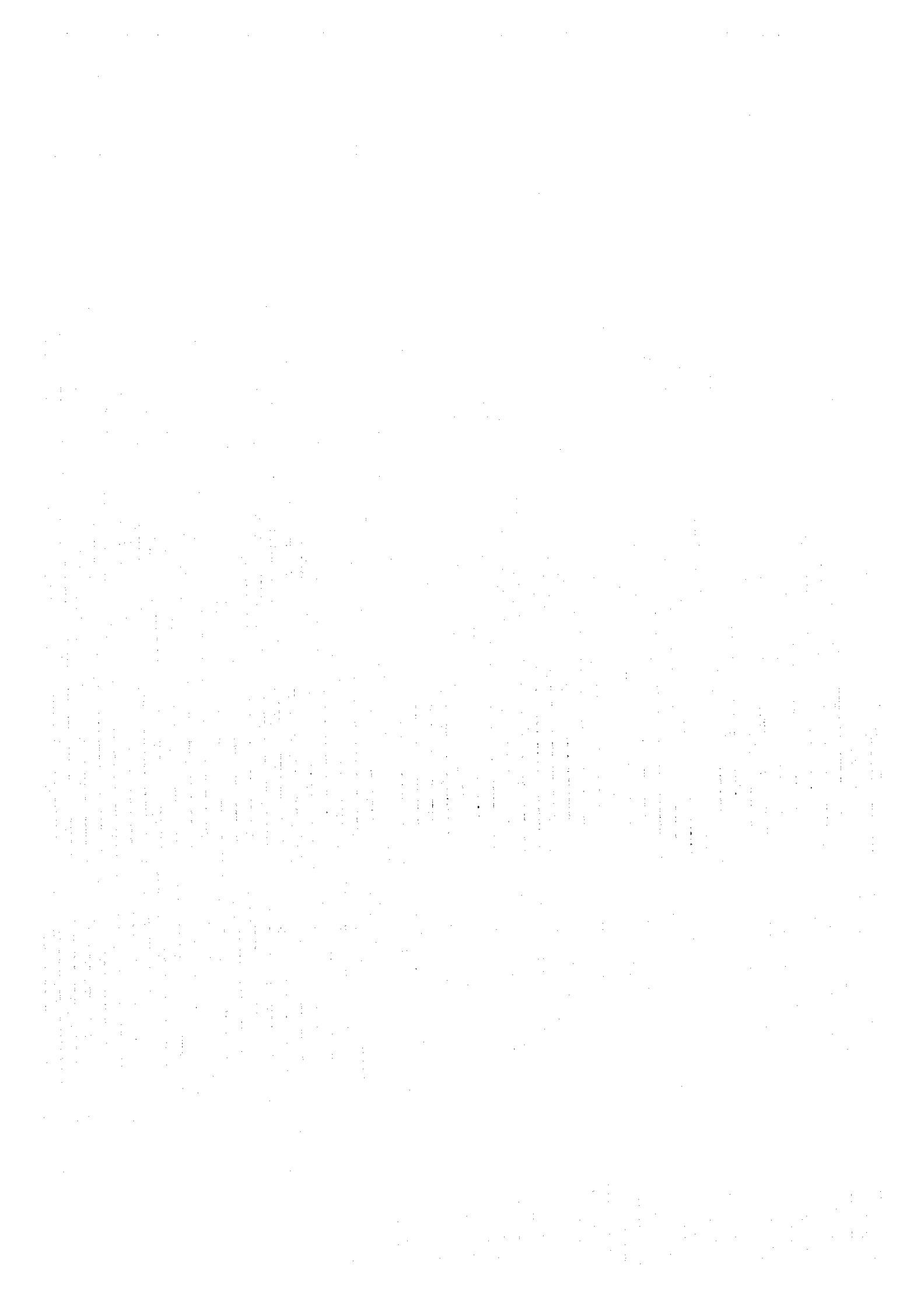
Contents

I. Fundamental Background for Examining Development in Thailand.....	1
1. The Thai Economy, Politics and Society	2
1-1. Economy	2
1-2. Politics and Society	6
1-3. Thailand in the International Environment	8
2. Trends in Aid to Thailand from Major Donor Countries and International Organizations.....	16
2-1. Overall Trends in Aid to Thailand	16
2-2. Japanese Aid to Thailand.....	18
2-3. Aid to Thailand from Other Donor Countries	19
2-4. Aid from Major International Organizations	22
3. Development Issues in Thailand, and Future Outlook	23
3-1. Review of the Previous Country Study Report	23
3-2. Development Targets and Directions	24
(1) Overview of the Seventh Development Plan	24
(2) Target Attainment in the Seventh Development Plan	25
(3) Directions for the Eighth Development Plan	28
3-3. Major Development Issues	29
(1) Macroeconomic Issues	29
(2) Infrastructure	30
(3) Industry	31
(4) Agriculture, Forestry and Fisheries	33
(5) Human Resources	34
(6) Environment	35
(7) Health and Medical Care	36
(8) Social Development	37
II. The Provision of Aid to Thailand	41
Flowchart Illustrating the Provision of Aid to Thailand	42
1. Basic Perspectives on Aid	43
1-1. Human Development and Sustainable Growth	44
1-2. Aid to Thailand in a Period of Transition	45
2. Directions of Aid	45
2-1. Correcting the Disparities and Distortions Arising from Rapid Growth	45
2-2. Support for Sustainable Growth	46
2-3. Contributing Intellectual Resources to the Thai Administration	47
2-4. Support for Regional Cooperation Initiatives	47
3. Priority Issues of Aid	48
3-1. Support for Human Resource Development	49
(1) Improving Attendance Rates in Secondary Education and Enhancing Science and Mathematics Education	50
(2) Strengthening Engineering and Scientific Education at the Tertiary Level.....	50

(3) Human Resource Development for the Promotion of Industry	51
3-2. The Provision of Basic Social Infrastructure	51
(1) Support for the Infrastructure Development of Public Health	51
(2) Improving the Standard of Local Medical Care System	52
(3) AIDS Strategies	52
(4) Improvement of Social Welfare	52
3-3. Environmental Conservation	53
(1) Educating Technical Experts	53
(2) Strengthening Administrative Functions for Pollution Source Control	54
(3) Popularization and Education Activities	54
3-4. Promotion of Local and Rural Development	55
(1) Promoting Local Industry	55
(2) Developing Local Cities	55
(3) Improving Regional Administrative Capabilities	55
(4) Strengthening Commercial Farming Systems	56
(5) Developing Agricultural Infrastructure	56
(6) Support for the Distribution and Financial Sectors	57
3-5. Industry Promotion and Infrastructure Development	58
(1) Infrastructure Development for Industry Promotion	58
(2) Fostering Supporting Industries	58
(3) Strengthening International Competitiveness	59
3-6. Support for Regional Cooperation through Japan-Thailand Collaboration	59
(1) Promotion of the Japan-Thailand Partnership Program	59
(2) Support for Comprehensive Cooperation in Indochina	60
4. Aid Implementation Issues	61
4-1. Linking Technical Cooperation and Loan Aid	61
4-2. Cost Sharing	61
4-3. Human Resource Utilization in Thailand	62
4-4. Project Formation	62
4-5. Support for the Private Sector	63
4-6. Periodic Reviews of Japan's Aid to Thailand	63

Abbreviation

ADB	Asian Development Bank
AEM-MITI	ASEAN Economic Ministers-Ministry of International Trade and Industry
AFTA	ASEAN Free Trade Agreement
ANZCER	Australia - New Zealand Closer Economic Relationship Trade Agreement
APEC	Asia -Pacific Economic Cooperation
ASEAN	Association of East Asian Nations
BAAC	Bank for Agriculture and Agricultural Cooperatives
CIDA	Canadian International Development Agency
DTEC	Department of Technical and Economic Cooperation
EAEC	East Asian Economic Caucus
EU	European Union
GDP	Gross Domestic Product
GMS	Greater Mekong Sub-regional Economic Cooperation Project
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFCT	Industrial Financial Corporation of Thailand
IMF	International Monetary Fund
IMT- GT	Indonesia-Malaysia-Thailand Growth Triangle Development Project
I-S Gap	Investment and Saving Gap
NAFTA	North American Free Trade Agreement
NESDB	National Economic and Social Development Board
NGOs	Non-Governmental Organizations
NIEs	Newly Industrialized Economies
TITC	Thailand International Cooperation Programme
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OOF	Other Official Flows
PFP	Partnership for Progress
UNDP	United Nations Development Programme
UNCED	UN Conference on Environment and Development
UNICEF	United Nations Children's Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
WFP	World Food Program
WTO	World Trade Organization



I. Fundamental Background for Examining Development in Thailand

1. The Thai Economy, Politics and Society

1-1. Economy

(1) Recent Economic Trends (Table 1)

The Thai economy achieved real growth of 10.2 percent for the second half of the 80s (1985-90), and boomed especially in the last three years, recording an average of 12.2 percent. This economic growth has substantially improved the employment situation, eliminated the budget deficit, and greatly reduced the country's external debt burden. While excellent growth has been recorded in exports, however, it has been outstripped by rising imports caused by rapidly escalating investment, causing the current deficit to worsen and commodity prices to gradually creep upwards.

In the 1990s, personal consumption has grown steadily with the rise in purchasing power as a result of the country's high economic growth rates. Economic growth decelerated and a period of slight adjustment ensued in 1991 and 1992, due to a slowdown in investment partly caused by a reaction to the construction boom, and an edging-down of exports due to recessionary conditions in the advanced economies. This deceleration has, however, had a positive effect in terms of the country's economic balance, as a result of the easing of inflationary price pressures, and the control of import growth.

Economic activity recovered again in 1993, and was further boosted in 1994 by an expansion in export value and a recovery in private sector investment. While subsequent economic growth has failed to mirror the dizzy heights of the late eighties, it has continued at figures above eight and approaching 9 percent. Problems associated with balancing the economy have also emerged, with commodity prices once again on the rise, and the current account deficit ballooning out.

Per capita GDP has risen steeply as a result of Thailand's high economic growth and declining population growth rates, climbing from US\$1,525 in 1990 to an estimated US\$2,605 in 1995.

(2) Changes in the Structure of Production (Table 2)

The share of the agriculture, forestry and fisheries industry accounted for in the total gross domestic product (GDP) has declined as the country has developed. In 1980 this industry was the most important sector, accounting for 23.2 percent of GDP, but lost this position to manufacturing industry in 1981, and subsequently declining to 15.8 percent in 1985, 12.6 percent in 1990, and 10.2 percent in 1994. Industries which conversely grew their share of GDP during this period include manufacturing (from 21.5 percent in 1980 to 28.2 percent in 1994), the finance, insurance and real estate industry (similarly, 3.1 percent to 7.9 percent), and the construction industry (similarly, 4.4 percent to 7.4 percent). Analyzing the manufacturing sector in further detail, we find that agricultural produce-related industries (food-

stuffs, beverages, tobacco), formerly accounting for the largest share in this sector, rose from 25.2 percent in 1980 to 29.0 percent in 1985, but subsequently declined sharply to 16.8 percent in 1994. By contrast, textiles and clothing maintained a high share over the period, moving down marginally from 20.6 percent in 1980 to 19.7 percent in 1994. Machinery (general machinery, electrical machinery, and transport equipment), substantially increased its share in the manufacturing sector, rising from 13.0 percent in 1980 to 23.3 percent in 1994.

Table 1. Major Economic Indicators for Thailand

	The Sixth Plan Results(1987-91)	1990	1991	1992	1993	1994	1995 (Note 1)	The Seventh Plan Targets (1992-96)
Real Economic Growth Rate	10.5	11.2	8.5	8.1	8.3	8.7	8.6	8.2
GDP (US \$ billion)	-	86	99	110	122	139	157	-
Per Capita National Income (US \$) (Note 2)	1,634	1,525	1,742	1,902	2,084	2,348	2,605	2,830
Real rate of increase in expenditure (%)	-	-	-	-	-	-	-	-
Private consumption	9.1	12.3	7.2	7.5	7.7	7.9	7.8	5.7
Public consumption	2.0	7.8	6.5	6.3	7.2	7.5	9.7	3.3
Public investment	6.5	33.4	26.7	26.2	22.0	21.7	22.1	8.5
Private investment	26.0	30.3	8.9	0.6	7.8	8.0	9.6	8.8
Inflation rate	4.7	6.0	5.7	4.1	3.3	4.0	4.5	5.6
Value of exports (US \$ billion)	20.0	22.9	28.5	32.0	36.1	42.6	49.6	42.4
(Growth rate, %)	24.5	14.4	23.5	13.2	13.0	16.1	16.4	14.7
Value of imports (US \$ billion)	26.5	32.9	38.3	40.0	44.8	52.4	60.5	54.1
(Growth rate, %)	32.6	28.9	15.4	5.5	12.0	15.0	15.4	11.4
Balance of trade (US \$ billion)	-6.7	-10.0	-9.8	-8.0	-8.7	-9.8	-10.9	-12.5
(Percentage of GDP)	-8.4	-11.7	-9.9	-7.3	-7.1	-6.9	-6.8	-9.4
Income from tourism (US \$ billion)	3.6	-	3.9	4.8	5.7	6.5	7.4	7.4
Current account balance (US \$ billion)	-3.9	-7.3	7.7	-6.3	-6.9	-7.2	-7.8	-6.8
(Percentage of GDP)	-4.9	-8.5	-7.7	-5.8	-5.6	-5.1	-4.9	-5.2
Foreign debt (US \$ million)	--	--	23,802	24,036	24,465	--	--	--

Source : NESDB, Thailand 2000, Bangkok, Thailand, 1994
 IMF, International Financial Statistic Yearbook 1995, 1995
 NESDB, National Account

Note 1: Estimates

Note 2: Calculated at the following dollar -baht exchange rates: 1991, \$1=25.28 baht; 1992, \$1=25.52 baht; 1993, \$1= 25.54 baht; and \$1= 25.09 baht for 1994, 1995, the Sixth Plan Results, and Seventh Plan Targets.

Examining trade trends, we find that changes in this industrial structure have been even more dramatic. Exports of agricultural, forestry and fisheries products accounted for more than half, 51.2 percent, of total exports in 1980, but fell sharply to 17.5 percent in 1994. Meanwhile, shares of industrial products of total export value have grown sharply in the same period from 32.3 percent to 81.1 percent. Analyzed by commodity, exports of machinery and manufactured products rose significantly from 26.8 percent to 50.1 percent of the total in 1994, while those of foodstuffs, beverages and tobacco fell down from 45.5 percent to 21.1 percent.

It is therefore clear from this analysis of industrial structure that Thailand is undergoing a transition from an agrarian country to an agrarian-industrialized, or industrialized country. An examination of the country's employment structure, however, reveals that the agriculture sector remains an important employer, accounting for 57 percent (as against 71 percent in 1980). This disparity between industry and employment structure has itself spawned a variety of problems.

(3) Changes in the Structure of Expenditure (Table 3)

The structure of expenditure in Thailand began to change abruptly towards the end of the eighties. An analysis of expenditure items as a proportion of GDP reveals that both private capital investment and private housing investment grew steeply between 1985 and 1990, from 12.2 percent to 25.1 percent, and from 6.2 percent to 9.1 percent respectively. Two other sectors experiencing sharp growth over this five year period were exports, rising from 23.2 percent to 34.1 percent of GDP, and imports, climbing from 25.9 percent to 41.6 percent. By contrast, private consumption fell away from 62.2 percent to 56.4 percent of GDP in the same period, as did public consumption and public investment, dropping from 13.5 percent to 9.4 percent, and from 8.7 percent to 6.1 percent respectively. The pace of these structural changes has moderated in the 1990s, with the percentage figure for private consumption falling marginally, and that for public expenditure rising somewhat in the period up to 1994. Even so, the high investment rates and export-import cover ratio are distinctive features of expenditure structure in today's Thai economy.

Table 2. Changes in the Structure of Production

Sector	1980	1985	1990	1994
Agriculture, forestry and fisheries	23.2	15.8	12.6	10.2
Manufacturing	21.5	21.9	27.2	28.2
Construction	4.4	5.1	6.2	7.4
Transport and communications	5.3	7.4	7.2	7.4
Wholesale and retail	17.6	18.3	17.7	16.4
Finance, insurance and real estate	3.1	3.3	5.5	7.9
Services	14.0	14.5	13.3	12.6
Other	10.9	13.7	10.3	9.9
Total	89.1	86.3	89.7	90.1

Source : NESDB, National Account

Table 3. Changes in the Structure of Expenditure

Sector	1980	1985	1990	1994
Personal consumption expenditure	65.4	62.2	56.4	54.9
Private housing investment	4.0	6.2	9.1	7.3
Private capital investment	14.9	12.2	25.1	24.6
Public consumption	12.3	13.5	9.4	9.8
Public investment	8.8	8.7	6.1	8.8
Variation in inventories	1.4	1.1	1.0	0.2
Exports	24.1	23.2	34.1	39.0
Imports	-30.4	-25.9	-41.6	-43.8
Total	100.5	101.2	99.6	100.8

Note: Totals do not add up.

Source : NESDB, National Account

1-2. Politics and Society

(1) Political Trends and Government^{Note1}

With a constitutional monarchy in place since the Constitutional Revolution of 1932, the King is the head of state of Thailand. Thailand has a bicameral parliament consisting of a Senate whose members are appointed by the government, and a House of Representatives chosen by popular vote. The justice system essentially consists of three tiers, with the Supreme Court at its apex and magistrate's courts at the lowest level.

Two key trends in political life in Thailand in recent times have been the drive towards democracy and the decentralization of authority to the country's regions.

