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**MEMORANDUM OF THE PRESIDENT  
OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
COUNTRY ASSISTANCE STRATEGY  
OF THE  
WORLD BANK GROUP  
FOR  
THE KINGDOM OF THAILAND**

**AUGUST 9, 1994**

**Country Department I  
East Asia and Pacific Region**

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## **CURRENCY EQUIVALENTS**

(As of December 31, 1993)

Currency Unit	=	Baht (B)
US\$1.0	=	B 25.52
B 100	=	US\$3.92

## **ABBREVIATIONS AND ACRONYMS**

<b>ADB</b>	<b>Asian Development Bank</b>
<b>ASEAN</b>	<b>Association of Southeast Asian Nations</b>
<b>BMR</b>	<b>Bangkok Metropolitan Region</b>
<b>BOT</b>	<b>Build-Operate-and-Transfer</b>
<b>EGAT</b>	<b>Electricity Generating Authority of Thailand</b>
<b>EIB</b>	<b>European Investment Bank</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>JEXIM/OECF</b>	<b>Export-Import Bank of Japan/Overseas Economic Cooperation Fund</b>
<b>PTT</b>	<b>Petroleum Authority of Thailand</b>
<b>RTG</b>	<b>Royal Thai Government</b>

## **FISCAL YEAR**

October 1 to September 30

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**Map**

IBRD 25462 (December 1993)

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**A. Recent Economic Performance**

1. Sustained Economic Growth. Thailand's development record over the past three decades is impressive. Real per capita income growth has been positive every year and has averaged almost 4 percent over the period. Significant progress has also been made in a variety of other areas including food security, primary school enrollment, adult literacy, infant mortality, maternal health, and life expectancy (see Annex 2 for key social indicators). Absolute poverty has been reduced from over 57 percent in the late-1960s to about 20 percent. The economy has also been transformed over this period from being one that was primarily agrarian into a major exporter of manufactured products. Despite these achievements, Thailand is still a lower-middle income country that faces challenges in deepening its development. The key areas of concern include inadequacies in physical infrastructure and labor skills, the alleviation of poverty, and protection of the environment.

2. The performance of the Thai economy has been particularly impressive since the mid-1980s following the implementation of a series of structural reforms that laid the basis for sustained economic growth. Those reforms corrected fiscal imbalances, realigned the exchange rate, and improved debt management, and were supported by two structural adjustment loans from the Bank. As a result, real GDP growth between 1987 and 1993 was among the highest in the world, averaging almost 11 percent per annum, with growth rates in excess of 12 percent p.a. between 1987-1990 and 8 percent p.a. since 1991. The most notable achievement has been on the fiscal side, with the central government budget having recorded a surplus for six consecutive years since 1988. This period of rapid growth has transformed the structure of the economy. In 1981, the agricultural sector produced almost a quarter of GDP and was larger than manufacturing; by 1993, agriculture accounted for less than 12 percent while the manufacturing sector contributed over 27 percent. Thailand's manufacturing sector is now the largest within ASEAN.

3. This remarkable growth performance was built on favorable external factors, political stability, prudent macroeconomic and sectoral policies in conjunction with a vibrant and responsive private sector. The growth of manufactured exports and inflows of foreign direct investment in the second half of the 1980s were facilitated by the depreciation of the baht (relative to the yen), rising cost pressures in other East Asian economies, lower oil prices, and relatively strong growth in OECD economies. Domestic policies such as conservative fiscal management, aggressive export promotion and market-friendly sectoral interventions helped Thailand take advantage of these external developments. Of

particular importance were the successful stabilization and adjustment measures taken in the early-1980s to counter the imbalances that had resulted from the two oil price shocks.

4. Despite the recession in the industrial economies and domestic political uncertainties, Thailand's economy still expanded by about 8 percent p.a. during 1991-93. While this represents slower growth than the double digit rates of the late-1980s, it will be easier to sustain. Due to tightened financial policies, domestic demand is now expanding less rapidly than during the boom years. This economic deceleration has also shrunk the current account deficit to less than 6 percent from almost 9 percent of GDP in 1990. Despite slowing relative to the late-1980s, growth in domestic demand has been strong enough to more than offset sluggish export growth. Inflation, which had remained around 4 percent or less during the past three years, has risen somewhat recently due to a rise in interest rates and an increase in some import prices, but remains moderate.

