International Bank for Reconstruction and Development
International Development Association
International Finance Corporation
Multilateral Investment Guarantee Agency

87645

FOR OFFICIAL USE ONLY
CONFIDENTIAL

EDS98-339
July 8, 1998

Board Meeting of Thursday, July 9, 1998
Statement by Joaquim Carvalho

**Thailand: Country Assistance Strategy**

We find the proposed Country Assistance Strategy for Thailand candid and comprehensive. The staff deserve our commendation for a well-prepared document. This CAS has not only provided us with a critical assessment of Thailand's past development issues, including those that led to the recent crisis, but it has also given a good road map for putting the economy back on a strong footing. Prior to the mid-1990s, the Thai economy recorded impressive GDP growth performance, averaging close to 8 percent annually during the 1980-95 period. But more impressively, the share of the population below the poverty line dropped from 12 to 4 percent during the same period. As a result of these and many other formidable achievements in macro-economic management, the Thai economy won unfettered access to burgeoning international private capital flows.

However, in spite of this robust performance of the economy, a number of structural issues which were not adequately attended to, gave rise to factors that eventually undermined the economy's high growth prospects. In particular, the fundamental weaknesses in the financial and corporate sectors, notwithstanding efforts to liberalize the economy in the early 1990s; the diminishing competitiveness of the export industry; increasing income disparities; and the shrinking contribution of public investments to total productivity growth by the early 1990s were among the underlying ills that affected the Thai economy. Recent efforts by the Thai authorities through tough fiscal and monetary measures, and structural reforms have not yet produced the desired effect. Hence, the challenge facing the Thai economy remains daunting. It is, therefore, gratifying to note that the government's development plan (1997-2001) is being revised in the context of the changed economic situation to focus on the short-term goals of maintaining fiscal and monetary stability and reviving growth. This should be in tandem with the medium-term goals of competitiveness, good governance and social environmental activities to promote sustainable and balanced growth. In this regard, we are encouraged by the comprehensiveness of the planned government measures outlined in Table 3 of the document.

The impact of the Thai financial crisis and measures aimed at resolving it on poverty, particularly in the urban areas, on income distribution and in employment is worrisome. While the incidence of poverty may not be as significant in Thailand as it is elsewhere, we believe that the dangers of wiping out the gains made so are in the past are eminent. It is therefore critical that calculated efforts are made to protect the vulnerable groups. In this connection, it is heartening to note the comprehensive policy measures outlined in paragraph 78 aimed at addressing poverty issues in Thailand. We welcome the Bank's clear role in all reform issues, particularly those on poverty. However, while the document has been clear on the Bank's interaction with the government of Thailand on poverty issues, it has not been so clear on how the government and the Bank will address poverty issues with the other partners. We would appreciate further staff comments on this respect.

We find the proposal in the Bank's Country Assistance Strategy broadly in line with Thailand's development objectives. What is even more appealing about the CAS is that it benefited from the broad participation of the government, other development partners, and a broad range of key stakeholders. The CAS is also broadly consistent with the overall regional strategy for restoring East Asia to sustainable growth, which was recently presented by Mr. Jean-Michel Severino. We, therefore, endorse the focus of this CAS on providing strategic policy advice to Thailand, helping build institutional capacity, catalyzing the productive potential of the country, and supplying up-front liquidity to help Thailand through the next few years. The intention of the Bank to pursue a more flexible approach to new lending with a combination of investment projects, implementation assistance, BOP support, public expenditure programs and guarantee instruments is welcome as this will help in addressing cross-cutting and reform issues in Thailand.

We endorse the proposed lending scenarios and the associated triggers as well as the mix of Bank lending and non-lending services. However, we find the program triggers in Table 5 to be quite detailed and we would urge that their application be made flexibly in the context of the prevailing circumstances.

We are pleased to note that IFC has been a key partner in the development of Thailand's private sector. But, given Thailand's turmoil in the financial sector in particular, we had expected a joint Bank/IFC strategy that would have provided details on what IFC currently plans to do. We would appreciate some staff comments on the synergy among the activities of both institutions and the reasons for not having a joint CAS. We note, however, that the Corporation is focusing on assisting the restructuring needs of its existing clients while considering extending similar support to new clients. With regard to the latter priority, we would like IFC to look at new areas in the

Thai economy with a view to diversifying the Corporation’s portfolio as well as helping to broaden Thailand’s private sector.

Finally, we welcome the Bank’s collaboration with the IMF, ADB, and the UN Agencies and expect a continuation of such concerted efforts in assisting Thailand to strengthen its economy, regain creditworthiness in the financial markets and restore the confidence of foreign and domestic investors. This is extremely important for the effective coordination of assistance in any country.

.