Technical Paper 4 (a)

The Status of Thailand's Decentralization Process

submitted to

Japan International Cooperation Agency

by

International Consultancy Network Co., Ltd.

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1. Overview of the Economy up to the Present Seventh Plan Period

Over the 40 years period since the first national economic and social development plan, the Thai economy has made considerable economic progress and have experienced significant structural economic changes.

The increasing commercialization for agricultural production and shifting nature of production geared towards satisfying the needs of the export market has seen the emergence of many cash crops which became the major source of foreign exchange earnings for Thailand such as maize, cassava, sugarcane and pineapple. The acquired status of Thailand a major food exporting country has not been without a cost, however, as vast amount of virgin land has been cleared to make way for unsustainable cash crop production. Moreover, the momentum of economic growth has been maintained and the basic capital accumulation process possible because of the undisputed costs to the environment and undervalued price of agricultural labourers.

Industrialisation in the earlier stages was mainly to substitute the needs for imported manufactured products to reduce the country's problem of the balance of payment deficits. The major industries were labour intensive industries such as textile and food processing. Most of these industries were concentrated in Bangkok and vicinity areas mainly because of the availability of supportive utilities and industrial infrastructures.

A number of supportive industries developed in Bangkok parallel to the expansion of industrial activities, i.e., public utilities, electricity, water supply system, telecommunications, transport, etc. Industrialisation also attracted an influx of labourers from other provinces an regions to work in industries, business and service sectors. But the concentration of industries and inadequately planned urban expansion generated also the unwanted facets of development, i.e., urban congestion, pollution, traffic congestion, slums, etc.

It has been around the Fourth Plan Period that there was official recognition that externalities of concentrated industrialisation in the country's capital city needed deliberate measures to spatially redirect industrial expansion to other areas with development potential. But towards the end of the Seventh Plan Period, over 15 years afterwards, the question of overconcentration of industrial, commercial and business activities in the BMA remains unresolved and constitute one of the main areas of concern of passed on to the present government.

1.1 The Policy Framework

Policy directives for decentralisation is expressed in the Seventh National Economic and Social Development Plan (1992-1996) with respect to investment promotion as well as the spatial direction of decentralisation. The main issues are described below:

- The development of the Bangkok Metropolitan Region (comprising of Bangkok Metropolitan Area and vicinity provinces of Nonthaburi, Pathum Thani, Nakhon Pathom, Samut Sakorn and Samut Prakarn) and the Target Economic Development Zones.

- Income distribution and dispersion of the development benefits to the Regions and to the rural areas.

- Restructuring of agricultural production and decentralisation of industries to the regions

- Promotion of urban development and accompanying development of urban services and utilities.

- Investment promotion measures form part of the strategy for accelerating decentralisation and dispersion of economic benefits to the Regions, these being measures corresponding to the directives of the National Rural Development Committee and decentralisation to the Regions. The Committee is responsible for setting the policy and corresponding plans for decentralisation. Four basic policy measures have been identified, these being:

    - Investment Promotion Measures
    - Measures for decentralisation of financial institutions and mobilization of capital
    - Measures for setting up funds to support agricultural production restructuring and employment generation in the Regions.
    - Measures for coordination of concerned agencies.

Specific to investment promotions, investors will be granted the following incentives to compensate for the trade-offs in not being located in Bangkok.

- Investment privileges
- Low interest loans
- Mobilization of capital in the stock exchange market
- Promotion of joint ventures
- Development of basic infrastructures
- Investment information
- Coordination with concerned agencies

1.2 Issues Related to Decentralisation

The underlying reasons for concentration of industries, commerce and business activities in Bangkok and the limited success of past measures to promote decentralisation can be summarized as follows:

(1) Basic infrastructures, quality and standards of the services available in the Regions were largely inadequate.

(2) The market for manufactured goods in the Regions are limited given low purchasing power of the majority of the population who remain in the rural agricultural sector.

(3) The privileges provided by the public sector thus far have been viewed as being inadequate to neutralize the trade off for not being in Bangkok.

(4) The development directions of each province remains unclear creating uncertainty for would-be-investors.

Within the 7th Plan period, attention is focused on how to overcome the constraints. Details in the next section will deal with some of the key measures that are adopted with the expectation that they may accelerate the process of decentralisation of private industries and State Enterprises to the Regions.