The Chatchai Chunnawan government formed in August 1988 was the first regime in 12 years in which a political party held the reins of power. In 1991, however, the military staged a bloodless coup to remove the Chatchai administration, claiming that its politicians were corrupt. It handed all authority to a National Peace Keeping Council (NPKC) headed by General Suntone, the Commander in Chief of the Thai armed forces. While many people in Thailand accepted the need for the coup d'état, the international community strongly criticized the move as being a backward step for Thailand's democratization.

An interim government under the stewardship of Anan Panyarachun ruled Thailand through 1991 until a general election was held in March 1992. After the election, a government was formed by Army Commander and armed forces chief General Suchinda, one of the instigators of the coup. Suchinda's administration was met with furious criticism, as he had not been democratically elected leading to anti-government demonstrations. Prime Minister Suchinda resigned after the military's forceful quelling of a protest demonstration in May 1992 resulted in collision of Thai people and the Thai Police and Military, and former Prime Minister Anan was again appointed to lead a caretaker government.

The Anan government reshuffled the military hierarchy and sought to regain trust both within the country and from overseas. At the same time, it amended the constitution to guarantee among other things, a democratically elected Prime Minister. The second House of Representatives poll for this year in September resulted in the election of a coalition government headed by the Democrat Party's Prime Minister Chuan. Suspicions of corruption associated with the land reform process, however, led to the House of Representatives being dissolved in May 1995.

^{Note1} *Ajia Doukou Nenpou 95-nen, (Annual Report of Trends in Asia 1995)*, Institute of Developing Economies, 1995; Yoneo Ishii and Toshiharu Yoshikawa (ed.) *Tai no Jiten (An Encyclopedia of Thailand)*, 1993; Data compiled by JICA experts

In a subsequent election in July 1995, the ruling Democrat Party was beaten by a tiny margin by the leading opposition party, the Chart Thai, and the Banharn Silapa-archa government was elected. The general election was praised highly as the democratic procedure produced a smooth power change.

Administrative subdivisions at the regional level in Thailand comprise the changwat (province), the amphoe (district), the tambon (commune of villages), and the mubaan (village). Provincial governors and district leaders are central government bureaucrats appointed by the Ministry of Interior. Following the incident of May 1992, activities urging greater democratization have escalated, and the decentralization of authority to the regions has come under further scrutiny. Long-standing calls for democratic reforms to the constitution including the adoption of elections for provincial governors -seen as constituting a concrete example of the transfer of authority to the regions- have yet to be translated into firm action.

(2) Recent Trends in Society

The country's rapid development since the 1950s has caused dramatic changes to the natural environment, and the once-abundant forests of Thailand are being depleted at a rapid rate. The forested area which occupied 40.8 percent of the country in 1975 had fallen to 26.6 percent by 1991^{Note2}.

In recent times, Bangkok has been afflicted by inundation almost every year. More lately, flood damage has been widespread throughout the country as a result of the monsoon in September 1995. As of late September, 64 of Thailand's 76 provinces had been hit by flood damage. The North and Northeast regions have been especially devastated by massive flooding -said to be the worst for 20 years- leading to fears of escalating the foodstuff price index, since these are important farming areas^{Note3}.

With a population of 58,336,072 as of 31 October 1993^{Note4}, the average rate of population growth in Thailand between 1980 and 1993 was 1.7 percent^{Note5}. The average population growth rate between 1993 and the year 2000 is projected to be 0.9 percent^{Note6}. Observers predict that migration towards urban areas and their surroundings is set to become a significant problem; according to 1993 statistics, 17.6 percent of the population live in urban areas, of which 71.1 percent are concentrated in the Bangkok Metropolitan Area. (Table 4)

^{Note2} Thailand Figures 1995-1996, Alph Research Co. Ltd. and Manager Information Services Co., Ltd., Bangkok, 1995

^{Note3} Bangkok Times, September 1995.

^{Note4} Population censuses in Thailand are conducted twice annually, on June 30 and October 30. National Statistical Office, Office of the Prime Minister, Quarterly Bulletin of Statistics Volume 41 No. 4, Bangkok, Thailand, December 1993.

^{Note5} National Statistical Office, Office of the Prime Minister, Quarterly Bulletin of Statistics Volume 41 No. 4, Bangkok, Thailand, December 1993, pp15.

^{Note6} World Bank, World Development Report 1995, Oxford University Press, N.Y., 1995.

Table 4. Changes in Population by Region

Region	1990	1991	1992	1993
Total	56,303,273	56,961,030	57,788,965	58,336,072
Central	18,367,778	18,633,080	18,645,889	18,866,960
Bangkok and Surroundings	8,538,610	8,701,374	8,661,228	8,769,341
North	10,993,792	11,075,738	11,682,315	11,814,337
Northeast	19,828,941	20,044,480	20,059,015	20,170,986
South	7,112,762	7,207,732	7,401,746	7,483,789

Source : National Statistical Office, Office of the Prime Minister,
STATISTICAL YEARBOOK THAILAND, Number 41 1994

1-3. Thailand in the International Environment

(1) Political and Economic Trends in East Asia

a. Economic Development in East Asia

Since the 1970s, the East Asian region has sustained long term and higher growth rates than any other part of the world. The wave of high growth rates which began in the Asian NIEs also engulfed the Association of South-East Asian Nations (ASEAN) countries and China in the latter half of the 80s, and then spread to neighboring South Asia in the 1990s. This rapid growth in East Asia has been attributed to the adoption of "outward-looking economic policies," and in actual fact, the role played by export expansion and aggressively attracting foreign investment was substantial. In this context, the share of global GDP ascribed to East Asia (NIEs^{Note7}, the four ASEAN countries, and China) rose from 4.7 percent in 1988 to 6.9 percent in 1993. Interestingly, the region's share of global trade has climbed from 11.0 percent in 1988 to 16.5 percent in 1993, outstripping the rise in GDP share, and emphasizing the strength inherent in its growth. These outward-looking policies have combined with the following strategies to underpin the region's growth: controlling inflation through moderate levels of fiscal management, economic policies which give priority to market mechanisms, and efforts to make financial markets more efficient through financial liberalization and other means. It has also been pointed out that a stable political environment and a well-defined national desire and consensus for economic development have been present in these countries^{Note8}

Inter-regional trade has continued to expand in the East Asian region against this background of high growth. By way of example, imports from NIEs and ASEAN as a proportion of total imports into the four ASEAN countries grew from 22.5 percent in 1985 to 26.2 percent in 1994, and correspondingly, their contribution to growth for import revenue overall rose from 23.8 percent in 1985-90 to 30.3 percent in the period 1990-94. The development of

Note7 NIEs: Newly Industrializing Economies

Note8 See Economic Planning Agency (1994), EPA Research Bureau (1995).

specialization (including specialization between industries, between industrial processes, and product differentiation) within the region is also reflected in this expansion of inter-regional trade.

In addition to the NIEs, ASEAN and China, other East Asian countries have lately begun to ride this wave of growth. Viet Nam achieved member status of ASEAN in July 1995. Countries such as Laos, Cambodia and Myanmar, which have suffered the ravages of civil war or adopted inward-oriented socialist policies, are shifting ground to employ strategies aimed at opening their markets. The NIEs and ASEAN countries are working constructively to bolster their relationships with these countries. In this context, we can identify a common awareness in the Southeast Asian region of how balance will be maintained vis a vis China, which has become a major military and economic power. One manifestation of this awareness is the search for enhancement of relations with India and the South Asian region. An issue to be addressed at present, however, is that of whether Myanmar can be smoothly integrated into the Southeast Asian economy.

The fact that the formation of the World Trade Organization (WTO) has bolstered a framework which seeks the liberalization of global economic transactions is a desirable environment for these ASEAN countries which have pursued outward-looking policies. Corresponding with world-wide trend towards the formation of regional economic blocs, however, the creation of AFTA is encouraging the strengthening of inter-regional economic relationships. Using this as an axis, it is conceivable that a number of positive trends will be ongoing: the northward-looking East Asia Economic Caucus (EAEC) concept, the strengthening of linkages with the southward-oriented Closer Economic Relationship (CER) between Australia and New Zealand, and linkages with neighboring countries through subregional cooperation. Lively economic interchanges of this type will likely become a major factor underpinning the development of the region into the future.

b. Strengthening Relationships Between Thailand and the Asian Region (Table 5)

In recent years, Asian countries surrounding Thailand have come to be classified into three categories: 1) Southeast Asian countries (ASEAN, three countries from Indochina, and Myanmar) that have been reinforcing close and long-standing relations; 2) Japan and the NIEs, with mature trade and investment relationships; and 3) China and India, countries with massive populations and markets^{Note9}.

Comparing changes in the value of trade between Thailand and each of the groups, we find that the share of total trade (total imports plus exports) accounted for by the first group, Southeast Asia, grew steadily from 12.7 percent in 1990 to 16.5 percent in 1994. Of particular note, exports from Thailand to Southeast Asia as a proportion of total exports have climbed sharply from 11.4 percent to 17.6 percent (while imports rose from 12.4 percent to 13.0

^{Note9} This grouping system proposed by Vimolsiri. (Vimolsiri 1995)

percent in the same period), demonstrating that economic growth in these countries major power provided a substantial export market for Thailand. The proportion of Thailand's trade with the second group has hardly changed at all, falling marginally from 34.0 percent in 1990 to 33.6 percent in 1994. Despite this result, the second group's share of export value of trade is virtually unchanged at high levels of 25.0 percent to 25.8 percent. We can conjecture that this situation has arisen from the creation of a stable trading relationship and growing exports accompanying Thai economic development. The amount of trade between Thailand and the third group as a proportion of total trade is as yet low, and there has been no change in recent times. An examination of the destinations for Thai exports in the first quarter of 1995 shows that exports to ASEAN countries have finally overtaken those to the US, becoming its most important export destination. It should be noted that the first group's share in the first quarter of 1995 was 17.3 percent of total trade, 21.9 percent of exports, and 13.6 percent of imports.

Of the relationships with Asian countries seen from Thailand's perspective, this analysis reveals that economic relations with neighboring Southeast Asian countries will doubtless strengthen still further.

Table 5. Trends in Trade with Thailand by Country and Region

(Units :%)

Fiscal Year	Total Trade				Exports				Imports			
	1981	1986	1990	1994	1981	1986	1990	1994	1981	1986	1990	1994
Japan	20.1	20.4	25.1	24.2	14.2	14.2	17.2	17.1	24.2	26.4	30.7	30.2
NIEs	6.0	7.9	8.9	9.4	8.2	8.3	7.8	8.7	4.4	7.5	9.7	10.0
Hong Kong	2.5	2.7	2.6	3.1	4.8	4.0	4.5	5.3	0.9	1.5	1.3	1.3
Taiwan	1.8	2.6	3.7	3.8	1.3	1.6	1.6	2.2	2.1	3.6	5.2	5.1
Rep. Korea	1.7	2.6	2.6	2.6	2.1	2.8	1.7	1.3	1.4	2.4	3.2	3.6
ASEAN	12.9	14.2	12.0	15.1	14.8	14.3	11.4	17.6	11.6	14.2	12.4	13.0
Singapore	7.3	7.7	7.4	9.6	7.8	8.9	7.3	13.6	6.9	6.6	7.5	6.3
Malaysia	3.5	4.2	3	3.8	4.6	4.3	2.5	2.4	2.7	4.2	3.4	4.9
Indochina	-	-	0.7	1.4	-	-	0.6	2.3	-	-	0.9	0.7
China	3	3	2.4	2.3	2.7	3.1	1.2	2.1	3.2	2.9	3.3	2.6
America	12.9	16.2	15.7	16	12.9	18.1	22.7	21	13	14.3	10.9	11.8
EU	-	-	16.9	14.1	-	-	21.5	14.9	-	-	13.7	13.6
EU4 (1)	13.7	14.5	12.6	10.6	18.9	17.4	16.5	11.1	10.1	11.6	9.9	10.3

(1) EU4 represents the total for Thailand's four most important trading partners in the EU : Germany, UK, Netherlands, and France.
Source : Bank of Thailand, Quarterly Bulletin,

(2) Thailand and Regional Cooperation

a. Thailand and Regional Economic Cooperation

Regional economic cooperation takes a variety of forms in the fast growing Asian region.

The Asia-Pacific Economic Cooperation forum (APEC), which includes 18 countries or regions from Asia, America and Oceania, is a framework for economic cooperation which aims to cover the largest such region in the world. Thailand, together with other ASEAN countries, was a founding member of APEC in 1989.

As APEC is a collection of member countries with vastly different sizes and levels of economic development, it was initially intended to be an open and loose cooperative body. However, its direction has changed since informal Leaders' Meetings were proposed in 1993 by US President Clinton, who was seeking a foothold in the rapidly developing Asian region. The second Leaders' Meeting held in Indonesia in 1994 adopted the Bogor Declaration, which set out to achieve the liberalization of trade and investment in the region by specific target years. Some observers express concern that such a change in APEC's direction may lead to the realization of the ASEAN countries' initial fear that the forum may eventually be dominated by advanced countries. It has been reported that Malaysia strongly opposes the move due to its distrust of the United States, which is moving toward the establishment of an American free trade bloc through the signing of the North American Free Trade Agreement (NAFTA) all while being a member of APEC, whose policies advocate open regional cooperation.

ASEAN was established as a vehicle for regional cooperation in 1967 by five South-East Asian countries. Although its main objective was economic, social and cultural cooperation, it began to play an increasingly greater role in political cooperation for ensuring peace and stability in the region in the face of spreading communism in Indochina. Each ASEAN member's economy developed as it independently strengthened its ties with the US, Japan and Europe, and hence economic ties between member countries remained weak, or in fact became competitive relationships. ASEAN's role as a forum for mutual economic cooperation was therefore minor. Even after the AFTA was proposed by Thai Prime Minister Anan and adopted in 1992, the group was unable to effectively implement the plan for some time. However, as the flow of trade and investment within the region became more vibrant, and in an effort to respond to the global trend towards the liberalization of trade and investment, ASEAN members agreed in 1994 to bring the target year forward from 2008 to 2003. They are also considering the liberalization of trade in unprocessed agricultural products and services, which are currently exempted from this framework.

Thailand's current moves toward liberalization are thought to coincide with its activities in connection with the WTO and AFTA. Increasing cooperation within the ASEAN region and activities such as the meeting with the European Union (EU) leaders scheduled in 1996

can be regarded as the manifestation of stronger mutual trust and confidence by the member countries in ASEAN as an economic cooperation community.

While Thailand presses for stronger and closer country-to-country economic cooperation, it is now putting an equal, or perhaps greater, effort into so-called Subregional Cooperation frameworks to further develop economic cooperation between subregions as borders between countries become more and more indistinct. The Thai government is currently involved in developing three subregional cooperation projects: the Indonesia-Malaysia-Thailand Growth Triangle Development Project (IMT-GT)^{Note10}, the Greater Mekong Subregional Economic Cooperation Project (GMS), and the Sub continental Economic Cooperation Project with the countries bordering the Andaman Sea (India, Sri Lanka, Bangladesh and Myanmar), presently in the planning stage. (Figure 1)

Each project of course aims to strengthen international relationships, but is also closely connected to each participant's domestic regional development objectives. The IMT-GT Project seeks to encourage the development of Thailand's southernmost region. The GMS Project takes on board the connection between urban development near the Northern and Northeastern Region borders and the gateway function of the Eastern Seaboard development. The core concept at the heart of the Subcontinental Economic Cooperation Project is to connect the eastern and southern parts of Asia with a land corridor by developing the southern coastal region^{Note11}. With regards to the development of this region, the Mekong River Commission, whose activities had foundered for some time, has been replaced by the Mekong Committee, formed in April 1995 by the four countries of the middle and lower reaches of the Mekong River (Laos, Thailand, Cambodia and Viet Nam). The aim of this Committee is the joint development and conservation of the Mekong River. Meanwhile, the Japanese government has shown its commitment to actively participate in the development of Indochina through activities such as the promotion of the Integrated Development Forum for Indochina^{Note12}.

b. Regional Cooperation in Indochina and Thailand as a Donor Country (Table 6 and Table 7)

As the three countries of Indochina and Myanmar are shifting their economic policies towards transitional open economies, Thailand has been implementing its cooperation programs by channeling the economic power generated from its recent growth into the surrounding economies. This form of cooperation was launched in 1954 under the banner of the Thailand International Cooperation Program (TICP), but became fully-fledged in 1991, since when its annual budget increased nearly tenfold from 25 million baht in fiscal 1991 to 273 million baht in fiscal 1995. Main recipients include the three Indochinese countries and

^{Note10} An economic cooperation concept launched in 1993 as an Asian Development Bank initiative.

^{Note11} See Namekawa (1995c).

^{Note12} Under the leadership of the Japanese government, a Ministerial-level meeting was convened in Tokyo in February 1995.

Myanmar at 59 percent of the total, East Asia 17.5 percent, South Asia and the Middle East 8.3 percent, and ASEAN at 8.2 percent. In addition, Thailand contributes to the implementation of third country training programs, supported also by Japan and the UNDP.

Thailand's Prime Minister Banharn declared in an administrative policy speech that his country would change from being an aid recipient to an aid donor. Under his administration, preparations are underway to establish the Indochina Development Fund, for providing financial assistance for the development of the countries of Indochina. In order to drive forward developments such as the GMS Project, which are intended to be developed principally by private sector initiatives, understanding how to manage investment is vital. To this end, the Thai government is expected to maintain its active involvement in regional development by providing this form of support so that these development projects may be realized.