5. Since the second half of 1993, economic growth has accelerated and for the year as a whole, GDP grew by 7.9 percent, compared to 7.5 percent in 1992. Based on the key indicators of steady economic growth, sound fiscal performance, rapid export growth, and moderate inflationary pressures, the Thai economy is considered to be among the best-performing economies today. Savings and investment rates are remarkably high (private savings at 22 percent of GDP, public savings at 12 percent, and gross domestic investment at 39 percent of GDP).

6. Political Stability. Political stability was an important contributor to Thailand's economic success during the 1980s. Unlike the 1970s, which were marked by a succession of military and civilian governments, a single administration held office between 1980 to 1988, and was followed by an elected civilian government until early-1991. This continuity helped in the implementation of macroeconomic and sectoral policies oriented towards stability and growth. And although political uncertainty increased as a result of a military coup in 1991, it had little impact on economic management because a largely technocratic interim administration was appointed, which was able to respond successfully to short-term issues, such as the impact of the Gulf crisis and the overheating of the economy in 1990-91 as a result of the earlier double-digit economic growth. However, business confidence was shaken following the elections of March 1992, which failed to produce a clear majority in Parliament, and eventually resulted in violent demonstrations against the Suchinda Administration. The economic impact of the crisis was short-lived due to the King's decisive intervention and the transfer of power to a newly-elected government in September 1992. Since then, the government of Prime Minister Chuan Leekpai has been able to re-establish an effective political framework, although some uncertainty remains since the government represents a coalition of diverse political parties.

## **B. The External Environment**

7. Outward Orientation. The growth of the Thai economy during the last decade has been accompanied by an increase in its outward orientation. Exports of goods and nonfactor services now account for 36 percent of GDP, up from about 25 percent in 1980. Also, growth in export value added accounted for almost a third of GDP growth between 1986 and 1992, almost three times higher than in the early 1970s and roughly similar to its contribution in Korea.

8. The expansion of manufactured exports has led the recent rapid growth, rising in real terms at about 25 percent annually during 1986-93, a pace almost twice as fast as in the early-1980s. This has been achieved despite recession in the industrial economies and increased competition from Thailand's

competing neighbors such as Malaysia, Taiwan (China) and Korea. Manufactured exports now account for over three-quarters of merchandise exports, compared to less than a third a decade ago. Not only has there been diversification away from traditional agricultural exports such as rice, rubber and tapioca into manufactured products, but a broader range of manufactures is now being exported as is evident from the falling shares in merchandise exports since 1988 of two major product groups -- textiles and integrated circuits.

9. The most important markets for Thai products continue to be the U.S., Japan and the EC, which together absorb over 60 percent of exports. These economies are also the main source of imports: Japan accounts for almost 30 percent, and the U.S. and EC for about a quarter. Since 1993, increased trade with other ASEAN countries like Singapore and Malaysia, and with neighboring Indochina countries, has been evident: Exports to ASEAN countries comprise about ten percent of Thailand's total exports and the import share from those markets is about 2 percent. Within this group, Singapore is Thailand's largest trading partner.

10. Since 1990, Thailand has liberalized exchange controls to the point that it now has an open capital account. Apart from a few nominal restrictions on capital movements, the Thai economy is fully integrated with international financial markets. This liberalization, and the recent launching of an offshore banking center in Bangkok are intended to promote Thailand as a regional financial center. Such openness has also helped increase the capitalization of the Thai equity market. Thus, listings of companies and new issues have increased sharply since 1988. Market capitalization doubled in 1993 to reach 112 percent of GDP -- far higher than in Korea and Taiwan (China).

11. Greater openness has also meant a substantial increase in capital inflows since 1987. Net inflows of short- and long-term capital almost quadrupled during 1988-1991, almost entirely due to increased private-sector activity. Between 1981-86 and 1987-91, there was almost a five-fold increase in foreign direct investment from \$274 million to \$1.4 billion (annual averages). After falling in 1992 because of political disturbances and increased uncertainty, foreign direct investment and portfolio inflows started to pick up again in the latter half of 1993. The mix of capital inflows has also changed between the late-1980s and the recent past: until 1990, most inflows were medium- and long-term, and a substantial part took the form of FDI. Since then, short-term borrowing, mostly by the private sector, has dominated, accounting now for over half of all capital inflows.

12. The sources of FDI have shifted over this period. The surge in foreign investment that began in 1987 was initially a response to the revaluation of the yen against the dollar and rising labor costs in the NICs. Hence, most of these flows originated in Japan and Taiwan (China). With the slowing of growth in Japan, the level of FDI tapered off in 1991. In 1992 and the first half of 1993, FDI inflows declined by about 20 percent, reflecting in part political uncertainty and delays in implementation of infrastructure projects. Moreover, the share of Japanese investment fell, while those of the U.S., Hong Kong, and the U.K. rose. About half the FDI flows since 1987 have been into manufacturing, within which electrical appliances and chemicals have accounted for the largest shares. Outside manufacturing, the real estate and construction sectors have seen substantial inflows.