1.2.1 Decentralisation of Private Industries.

1.2.1.1 The Development of the Bangkok Metropolitan Region and the New Economic Zones.

Emphasis is given to the development of basic infrastructures to comparable level as that of the BMA which will link up with the industrial development in the Eastern Seaboard and the Upper Central Region. Some of the projects instrumental to this policy directive include the expansion of road, rail and telecommunication network between the BMA, BMR and the target industrial growth area in Laem Chabang and Map Ta Phut in Chonburi and Rayong as well as the new urban centres, the Northern and the Northeastern Regions. Saraburi has been designated growth centre for the upper Central Region as well as the main road transport center for the Region.

1.2.1.2 Income Distribution and Equitable Dispersion of Development Benefits to the Regions and to the Rural Areas.

Emphasis is made on employment generation in the non-agricultural sector. Attention is drawn to the importance of creating access to factors of production such as land, credit and other basic infrastructure and services. Recognition is also given to the importance of increasing capacity of target group through ensuring adequacy of coverage of education and health services

1.2.1.3 Agricultural Restructuring and Decentralisation of Industries to the Regions

The objective is to increase income of agricultural households and to ensure their ability to adopt new technology and adjust production to ensure consistency with market conditions Some of the means include land allocation, stabilisation of market prices, promotion of organization of farmers into collective groups to increase their bargaining power and create effective linkages between farmers' groups and agri-businesses, reduction of risks through price guarantee system for agricultural commodities and through creation of systems of information flow.

Measures to promote decentralisation of industrialisation will concentrate on target areas, parallel to measures aiming at upgrading the managerial and investment capacity of local entrepreneurs.

Target areas for decentralisation include Chiang Mai, Phitsanulok, Nakhon Sawan, Khon Kaen, Nakhon Ratchasima, Saraburi, Ratchaburi, Surat Thani and Songkhla.

1.2.1.4 Promotion of Development of Regional Urban Centres.

Focus will be primarily on the existing Regional Growth Centres.

Northern Region:

Key economic sector will be tourism with emphasis of nature and culture tour with balanced considerations being given to environmental concerns. Measures will be introduced to promote production of handicraft products, ceramics, ready made clothes. In relation to agricultural production, emphasis is made on setting up central markets for agricultural produce and fruits and vegetable export centres

Northeastern Region

Promotion of Industrial Estates which uses raw materials produced within the Region or in neighbouring countries. It is expected that output from economic activities can be effectively linked to the export channels in the Eastern Seaboard.

Tourism development in this region will be mainly historical and culture tours with possibilities of linking up tourism networks in neighbouring countries such as Cambodia and Laos PDR.

Khon Kaen is the designated center for education, services, trade and transport services. Udon Thani is the designated centre for trade and services as well as the development corridor linking up with Indochina. Other key provinces with economic functions relating to internal and border trade include Nong Khai and Mukdaharn.

Nakhon Rachasima is the designated industrial centre linking with Ubon Ratchathani, Roi Et and Surin. This province is expected to be the spatial link with the industrial growth centre in the Eastern Seaboard Area

The Western Region

Rachaburi is the designated trade and service centre for this Region This province is presently the concentrated area of agro-industries and industries producing agricultural machineries which link up with industrial and related economic activities in Kanchanaburi and Phetburi.

Southern Region

Policy guidelines are laid down regarding the use of coastal resources for tourism and fisheries and other economic activities, e.g. the development of commercial seaports, industrial estates development. Emphasis is placed on compatibility between land use for economic objectives and environmental considerations. Acceleration of development of the Region's internal transport system is envisaged as is the promotion of development of coastal urban centres and border provinces which will link up with economic activities with neighbouring countries. Industries are encouraged to be located in industrial estates.

Surat Thani is the designated industrial centre in view of the supply of natural gas from the Gulf of Thailand. Phuket is the designated port and international business, commercial and tourism centre of the South.

Songkhla and Hat Yai are designated trade, service and commercial centres of the Lower Southern Region which will link up with activities in Pattani, Yala and Narathiwat.

1.2.1.5 Decentralisation Measures.

Industrial estates are seen as instrumental for expansion of industrial activities in the designated growth centres Supporting measures will include acceleration of development of basic industrial services, the establishment of industrial service centres, investment promotion centres and educational and training facilities to produce and upgrade the qualifications of the manpower. Location of specific types of industries will be conditioned by industrial land use zone to ensure the maximum and efficient control over pollution and waste management. Supportive measures are envisaged for the local business operators and industrialists to upgrade their managerial efficiency as well as production technology. Operations of financial institutions are expected to make adjustments which will be supportive and inducive to expansion of industrial investment in the Regions.