Figure 1. Regional Economic Cooperation Frameworks involving Thailand

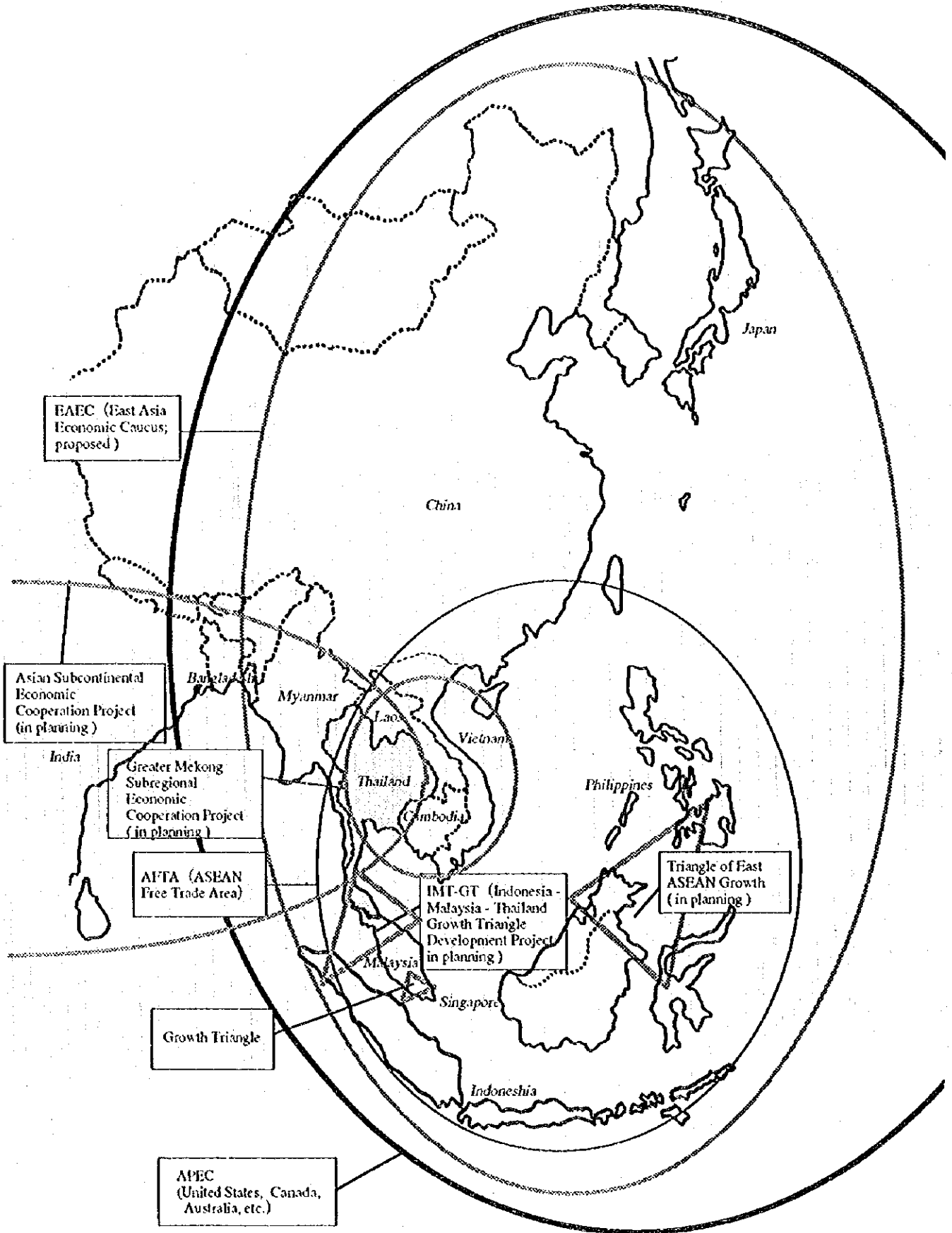


Table 6. Changes in Thai Budgets for International Cooperation Programs

Fiscal Year	Total Value (million baht)
1984	6.53
1985	9.54
1986	10.29
1987	12.73
1988	16.33
1989	16.50
1990	21.80
1991	25.00
1992	175.00
1993	203.00
1994	247.00
1995	273.00
1996	300.00

Note 1 : Data for 1984-90 are net expenditure figures.

Otherwise, those or 1991 onwards are budgeted amounts.

Source : DTEC data

Table 7. Breakdown of Thai International Cooperation Program Funds by Region (FY1993)

Region	Value of Assistance (million baht)	%
Indochina / Myanmar	112.94	59.0
ASEAN	15.77	8.2
East Asia	33.39	17.5
South Asia / Middle East	15.89	8.3
Africa	9.14	4.8
Oceania	4.20	2.2
Total	191.33	100.0

Source : DTEC data

2. Trends in Aid to Thailand from Major Donor Countries and International Organizations

2-1. Overall Trends in Aid to Thailand

The total value of Official Development Assistance (ODA) from all donors to Thailand (net bilateral plus multilateral ODA) increased rapidly in the latter half of the 1980s from over \$500 million to over \$700 million, reaching \$796.9 million in 1990, then subsequently decreased gradually to \$613.8 million in 1993. Reasons for the trend include a rapid increase in Japanese ODA from over \$200 million to over \$400 million and a simultaneous expansion of ODA loans from the EU countries from less than \$10 million to between \$58.6 and \$135.1 million. The increase in Japanese ODA can be mainly attributed to an increase in its dollar value due to the yen's appreciation after the 1985 Plaza Accord^{Note13}. In general, many of the ODA loans from EU countries are tied loans for commercial purposes. It therefore seems appropriate to interpret the growth in their value as an increase in tied loans for the purpose of securing a foothold in the rapidly growing and expanding Thai market.

Since 1988, multilateral ODA has stood at only about one-tenth of bilateral ODA and one-fifth of Japan's ODA effort. As regards non-ODA OOF (other official flows), including loans from the World Bank, the Asian Development Bank and the Exim Bank of Japan, net multilateral OOF has been negative, and gross multilateral OOF has ranged between 30 percent and 50 percent of bilateral OOF since 1988.

On the other hand, the net aggregate flow of funds, including private sector funds, has increased markedly since 1989 due to soaring direct investment and a steep rise in bond investment from 1991 onwards (\$1 billion prior to and \$2-4 billion after 1989). The ODA proportion of the total flow of funds has thus decreased substantially since 1989 (30-100 percent before 1988 and 15-25 percent after 1989), which implies that the importance of ODA to Thailand's external economic policy has lessened, and the role of investment and loans from overseas private capital has substantially increased.

^{Note13} Since 1985, net ODA to Thailand has increased in dollar terms, but first declined in yen terms, then recovered to 1985 levels in 1989. The amount of ODA provided to Thailand was ¥63.0 billion in 1985, ¥43.7 billion in 1987, and ¥67.4 billion in 1989. We believe that these movements in yen terms are principally linked with disbursements in loan assistance. Loan assistance provided to Thailand in 1985 totaled ¥35.0 billion in 1985, ¥24.1 billion in 1987, and ¥39.2 billion in 1989.

Table 8. Trends in Aid to Thailand - ODA from Major Donor Countries and International Organizations

Country, Organization	1989	1990	1991	1992	1993
(Bilateral aid)					
Australia	30.8	29.7	30.1	28.5	25.9
Austria	-0.6	-0.3	7.5	37.5	37.4
Belgium	2.8	4.3	6.1	6.9	6.0
Canada	24.0	26.7	27.4	21.0	16.5
Denmark	1.0	3.0	3.5	6.9	4.4
Finland	2.8	4.5	3.9	3.2	3.8
France	7.1	115.4	64.9	86.2	32.0
Germany	38.8	61.5	49.8	38.2	24.8
Italy	3.5	1.1	0.8	8.4	2.0
Japan	488.9	418.6	406.2	414.0	350.2
Netherlands	10.1	13.7	7.5	7.4	8.5
Norway	3.0	2.4	7.4	2.5	1.7
Sweden	1.0	7.0	3.8	12.4	9.0
Switzerland	3.3	4.8	11.9	1.2	2.6
UK	8.9	7.9	-15.1	3.0	21.1
USA	31.0	30.0	23.0	18.0	16.0
Other	0.1	1.4	0.0	0.0	1.1
Subtotal	657.4	731.7	639.2	696.0	563.0
(Multilateral aid)					
Asian Development Bank	3.1	1.6	-0.2	1.7	0.7
IDA	-1.0	-1.0	-1.0	-1.1	-1.4
UNDP	8.1	6.8	8.4	4.1	3.2
UNICEF	4.4	3.4	4.3	4.5	4.6
UNHCR	31.2	22.1	32.0	24.7	18.2
Other	19.0	32.3	38.7	45.7	25.5
Subtotal	64.8	65.2	82.2	79.6	50.8
Grand Total	722.2	796.9	721.4	775.6	613.8

Source : Development Assistance Committee, GEOGRAPHICAL DISTRIBUTION OF FINANCIAL FLOWS, 1989-1993, 1994.

2-2. Japanese Aid to Thailand

Net ODA provided to Thailand by Japan in 1994 ranked it in fifth place behind China, India, Indonesia, and the Philippines. Japan continues to be the most important provider of ODA to Thailand.

(1) Trends by Type of Aid

Classified by type of aid provided to Thailand (net terms, 1994), yen loans accounted for 58 percent of total aid, technical cooperation for 35 percent, and grant aid 7 percent. Compared with that furnished by other countries, aid from Japan is distinctive in that the proportions of yen loans and grant aid are low, while that of technical cooperation is high.

a. Trends in the Provision of Grant Aid

The provision of grant aid from Japan ended in principle with the fiscal 1993 allocation, and no commitments for new allocations have been made from fiscal 1994 onwards. It is anticipated that disbursements will also be virtually terminated in fiscal 1995^{Note14}.

b. Trends in the Provision of Loan Assistance

In relation to the provision of loan assistance to Thailand, the Thai government has traditionally established annual ceilings for loans from foreign governments (including government guarantees). Corresponding with steeply escalating demand for funds in recent years, the loan ceiling has been raised from \$1.5 billion in fiscal 1990 to \$3.2 billion in fiscal 1994. Nevertheless, the Thai government has adopted a cautious attitude to loans from overseas. They have been especially wary about yen-denominated loans in recent years given concerns about steeply mounting repayment obligations caused by the recent appreciation of the yen. As regards the sectors to which loans are provided, needs are shifting from infrastructure and other traditional sectors to new areas such as human resource development. New loan approvals peaked at ¥104.462 billion in fiscal 1993, and thereafter gradually declined to ¥82.334 billion in fiscal 1994 and ¥61.653 billion in fiscal 1995. Per capita GDP in Thailand has grown rapidly to reach \$2,605 as of 1995, we believe that the country will in the near future join the ranks of the "middle-income countries"^{Note15} and it is quite likely that the Thailand's need for loan assistance will be examined closely in the future.

^{Note14} Notwithstanding this, the provision of Small-Scale (grass-roots) Grant Aid and Cultural Grant Aid has continued since 1994.

^{Note15} The terms and conditions (interest and repayment periods) for Loan Aid are set according to per capita GDP levels. In fiscal 1995, a country was defined as being a "middle-income country", when per capita GDP was at least \$2,786 as of fiscal 1993. For these "middle-income countries", interest rates are lifted from 2.7 percent to 4.0 percent and as with Brazil and Mexico where loans are limited to environmental projects, conditions are frequently established for the objectives and sectors for which loans are provided.

c. Technical Cooperation

Thailand ranks at third place among countries to which Japan provides technical cooperation, after China and Indonesia. Japan has been involved in more than 20 cases of project-type technical cooperation, and has conducted more than ten development studies each year. Also, the 183 long-term Japanese experts working in Thailand (as of 1 July 1995) ranks behind the number based in Indonesia (236), it far outstrips the number working in the Philippines (106) and China (88).

(2) Trends by Aid Sector

Six priority sectors for aid were nominated in the "Policy for Assistance to Thailand," in the Cabinet report entitled "Annual Report Concerning the Implementation of Japan's Official Development Assistance (Fiscal 1994)," issued in May 1995. These sectors were: human resource development; the conservation and sustainable use of environmental and natural resources; encouraging exports and investment; the development of infrastructure for economic and social development; rural and regional development; and the science & technology, tourism, and basic human needs. Numerous projects have been undertaken in the two sectors of transport and electric power infrastructure, and the development of agricultural and rural infrastructure, and some conspicuous efforts have been seen in the environmental conservation, and human resource development sectors. Table 9 shows ODA projects in Thailand in the 1990 to 1994 period for each of these sectors.

(3) Assistance for South to South Cooperation

As well as being an aid recipient country, Thailand has also implemented small-scale assistance projects to surrounding countries by accepting trainees and offering other types of assistance. At the beginning of the 1990s in particular, Thailand began to strengthen its aid to Indochina. Thailand has requested that Japan transfer its experience and know-how to Thailand as an aid donor, and suggested that the two countries implement joint projects. For its part, Japan signed in August 1994 the "Japan-Thailand Partnership Program," which details how Japan will assist Thailand's transition to an aid donor country.

2-3. Aid to Thailand from Other Donor Countries

(1) Overview

Setting aside the country's relationship with Japan, an analysis of bilateral aid to Thailand shows that the leading providers in monetary terms in descending order are Austria, France, Germany, Australia, Canada, the United Kingdom, and the US. Nearly all the aid provided by Austria, France and the UK is in the form of ODA loans^{Note16}.

^{Note16} Most ODA loans from these countries are tied loans, reportedly for powerful commercial interests.

Taking away these three ODA loan providers, the total amount of monetary assistance provided by the remaining four countries (Germany, Australia, Canada, and the US) ranges from \$16 million to \$26 million, a sum equivalent to between one-tenth and one-twentieth that provided by Japan (\$350 million). In addition, aid from all countries has been on a downward path in recent years, and like the US donors has substantially reviewed their aid programs to Thailand.

(2) Major Aid Donors

The US began providing aid to Thailand in 1950, and together with a World Bank group, contributed significantly to economic development and the provision of infrastructure in the 1960s. Thailand's recent excellent economic growth and America's cutbacks in its own aid budget have resulted in substantial reductions in aid to Thailand, until 1993, when aid ended in principle. Nevertheless, the US proposed in February 1994 a US-Thailand Partnership Program with the aim of supporting private sector cooperation initiatives between the two countries.

Canada implements its policy for aid to Thailand through CIDA-setting out to form "a new cooperative relationship which provides mutual benefits to both partners." The policy notes that "CIDA will withdraw gradually from providing aid to Thailand." In April 1995, the two countries signed a Letter of Intention (LOI) relating to the Canada-Thai Partnership, which lauds the bilateral collaboration in providing aid to surrounding countries.

In its new aid policy from 1991 onwards, Germany cut off the provision of new loans, and set out to achieve more effective implementation with limited funds. It made a slashing reduction in net ODA loans from 1990 onwards (\$26.3 million in 1990 to \$5.4 million in 1992), but the level of grants has been maintained (just above \$30 million annually).

Against such a background, Australia has recently strengthened its aid program to Southeast Asia, and is one of few donors to have maintained the level of aid it provides to Thailand (around \$30 million per annum, all grant aid). In addition, the Thai-Lao Friendship Bridge spanning the Mekong River between Nong Khai in Thailand with Vientiane in Laos, constructed entirely with grant aid, is a widely-known symbol of Australia's cooperation with Thailand and Indochina.