13. Competition from Neighboring Countries. Since manufactured exports have been the engine of Thai economic growth over the last few years, economic performance now depends far more on external factors than in the past. This increased exposure translates into two sets of risks. First, sustaining growth depends more than before on economic conditions in OECD countries, which still absorb almost two-thirds of Thailand's exports. The recent upturn in economic growth in these countries

has helped to bring Thailand's export growth rates back to the levels of recent years. Nevertheless, Thailand needs to intensify efforts to diversify its export markets. Given the continued vitality of most East Asian economies, the current efforts to promote the development of the ASEAN Free Trade Area (AFTA) are promising and need to be speeded up.

14. Second, Thailand's strategy of export-led growth could also be at risk if it loses competitiveness in the face of economic liberalization in labor-abundant economies such as China, India and Viet Nam. Such pressures are already evident in rising wages, labor unrest, and skill shortages in Thai manufacturing as well as in the redirection of industrial country FDI flows to countries with lower labor costs. Policymakers need to focus attention on the key determinants of export competitiveness in the more technologically-sophisticated products and manufacturing processes where Thailand's comparative advantage now lies. Quality of infrastructure and availability of skilled labor will be among the key factors in determining Thailand's success in penetrating export markets for these products. The pace of recent growth, sectoral policy and institutional weaknesses, and inadequate investment have contributed to the emerging constraints in both these areas, which must be addressed.

### **C. Development Objectives and Policies**

#### **1. Key Development Issues**

15. The development objectives reflected in the Seventh National Development Plan (1992-96) recognize that if Thailand is to maintain its excellent record over the next decade, challenges in several areas will need to be confronted and resolved. The Royal Thai Government (RTG) will need to do more in the medium term than just ensure political stability and sound macroeconomic management. While the Plan calls for continuing the export-led growth strategy of the past, its approach is to have the economy produce and export more sophisticated products by improving physical infrastructure and upgrading the level of labor skills. The Plan also stresses the need to improve household and regional income distribution and meet the growing demands for social infrastructure and environmental improvement that have accompanied rising incomes.

16. Infrastructure and Human Resource Constraints. While economic growth has been impressive in the past and there is a firm foundation for believing that such growth will continue in the future, it is predicated on addressing two key issues. The first set of development challenges involves structural constraints to medium-term growth in the areas of physical infrastructure and human resources. As Thailand's comparative advantage shifts from labor-intensive products to technologically sophisticated manufactures, export competitiveness will be determined increasingly by the quality of infrastructure and labor. Infrastructure bottlenecks are already serious in the Bangkok Metropolitan Region (BMR) and also now extend to many secondary towns. Although the results of some major investments such as the Eastern Seaboard Development Program have begun to materialize, they have not yet significantly eased congestion and pollution in the BMR, which continues to grow more quickly than in other urban areas. Unless infrastructure deficiencies are addressed aggressively, the potential for medium-term growth would be hurt.

17. It is also becoming increasingly difficult for investors to find and retain skilled workers. Part of the problem is that only about a fifth of the labor force currently has more than a primary school education. Also, only 30 percent of the relevant age group is currently enrolled in secondary school, as compared with about 60 percent in Indonesia and Malaysia and over 90 percent in Korea. While the rate of new secondary enrollments has been rising (in 1992, for instance, almost two-thirds of all primary



school leavers entered secondary school), aggressive efforts to expand and upgrade secondary, vocational and technical education are required if success in upgrading the industrial structure is to be achieved.

18. A second set of issues relates to the quality of future growth. While per capita incomes have doubled during the past decade, there is a growing perception that progress in poverty alleviation has slowed. Although the level of absolute poverty has been reduced dramatically over the last three decades, about 12 million people -- mostly in rural areas -- remain poor. Moreover, many observers believe that the number of these absolute poor appears to have fallen only slightly despite the creation of over half a million new jobs each year since 1988. But these hypotheses are tentative because the most recent income and expenditure data have not yet been analyzed in detail. Using these data to evaluate the trends in poverty incidence and income distribution during the recent period of rapid growth is an important prerequisite to designing and implementing appropriate corrective measures (para. 50).