1.2.1.6 Investment Promotion Measures

The Board of Investment has endorsed a revised policy and investment promotion criteria on April 9, 1993, No. 1/1993. Summary of the key elements of this new policy are:

The declaration of three investment zones which are entitled to differing degrees of investment privileges, these being:

- **Zone** 1 refer to the BMA and 5 vicinity provinces, i.e., Nonthaburi, Pathum Thani, Samut Sakon, Nakhon Pathom and Samut Prakarn

- **Zone 2** covers 10 provinces namely Samut Songkhram, Ratchaburi, Kanchanaburi, Suphanburi, Ang Thong, Ayudhaya, Saraburi, Nakhon Nayok, Chachoengsao and Chonburi

- **Zone 3** refers to the 60 remaining provinces including Laem Chabang Industrial Estate.

Industries located in zone 3 will be granted more promotional privileges than in the other 2 zones, such as·

- Exemption from paying duties on imported machinerys;
- Exemption from payment of corporate income tax for a period of 8 years.
- Exemption from paying duties on imports of raw materials used in production of export goods for a period of 5 years for industries which export no less than 30% of total sales value.
- Reduction of 75% from the normal rate of import duties on raw materials used in production for a period of 5 years subject to annual approval of the BOI Committee. Industrialists are entitled to this privilege only if the raw materials are of the type that cannot be produced within the country by the same quality or quantity required.

Other privileges include:

- Reduction of corporate income tax by 50% of the usual rate for a period of 5 years starting from the date when industries are not entitled to exemption of payment of this tax.

- Reduction of costs of transportation, electricity and water supply by twice the actual cost in the calculation of the firm's net profit starting from the period in which the industry is generating income.

- A 25% deduction of cost of installation and other facilities from the firm's net profit.

Provided that businesses and industries move to Zone 3, they are entitled to the following privileges:

- Exemption of payment on corporate income tax for a period of 8 years

- Reduction of corporate income tax by 50% of the usual rate for a period of 5 years starting from the date when industries are not entitled to exemption of payment of this tax.

- Reduction of costs of transportation, electricity and water supply by twice the actual cost in the calculation of the firm's net profit starting from the period in which the industry is generating income.

- A 25% deduction of cost of installation and other facilities from the firm's net profit.

1.2.2 Relocation of Public Sector Operations and State Enterprises to the Regions.

Within the public sector, there are a number of Ministerial level organization which have moved out of the BMA to vicinity provinces, e.g. the Ministry of Health, the Ministry of Finance.

Grander schemes for relocation of public sector agencies were envisaged back in 1992 where the target area for relocation was to be Ta Takiab and Plaeng Yao district in Chachoengsao province. It was planned that parts of the land for building the new town was to be appropriated to add to land that already belonged to the public sector. This policy was not endorsed however and was met with considerable opposition on grounds of inadequacy of public utilities , telecommunications, transport network as well as accommodation for public sector officials and their families who will be directly affected

On State enterprises, presently there are altogether 79 State Enterprises in Thailand which can be divided into 3 groups·

- Those which generate revenue for the State
- Those which provide public utility and services
- Other State enterprises which operate in the field of agriculture, commerce, industries, finance and services

Current Government policy is to relocate some of the State Enterprises out of the BMA to partially relieve the urban and traffic congestion of Bangkok, the major considerations being given to the following types of State Enterprises:

- **State Enterprises which have a large number of employees** such as the Tobacco Monopoly of the Ministry of Finance, the Pharmaceutical Organization. These are presently in the process of relocation.

  Other State Enterprises which constitute large employment sectors have also relocated part of their operations outside of the inner city core and the BMA. These include the Electricity Generating Authority of Thailand (TAT), the Telephone Organization of Thailand (TOT), the State Railway of Thailand (SRT), Thailand Telecommunication Authority, the Krung Thai Bank Co., Ltd., the Bank of Agriculture and Agricultural Cooperatives (BAAC), the Thai Airways International, etc.

- **State Enterprises whose operations involve considerable transportation and use of road surface.** The Tobacco Monopoly, the Petroleum Authority of Thailand are examples of this type of State Enterprises, i.e., their operation involve transportation of raw material from outside of the BMA for reprocessing as well as transportation of finished products out of the BMA for distribution. The Port Authority of Thailand as well as the SRT also fit this definition and are among the target State Enterprises for relocation

- **State Enterprises which generate industrial pollution.** These refer to Industrial State Enterprises which produces, textile, batteries, plywood, glass, dairy products. Printing factories and tanneries are also target enterprises for relocation.

To date, the policy to relocate State Enterprises outside of the BMA have met with limited success. Some of the underlying reasons include:

- The high land price of the target area for relocation. State Enterprises are not entitled, under existing legislation, to sell or use revenue for the land where they are presently operating for the purpose of purchasing new lands.

- Financial constraints also extend to the problems of cost of new constructions as well as the relocation cost.