Table 9. Japan's ODA to Thailand (Fiscal year, 1990-1994)

(1) Human Resource Development				(2) Environmental Protection				
Type of Aid	Project Title or Number of Personnel	Fiscal Year	Amount (100 Mil. Yen)	Type of Aid	Project Title or Number of Personnel	Fiscal Year	Amount (100 Mil. Yen)	
Project Type Technical Cooperation	National Computer Software Training Center	91-96	-	Project Type Technical Cooperation	Project on Environmental Research and Training Center	90-94	-	
	The Development of Mechatronics Engineering Course at Bachelor Degree Level in Pathumwan Technical College	91-97	-		The Reforestation and Extension Project in the Northeast of Thailand	92-96	-	
	The Project to Enhance the Capacity of the Faculty of the Engineering at Thammasat University	94-98	-		Dispatch of Expert	6 experts	as of Feb. 95	-
Dispatch of Expert	11 experts	as of Feb. 95	-	Acceptance of Trainees	57 trainees	90-93	-	
Acceptance of Trainees	36 trainees	90-93	-	Third Country Training Programme	1 Training Course	85-96	-	
Third Country Training Programme	8 Training Courses	90-	-	Dispatch of JOCV	3 JOCV Volunteers	-	-	
Dispatch of JOCV	23 JOCV Volunteers	as of Apr. 95	-	Development Study	3 Development Studies	-	-	
Development Study	None	-	-	Mini Project	2 projects	-	-	
Mini Project	1 project	91-94	-	R&D Cooperation	None	-	-	
R&D Cooperation	1 project	93-96	-	Grant Aid	Project for Providing Equipment in Land and Water Conservation Center	90	3.2	
Grant Aid	Project for Supplying Equipment in Chulalongkorn University	90	7.01		Project for the Establishment of Large-Scale Nursery Centers in the Northeast of Thailand	91-92	29.8	
	Project for Supplying Equipment in Bioscience Laboratories in Chulabhorn Research Institute	90-91	8.94		Loan Aid	Environmental Protection Promotion Program	92	30
	Project for Providing Equipment for the Development of Courses in Pathumwan Technical College	91	6.18			Flue Gas Desulfurization Plant Project for Mae Moh Power Plant	93	159.24
	Project for the Construction of the Vocational Training School	93	19.53			Environment Fund Project	92	112
	Project for the Expansion of the Faculty of Engineering of the Thammasat University	93	6.64	Electricity Energy Efficiency Promotion Project	93	28		
Cultural Aid	1 project	94	0.46	(4) Rural Development				
Grass Root Grant Aid	3 projects	-	0.31	Project Type Technical Cooperation	The Land and Water Conservation Center Project in the East of Thailand	93-97	-	
Loan Aid	Strengthening Vocational and Technical Manpower Production Program	94	78.06		The Dairy Farming Development Project in the Central Region	93-95	-	
					The Chiang Mai University Plant Biotechnology Research Project	93-98	-	
				Irrigation Engineering Center Project	90-94	-		
				Research Project for Fishery Resource Development Project	94-98	-		
				National Animal Health and Promotion Institute Project	93-98	-		
				Dispatch of Expert	4 experts	as of Feb. 95	-	
				Acceptance of Trainees	323 trainees	total of 90-93	-	
				Third Country Training Programme	2 Training Courses	92-	-	
				Dispatch of JOCV	6 JOCV Volunteers	as of Apr. 95	-	
				Development Study	7 Development Studies	-	-	
				Mini Project	None	-	-	
				R&D Cooperation	None	-	-	
				Grant Aid	Project for the Establishment of the Chang Khain Highland Agriculture Development and Training Center	92	5.95	
						Grass Root Grant Aid	3 projects	-
				Loan Aid	The BAAC Loan	91-93	110.63	
					The Power Distribution System Reinforcement Project	92-94	339.86	
					Three Provincial Cities Water Supply Expansion Project	92-93	103.54	
					The Royal Public Long-Distance Telephone Project	93	38.88	
					Rural Development Project	93	42.68	
					Sung Pla Lai-Nong Kho Water Pipeline Project	92	61.62	
					The Power Distribution System Reinforcement	93	52.92	
					Regional Road Improvement Project	94	100.29	
					(6) Health Care and Others			
					Project Type Technical Cooperation	Family Planning and Maternal and Child Health Project	91-96	-
						The Project for Strengthening of Food Sanitation Activities	94-98	-
						The Project for Prevention and Control of AIDS	93-96	-
					Dispatch of Expert	1 expert	as of Feb. 95	-
				Acceptance of Trainees	340 trainees	90-93	-	
				Third Country Training Programme	4 Training Courses	90-	-	
				Dispatch of JOCV	4 JOCV Volunteers	as of Apr. 95	-	
				Development Study	None	-	-	
				Grant Aid	The Project for the Extension of the Maharaj Nakorn-in-Phumraj Hospital	92-93	15.2	
				Loan Aid	None	-	-	
(3) Infrastructure				(5) Promotion for Export and Investment				
Project Type Technical Cooperation	The Railway Training Center	92-97	-	Project Type Technical Cooperation	The Industrial Standardization, Testing and Training Center	89-94	-	
	The Training in the Distribution Automation System	92-97	-		The Northern Ceramic Development Center	92-97	-	
	The Seaman's Training Center	92-97	-		The Productivity Development Project	93-98	-	
	The National Waterworks Technology Training Institute Project	94-98	-		Dispatch of Expert	4 experts	as of Feb. 95	-
Dispatch of Expert	21 experts	as of May. 95	-	Acceptance of Trainees	276 trainees	total of 90-93	-	
Acceptance of Trainees	639 trainees	total of 90-93	-	Third Country Training Programme	None	-	-	
Third Country Training Programme	2 Training Courses	92-	-	Dispatch of JOCV	None	-	-	
Dispatch of JOCV	None	-	-	Development Study	1 Development Study	-	-	
Development Study	7 Development Studies	-	-	Grant Aid	None	-	-	
Mini Project	3 projects	-	-	Loan Aid	ASEAN JAPAN Development Fund	92	343.25	
R&D Cooperation	None	-	-					
Grant Aid	Project for Rama 9 Viaduct Construction	90-91	51.42					
	Project for Providing Equipment for Road Construction and Rehabilitation in South Thailand Rural Areas	91	7.77					
Loan Aid	Bhumthol Hydroelectric Project Unit	91	78.54					
	Transmission System and Substation Development Project	91	72.46					
	The Project for State Railway of Thailand	91-93	243.42					
	Razamtha Attraction Expressway Construction	91-92	366.54					
	The Bangkok Water Supply Improvement Project	91-94	428.89					
	The Surin Hydroelectric Project Unit	92	44.04					
	The Krungthep Bridge Construction Project	92	75.56					
	Truck Rehabilitation Project	92-94	179.82					
	Highway Service Project	92	21.84					
	I-am Ta Khong Pumped Storage Project	94	163.42					

Source: JICA Annual Reports and others

Note: Task Force Data

2-4. Aid from Major International Organizations

(1) Overview

The value of ODA provided to Thailand by international organizations in 1993 was \$50.6 million in net terms, or about one-eleventh of the bilateral aid total (\$563.0 million), and one-seventh of that provided by Japan (\$350.2 million).

The total flow of aid including non-ODA loans has essentially been negative since 1988, apart from a one-off positive move in 1993. This situation has resulted principally because International Bank for Reconstruction and Development (IBRD) loans have been largely negative.

(2) Major Aid Donors

The World Bank stopped providing ODA loans (IDA financing) to Thailand in 1979, but has provided non-ODA loans (IBRD financing) and given guarantees for private sector financing. Since 1990, approval has been forthcoming for two or three new loans each year totaling between \$62.0 and \$271.5 million in the energy, transport and other sectors, but as mentioned earlier, has been substantially negative in net terms (-\$20.0 million to -\$493.0 million).

The Asian Development Bank (ADB) only provides non-ODA loans to Thailand, not ODA loans. The amount of new loan assistance declined between the 1980s and fiscal 1991, but this trend was suddenly reversed in both fiscal 1992 and 1993 when funds in excess of \$400 million were made available (in the energy and communications sectors), becoming positive on a net basis in fiscal 1993 (\$72.5 million).

As for UN organizations, the UNHCR (United Nations High Commissioner for Refugees) and the WFP (World Food Plan) have provided substantial amounts of aid to Thailand. This aid has principally targeted Cambodian refugees, and has been on a declining path since 1991. Otherwise, the UNDP and UNICEF have relatively substantial records of providing assistance, but is equivalent to no more than one-hundredth that of Japan's assistance, or between one-fifth and one-tenth that of the major bilateral donors including Australia, Germany, Canada, and the US. As far as other international organizations are concerned, the European Union (EU) has of late actively provided aid to Thailand, and the steep rise in the amount of such aid is the focus of much attention (\$8.0 million in 1989 to \$21.7 million in 1992).

3. Development Issues in Thailand, and Future Outlook

3-1. Review of the Previous Country Study Report

The previous (and first) Country Study for Japan's Development Assistance to Thailand^{Note17} was conducted when Thailand's high growth period had just begun, following the recessionary conditions during the Fifth National Economic and Social Development Plan (hereinafter referred to as the "Development Plan"), where growth of 4.4 percent was achieved against a target of 6.6 percent.

The Sixth Development Plan, which commenced in 1987, instituted structural adjustment and export promotion policies which placed emphasis on vigorous private sector activity. In response, GDP growth rates rose sharply from 4.9 percent in 1986 to 9.5 percent in 1987, and 13.2 percent in 1988. After the signing of the Plaza Accord in 1985 and concomitant appreciation of the yen, direct foreign investment from Japan in Thailand also grew steeply, from 6.6 billion baht in 1986 to 24.4 billion baht in 1987, and 77.0 billion baht in 1988.

Given such circumstances, the previous Country Study Report raised the following as issues to be addressed in the Thai economy:

The rapid expansion of the Thai economy through exports of industrial products was accelerated from 1986 onwards not by endogenous factors, but rather by exogenous factors such as the appreciating yen, global interest rates, and the decline in oil prices, and is lasting no more than two years old. Numerous problems must be overcome before this early stage of industrialization gets seriously underway.

At least in the four years up to 1991 in the present Sixth Five-year Plan, it is essential that Thailand makes self-supporting efforts commensurate with the take-off stage for industrialization, and that Japan and other advanced countries and international organizations provide economic cooperation.

Furthermore, the report nominated the following as priority areas of aid:

- (1) Promotion of export-oriented economic development
- (2) Promotion of further industrialization
- (3) Promotion of local and rural income generation
- (4) Improvement of the Metropolitan environment and regional disparities
- (5) Promotion of education and promoting human resource development

^{Note17} Conducted between 1987 and December 1988, with Professor Yasuhiko Torii of Keio University (at that time) as Chairperson, and reporting in January 1989.

- (6) Expansion of research cooperation, cultural exchange and information data bases
- (7) Support for Thailand's international status
- (8) Promotion of social welfare (health and medical care, workplace safety and hygiene, environmental conservation, and raising the status of women)

The previous Country Study thus raised "promoting economic growth" as a major issue for economic and social development in the context of the Thai economic environment when per capita GDP was around \$800 and the country had a growth rate in 1985-86 of less than five percent. We can therefore conclude that it was valid to see the promotion of economic growth as an important issue and to provide aid for this purpose.

As the previous Country Study proposed, the Thai economy subsequently gained momentum as a result of export-oriented economic growth, and per capita GDP has now reached a level exceeding \$2,600. In this sense too, it can be said that the proposals contained in the First Country Study correctly indicated the directions for the economic and social development of Thailand.

Meanwhile, in relation to priority areas of aid (3) to (8) above, a large number of problems remain to be addressed. Regional disparities for example, are expanding as the country's economy grows, and as far as environmental conservation is concerned, air and water pollution and the other environmental problems common to industrial countries are worsening. Additionally, human resources are in increasingly short supply as the Thai economy grows.

The Seventh Development Plan for 1992 to 1996 proposed a substantial change in priorities away from economic growth, setting targets for sustainable stable growth, income redistribution and local development, human resources development, improvements in quality of life, and environmental conservation. This change of direction is also to be carried on in the policy formulation process for the Eighth Development Plan starting in 1997.

3.2. Development Targets and Directions

(1) Overview of the Seventh Development Plan (Table 10)

The Sixth Development Plan implemented between 1987 and 1991 employed policies aimed at economic adjustment, placing priority on boosting efficiencies and qualitative improvement in the economy, with a target economic growth rate set at 5 percent. However, the fall in oil prices and international interest rates in the latter half of the eighties, and variations in exchange rates caused by the falling dollar have engendered sharp growth in the Thai export industry and steep rises in direct overseas investment in Thailand, enabling average economic growth of 10.5 percent, twice the target rate, to be achieved.

In order to address the problem of income differentials and delays in the provision of infrastructure, which have become more pronounced due to the effects of rapid economic growth, the Seventh Development Plan proposed three development goals: (1) sustainable, stable, and moderate growth, (2) the redistribution of income and the decentralization of development to rural areas, and (3) human resource development, improving the quality of life, and improvements in environmental and natural resource management.

To attain these targets, four fundamental policy guidelines have been established and implementing strategies put into practice: policies for growth and the stable maintenance of the economy; policies for redistributing income and decentralizing the successes of development to the regions; policies for the development of human resources, the quality of life, and for environmental and natural resources; and strategies for improving administrative systems.

(2) Target Attainment in the Seventh Development Plan

This section examines the progress of the Seventh Development Plan based largely on an interim evaluation report on the plan compiled by the National Economic and Social Development Board (NESDB) in December 1994.

a. The Economic Situation

In the first three years of the Seventh Development Plan, average economic growth of 8.2 percent was achieved as planned. It is predicted the economy will ultimately maintain a growth rate of 8.5 percent, higher than the target. The financial situation is also favorable, with the inflation rate shifting below the 5.6 percent goal to 4.1 percent. Public sector income also rose considerably thanks to robust economic growth. However, the balance of trade and current account both remain in the red. A conspicuous investment-savings gap problem also remains, with actual household savings at 9.1 percent, far below the 12.8 percent target.

b. Industrial Activity

Reflecting brisk domestic demand, industrial sector output grew by 11.4 percent, far exceeding the target. In contrast, growth in the agricultural sector was a low 1.9 percent due to poor worldwide prices for agricultural products and the effects of drought. The industrial sector is in transition from a labor-intensive orientation to include more sophisticated industries. At the same time, the agricultural sector as a whole is tending to stagnate and efforts are being made to shift production away from traditional crops to new crops, livestock and aqua culture. In spite of this, the agricultural sector recorded only limited growth in productivity and earnings. In the industrial sector too, international competitiveness in a number of labor-intensive industries has declined due to a shortage of technical staff and escalating wages in recent years. In addition, many enterprises still remain concentrated in the Bangkok Metropolitan Region due to the failure of economic activity to extend into rural areas at the expected pace, apart from the Eastern Seaboard. Exports grew by 14.1 percent, slightly below

Table 10. Outline of Seventh Development Plan

1. Objectives

- (1) To maintain economic growth rates at appropriate levels to ensure sustainability
- (2) To redistribute income and decentralize development to rural areas.
- (3) To accelerate the development of human resources, upgrade quality of life, and improve environment and natural resource management.

2. Major targets

(1) Economic growth

- Average annual economic growth rate : 8.2 percent
- Average annual growth rate of per capita income : 7 percent
- Per capita income (1996) : 71,000 baht
- Average annual growth rate for agricultural sector : 3.4 percent or higher
- Average annual growth rate for industrial sector : 9.5 percent or higher
- Average annual growth rate for value of exports : 14.7 percent or higher
- Growth rate in volume of commercial energy production : 8 percent per annum or higher
- Oil output (1996) : 410,000 barrels
- Electricity generation capacity (1996) : 14,500 MW

(2) Targets relating to economic stability

- Inflation rate : annual average of no higher than 5.6 percent
- Trade deficit (as a proportion of GDP) : annual average of no higher than 9.4 percent
- Current account deficit (1996; as a proportion of GDP) : no higher than 2.5 percent
- Private sector savings target (1996; as a proportion of GDP) : 23 percent
- Dependency ratio of imported energy (1996) : no higher than 60 percent

(3) Income distribution targets

- To improve the distribution of income to needy farmers and low income earners
- To reduce the percentage of the population below the poverty line to less than 20 percent (1996)
- To correct income differentials through special measures directed at lower income earners

(4) Targets relating to the improvement of human resources and quality of life

- To reduce population and population growth rate : average growth of 1.2 percent per annum; 61 million or less
- To boost the rate of advancement to secondary school by extending the compulsory education period
- To create opportunities for both formal and informal lifelong education
- Number of people in employment (1996) : 34.85 million
- To increase opportunities for economically underprivileged groups to ensure secure and stable jobs with fair wages.
- To improve the quality of life of the people by raising the morals, skills and standard of health of the nation as a whole, and by maintaining and preserving cultural traditions and properties.

(5) Targets relating to the development of natural resources and the environment

- To designate as conservation regions 25 percent of the country's forested area
- To implement the 30 million Rai Land Reforms in order to hasten the distribution of land ownership
- To preserve coral reef resources in every coastal national park

(6) Targets relating to the quality of the environment

- To reduce to 4 mg/liter or less the biological oxygen demand in regions confronted by sewage treatment and pollution problems, including 100 kilometers of the Chao Phraya river from its mouth, 150 kilometers of the Tha-Chin river from its mouth, and other coastal areas and beauty spots.
- Industrial waste disposal volume (1996) : 400,000 tones per annum
- Noise level : 85 decibels or lower
- Harmful substances linked with air pollution (1996) : cut lead levels to 300 tones, carbon dioxide emissions to 750,000 tones and nitric oxide emissions to 190,000 tones.

Source: NESDB, THE SEVENTH NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLAN (1992-1996), 1991.

the target of 14.7 percent due to a stagnating global economy and sluggish commodity prices.

c. Income Disparities

The proportion of poverty groups in the total population fell to 13.7 percent, significantly lower than the 20 percent target thanks to economic growth. On the down side, the income gap between households in the high income bracket (i.e., the top 20 percent of earners) and those in the low income bracket (i.e., the bottom 20 percent of earners) has widened from a multiple of 12.2 times in 1988 to 15.8 times in 1992.

In addition, industry has failed to expand into rural areas to any significant extent due to a lack of the infrastructure required for economic activity, communications services being one example. This is in spite of efforts by the government to promote rural development through the introduction of investment incentives and the construction of inter-regional road networks.

d. Remaining Problems

Economic efficiency was the primary objective in the Seventh Development Plan. As a consequence there has been little concern for social development and conservation of the environment, creating a set of conditions that has encumbered development.

In addition, there are many underprivileged people not yet receiving the benefits of government social services who are forced to live below the poverty line, and there is a widening income gap between the wealthy and poor. Major causes of this include the continuing tendency for industrial activity to be concentration in the Bangkok Metropolitan Area due to inadequate infrastructure in rural areas and a failure to bring about any significant improvement in farmers' incomes due to an inability to put forth effective agricultural policies.

As Indochina develops, Thailand is likely to find itself competing against cheap labor forces in neighboring countries. It is therefore important that the country build up its export capability by strengthening international technological and price competitiveness and ridding itself of its trade and current account deficits, which have changed little in recent years.

In spite of heightened community awareness and advances in the establishment of a relevant legislative framework, the government has failed to put forward practical measures to address environmental issues, an area often omitted from development policies. It is therefore important to continue to reinforce administrative functions while at the same time heightening awareness of environmental issues, particularly by the private sector.

(3) Directions for the Eighth Development Plan

The Eighth Development Plan covering the period from 1997 to 2001 is now being formulated, chiefly by the NESDB. An outline of the plan will be made public at the end of 1995. From the progress of a number of studies undertaken to date, it appears likely the next plan will take the following basic direction in relation to development^{Note18}.

The NESDB sees the next plan as containing new elements in two respects. The first is a shift in the national development paradigm from economic development to "human development." The second involves a change in the plan formulation process from a top-down to bottom-up approach.

The first shift could be said to be a natural one. Income is an important element of advancement, and in societies affected by a high level of absolute poverty it could be said to be virtually the only indicator of development. In 1960 when over half of its people were in absolute poverty, Thailand's development objective was to raise income. It is understandable that it chose to pursue that objective in the form of economic development. But it is not only a matter of raising income levels; the quality of the economy and society is also becoming an issue and cannot be evaluated through income alone. It is valid to recognize that Thailand has reached such a stage, and firmly positioning economic development as a means to advancement is probably an appropriate policy to adopt.