19. Rapid growth has also exposed the need for greater attention to environmental protection. Deforestation, soil erosion, and coastal and watershed encroachment have been joined on the environmental agenda by concerns about air and water pollution that have been aggravated by the recent expansion of industrial and commercial activities. Particularly in the BMR, the costs of congestion and of the health impacts of some forms of air pollution have worsened dramatically. Moreover, new problems such as the management of hazardous wastes from manufacturing are emerging, even while traditional problems such as the microbiological contamination of water continue unabated.

20. The Government's approach. In its Seventh Plan, the Government proposes to address these issues primarily by increasing public investment. For infrastructure, in particular, an investment program of about \$55 billion (or 8 percent of GDP over the Plan period) is recommended, of which about 75 percent would be by the public sector. To develop labor skills, additional public investment is called for to extend basic education from six to nine years; strengthen vocational and on-the-job training; and, improve capabilities in universities and research institutes.

21. In addressing the problems of poverty and income disparities, the Plan proposes additional incentives to industry to locate outside the BMR, increased public spending for rural development including social services and education, and additional investments in upgrading rural infrastructure. More decentralized administration of several public expenditure programs is also proposed. Finally, schemes to improve crop marketing, storage and insurance are recommended to stabilize producer prices and reduce production risks, thereby helping to alleviate rural poverty.

22. For better environmental management, the Plan calls for providing subsidies and public investment for pollution control facilities as well as streamlining regulations and developing improved enforcement mechanisms. Further, communal investments for pollution control and sewage treatment will be supported by an environmental fund to be financed from budgetary sources and a tax on oil imports.

23. As the Plan shows, the RTG recognizes the need to deal promptly with these medium-term development issues. While deserving credit for identifying the key issues, the investment-led strategy proposed in the Plan suffers from two potential problems. First, it could falter in its implementation. The Government's approach is to recognize the roles of both the private and public sectors and to encourage new initiatives like Build-Operate-and-Transfer (BOT) projects where feasible. Given the pressing infrastructure needs, projects from both sources (public and private sectors) will be required in

many areas to compensate for past under-investment. However, critical policy and institutional issues will need to be resolved first if the proposed investments are to be effective.

24. In terms of policy, more needs to be done to remove the major obstacles to attracting private investment in infrastructure provision. Apart from the lack of coordination already noted within the public sector, these barriers include the lack of clarity regarding contractual and regulatory "rules of the game" and the resistance to charging users for infrastructure services other than the major visible projects, such as toll roads. Until these constraints are addressed, investors may avoid committing themselves to new projects. Similarly, a better approach to addressing problems of urban congestion and pollution would be to tax the activities that aggravate these effects, particularly in the BMR. The current focus, however, has been predominantly on measures that subsidize or mandate environmental control by industry and consumers.

25. Institutional weaknesses could also undermine the efficacy of the proposed investments. In the social sectors, for instance, there are questions as to the capacity of key government agencies to undertake expanded public expenditure programs. Decentralization efforts have also been ineffective thus far due to resistance from the central bureaucracy and the apparent lack of capacity to exercise increased responsibilities within provincial governments. And for physical infrastructure, lack of coordination across public-sector institutions has hampered planning and slowed implementation. Similarly, until coordination among agencies is improved, expenditures to promote regional development and educational reform, as well as to mitigate pollution from industry and transport, and resolve Bangkok's traffic congestion, will not achieve their full potential.

26. The **second** problem with the strategy proposed in the Plan is that it could threaten macroeconomic stability. While Thailand's macroeconomic management over the past decade has been exemplary, it faces substantial challenges over the medium term, particularly in maintaining external balance in the face of an already large savings-investment gap. Unless matched by an increase in private and public savings, the higher public expenditures envisaged under the Plan would further increase the reliance on foreign savings. The outcome would be even worse if, as is possible, the additional public investment were ineffective in removing constraints on medium-term growth because of a lack of complementary policy and institutional reforms. In such a case, the current account deficit would widen substantially while export and GDP growth would be lower than the Plan projections. Since IBRD exposure is small, this outcome would not entail significant risks for the Bank. However, the overall debt-service ratio in this scenario would rise substantially by the end of the decade.

## **2. Medium-Term Prospects**

27. Thailand's likely economic prospects are set out below in Table 1, and in greater detail for 1994-96 in Annex 3. These projections for the **Base Case** reflect the gradual recovery in OECD economies and assume a continuation of current macroeconomic policies. However, this scenario envisages reforms in sectoral policies, such as in infrastructure and the implementation of investments aimed at maintaining export competitiveness.