- Policy directives remain unclear as to the target area for relocation

- In some cases, urban facilities in target areas are seen to be inadequate creating disincentives for those who are to be the pioneers in moving.

1.3 Legal Framework for Decentralisation

The legal framework can be considered as a key instrument in ensuring that measures are carried out and tasks executed in compliance with the policy objectives. Given the rapid changes in social and economic development of the country, however, it can be said that the legislature follows rather than lead the process of development. As such, discrepancies can be noted between the policy directions and the words of the law which have not only caused confusions but also delays the process of decentralisation. The objective of this section is to bring attention to some of the legislations that are relevant and pertinent to the processes of decentralisation.

1.3.1 Legislation Pertaining to Land Propriety and Land Use.

These legislations define rights to land ownership and landholdings pertaining to Thais, foreigners, corporate bodies. Others deal with the issue of land use zoning and control, building designs, etc.

- The Land Code 1954
- The Town and Country Planning Act 1975
- The Building Act 1979
- The BMA Regulations

1.3.2 Legislation Pertaining to Local Governance

These include:

- The Local Administration Act 1954
- The Municipal Act 1953
- The Sanitary District Act 1952
- The Provincial Regulations and Administration Act 1955
- The BMA Regulations and Administration Act 1985

- The Tambon Administration Act 1995

Contents of these legislations cover organization and management of local governing bodies as well as give them authorization to govern in accordance with the stipulations of the law. To date, the main functions of local authorities centre around collection of revenue, overseeing peace in the areas under their jurisdiction and provide basic public utilities and urban amenities

1.3.3 Legislations related to Investment and Industrial Activities

- Investment Promotion Act 1977
- Factory Act 1992
- Industrial Estate Authority of Thailand Act 1979
- Royal Decree and Act which pertaining to the establishment of State Enterprises 1979

Contents of these legislations deal with investment privileges, zoning of industrial land use, regulations relevant to the establishment of industrial estates and export processing zones. The Royal Decree and Act which pertaining to the establishment of State Enterprises 1979 contains details of adjustments for public sector agencies and State Enterprises regarding their relocation and restructuring needs including the considerations over privatization

1.3.4 Legislation Relating to the Environment and the Energy Sectors

The two legislations under this category include:

- The Environmental Act 1992
- The Energy Conservation Promotion Act 1992

The stipulations of the Environmental Act 1992 require that certain types of industries and construction need to pass Environmental Impact Assessment (EIA). The Energy Conservation Promotion Act 1992 on the other hand seeks to promote efficiency in energy uses in designated industries with in-built incentives and channels for providing financial support for industries making investments in energy saving devices.

1.3.5 Legislation Relating to Finance and Taxation

- Local Tax Act 1965
- Building and Land Tax Act 1932
- Customs Act 1926
- Customs Rate Act 1960
- Customs and Excise Act 1984

These legislations controls the collection of various types of taxes from individuals and corporate bodies. Exemption or reduction of payment of any of these taxes are possible of industries or businesses are entitled, by their location in zone 3, to, promotional privileges granted under the Investment Promotion Act described earlier.

1.4 Financial Measures

One of the key prerequisites for decentralisation of industries is basic investment in industrial infrastructures, social services and urban amenities. Although recognizing that the adequacy of coverage and standard of these services are major considerations of private investors and industrialists, budgetary constraints as well as bureaucratic hindrances have been the major underlying factor for the delay in delivery on the part of the public sector.

To a certain extent, it can be said that the decision making structure and the over-centralisation is a fundamental drawback. Allocation of budget for investment in industrial infrastructures and urban services remain the monopoly of the central government. Budget allocation is approved on an annual basis based on considerations of decision makers in the centre over priorities of areas and types of expenditures. Not only does this procedure generates unnecessary delays, but there is also the tendency that what is decided from Bangkok is not what the reality is in the localities where those decisions are made to bear.

One of radical adjustments which have been constantly demanded but without any concrete response is the devolution of authority to local governments over the use of revenue for the development of the areas under their jurisdiction. Such authorization is anticipated to have significant impact in allowing more flexibility to municipalities, sanitary district and Tambons. One is likely to see developments along these lines given that the present drafts of the Eighth National Economic and Social Development Plan to cover the period between 1997-2001 already mentions increasing the ratio of revenue to be retained by local governments for local development needs.

Aside from public sector spending, decentralisation of industries and other business investments have, to a certain extent, been hindered by the limitations of local financial institutions. Local bank managers are only authorized, for example, to approve loans up to 5 million Baht only. This means that any proposed investment projects exceeding that sum will have to be approved by decision makers in the Central branches.