The second change in the formulation process is interpreted as one way of dealing with the diversification of needs faced when the economy is no longer the main objective of development. In making this change, however, it is important while formulating the plan to ensure economic and financial consistency when considering the possibility of tax reforms and the like. Either way, these two new elements appear to have been widely and wholeheartedly accepted within Thailand as well.

Nonetheless, it cannot be denied that the adoption of these new elements has at the same time complicated the next plan in terms of direction and strategy formulation. Furthermore, in an economic and social situation such as Thailand's where development is already underway, long-term planning must accompany a certain degree of medium-term planning. The guidelines for the Eighth Development Plan presented by the NESDB contain four development strategies: 1) to improve the potential of the people; 2) to encourage participation by the people; 3) to strengthen the economy; and 4) to restructure development-related administration. In addition, a committee considering policies for the next plan is conducting discussions in the following three areas: 1) improvements in education and human skills; 2) quality of life and regional development; and 3) increased competitiveness.

^{Note18} See NESDB (1995b)

3-3. Major Development Issues

(1) Macroeconomic Issues

After recovering from an adjustment phase in 1991-92, the Thai economy recorded a rise in economic growth rate in 1994 due to strong consumer demand and soaring exports. From late 1994, private investment accelerated that growth and, along with exports, played a major role in furthering the boom. In late 1995, however, nationwide flooding caused a slowdown in economic activity, chiefly in terms of agricultural production and consumer demand. As a result, economic growth for the year has been estimated at around 8.6 percent, slightly below that of the previous year^{Note 19}. The 1996 growth rate is forecast to be around 8.5 percent given the adoption of fiscal restraint policies in the face of rising commodity prices and an escalating current account deficit.

Firm upwards pressure on the inflation rate was still apparent at the start of 1995 after it began to climb on the back of rising world commodity prices. Although international commodity prices are seen as the primary cause of the rising inflation rate, one must not overlook the contribution made by climbing import prices. These were precipitated by an increase in basic material prices, a trend that reflected the strengthening of the yen and deutschmark and a tightening of the demand-supply balance in this region, under generally overheated economic conditions. The 1995 inflation rate (rate of increase in consumer prices) is estimated at 5.8 percent, significantly higher than the initial forecast of 4.8 percent due in part to the impact of the floods. Inflationary pressure is expected to weaken in 1996 as a result of the economic slowdown, a turnaround in commodity prices and an end to the impact of the floods, with the NESDB predicting an inflation rate of 5.2 percent.

Despite growing exports, the balance of trade has again worsened due to a rise in imports - chiefly of capital goods - as a result of the brisk domestic economy and a recent increase in investment in particular. The current account also continues to worsen, due in part to a decline in the surplus attributed to the service account. The overall balance has managed to remain in the black because of brisk capital inflows but concerns remain regarding its vulnerability to international financial conditions.

In determining Thailand's future outlook, the first point to consider is the possibility of sustained economic growth. This will probably depend on whether or not Thailand can maintain competitiveness in the face of recent inflation, wage rises and competition from up-and-coming countries such as Indonesia and China, and whether rising production costs and uncertainty regarding infrastructure development will have a negative impact on investor confidence.

In this sense, the immediate future is likely to be a critical time for inflation. In other

^{Note 19} The government estimates damage from the 1995 floods at 7.74 billion baht. This is 0.19 percent of estimated 1995 GDP.

words, increases in food prices are linked to hikes in the price of other commodities and in turn to wage rises, and appropriate measures will be needed to prevent this self-propagating process from becoming entrenched in the economy.

The external imbalance is a more deeply rooted problem and will require a steady overhauling of the economy, which could include raising the savings rate for example. At present there are no major concerns about financial difficulties occurring, as the international financial market is largely stable and crude oil prices are steady. Nonetheless, a prudent response is probably called for. Whichever the case, it must be remembered that issues linked to the basis of economic stability such as inflation and the external balance are at the root of investor confidence.

Although economic growth is expected to remain robust in the medium term due to strong domestic demand in the form of brisk investment and steady consumption, policies will need to focus on the following if this is to be realized.

- 1) Maintaining a healthy macroeconomic environment through appropriate policies and developing the necessary policy measures
- 2) Maintaining and strengthening competitiveness by developing R&D (research and development) and human capabilities, overcoming delays in the development of infrastructure, adopting advanced technologies and strengthening management skills
- 3) Responding to the globalizing world economy by promoting economic liberalization
- 4) Redressing the unequal distribution of income and the results of growth that have arisen from unbalanced development between sectors and regions
- 5) Adopting measures aimed at preserving the environment and improving natural resource management

(2) Infrastructure

High levels of economic growth in Thailand have completely outstripped the necessity of infrastructure development, creating bottlenecks that are strangling further development.

Due to a lack of land-use plans taking into consideration infrastructural development in the traffic and transport sectors, urbanization in the Bangkok Metropolitan Area are a disorderly sprawl. This, and the fact that more vehicles than the capacity of the road can support converge in the city has led to serious traffic congestion. At present the average traveling speed during the morning and evening rush hours is reported to be ten kilometers per hour. If appropriate measures are not taken, it has been estimated that in 10 years' time the average speed will have deteriorated to 8.2 kilometers per hour. The negative impact of this congestion on residents and social and economic activity is enormous. The government will therefore need to devise a master plan which it can then use to systematically implement appropriate traffic and transport infrastructure improvement projects.

To help solve these traffic problems, the government is expediting the development of a mass-public-transportation truck system. Construction of roads through privately-funded BOT and BOO schemes are ongoing, and development of bypasses and auxiliary roads are also underway^{Note20}. However, problems have been identified in the form of major construction delays and a failure to coordinate new infrastructure with other transport systems and road plans.

As is frequently the case, the smooth development of traffic and transport infrastructure requires government leadership, particularly in the nucleus components of that infrastructure. Even when a project is to be undertaken mainly by the private sector, appropriate government planning and coordination are required.

The port of Laem Chabang in the Eastern Seaboard area has assumed increasing importance as a complementary facility to the port of Bangkok, where there has been a dramatic rise in the volume of cargo handled in recent years.

The development of communications systems has not kept abreast with the rapidly growing demand that has accompanied Thailand's brisk economic activity. As a consequence, quantitative shortages are becoming more marked and there is an increasing need for qualitative improvements. Some communications projects are now ongoing under BOT schemes, but as with transport infrastructure, a systematic plan needs to be devised.

(3) Industry

While a number of problems caused by the advance of industrialization provided the impetus for Thailand's high economic growth in the past, it is likely that this advance will again play an important role in the country's economic development in the future. In turn, foreign direct investment plays an important role in advancing industrialization. The promotion of continued industrialization in conjunction with active introduction of foreign direct investment is considered a prerequisite for maintaining the country's future development.

Solutions to the following problems will therefore need to be found in order to promote sustained industrialization in the relevant fields and encourage the foreign direct investment required to drive this.

a. Strengthening the international competitiveness of export products

A major transformation is now taking place in the environment surrounding Thailand,

^{Note20} BOT (Build Operate Transfer) and BOO (Build Own Operate) both refer to private enterprises carrying out projects within a set framework after obtaining concessions (operating and trading rights), in sectors where development has to date been undertaken solely by the government. Under BOT schemes, private capital is used for the procurement of funds and for construction and management, and ownership is transferred to the government after repayment of the debt. In the case of BOO schemes, however, ownership is not transferred to the government, with management instead left in the hands of the private operator.

with the development of international trade agreements involving forums such as AFTA, APEC and the WTO, and the liberalization of trade based on regional economic cooperation agreements. Such trade liberalization will help stimulate economic activity within the region. It is important that Thailand maintain and ensure the relative superiority and international competitiveness of its export products in order for them to be promoted in an international context.

b. Promoting advanced industrialization

Given rising labor costs over recent years, the cost advantages of labor-intensive industry are expected to lessen. Industry will therefore need to be made more advanced by adding increased value to exports and establishing research and development systems for that purpose, boosting the international competitiveness of import-substitution industries, and increasing the country's reliance on domestic production for articles that are currently imported, such as intermediate goods, capital goods, and raw materials.

c. Establishing a foundation for boosting advanced industrialization

Promoting advanced industrialization involves shifting from conventional-intensive forms of industry to technology- and capital-intensive forms of industry. Such a shift creates a pressing need for human resource development (to secure required personnel), establishment of research and development programs, encouraging the development and dissemination of technology, and the widespread application of industrial standards and criteria.

d. Fostering supporting industries

Foreign direct investment, which in the past was largely used to establish Thailand's assembly industry, helped to promote the country's export industry and bring about the expansion of exports. At the same time, however, it created a trade imbalance as export expansion was accompanied by a huge increase in imports of components, intermediate materials, capital goods, and raw materials.

Supporting industries, will assume an important position as part of the development of an investment environment due to their close association with the assembly industry, to which they supply products. Encouragement of supporting industries is therefore fully expected to bring about a future increase in foreign investment in the assembly industry.

Replacing imported products such as components with domestically manufactured goods will help to improve the balance of trade in the future. It is therefore vital that the supplier industries responsible for such production be encouraged.

In Thailand, local enterprises with the potential to supply components are now developing, but they do not yet have the capacity to become fully-fledged, reliable suppliers due to problems with quality, price and delivery schedules. Furthermore, since these businesses are

mainly small - and medium- sized enterprises, the encouragement of supporting industries is in some respects nothing more than the encouragement of small - and medium- sized enterprises.

Small- and medium- sized enterprises commonly suffer a disadvantage compared to larger firms when it comes to procuring funds and technological development. It would therefore be helpful to enact legislation concerning the development of small - and medium- sized enterprises, expand and strengthen the functions of existing research institutions involved with technological research and popularization, and of financial institutions targeting small - and medium- sized enterprises, and strengthen the institution and capacity of the relevant government authority, such as the Ministry of Industry's Department of Industrial Promotion.

e. Reviewing industry promotion policies in local areas

Industrialization, which has until now been concentrated in the Bangkok Metropolitan Area, is now showing a tendency to shift to local areas, most notably the Eastern Seaboard area. This shift has been precipitated by rising industry location costs as a result of soaring land prices. Nonetheless, industrialization has been slow to move into other regions because of inadequate social and economic infrastructure and the difficulty of finding skilled manpower, despite investment incentives offered to industries taking up sites in regional areas. In the future, industry will probably have to be encouraged to move into local areas through the establishment of industrial parks with adequate infrastructure, further investment incentives directed at target enterprises and strong policy support from the government for the establishment of human resource development bodies.

(4) Agriculture, Forestry and Fisheries

The most significant development issue facing the Thai agriculture, forestry and fisheries sector is that of boosting low farm incomes. Low farm incomes imply that labor is not highly valued. Reasons that are cited include poor natural conditions, such as weather, soil, a shortage of irrigation facilities, simultaneous planting of low value-added crops by large numbers of farmers for chiefly subsistence purposes, a lack of distribution and financing options, and unstable non-farming job opportunities in local areas.

Problems facing local villages arises from low farm incomes, including work force depletion through migration to urban areas, and low standards of government services, infrastructure, education, medical care, and welfare. As a result, local villages are no longer attractive to the local residents, and the rural population is attracted into the cities. Also, low income levels in local villages are not simply a problem for the sector itself, but is also a cause of increasing concentration of population, capital, and services in urban areas.

It is possible that farm incomes can be raised by measures such as the improvement of commercial farming techniques, developing irrigation facilities, introducing highly added-

value crops to ensure the stable domestic supply of foodstuffs; upgrading the distribution and financial sectors, and boosting non-farm incomes through the adoption of agro-industries.

The second development issue for the agriculture, forestry and fisheries sector is that of the restoration of denuded forested areas.

Thailand has a history of diverting forests to agricultural use through its settlement policies and illegal deforestation. The decline in the area covered by forests has not only been one cause of the above mentioned decline in farm incomes in terms of leading to a shortage of water resources and the loss of topsoil, but it is also essential to understand it as an environmental problem.

Thailand has already taken numerous steps to overcome these development problems by itself, and in cooperation with Japan and other aid donor countries. When we consider the breadth of development issues, however, it is essential to cope with them both on a medium and long term basis.

(5) Human Resources

The importance of upgrading human capabilities has been illustrated from the perspective not only of economic development, but also from the wider perspective of culture and traditions as foundations of social development. This becomes even more of an issue to be addressed in the context of rural Thailand, for the purposes of encouraging popular participation in regional development and the conservation of natural resources and the environment, on which priority is to be placed in the future. Furthermore, there is also a need to boost the people's receptivity to and selectivity for the dramatic changes in society and information explosion caused by rapid development.

Even though primary education is widespread in Thailand, the country lags behind its ASEAN partners in terms of the provision of secondary, and especially late-secondary education. Boosting access to late secondary educational opportunities is the most important problem facing the country's education system today. Nowadays, with an increasingly high quality work force being required to meet the demands of economic development, this gap at the secondary education level is a significant constraint. The government has therefore decided that the period of compulsory education should be extended from six to nine years, and is proceeding to realize the strategies. It is also examining the possibility of a future extension to 12 years.

Extending the period of compulsory education will require comprehensive measures, especially in rural areas, to assist people to meet the costs of such educational opportunities. As well as enhancing access to scholarships, school terms will need to be scheduled to fit in with the specific circumstances of the region. Not only will strategies be needed to improve attendance rates, but curricula will have to be rewritten, giving priority to mathematics and

the sciences which are becoming more and more important everyday, and focusing on training the thinking faculty of students, not simply on the acquisition of knowledge. Further qualitative improvements in other areas of education will also be needed, such as enhanced foreign language studies to help Thai people cope with the advance of internationalization. Extra school facilities will naturally have to be developed to cater to the increase in educational content, and teacher training and retraining will be necessary, as will improved incentives for educational staff.

The Seventh Development Plan set out to lift the attendance rate in early secondary education from 46.2 percent in 1989 to 73.0 percent in 1996, and while a rise in attendance rates has been achieved, it is predicted that more than 70.0 percent of the total work force will have only completed primary schooling by the year 2000. To ease this situation somewhat, it is necessary to reconsider the possibilities of providing continuing education opportunities for those who have already completed primary education.

Another urgent issue to be addressed in the current environment of rapid economic growth is the training of engineers, an occupational group that is in short supply. To this end, moves are underfoot to build new universities specializing in the faculty of engineering and to widen their admission capacities. It is predicted, however, that it will be impossible to meet the escalating level of demand, and hence it is expected that a wide range of other measures will be taken, including the expansion of vocational education opportunities and further education for already-qualified engineers. Since there will be substantial restrictions if the response is limited to the public sector, there is a need for active participation in such measures by private sector interests. Since such a steep expansion in educational opportunities will place pressure on the training and retention of teaching personnel, upgraded remunerations and other incentives will be called for.

(6) Environment

While the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro in June 1992 stimulated a rediscovery of global environmental problems, this year was also a turning point for environmental administration in Thailand.

In the Seventh Development Plan commencing in 1992, "human resources, the quality of life, and the development of the environment and natural resources" was positioned as one of the three major goals, environmental issues being flagged in the overall targets for the first time. Furthermore, the national Environment Conservation Law, enacted in 1975, was amended in 1992. Accompanying this amendment, the Ministry of Science, Technology and Energy was reorganized and renamed the Ministry of Science, Technology and Environment. The framework of environmental administration in the central government was reinforced by the new law, strengthening the powers of the State Environment Commission and Secretariat, established an environment fund, founded the Pollution Control Commission, designated various environmental conservation regions, and introduced the "Polluter Pays Principle."

However, in addition to the hygiene and pollution problems accompanying the extreme form of centralized urbanization and rapid economic growth, the country has also had to face global environmental problems associated with the consumption of resources. The Thai government's efforts in respect of such multi-faceted environmental problems to that point had involved making improvements such as the amendments to the environmental law described earlier. Since the implementing organizations are dispersed among several agencies, mutual coordination is difficult. Moreover, the power for setting consistent policies in motion lacks legislative teeth and policies frequently fail to be executed. In terms of ascertaining the true situation on which government can act, monitoring and analysis methods adopted by each responsible agency differ, and technical standards are not very high in general. Data on measurements and analysis are therefore not particularly reliable. Also, there are delays in the development and application of pollution-preventing technologies that could be adopted.

Corporate awareness of and cooperation in preventing pollution leaves a lot to be desired, and there is a strong tendency for Thai society overall to continually place economic growth ahead of the environment. Government policies are seeking to integrate environmental and economic policies under the banner of sustainable development, and it is absolutely vital that companies actively cooperate with these strategies.

On the other hand, popular awareness of environmental problems is spreading through Thai society chiefly among the urban middle classes, and the environmental NGOs that have been spawned are pressure groups that the government cannot ignore. With an awareness of this trend, the amended Environment Conservation Law incorporates alliances with these NGOs, and attention will focus on future developments in the operation of these alliances. From the perspective of further heightening community consciousness of environmental problems, there is a need to upgrade environmental education.

To deal with hygiene and pollution problems caused by urban environmental degradation, and the global environmental problems described above, the formulation of the Agenda 21 based on the UNCED debate will have to be hastened, and a national consensus will have to be built in Thailand for improving environmental quality^{Note21}, extending from the level of daily life to the global scale.

(7) Health and Medical Care

The numbers of medical facilities, doctors, and nurses have steadily grown in concert with Thai economic development since the late eighties. Infant and maternal mortality rates have steadily fallen, and the proportion of people with access to safe water and basic public health facilities has grown. For these reasons, the standard of health care in Thailand has improved overall.