28. Real GDP growth during 1994-1996 is anticipated to average 8 percent p.a. This performance would be underpinned by export volume growth of about 11 percent p.a., substantially lower than the 19 percent annual growth experienced during 1988-91. Gross domestic investment during 1994-1996 would rise by about 7.5 percent p.a., which is also lower than during the 1980s, particularly the 25 percent annual increases experienced during the investment boom of 1988-90. The growth in

Table 1: Thailand: Medium-term Projections of Key Economic Indicators

	Actual		Projected		
	1992	Estimated 1993	1994	1995	1996
GDP growth (%)	7.6	7.8	8.0	8.0	8.0
CPI inflation (%)	4.2	3.5	4.5	4.5	4.5
GDP (US\$ billion)	110.6	123.7	134.2	149.1	165.9
Per capita GDP (US\$)	1906.7	2103.1	2251.8	2465.5	2707.0
Consumption growth (%)	8.0	7.6	8.5	8.0	7.9
Investment growth (%)	2.8	7.8	5.9	7.3	8.2
Merchandise					
export growth (%)	12.4	7.1	11.9	11.8	11.9
Merchandise					
import growth (%)	7.3	8.0	10.0	10.9	11.6
Exports of goods and non-factor services (US\$ billion)	40.1	45.5	51.2	59.5	68.6
Imports of goods and non-factor services (US\$ billion)	45.6	53.8	58.0	66.1	76.1
Resource balance (US\$ billion)	-5.5	-8.3	-6.8	-6.6	-7.5
Current account balance (US\$ billion)	-6.6	-6.5	-7.0	-6.8	-7.9
(% of GDP)	-6.0	-5.3	-5.2	-4.6	-4.8
External debt (US\$ billion)	39.6	47.4	53.0	59.2	65.5
External debt/GDP (%)	35.8	38.3	39.5	39.7	39.5
Debt service (US\$ billion)	6.0	5.4	6.0	5.4	6.0
Debt service/Exports (%) <sup>*</sup>	14.1	11.0	11.0	8.6	8.2

\* Includes goods and non-factor services.

investment is conditioned on higher infrastructure investment, both in the public and private sectors, as well as continued private-sector spending on plant and equipment. Since domestic savings are not anticipated to rise substantially, the savings-investment gap falls slightly to about 7 percent. This gap and the corresponding current account deficit (which although lower than during 1990-91 still averages about 5 percent of GDP) imply the need for continued flows of external capital.

29. These requirements of external capital are about the same as during 1991-93. And since foreign direct investment flows are expected to stabilize at a slightly lower level than in the earlier period, external borrowing is expected to increase. Given the relative ease with which Thailand has been able to mobilize foreign savings in the past, the implied requirements of external capital, which average about \$6 billion annually during 1994-96, appear feasible. The bulk of this will come from private sources and official sources will continue to account for a small share.

30. The key assumptions underpinning this scenario concern the external environment and the policy framework. While the increased outward orientation of the Thai economy has helped accelerate growth since 1987, it also means a greater dependence on external conditions and on the competitiveness of Thai exports. Regarding the external environment, it is assumed in the **Base Case** that: the recovery in OECD markets continues and there is no upsurge of protectionist pressures; no major price shocks occur; and external terms of trade remain almost unchanged.

31. Domestically, it is assumed also that the competitiveness of Thai exports is maintained by measures to address infrastructure inadequacies and skill constraints. A combination of public and private investment, improvements in investment planning, and better arrangements to facilitate private participation would help to overcome emerging infrastructure constraints in areas such as transport and communications. And increased public investment and policy reforms would help upgrade secondary and technical education facilities so as to enhance the quality of human resources.

32. The **first** set of uncertainties regarding the macroeconomic outlook centers on these assumptions. The pace of export and GDP growth projected in this scenario would be difficult to achieve if the external environment were to be less favorable than is assumed. The implications of these risks for the Thai economy would correspond to the **Low Case** scenario. In particular, weak recovery in the OECD economies would limit the growth of Thailand's manufactured exports and receipts from invisibles, most notably tourism. Consequently, exports of manufactures as well as non-factor services would rise at about half their pace in the **Base Case** (about 6 percent p.a.). With slower export growth, real GDP growth also falls to about 5.5 percent p.a.. Moreover, investment growth also slows relative to the **Base Case**, partly because infrastructure needs are not fully met. A similar outcome would result if measures to address infrastructure and labor skill inadequacies were ineffective. In that event, it would be difficult for Thai manufacturing exports to remain competitive. Poor infrastructure and lack of skilled labor would make it difficult to upgrade manufacturing products and processes towards greater technological sophistication, while Thai exports of labor-intensive manufactures would find it increasingly difficult to retain market share in the face of growing competition from countries with lower labor costs.