1.5 Environmental Impact from Decentralisation

Up to the Fourth Plan period, it can be said that economic activities have been pursued under the misguide conception of abundance of grossly undervalued supply of natural resources.

In physical terms, Thailand's forest coverage reduced from 171 million rai in 1960 equivalent to 53.33 % of the country's total area to only 83.45 million rai in 1993, or 26% of the total land. On average, forest area coverage has reduced by an average rate of 3 million rai.

Similarly, expansion of economic activities along the country's shore line have reduced the mangrove areas leaving only 1.005 million rai.

Soil scientists generally point out to the misutilisation of land resources. It is estimated that as much as 33 million rai around 23% of the country's agricultural land are not utilized according to the soil capabilities. Around 33% of the agricultural land is facing varying degrees of soil erosions and problems of soil salinity and acidity, peat soils and sandy soils may be occurring over 100 million rai of land.

Water pollution caused by untreated waste water from households and from industries is one other facet of environmental problem. Although regulations exist, they are in need of strict enforcement. Outcries generally occurs ***after*** the problems have occurred often causing damages so costly to repair. Examples of these include the emission of waste water from sugar factory into the Nam Phong river which flows through 5 provinces including Khon Kaen, Mahasarakham, Roi Et, Yasothon and Ubon Ratchathani. Needless to say the cost to the environment and to society as a whole is much higher than the 100,000 kg or so of dead fish!

Other much publicized cases include the leakage of toxic fume from the lignite power plant in Mae Moh District in Lampang and the emission of toxic substance form the Bangkok Khlong Toey Port. These are the cases publicised but how many more go unmentioned causing long term environmental repercussions is an urgent matter that all parties must see to.

Policy guidelines regarding environmental control have been included in the Seventh Plan. Measures which are presently being undertaken include:

- The 60,000 million Baht investment in water treatment plants in the BMA and along the banks of the river Chao Phraya.

- The establishment of the Environmental Fund according to the stipulations of the Environmental Act 1992. The Fund started of with a capital of 5,000 million Baht and has now increased to 9,450 million Baht

- The official declaration of 6 provinces as environmental and pollution control zones, these being Phuket, Pattaya, Krabi, Songkhla, Samut Prakarn and Pathum Thani.

- The devolution of power for environmental planning and control to the provinces starting with the recruitment of consultants to formulate Province Environmental Plans.

- Initiation of the concept of polluters pay principle

- Initiation of measures to mitigate problems of air pollution starting from control over the source of emission. Some of these measures include the use of CNG by large public transport vehicles, the requirements that all news cars have catalytic converters, the improvement of fuel quality and the promotion of use of unleaded gasoline.

- Restructuring of institutions whose mandates are related to environmental planning and control. The authority of the National Environmental Committee is transferred to the Department of Pollution Control, the Department of Environmental Quality Promotion and the Office of Environmental Policy and Planning.

- The amendment of Environmental Act 1992.

- Setting and upgrading the environmental standards, including the types and size of industries and establishment which are required to undertake EIA prior to investments.

- Creating incentives for the general public to participate and take a more active role in environmental protection and conservation, e.g. tax reduction on unleaded gas, reduction of import duties on energy saving machineries to only 5% and market promotion of green products.

Despite all these measures, fundamental problems still exist, these being·

(1) Existing legislation doesn't cover certain activities, e.g. waste disposal, toxic waste disposal, noise pollution, vibration. Legislation also does not cover the use of chemicals in agricultural production.

(2) Enforcement is noted to be slack due in part to lack of clarity over division of responsibilities and degree of authorization.

(3) There is limited participation of the general public

(4) Services for pollution management is still inefficient and prices of such services still do reflect their real value.

1.6 The Directions Within the Draft Eighth National Economic and Social Development Plan

1.6.1 The Role of the Public Sector

The principle philosophy will be to decentralisation decision making power to the localities and induce greater involvement in planning and monitoring. Actions to be undertaken by the public sector during this plan period will include:

- Prioritization of areas needing urgent attention to address environmental issues,
- Establish a central waste system for solid waste, waste water, hazardous waste;
- Introduce measures for collection of charges for waste disposal services;
- Encourage industries which will be expanding or moving to the rural areas to be located in industrial estates.

1.6.2 Participatory Base for Environmental Monitoring and Control

Encourage involvement of the general public, Non-Government Organizations, the private sectors and local governments to monitor environmental conditions. This can be done partly through devolution of authority to local governments, through intensified publicity campaigns, training and information dissemination and through encouragement for setting up local environmental monitoring groups.

In addition to the above, on-going measures will be kept with respect to adjustment of the legislation and institutional structures.