^{Note21} Environmental quality refers to the state of the environment including all elements of rural areas, such as atmospheric, water pollution, and so on. Boosting environmental quality involves improving the state of the environment through comprehensively reducing contaminant and polluting elements.

However, the extremely large disparities between the regions and the Bangkok Metropolitan Region in terms of standards of medical care and AIDS strategies are regarded as being important future issues in the health and medical arena.

a. Regional Differences in Standards of Health and Medical Care

When we compare regional data for infant mortality rates, HIV infection rates, and infant malnutrition rates, we find that infant mortality rates in the Northern and Central regions substantially exceed the national average, as do HIV infection rates in the Central and Northern regions, and malnutrition rates in the Northeastern and Northern regions.

Possible reasons for the high infant mortality rates in regional areas include a shortage of medical care facilities, and the lack of a properly established vaccination system. It is therefore imperative that rapid steps be taken to build more medical facilities and institute a vaccination system for infants.

b. AIDS Strategies

Published data concerning AIDS, presently a major social issue in Thailand, indicate that 69.3 in 10,000 blood donors are HIV-infected (1991 data)^{Note22}. Extrapolating this ratio to the whole population in 1991 of 54.96 million gives an estimated number of 351,000 HIV patients as of 1991. Official statistics published in 1993 gave the number of patients with AIDS as 5,215, but considering the rate of HIV infection, it is predicted the number of AIDS sufferers will increase explosively in the future.

Predictions show that the rise in the number of AIDS patients will generate a huge social cost in terms of nursing costs and building a system for patient care. For this reason, AIDS is not simply a matter for the health and medical care sector, but there is also a need to recognize that it is a serious problem that may impede steady economic growth, and to devise prompt measures to tackle it.

One reason suggested for the spread of AIDS in Thailand is that women frequently come from the local areas to work as prostitutes in urban areas to supplement their family incomes. For this reason, it is considered that boosting incomes in regional areas will be an important indirect strategy in the fight against AIDS.

(8) Social Development

With Thailand having experienced dramatic economic growth, social problems brought about by the distortions of rapid industrialization have increased. While efforts to cope with

^{Note22} Soda K, *Eizu Kokusai Kyoryoku Puroguramu ni Motozuku Tai / Kanbojia Chousa Houkokusho* (Study Report on AIDS International Cooperation Programme in Thailand and Cambodia I, 1995, p.10.

these matters have been raised in the National Development Plan, there has been a tendency to give priority to economic development, and social development programs have failed to proceed to the implementation stage. For the country's growth to be sustained, however, there is a need to focus the spotlight on the people which support the economy and build a society with a system in place which guarantees a more comfortable lifestyle.

Socioeconomic change in Thailand has brought about lifestyle changes for people in various income classes, but the most underprivileged groups affected by such change have been the poor, children and the younger generation, the aged, and the mentally and physically disabled^{Note23}. In order to extend the benefits of economic growth to these people, to redress the various distortions and disparities which have arisen or have been deferred to the present, the following can be considered as development issues in the social development arena.

a. Institutional Development of the Administration System and Increasing the Efficiency of the Taxation System

Local Administration in Thailand is mainly carried out at present by provincial Governors and district leaders dispatched from the Ministry of the Interior. It is sometimes pointed out as the system is bedeviled by inefficiencies however, in that the formulation and implementation of programs that are closely allied to the regions' interests face difficulties.

In order to formulate and implement programs that meet the needs of each region, it is essential to strengthen the policy planning capacity of regional governments, and seek to formulate and effectively implement development programs that originate in the regions.

Further, since more than 70 percent of tax revenue received by the Thai government which account for around 90 percent of its annual revenue is in the form of indirect taxes, growth in tax receipts is unlikely to commensurate with the expansion of the economy. Also, the taxes levied independently by local governments account for only a small percentage of their total budgets, between 10 and 20 percent, with the distribution of taxes and subsidies provided by the central government. Furthermore, the Thai taxation system does not provide a route for readily redistributing wealth from the rich to the poor, since there are no systems of inheritance tax or capital assets tax in place. Issues that the Thai government has to address in the future in order to stabilize its fiscal position include a re-examination of the indirect-direct tax ratio, the introduction of an appropriate taxation regime, and the establishment of an efficient tax collection system.

b. Establishing a Social Security System

It has been said that mutual assistance provided by the family and relatives often come before those provided by the equivalent to the social welfare system found in developed

Note23 Yasuo Hagiwara, *Ajia no Shakaifukushi* [Social Welfare in Asial, 1995, p.43.

countries^{Note24}. The situation is such that the formulation of national comprehensive social welfare programs has been difficult to achieve.

For example, a public pension scheme presently does not exist in Thailand, and the only social security provided for public servants and workplace injury compensation plans are in place. Also, even though a workers' social security fund - with contributions from government, employers and workers - was established in March 1991 under the auspices of the Social Security Law of 1990, the introduction of retirement allowances, family welfare allowances, and unemployment benefits are yet to be decided. Furthermore, with problems reportedly being experienced with collecting contributions to the workers' social security fund^{Note25}, upgraded controls and supervision are also required.

Recognizing the national responsibilities and role that are expected of a middle-income country, Thailand must encourage the development of a national social security system in order to distribute the successes of economic and social development to its people.

c. Improving Social Welfare Services

Under the auspices of the Regulations Concerning Assistance for Low Income Households and the Poverty-stricken, and the Law to Assist the Return of Handicapped People to Society (legislated in 1991), social welfare services in Thailand are provided by the Ministry of Labor and Social Welfare mainly to low income earners, children, women, the aged, disabled people, and ethnic minorities.

It has been reported, however, that the number of families to which the Ministry provided cash benefits and other services in 1991 amounted to only 4.2 percent of all poor (720,000 out of 14.00 million people). It has also been noted that only around 10 percent of children with handicaps receive education from public or private institutions^{Note26}.

Thailand's economic development has also seen a growth in the size of the wealthy class, but since the number of families that are forced to live below the poverty line is still high, there is an urgent need to boost social welfare services for these low income earners and handicapped people. Additionally, in light of the income differences between the Bangkok Metropolitan Region and the country, and the fact that more than 80 percent of disabled people live in rural areas, the establishment of a framework for the implementation of social welfare services in rural areas is of great importance.

^{Note24} op. cit. p. 146.

^{Note25} Yoko Kojima, Toru Okada (ed.), *Seikai no Shakai Fukushi* [Social Welfare Around the Globe], 1994, p.33

^{Note26} Yasuo Hagiwara, *Ajia no Shakai Fukushi* [Social Welfare in Asia], 1995, p.43.

d. Strategies to Deal with Poverty

Large numbers of Thai people formerly sought better-paying work in the Middle East and other regions, but since 1987 the period of rapid economic growth has also seen a sharp increase in the number of foreign workers coming into Thailand. Within the country itself, there have lately been increasing numbers of workers migrating to Bangkok from the poorer regions.

Many of the workers leaving Thailand for overseas or moving to Bangkok are from villages in the Northern and Northeastern regions. Since they have low levels of formal schooling, they frequently work as unskilled laborers, and are thus forced to work in the informal sector and live in slums.

The slums represent a lifestyle on illegally occupied land, and in light of the fact that the functioning of the Thai economy is underpinned by these people, it is essential to consider providing the minimum basic needs for slum-dwellers as an interim strategy. Child laborers are frequently found in the slums, and as a result, there are many who cannot attend school. Given this, and the strong likelihood that these children will have low levels of formal schooling and work in the same informal sector as their parents, they too will live in slums if they work in the informal sector, thus becoming locked in a vicious cycle.

In order to solve the problem of increasing concentration in Bangkok, jobs must be created and local industries encouraged in rural villages, and measures are needed to address employment issues for middle and older aged workers who have less opportunities to find jobs in Bangkok's suburbs and in rural villages. Furthermore, social security systems for Thai people who are working illegally overseas must be considered.

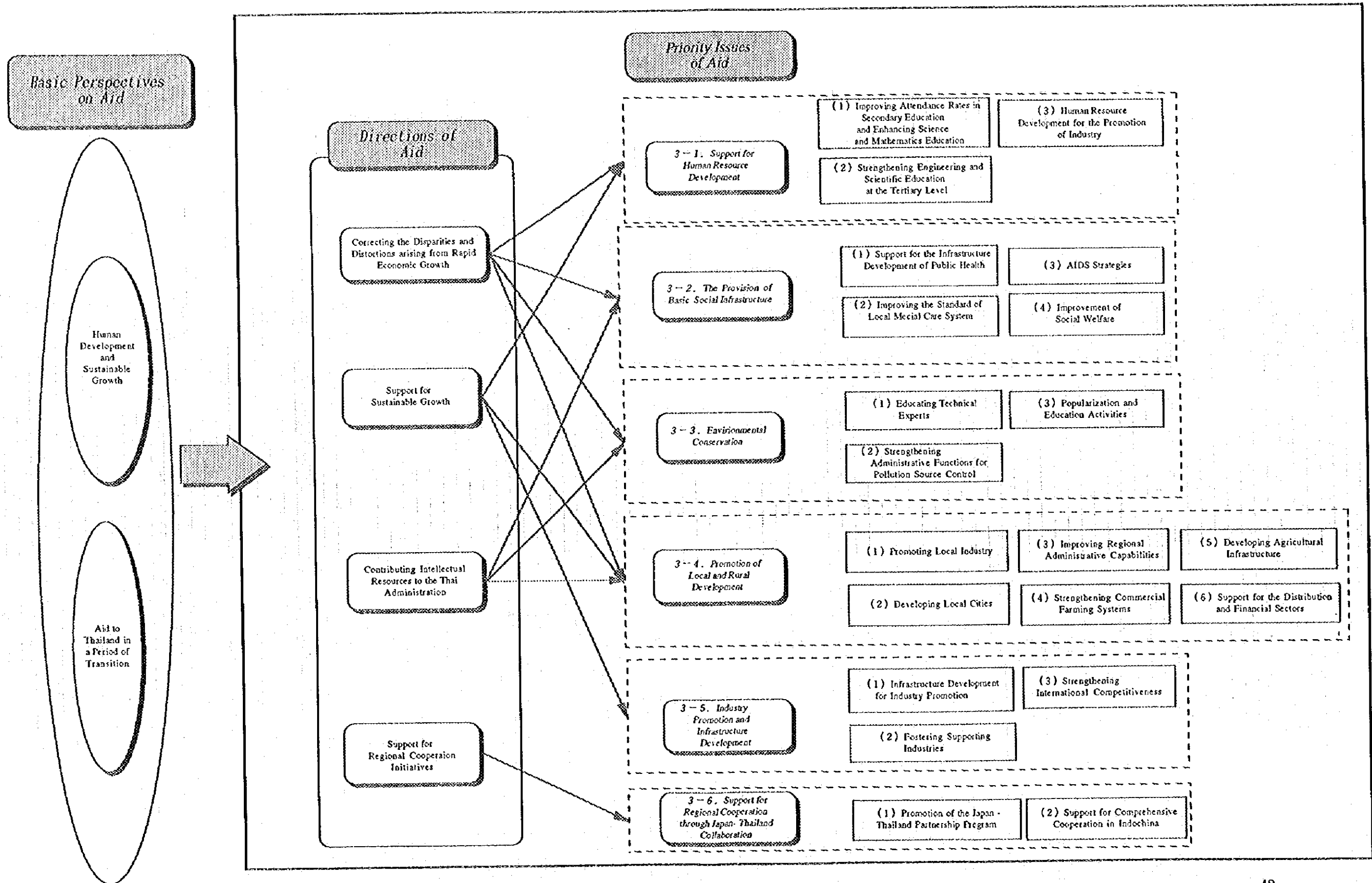
d. Improving the Status of Women

Equality of the sexes was written into the Thai Constitution with the passing of the Fifth Amendment in January 1995, but the reality is that women are frequently placed in disadvantageous positions. Civil code provisions such as those relating to breach of promise, divorce, and bigamy, treat men and women unequally.

Even though Thailand has an extremely high proportion of female labor, there is no legislative framework in place that corresponds to the "Equal Opportunity in Employment Law". Inequalities between the sexes thus exist in both wages and other employment conditions. When we consider that there are numerous labor-intensive industries that are supported by female workers, and that increasing numbers of women will join the work force and support the Thai economy, it is vital that the problems described above be redressed and equality of employment between men and women be guaranteed.

II. The Provision of Aid to Thailand

Flowchart Illustrating
the Provision of Aid to Thailand



1. Basic Perspectives on Aid

Now more than 100 years on since Japan and Thailand signed a friendship and trade treaty, and friendly relations between our two countries have been maintained and developed in all aspects of politics, economics and culture. Economic growth in Thailand has brought about economic development and social stability in East Asia, and based on the awareness of the great significance for Japan, too, our country has provided ODA on a priority basis to Thailand, and has actively supported economic development in the arenas of developing economic and social infrastructure, and human resources.

On the other hand, the Thai economy changed its focus from import-replacement to export-orientation as it industrialized in the mid-1970s. As a result of Thailand having actively encouraged foreign investment, direct investment from Japan - which was hit by the appreciating yen - and other countries provided the impetus for economic growth in the late 1980s, the inflation rate was kept below 2.5 percent for three years running, and the country achieved dramatic economic growth rates, peaking at double-digit figures between 1988 and 1990. Accompanying this rapid economic growth, per capita national income climbed to \$2,605 in 1995^{Note27}, and Thailand demonstrated solid progress in the wake of the Asian NIEs. Japanese aid to Thailand is also in a period of transition, as seen by the in-principle termination of grant aid from Japan in fiscal 1993.

Signs of this transition period can also be perceived from the fact that Thailand has itself begun to provide economic and technical cooperation to Indochina and set out on the path to becoming a donor country. In fiscal 1994, Japan signed a "Partnership Program" with Thailand, launching a policy of furthering Japan-Thai collaboration for regional cooperation from the standpoint of encouraging South to South cooperation.

However, Thailand's economic success are mirrored by considerable development problems facing the country: the resulting social and economic disparities such as income gaps and pollution problems.

It is important that future Japanese aid to Thailand, now at a new juncture after having achieved rapid growth levels, takes the perspective of supporting Thailand's own development efforts while effectively utilizing the limited funds available, and cooperation be implemented through political dialogue in sectors that are deemed necessary for aid with an eye on selective and qualitative cooperation. In such circumstances there is a need to examine aid to Thailand in the future: establishing a perspective of the development issues facing Thailand itself, together with that of the future of Japanese aid to Thailand as it becomes a donor country.

^{Note27} Japan Chamber of Commerce in Bangkok (ed.), Thai Economic Outlook 94/95; IMF, International Financial Statistic Yearbook 95.

Together with conducting a review of the previous Country Study Report conducted six years ago, this country study has identified the following as fundamental perspectives that are consonant with this thinking.

- Fundamental Perspectives: 1. Human development and sustainable growth.
2. Aid to Thailand in a period of transition.

1-1. Human Development ^{Note28} and Sustainable Growth

Even though the dramatic economic growth in Thailand which commenced in the latter half of the 1980s boosted national income and increased the affluence of the people's lifestyle, the social and economic problems faced by the country were abruptly brought to the front. In actual fact, the Thai government had flagged the following objectives in the Seventh Development Plan: "maintaining an appropriate level of economic growth accompanied by economic stability," "improving the distribution of income and distributing the successes of development to rural areas," and "improving the environment." Not only did the plan result in a period of high economic growth rates, but it also led to expanding rural disparities and income gaps, environmental problems deteriorated further, and other pre-existing problems becoming even more significant.

Fully cognizant of this point, the goal of "human development" was flagged as the highest priority issue in the Eighth Five-Year National Economic and Social Development Plan, aiming to redress the social and economic disparities and distortions engendered by economic growth. With the understanding of the Thai government, we take careful note of this "human development" as a keyword in thinking about future aid to Thailand in this Country Study too.

At the same time, the Thai economy has been supported by vigorous policies to attract foreign capital and by flourishing activity in the private sector. While it is believed that this will continue to be maintained, a number of bottlenecks threaten Thailand's future economic growth, examples being the transport and environmental problems bedeviling the Bangkok Metropolitan Region, and the considerable shortage of technicians and middle-level managers able to cope with the increasing sophistication of industry. Transport problems in Bangkok are not only throttling economic growth, they are providing a major impediment to daily life for the city's residents. It has also been pointed out that the imbalance in income distribution is shrinking the domestic market, with the result that economic growth is shackled.

^{Note28} The Thai government used the term Human Development in their objectives for the Eighth Development Plan. It is a development concept which attempts to bolster the richness of humanity from the aspects of economy, society, and culture, rather than aiming at economic development alone, and has practically the same meaning as the term Human Development as used by the UNDP.

The Thai concept of attempting to redress these social disparities and distortions under the banner of Human Development can be interpreted as clarifying the objective of future economic growth. In this Country Study too, sustainable economic growth is concluded to be a factor that cannot be ignored in seeking to achieve this goal of Human Development, and is identified as one major perspective when we examine the future of aid as viewed in the context of development issues facing Thailand.

1-2. Aid to Thailand in a Period of Transition

Accompanying the development of the Thai economy, the role of the private sector involved in development is growing. In this context, the Thai government has a policy which actively furthers private sector activity and privatization. Under such conditions, the role to be shouldered by the ODA is predicted to be one of institution-building, and will involve projects, that are more sophisticated and "software" type oriented than has been the case to date. There is a need for Japanese aid to Thailand to continue to meet these needs while recognizing that the country is in a period of economic transition.