33. The **second** source of uncertainty for the macroeconomic prospects stems from the savings-investment gap. This gap, and the implied reliance on foreign savings, has averaged over 6 percent of GDP during the last three years mainly as a consequence of high investment levels. The additional investments envisaged in the Seventh Plan mean that the share of gross investment in GDP will remain high. Without successful measures to raise private savings, the savings-investment gap could widen substantially if fiscal management were to be lax. The **Low Case** scenario above, which is associated with a widening of the current account deficit, corresponds also to this case where populist pressures for increased public spending widen the savings-investment gap further. Since external financing needs are already substantial, this outcome would pose serious risks for external balance. It underlines the importance of maintaining fiscal discipline over the medium term.

### 3. Creditworthiness and Bank Exposure

34. During the 1980s, and particularly since 1988, the share of public and publicly-guaranteed debt in total external debt has fallen sharply. This decline is projected to continue over the next decade. The ratios of total debt to GDP and to exports have both increased since 1988 reflecting the large current account deficits since 1990. However, the debt service to exports ratio has fallen since 1988, both overall and for long-term debt, and is now at 11 percent -- less than half its 1980 level. IBRD net disbursements have consistently been negative during 1988-93. As a result, IBRD exposure is extremely low, and at end-1993, total IBRD and IDA debt accounted for about 4 percent of total debt (long- and short-term). The ratio of IBRD debt service to exports was less than 1 percent. The RTG has recently prepaid \$216.8 million of its outstanding IBRD loans on projects that had been fully implemented, as part of its program of active liability management to balance its portfolio with regard to currency risk and interest rate risk. This has contributed to the decline in the exposure ratios.

35. In the **Base Case** scenario, total external debt would continue to rise as a share of GDP during 1993-1996 (Annex 4). However, reflecting the continued expansion of exports that is assumed, its stock falls as a share of exports. Similarly, the ratio of debt service to GDP rises to about its 1981 level, while debt service as a share of exports falls, and is lower than in 1981. Since IBRD net disbursements are expected to continue to be negative over much of this period, total IBRD and IDA debt will fall to about 2 percent of total debt by 1996.

36. However, the continuing current account deficits and the associated need for substantial external borrowing point to areas of vulnerability for the Thai economy. The risks of complacency are sharpened by two recent trends in capital inflows. While net inflows almost quadrupled during 1988-91, they tapered off in 1992 and picked up again in 1993. Of concern, is that their mix has shifted sharply since 1990 towards short-term capital. In the last two years, short-term borrowing has accounted for over half of all capital, in part due to the open capital account and interest rate differentials. While these short-term flows have not been volatile in the past, their magnitude points to the potential problems if the need for foreign savings were to increase in the medium term beyond those indicated in the **Base Case**. The surge of FDI that began in 1987 ended in 1991 with the slowing of growth in Japan and increased flows to China. While FDI levels stabilized in 1992, and increased in 1993, it is anticipated that their future shares of capital inflows will be far lower than during the 1980s.

37. In the **Low Case**, it is assumed that unforeseen external shocks (such as slow OECD growth), lax macroeconomic management (due to increased public spending) or declining export competitiveness (because necessary investments in human and physical capital are delayed or ineffective) slow export growth. As a result, this scenario results in a wider current account deficit than the **Base Case**. The slowdown in export growth means that the current account deficit rises to over 8 percent by 1996, and over 12 percent by the year 2000. The resulting increases in debt and debt service ratios in this scenario would be worrisome, especially since the large financing gap occurs despite lower investment. In particular, the ratios of debt and of debt service to GDP would almost double relative to their current levels. However, the Bank's exposure would remain small even if the **Low Case** scenario were realized. Whether or not Bank assistance strategy would change in this event would, therefore, depend on the extent to which domestic policies contribute to the deterioration in economic performance (para. 57).

## **D. Proposed Bank Assistance Strategy**

### **1. Performance of the Bank's Portfolio**

38. As of June 30, 1994, Thailand had received 102 IBRD loans for a total of US\$4,260.4 million (net of cancellations) and six IDA credits, for US\$115.4 million (Annex 5). The current project portfolio is relatively small (10 projects under implementation for total (undisbursed) commitments of \$315 million. In FY94 disbursements amounted to \$108 million, and the disbursement ratio was 25.5 percent, compared to disbursements of \$185 million and a disbursement ratio of 46.3 percent in FY93. These declines in disbursement indicators are not of concern since they reflect a change in the age of the portfolio -- at the end of FY93 and in early FY94, six projects were completed, whereas in FY93 three projects amounting to \$214 million were approved and became available for disbursements (increasing the opening stock in the ratio). Also, the delay in bringing new projects to the Board in FY94 on account of the procurement issue (see para. 53) meant that these projects were not available for disbursements in FY94. Annex 1 shows the sectoral distribution of Bank commitments. The energy, power, and transportation sectors have accounted for the largest shares, reflecting the needs of a fast-growing economy.