There are developing countries other than Thailand which are attempting to reach a similar stage of economic development -that of a middle-income country- but today, where countries are seeking to reinforce the region's economy through the formation of APEC, AFTA, and the Growth Triangle Concept, and when we take into consideration the current economic position of Thailand on the Indochina Peninsula, economic growth in Thailand has considerable significance not just for the country itself, but also for its neighbors. In fact, the Thai government is encouraging investment in the Indochina region, China, Myanmar, and other countries, and from its standpoint as a donor in its own right, implements "Thai aid" programs as a channel for providing aid to surrounding countries.

This Country Study adopts the position of aid to Thailand in a period of transition as its fundamental perspective, combining two meanings: one, of a transition of Japanese aid to Thailand as it becomes a middle-income country, and the other of a new direction for Japanese aid to Thailand in light of the country's own transition as it attempts to contribute to regional economic development through South to South cooperation.

2. Directions of Aid

2-1. Correcting the Disparities and Distortions Arising from Rapid Growth

Thailand's current high rates of economic growth have brought about a concentration of development resources in the Bangkok Metropolitan Region and neighboring districts. Because the growth has been overly sudden, the limits of Bangkok's economic infrastructure have been tested, and as is typically seen in countries where the economy has advanced rapidly, disparities between the capital city and the rural areas, and between urban areas and

rural villages have expanded. The process of establishing institutions for the underprivileged, a social security system for example, has also fallen behind.

These disparities and distortions caused by rapid growth have become starkly apparent in the form of traffic and environmental problems in the Bangkok Metropolitan Region. If these problems are not properly handled, they will constitute a major impediment to the country's future economic growth. Because rural areas and villages have been left behind in the development process, those social disparities and distortions have been aggravated. It has therefore become even more vital to encourage development in local cities and villages.

Statistically, the fruits of economic growth have included higher per capita national income, but on the other hand, the distribution of income has been skewed, as evidenced by the fact that the top 20 percent of income earners account for 52.8 percent of total income, and the bottom 20 percent only a tiny 3.1 percent (1990 data)^{Note29}. While a democratic system has continued to permeate through society, it is believed essential that consideration be given to the underprivileged, including the poor and women, to whom the achievements of economic development have not extended.

The Thai government has fully recognized this issue in the Eighth Development Plan, and for Japan's part too, we must consider this as a direction for future aid to Thailand, whilst strongly supporting the Thai position.

2.2. Support for Sustainable Growth

It goes without saying that maintaining Thailand's social and economic growth through fostering its human resources, the foundations of nation-building, is the best option for boosting the country's international competitiveness in the medium and long term. Japan has to date provided Thailand with economic and technical cooperation through human resource development, and we believe there will be no change in the importance of this approach.

Thailand has also taken advantage of incoming direct foreign investment as a lever to achieve soaring economic growth, and since observers have identified the fact that domestic savings are unable to meet the demand for investment in the Thai economy (the so-called investment-savings gap), the importance of foreign investment will remain unchanged in the immediate future. For Thailand to continue its record of economic growth while attracting ongoing foreign investment with Viet Nam, China, and other relatively low-labor cost competitors similarly requiring such investment, Thailand will have to further upgrade its economic infrastructure, encourage and strengthen its supporting industries, and train technical staff and middle managers, as well as aiming in the medium to long term to build an economy that is not overly reliant on foreign investment.

^{Note29} Japan Chamber of Commerce in Bangkok (ed.), Thai Economic Outlook 94/95.

In contrast with the influx of direct foreign investment in Thailand which peaked in 1988-89, we can say that Japanese aid to Thailand has achieved a certain foundation through the establishment of economic infrastructure and fostering human resources. Support for such economic growth is also regarded as being important as a future direction for Japanese aid to Thailand.

2-3. Contributing Intellectual Resources to the Thai Administration

Economic growth and the increasing vitality of the private sector has brought with it a growing drain of human resources from the public sector. With the Thai government facing a range of new issues to address, such as regional development, the establishment of a social security system, and correcting social differentials and distortions, the importance of strengthened functions for the public sector will grow still further.

It would be impossible for Japan to directly influence Thai administration for political, social, and cultural reasons, and it would therefore be necessary to tread cautiously. It is possible, however, that an intellectual contribution can be made in terms of institution-building and capacity-building for the purposes of development policy formulation and strengthening coordination functions.

We believe that the need for such intellectual cooperation will grow increasingly important as a form of aid to Thailand as it becomes a middle-income country.

2-4. Support for Regional Cooperation Initiatives

Economic growth in the Thailand and the East Asian region and the attainment of peace in Indochina have brought ever closer economic relationships between Thailand and its neighbors. With the expansion of ASEAN to include Viet Nam, and the formation of bodies such as APEC, AFTA, and the Committee for Co-ordination of Investigation of the Lower Mekong Basin, any consideration of Thailand in the future cannot ignore these aspects of regional cooperation.

Japan announced a vigorous commitment to regional cooperation in the Forum for Comprehensive Development of Indochina, and has proposed the Partners for Progress (PFP) concept under the APEC framework, thus raising the notion of contributing to regional cooperation as an important policy issue. Further, support for regional cooperation through Japan-Thailand collaboration under the auspices of the Japan-Thailand Partnership Program is ongoing.

Given its present economic power, Thailand is a country that should play a certain role in regional cooperation. From the standpoint of contributing to development in neighboring countries through the support of South to South cooperation from Thailand, which is on track

to become a donor country, this Country Study Group has identified support for regional cooperation as a direction for future aid.

3. Priority Issues of Aid

In the previous Country Study, we identified the issues of priority of Japanese aid for Thailand as economic growth and the promotion of industry which drives it, from the perspective of vigorously supporting Thailand economic development. Other issues of priority included improving income levels in local areas and rural villages in order to maintain balanced development, and improving the environment of the Bangkok Metropolitan Region. Since the late 1980s, however, Thailand has achieved and is currently maintaining high rates of economic growth, and is in a transition period in which it is seeking to link the fruits of that growth to upgrade quality of life. At the same time, considering the increase in Thailand's economic power, Japanese aid to Thailand is undergoing a transition to that of aid to a middle-income country. For these reasons, the current Country Study Group adopted "human development and sustainable growth," and "aid to Thailand in a period of transition" as fundamental perspectives for examining future aid to Thailand, and further subdividing these as "correcting the disparities and distortions arising from rapid growth", "support for sustainable growth", "contributing intellectual resources to the Thai administration", and "support for regional cooperation" has readjusted the directions that Japanese aid to Thailand should take.

Analyzing the development issues facing Thailand in line with these fundamental perspectives and directions, this Country Study Group sums up the future issues of priority for Japanese aid to Thailand thus.

Support for Human Resource Development

Human development involves improving the convenience of our material lifestyle and at the same time, attempting to enrich our spiritual health as human beings. It should be noted that this concept involves development of individual human beings. Consequently, enhancing the development of human resources, which includes education for improving the qualities of individual people, is a priority item for creating a foundation for human development. At the same time, fostering human resources will lead to greater sophistication of the work force that will support sustainable growth, and will also be a priority item in the sense that it will also contribute to democratic participation and strengthening the government sector which will be mainly responsible for correcting social disparities and distortions and for environmental conservation.

Development of Basic Social Infrastructure

Since the fruits of economic growth have not necessarily extended to the whole Thai population in the form of social stock, the provision of social infrastructure -including both the

"software" type and "hardware" type -that aims to correct regional differences and social distortions will be an issues of priority that is at the foundation of human development.

Environmental Conservation

Improving environmental quality, that symbolizes the richness of life, not only creates a spiritual affluence for human life, but is also the other side of sustainable development. We can say that the importance of environmental conservation will not change in the future.

Promotion of Local and Rural Development

Thai economic growth has been largely concentrated in the Bangkok Metropolitan Region, and local areas and rural villages have been left behind in the economic growth process. Now even more so that rapid growth has been achieved, the country has a golden opportunity to seriously tackle the promotion of local areas and rural villages which have been the subject of concern. For its part too, Japan should cooperate with this effort even more vigorously than it has to date.

Industry Promotion and Infrastructure Development

Insuring stable economic growth through sustainable development is indispensable for human development. For that reason, the promotion of industry, the driving force of the economy, is an important issue for the future. For the purpose of securing foreign investment too, which has played a major role in the Thai economy, the development of economic infrastructure will also be essential in the future.

Support for Regional Cooperation through Japan-Thailand Collaboration

Against the background of its economic power, it is predicted that Thailand will itself play an important role in the framework of regional cooperation, and Japan is developing vigorous support for regional cooperation through forums such as the Partnership Program and the PFP process in APEC. In order to further enhance the effects of Japanese cooperation, it is anticipated that Thailand will in the future encourage South to South cooperation from the standpoint of a donor country.

3-1. Support for Human Resource Development

The attendance rate at the primary education level in Thailand is already close to 100 percent. It is therefore important in the future that support for the improvement of the secondary attendance rate and the enhancement of education be provided. It is also important for strengthening engineering and scientific education at the tertiary level - the foundation of industry development in particular - and for reinforcing human resource development for the promotion of industry.

Since human resource development also cuts across the other priority areas, it is men-

tioned in 3-3 below, "Environmental Conservation." In this section, however, we will describe support for human resource development in regard to the education sector and industrial promotion.

(1) Improving Attendance Rates in Secondary Education and Enhancing Science and Mathematics Education

The Thai government decided in 1990 to make early secondary education compulsory, but the policy has not been completely implemented, due chiefly to financial constraints. Attendance rates at secondary schools are improving steadily, but there is a significant difference between figures for the Bangkok Metropolitan Region and other areas, as evidenced by the fact that attendance rates have failed to reach 50 percent in the south of the country^{Note30}

With the aim of encouraging the spread of secondary education across the whole nation support for institution-building in educational administration and the promotion of a drive towards compulsory secondary education should therefore be provided for through measures such as the secondment of advisers to the Ministry of Education, which is charged with the responsible for implementing the move to compulsory secondary education.

Furthermore, enhancing the curricula of science and mathematics education at the secondary level, which forms the foundation for tertiary studies in science and engineering, is essential in terms of fostering the technicians of the future who will otherwise be in short supply in the long term.

And, since aid to project sites as well as aid at the government level will be effective in terms of curriculum development, the approach to be taken should be to provide technical cooperation for curriculum development and teacher retraining with a program approach which incorporates several forms of aid.

(2) Strengthening Engineering and Scientific Education at the Tertiary Level

Similar to science and mathematics education at the secondary level, boosting tertiary education in the science and engineering fields is an issue that requires addressing urgently in order to train scarce technical staff and improve the international competitiveness of Thai enterprises. To that end, technical cooperation for curriculum development will be essential, as will funding to build universities that specialize in physical science and engineering.

It is also believed that cooperation for building the foundations of inter-university cooperation will be effective, comprising system-building in order to extend the cooperation provided to universities in the Bangkok Metropolitan Region to regional universities.

^{Note30} Ministry of Education data, 1993.

(3) Human Resource Development for the Promotion of Industry

In order to encourage the growth of increasingly advanced industries in Thailand, there is an urgent need to secure the human resources required to support these industries. Thailand currently suffers from a quantitative and qualitative shortage of technicians and middle managers required to satisfy its flourishing industrial development. This especially is a major negative factor in the investment environment for foreign capital.

Further, bolstering the international competitiveness of Thai corporations will require not only technicians to be trained, but also professionals for company management. Unfortunately, human resources are in short supply in these sectors too.

Thailand has to date received loan aid and technical cooperation in the vocational training sector, but in order to secure further human resources in the future, the country will not only need to implement traditional forms of vocational training focusing chiefly on manufacturing technology, but also projects and training that place emphasis on management and control aspects, such as marketing and other productivity-improvement projects, work force management, and production control.

3-2. The Provision of Basic Social Infrastructure

In contrast to its former inclination to give priority to economic development, the Thai government has turned its attention to the people who support its economy, endeavoring to create a society with systems in place that guarantee a richer lifestyle. The development of social infrastructure - both "software" type and "hardware" type components - which focuses on the enrichment of the Thai people's basic lifestyle must be cited as a priority issue for aid from Japan.

(1) Support for the Infrastructure Development of Public Health

Public health problems, caused chiefly by the lack of adequate sewage facilities and inappropriate waste disposal practices, have become starkly apparent in the Bangkok Metropolitan Region. For Japan's part, we must endeavor to further upgrade the development of appropriate facilities through the use of the Environment Fund, and provide cooperation and other forms of assistance, including the dispatch of experts in the operation of the Water Supply Technology Training Center and the Sewage Training Center, which were established with Japan's cooperation.

Meanwhile, numerous local areas and rural villages are yet to see water supply systems installed. Because public health problems have arisen since the people living in these areas are still reliant on wells and rainwater for their drinking water supplies, there is a need for a development study to formulate a water supply master plan and for facilities to be built with funding cooperation.

Also, the appalling public health conditions in urban slums have highlighted the need to investigate the dispatch of JOCV volunteers and implementing grass-roots grants through linkages with NGOs for disseminating knowledge about public health, educating the people about the prevention of infectious diseases and basic hygiene.

(2) Improving the Standard of Local Medical Care System

Medical services are an absolutely indispensable component of people's lifestyles, but there are as yet few medical care facilities and personnel in the regional areas when compared with the Bangkok Metropolitan Region; the gaps between urban and regional areas are therefore as prominent as ever.

Since a great deal of time and money will be needed to lift medical standards in the future by increasing the numbers of regional medical institutions and training medical personnel, the significance of Japan's support for this sector through aid is great indeed. For instance, an effective support strategy could involve cooperation via the provision of funding and project-type technical cooperation for building clinics and other medical care facilities in regional areas, and educational institutions for training medical personnel.

(3) AIDS Strategies

AIDS is already the principal social problem facing Thailand. Since no effective therapy has yet been established for treating AIDS and the mortality rate is practically 100 percent, the number of patients with AIDS will continue to grow and not only bring grief to the infected sufferers and their families, but also constitute a huge impediment to Thailand's development.

Numerous donors have already launched efforts relating to AIDS strategies. The Global Issues Initiative between Japan and the US designates Thailand as a priority country for cooperative AIDS strategies. Japan too, in order to prevent the further spread of infection, must link up with other countries to give priority support while effectively utilizing bilateral and multilateral schemes. Specific aid programs might include continuing the implementation of existing AIDS prevention projects, educational activities for prevention using grass-roots grant aid, and dispatching advisers to create a framework of medical care specifically for AIDS patients.

(4) Improvement of Social Welfare

Upgrading the existing workplace injury insurance program is an urgent issue, but a lack of understanding on the employers' side has meant that the system has not been smoothly implemented. To bolster the operation of the workplace injury insurance fund and further popularize the system, policy support should be forthcoming for enhancing the functions of facilities such as the Industrial Rehabilitation Center, which was established with aid from Japan, and dispatching advisers to Thailand.

In relation to the social welfare system, there is a need for project-type technical cooperation and research for fostering and training human resources in the areas of system management and guidance, for single-mother families and orphans, and for the elderly in Thailand's aging population.

3-3. Environmental Conservation

As with other developing countries, Thailand must simultaneously address public health, pollution, and global environmental problems. As common goals for all issues involving the improvement of environmental quality, support from Japan for the following items is needed.

(1) Educating Technical Experts

In order to give effectiveness to the 1992 strengthening of environmental-related legislation and administrative systems, human resources should be fostered and strengthened for environmental administration in the central and regional bureaucracies, and the training functions of institutions such as Ministry of Science, Technology and the Environmental Research and Training Center should be upgraded. In particular, there is a need to provide project-type technical cooperation and training for research and training in highly practical technologies that are matched to the needs of each sector, from simple onsite measurements to precision analysis at the research institute level, for the purposes of developing measurement technologies which will enable the true state of environmental pollution to be ascertained. There is also a need to examine the issue of cooperation with the aim of joint research, from the standpoint of seeking to effectively utilize the personnel who have already learned the techniques.

Also, providing intensive cooperation for environment-related curricula at national universities will be an effective means of raising the standards of higher educational institutions and broadening the surrounds of research and human resource development in the environmental sector. Furthermore, from the perspective of fostering the environmental consultants who are directly involved with environmental impact assessment, and environmental managers in companies, assistance is to be provided for introducing an official certification system for environmental technologies.

The vigorous involvement of local communities will be needed to manage natural resources in the areas of forest depletion and topsoil loss. As well as training and fostering administrators in the Royal Forestry Department, there is a need to strengthen cooperation in the social forestry sector, from the standpoint of raising local community awareness of environmental management issues and developing human resources.

In order to efficiently and effectively utilize the personnel fostered through such programs, the quality of environmental administration in local areas especially must be upgraded. For the time being, implementing cooperation programs aimed at enhancing the

functions of the regional offices of the Ministry of Science, Technology and the Environment should be effective in establishing regional government bodies as focal points that are intimately involved with regional environmental management.

(2) Strengthening Administrative Functions for Pollution Source Control

Stringent action against pollution sources which have been discovered through fact-finding research must be taken in accordance with the relevant regulations and the polluter pays principle. At the same time, there is a need to consider official aid for the establishment of treatment facilities using means such as the Environment Fund and foreign loans. In order to more effectively utilize Japanese loan aid that have been provided to the Environment Fund, cooperation in the form of expert dispatch and other means will be forthcoming for the following measures: reinforcing waste water and exhaust emission regulations and providing adequate waste water treatment plants and desulphurisation systems. Japan will also provide technical cooperation for transferring treatment technologies and support for official aid to foster industries that treat industrial waste, which is forecast to become a major problem in the future. Not only are emission regulations indispensable, but also a strengthened government monitoring system from the standpoint of conserving forests, mangrove swamps, and other aspects of the natural environment. Technical cooperation for reinforcing environmental impact assessment structures is therefore vital.

In respect to worldwide environmental issues such as ozone layer depletion and global warming, official aid is needed to encourage the introduction of manufacturing systems that emphasize resource recycling and clean production practices, and it is essential that technical cooperation be provided to the development of implementable technologies that take account of Thai companies' technical and funding capabilities.