39. The overall status of the project portfolio remains excellent (see Table 2). Thailand has demonstrated it can use Bank lending effectively. Project performance ratings remain above the averages, both for the East Asia region and Bank-wide. Evaluation studies by OED, as well as by other donors such as DANIDA, have found that many projects have made substantial contributions to Thailand's excellent growth performance. This contribution has occurred especially in sectors such as power and road transport where the Bank has been involved with implementing agencies continuously. Indeed, the impact of Bank lending is perhaps most visible in the power sector, where it has assisted EGAT in establishing an efficient generating and transmission network. Conversely, the impact of Bank assistance is not as visible in sectors such as education, health and rural development where recent lending has been sporadic or limited in scale.

40. Many Bank-financed projects have contributed to development of capacity in Thai institutions. For example, the Department of Lands and the National Valuation Agency have been strengthened under two Land Titling projects, the agricultural research network was improved under the National Agricultural Research project, an environmental division was created within EGAT under the Second Power System Development project, and equipment and staff skills of the Inland Revenue Department are being upgraded under the ongoing Tax Computerization project.

Table 2: Thailand: Selected Indicators of Bank Portfolio Performance and Management

	FY91	FY92	FY93	FY94
<b>Portfolio Performance</b>				
No. of Projects under Implementation	17	18	18	13
Average Implementation Period (years)	5.7	6.7	3.4	4.5
No. of Projects Rated "3" or "4"				
Development Objectives	1	1	0	0
Overall Status	0	0	0	0
Average Ratings				
Development Objectives	1.18	1.17	1.17	1.15
Overall Status	1.18	1.17	1.22	1.19
Cancelled during FY(\$ million)	13.0	0.64	3.84	1.5
Disbursement Ratio (percent)	37.9	58.5	46.3	25.5
Disbursement Lag	1.0	1.4	1.2	1.3
Memorandum Item: % Completed				
% Projects Rated Unsatisfactory <sup>1/</sup>	--	--	--	-
<b>Portfolio Management</b>				
Supervision Resources (total sws)	98.5	136.0	107.4	123.0
Average Supervision (sws/project)	5.8	7.6	6.0	6.2
Supervision Resources by Location (in %)				
Headquarters	100.0	100.0	100.0	100.0
Resident Mission	0.0	0.0	0.0	0.0
Supervision Resources by Rating Category (sws/project)				
Projects rated "1" or "2"	5.8	7.6	6.0	10.0
Projects rated "3" or "4"	--	--	--	-
Memorandum Item: Date of last/next CPPR: November 1993/November 1994				

<sup>1/</sup> From OED database; for all completed projects in Thailand.

41. Although overall implementation performance in Thailand is rated one of the best in the Region and there are no serious implementation issues affecting the achievement of project objectives, the Bank still needs to devote resources to improving coordination among multiple government agencies, especially those which are relatively unfamiliar with the Bank's procedures. This problem has arisen, for example, in getting the various agencies involved to agree on and to implement the road safety and environment-related action plans under the Fourth Highway Sector project; it is now being overcome, in part through above-average supervision inputs by Bank staff. Problems of coordination could arise in future as the portfolio diversifies into areas where the Bank has not been active for some time, as in education, or where cross-sectoral coordination is involved.

42. There have also been, as the recent Mid-Term Review of the Pak Mun Hydroelectric project indicates, some communication problems with NGOs and affected people regarding the resettlement and environmental impacts of certain types of project, particularly those involving water resource development. However, Thailand's procedures for planning and consultation with people affected by such projects are ahead of those in many other countries; through its project involvement and in other ways the Bank is helping to find ways to strengthen their implementation.

## **2. The Bank's Assistance Strategy**

43. Underpinning the Bank's assistance strategy is the recognition that, at its current stage of development, Thailand needs selective policy and technical advice and financing rather than Bank involvement as a full service lender. Of particular significance are cross-sectoral issues associated with the provision of public goods, including infrastructure services, environmental protection, and enhancing labor skills. Assistance on macroeconomic, trade and industrial policies or lending for industrial development is not necessary at this juncture in Thailand's development. Hence, Bank assistance is aimed at providing value added in terms of helping address the most important long-term development issues.