(3) Popularization and Education Activities

Water pollution and solid waste problems are closely linked to individual peoples' lifestyles, examples being taking care of domestic waste water so that it does not place an undue burden on disposal facilities at the end of the line, and segregating combustible and recyclable rubbish. Care for the environment in everyone's life is an important strategy for countering pollution. We must support the spread of environmental education through technological cooperation with the Ministry of Science, Technology and Environment, dispatching JOCV volunteers to regional government bodies, and providing grass-roots grant assistance.

3.4. Promotion of Local and Rural Development

We can anticipate that promoting the development of local cities and their industries will constitute a major stimulus to the development of local and rural areas. Furthermore, strengthening the business fundamentals for farmers and building organic links with the local cities will be vital for promoting local cities and villages with the sound development of the nation in mind.

(1) Promoting Local Industry

In order to correct the income differentials between the cities and local areas, there is a need to create employment opportunities by promoting local and agricultural industries with their roots in the region that are based on the distinctive advantage of the region. As far as promoting local industry is concerned, efforts to disperse investment to the regions through tax incentives and other measures, but there are no prospects of significant effects being achieved from these measures alone.

There will be an ongoing need in the future to provide cooperation in the areas of technological development and marketing guidance by dispatching experts and JOCV volunteers for promoting industries which utilize the advantageous endowments of their regions. We also believe that development studies and loan assistance with the objective of establishing industrial complexes in the regions for the purposes of attracting investment will be effective.

(2) Developing Local Cities

As the cores of regional development, local cities must be developed at the initial stages of planning.

Urban planning through development studies and urban infrastructure development plans must be formulated, taking account of shared functions with Bangkok.

In order to facilitate the propagation of information and distribution links with Bangkok, development studies and funding should be provided for developing transport networks and tele-communications infrastructure between Bangkok and local cities.

(3) Improving Regional Administrative Capabilities

In promoting local and rural areas, it is important to first improve the capabilities of the local governments that formulate and implement regional policies. There is also a need to provide taxation reform assistance in order to facilitate the implementation of development programs that are more closely tied to the regions.

Specifically, implementing project-type technical cooperation and training projects with

ever, in providing support to local governments, there is a need to pay careful attention to existing local government organizations and the local socioeconomic structure.

(4) Strengthening Commercial Farming Systems

We will now describe how commercially-based farm businesses can be strengthened with productivity improvement and stable management in mind. Aid could be provided in the areas of testing, research, and extension activities for improving production techniques, and of diversifying and adding greater value to crops. Aid for the areas of testing, research, and extension activities have been executed in the form of project-type technical cooperation and dispatching individual experts. Such assistance will continue to be very significant in the future. However, the shortage of Counterparts and the fact that they are only part-time means that effective technologies transferred from Japan tend to remain in Thai research institutions and frequently do not penetrate to farming communities. We must therefore provide cooperation in the testing and research field whilst paying constant attention to the issue of disseminating the results to farmers.

Because of the fall in price competitiveness of Thai rice in the international market, and the move to dry-field farm crops caused by the shortage of water for dry season wet-paddy rice cultivation during the dry season, there is also a need to cooperate in the area of technological development to achieve greater crop diversification. Introducing high value-added crops will require improvements in the taste and other characteristics of agricultural produce, and in the off-season production system. While Thailand is an agricultural country which has enjoyed abundant harvests in the past, we can predict that the future requirements will lie in quality, in crops such as rice, vegetables, and fruit. For this reason, there will be a need to provide cooperation through project-type technical cooperation and the dispatch of experts, with the objective of providing technical guidance for the introduction of new crops and quality improvements. Cooperation in the field of export processing technology^{Note31} for fresh fruit will be effective in terms of obtaining foreign currency.

(5) Developing Agricultural Infrastructure

Water is quite clearly a determining factor of Thai agricultural production. Of the country's total farmland area of 20 million hectares, 4.30 million hectares or 21.8 percent are subject to irrigation. As for rice paddies, 40 percent have irrigation facilities. In regional terms, nearly all rice paddies in the Central Region have irrigation facilities, while only just over one-tenth in the Northeastern Region are similarly equipped.

While it might be difficult to promote the large-scale development of major dams for irrigation because of problems associated with the environment and forced migration, there is

^{Note31} As instanced by the dispatch to Thailand of experts skilled in steam treatment for the extermination of fruit fly in mangoes.

a need for the combined development and improvement of small-scale irrigation facilities such as irrigation ponds, weirs and small dams. From the perspective of effectively utilizing water resources, however, the role to be played by large-scale irrigation projects will continue to be important. In providing funding assistance therefore, it will be necessary to make adequate provision for environmental and migration issues, as well as encouraging agricultural policies of introducing high-yield varieties and crop diversification. While aid for small-scale irrigation has long been provided in the form of loan aid and technical cooperation, such aid will also be necessary in the future from the perspective of improving agricultural production and the living environment in rural villages, since 60 percent of the country's population resides in rural villages and rice is the staple food of Thailand. These measures will also be desirable for purely rural regions such as the Northeastern Region, in the interests of the curbing destruction of the natural environment and the sale of progressively subdivided land, another cause of poverty among farmers.

Specifically, development studies and funding assistance for the development of small-scale irrigation facilities will be effective.

(6) Support for the Distribution and Financial Sectors

Areas of support for distribution and finance include the improvement of the distribution system, securing markets, support for post-harvest technologies, and provisions for low-interest financing packages to farmers.

Japan has not provided significant aid in the areas of distribution, securing markets, and post-harvest technologies, but will be increasingly required so that Thai farmers can secure an appropriate income from their crops. It will therefore be a priority area of aid for the future. When providing aid in this sector, there is a need to keep in mind that the Ministry of Commerce as opposed to the Ministry for Agricultural Cooperatives is responsible for the distribution of agricultural crops in Thailand. We should also remember, however, that the creation of distribution routes by farmers' cooperatives is also important. Financial support for smaller scale farmers is also essential.

As far as distribution is concerned, it is possible that cooperation through training projects can be provided, and agricultural cooperative projects which have been undertaken in the Northeastern Region could be expanded to other regions. As one means of financial support, two-step loans have been furnished to the Bank for Agriculture and Agricultural Cooperatives (BAAC) through the provision of loan aid, and we must continue to provide such funding.

3-5. Industry Promotion and Infrastructure Development

In order to maintain sustainable economic growth in Thailand, the country must continue to attract foreign investment, and domestic industry, chiefly that in the manufacturing sector, must be upgraded. To that end, it will be vital to enhance the investment environment through the development of social and economic infrastructure. Japanese aid has to date made a great contribution to the provision of social and economic infrastructure in Thailand, and there is a need for the ongoing provision of support in terms of both funding and technological cooperation.

(1) Infrastructure Development for Industry Promotion

As an inhibiting factor which threatens future economic growth in Thailand, the traffic problems in the Bangkok Metropolitan Region must be addressed as a matter of urgency. Japan has cooperated in improving urban traffic problems in Bangkok through activities such as the formulation of a master plan and development of relevant facilities, but even more so now, when Thailand is trying to seriously tackle this problem, we should further develop our aid by utilizing a wide range of aid schemes, both in the area of fund assistance and technical cooperation.

Regional cities and industries must also be developed, and such cities promoted as livable areas in order to reverse the trend of concentration and centralization in the Bangkok Metropolitan Region. From the standpoint of developing industrial and distribution centers, however, in giving form to large Thai development projects such as the regional development project on the west coast and the second international airport development, it is hoped that Japan will also examine the balance with development in other regions, and provide technical cooperation and funding with a positive attitude.

In supporting infrastructure development, we should pay heed to the following areas: ongoing funding support for advanced infrastructure development; "software" type cooperation for master plan formulation and coordination with relevant agencies, and seeking organic linkages with loan assistance; and promote loan aid and technical cooperation for private sector projects.

(2) Fostering Supporting Industries

Export-oriented assembly industries, the catalysts for foreign direct investment, have evolved as the major domestic industries in Thailand, but they have relied on overseas sources for supplies of the components, materials and intermediate goods that they need. This has been a major cause of the country's trade deficit. In order to correct this imbalance in industry structure, there is a need to foster medium and small enterprises, whether they are supported by either local or foreign capital, and bolster supporting industries. To this point in time, Japanese aid has consisted of two-step loans through the Industrial Financial Corpo-

ration of Thailand (IFCT), and the support of small and medium enterprises by providing technical cooperation for activities such as the establishment of the Metals Processing and Machine Industry Development Center. In the future, Japan would be requested to provide funding and technical cooperation focused on fostering supporting industries, while enhancing the results achieved to date.

(3) Strengthening International Competitiveness

In order to meet the challenges of the forthcoming liberalization of trade brought on by the formation of the WTO, APEC and AFTA, there will be a need to improve the quality of products manufactured by Thailand's export-oriented industries, and insure adequate international competitiveness through adding increased value to products. To this end, providing ongoing aid with an emphasis on technical cooperation will be a must for improving productivity and standardizing industrial weights and measures, and for increased protection of intellectual property rights.

3-6. Support for Regional Cooperation through Japan-Thailand Collaboration

In concert with the expansion in foreign aid programs as the Thai economy has grown, and the surfacing of development concepts in the Indochina region in which Thailand is a principal player, support should be provided for the following initiatives, which will assist regional cooperation and South to South cooperation with Thailand's involvement: promoting Japan-Thailand collaboration with neighboring countries through forums such as the Japan-Thailand Partnership Program; and support for regional cooperation in Indochina.

(1) Promotion of the Japan-Thailand Partnership Program

In an effort to expand Thailand's overseas aid program, Japan and Thailand in August 1994 signed the "Japan-Thailand Partnership Program," under which third country training programs are to be enhanced and joint projects in neighboring countries examined.

Third country training programs will facilitate the training of personnel in neighboring countries with similar natural conditions and technological levels by utilizing the fruit of aid to Thailand to date. In the future therefore, third country training programs will need to be expanded and upgraded in order to boost Thailand's capacity to implement training projects under the Partnership Program.

Considering this to be an effective technique for supporting South to South cooperation to boost Thailand's aid implementation capacity, a positive response is desirable, by passing on experience and knowledge about aid implementation through the formulation and implementation of cooperation and development studies.

Training those involved in the practicalities of Thailand's aid could be achieved by hands-on training at JICA and other Japanese aid organizations, or by dispatching staff involved in overseeing Japanese aid programs to DTEC and other Thai aid implementing bodies. In some cases, this is already being put into practice.

Encouraging such a partnership could be expected to bolster Thailand's aid implementation capacity, and lead to the effective implementation of joint Japan-Thailand personnel training programs in neighboring countries.

Also, under the Partnership for Progress (PFP) concept adopted at the Osaka APEC meeting in November 1995, studies into multilateral cooperation projects with the main protagonists Japan and Thailand have already commenced. It can be expected that Thailand's active participation in the PFP will strengthen the country's aid implementation capacity, and further stimulate collaboration between Thailand and Japan.

(2) Support for Comprehensive Cooperation in Indochina

In February 1995, high level delegates from 25 countries and 8 international institutions met in Tokyo for the Forum for Comprehensive Development of Indochina. All participating countries and institutions agreed on the importance of development strategies from a broader regional perspective in the Indochina region, and of the necessity for infrastructure development and human resource development in the region.

Other Indochina development concepts include ongoing meetings organized by the ADB since 1992 that bring together interested countries and international bodies, and the CLM Industry Cooperation Working Group^{Note32}, under the auspices of AEM-MITI^{Note33}, the meeting of Trade and Industry Ministers from Japan and ASEAN. The four countries of the Mekong river basin (Thailand, Viet Nam, Laos and Cambodia) signed in April 1995 an agreement setting forth new development principles for the Mekong river and a restructuring of the long-dormant Committee for Co-ordination of Investigation of the Lower Mekong Basin.

Regional development in Indochina has thus attracted a great deal of international attention of late, and Thailand is playing an important role as an economic power in the region. There are expectations, however, that Japan will become actively involved in the Indochina region, and in the provision of infrastructure such as transport, communications and electric power, the formulation and implementation of region-wide development plans, and in providing technological support to the new Committee for Co-ordination of Investiga-

^{Note32} A working group examining the provision of industrial cooperation to Cambodia, Laos and Myanmar, under the framework of AEM-MITI.

^{Note33} An annual international conference of ASEAN Trade Ministers, with participation from Japan's Minister of Trade and Industry since 1992.

tion of the Lower Mekong Basin, collaboration with Thailand and other ASEAN countries from a broader perspective is a likely scenario.

As regards regional and rural development in Thailand, there is a possibility of providing cooperation aimed at forming a new regional economic bloc, through the promotion of a region-wide development scheme that takes in the Mekong river basin and in the Northeastern and Northern Regions of Thailand.

4. Aid Implementation Issues

As a framework for providing aid to Thailand, we have thus far analyzed domestic and international problems affecting Thailand, and readjusted the future directions for Japanese aid to Thailand and issues of priority of aid. With Thailand's development needs becoming more diversified as the country's economy grows, the coexistence of aid and combined public-private roles in development is becoming a major issue, and from this perspective, we wish to propose the following six aid implementation issues.

4-1. Linking Technical Cooperation and Loan Aid

The need for funding to expand economic infrastructure development to regional areas, basic social infrastructure, and environmental conservation infrastructure within Thailand is as great as ever, but above all, it can be predicted that demand for official overseas loans under more relaxed conditions will be substantial. At the same time, because infrastructure development that can be independently implemented through private sector activity in Thailand has increased, the requirements for loan assistance from Japan have not been confined to the traditional capital sector, but cooperation is now being demanded in new areas in the information sector. In fact, loan aid for education development is already being provided.

So that Japan becomes actively involved in the planning process of aid funds to these "software" type sectors, linkages with development studies, expert dispatch and other forms of technical cooperation must be utilized even more than they have been in the past.

4-2. Cost Sharing

Considering Thailand's economic strength, the implementation of aid projects will in the future call for even more self-endeavor than has been the case to date, and operational cost sharing will be an important key to project formation. Although Thailand has the capacity to contribute its own share of the costs, decisions on the details of cost sharing will have to be reached by preparing a set of guidelines while flexibly coordinating burden-sharing principles between Japan and Thailand will be reached through political dialogue. This can then give a major incentive to future project identification and formation.

Japanese loan aid already allocates set proportions of the total project costs under established formulae, whether they are foreign or domestic currency costs (pro-rated local cost financing criteria). In the technical cooperation arena too, Japan must ask the other party to shoulder a fixed proportion of total project costs, if there is a need to investigate flexible cost sharing formulae that take no account of foreign and domestic currency costs.

4-3. Human Resource Utilization in Thailand

In local and rural development projects, Japanese experts must operate in an environment characterized by a different lifestyle, customs and culture. It is therefore essential that the staff be well-versed in the local circumstances be secured as experts, but people with both such experience and the technology are rare. In developing local and rural promotion projects with Japanese cooperation in the future, it will be effective to utilize the very best Thai staff. In such circumstances, effective techniques will include alliances with Thai NGOs and encouraging the participation of local residents. It is therefore desirable that Thailand be investigated as an advanced model for the utilization of local staff.

4-4. Project Formation

The typical format for Japanese technical cooperation schemes, "Project-type Technical Cooperation," comprises of expert dispatchment to the aid recipient country, accepting trainees in Japan, and providing equipment and materials. At the project formation stage, the most effective technique will be to combine these three elements with, where necessary, the dispatch of JOCV volunteers, and funding of a scale appropriate to the project. Cooperation projects for Thailand in the future are likely to involve more institution-building and other intellectual endeavors, and cooperation in the information sector for joint research. It will be vital to improve the effects of implementation flowing from these projects too, through creating proposals in project-type technical cooperation scheme, bringing flexibility to each of the elements committed, combined with the dispatch of JOCV volunteers and the provision of loan aid where necessary.

Also, because of the Partnership Program and other new areas of cooperation between Japan and Thailand, it will be necessary in the future to formulate joint Japan-Thailand proposals based on political dialogue, and to go beyond the traditional request-basis principle, to one in which Japan is more proactive in making offers. We have yet to see a large number of requests from Thailand for cooperation for the environmental sector, a priority area for aid. For this reason, incentive strategies such as loans with lower interest rates to this sector have been devised, but nevertheless, more proactive offers from Japan are needed.

4-5. Support for the Private Sector

Economic activity in the private sector will be the factor sustaining Thailand's future economic growth, but we can easily understand that individual private businesses alone will not be able to take adequate measures in the research and development and anti-pollution areas. Japan has given support to this sector through the provision of technical cooperation and loan aid, but from the perspective of environmental countermeasures and maintaining international competitiveness, the flexible utilization of structures such as two-step loans and sector loans will be necessary to provide support for collaborative institution-building between the government and private sector in Thailand.

While some attempts have been made to involve the private sector in infrastructure development, the role to be played by the government in formulating master plans and drawing up development guidelines ahead of this private sector activity is as important as ever.

Also, since rates of return for public infrastructure are not always high in privatized infrastructure projects, there is a limit to what private sector activity alone will be able to achieve. From the perspective of supporting private sector infrastructure projects too, therefore, we can be effective by actively utilizing development and technical cooperation for activities including any required studies and legal infrastructure development, as well as ongoing loan aid for low-profitability enterprises.

4-6. Periodic Reviews of Japan's Aid to Thailand

Against a background of pronounced social and economic change in Thailand in recent times, grant aid from Japan was halted in principle in fiscal 1993. However, we believe it essential that cooperation be regularly reviewed in the future too, in response to further changes in Thailand. In order to continue to provide cooperation that is both timely and adapted to present needs in Thailand, it is important that periodic reviews be made of aid to the country through annual discussions and other forms of political dialogue.

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