44. Bank assistance would focus on **four** interconnected areas that comprise the major development priorities and reflect the Bank's comparative advantage (in providing policy and institutional advice). These areas are: (i) support for the development of physical infrastructure; (ii) promotion of human resource development; (iii) reduction of poverty and improvement in income distribution; and (iv) improvement in environmental and natural resource management. Items (i) and (ii) are aimed at removing constraints to economic growth and affect the functioning of the private sector, as well as the efficiency of the public sector, while items (iii) and (iv) address the quality and sustainability of economic growth. The following Table maps out the Bank's areas of assistance and proposed instruments of support.



SUMMARY OF AREAS OF ASSISTANCE AND PROPOSED BANK INSTRUMENTS

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Areas of Focus	Principal Objectives	Bank Instruments
<b>A. Supporting Infrastructure Development</b>	<ul style="list-style-type: none"><li>● enhance efficiency and extent of infrastructure provision, especially in areas where enterprises are concentrated</li><li>● facilitate greater private sector participation</li><li>● improve policies and procedures for assessing and mitigating environmental impacts; collaborating with NGOs in addressing issues constructively</li></ul>	<ul style="list-style-type: none"><li>● lending for energy and transportation projects</li><li>● sector work on least-cost investment planning; environmental impact assessment; and options for private-sector participation in public utilities</li><li>● involve NGOs as possible implementing agencies</li></ul>
<b>B. Assisting in Human Resource Development</b>	<ul style="list-style-type: none"><li>● improve coverage and quality of secondary education; vocational training, and undergraduate science and engineering education</li><li>● enhance capacity to deal with occupational and environmental diseases, and help in formulating strategy to slow spread of HIV infection</li></ul>	<ul style="list-style-type: none"><li>● lending to support policy and institutional reforms on secondary, technical education, and university-level science and engineering</li><li>● sector work on financing options for health and education</li><li>● support regional initiative on AIDS</li></ul>
<b>C. Reducing Poverty and Income/Regional Disparities</b>	<ul style="list-style-type: none"><li>● improve understanding of apparent sluggishness in poverty reduction and persistence of inequalities</li><li>● identify policy interventions and investments for alleviating poverty and reducing regional differences</li></ul>	<ul style="list-style-type: none"><li>● sector work on poverty reduction and income distribution</li><li>● Bank projects in natural resource management and in provision of infrastructure and social services outside Bangkok</li></ul>
<b>D. Improving Management of Natural Resources and Urban Environment</b>	<ul style="list-style-type: none"><li>● strengthen the policy and institutional framework for management of natural resources and pollution</li><li>● improve process of consultation between the government and local communities on environmental impact of development projects</li></ul>	<ul style="list-style-type: none"><li>● ESW on energy and environment to help design environmental components in projects in infrastructure and energy</li><li>● self-standing environmental projects for industrial pollution control and forest conservation guided by ESW.</li></ul>

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### 3. Sectoral Priorities

45. Infrastructure Development. Thailand is endowed with a large pool of entrepreneurial talent and many potential investors, both domestic and foreign. But foreign investors increasingly point to the congestion in the Bangkok Metropolitan Region and the lack of adequate infrastructure in the largely rural eastern regions of the country as the principal factors which have caused them lately to be cautious about locating new investments and/or plant expansions in Thailand, compared for example to Malaysia and Indonesia. Therefore, it is essential for the prospects of the manufacturing sector, especially for the success of the export drive, that the private sector be assured that it will be able to have access to an adequate and well-functioning system of roads, electricity and ports. Thus, Bank lending in infrastructure should continue to focus on energy and transport.

46. In energy, the Bank will help prepare least-cost investment programs within the power and gas subsectors; facilitate greater private sector participation in financing and management; and, ensure better assessment and mitigation of environmental risks. Also, lending will continue to support energy conservation efforts through demand-side management and other programs. Analytical work by the Bank such as the recent Fuel Option Study (para. 51) has helped define and evaluate long-term options for meeting energy demand, and additional work is underway to examine alternative ways of encouraging private-sector involvement in the sector (para. 48). In addition, technical assistance would be provided to improve capacities to carry out environmental assessments, monitoring and enforcement, and the process of consultation with local communities on the design and impact of major projects.

47. Since road transport dominates the transport sector, the Bank will continue to pay particular attention to financing highway improvement and upgrading. The ongoing sector loan for highways also supports action plans to address issues related to transport-related air pollution, highway safety and road transport efficiency. Future lending and technical assistance would be aimed at ensuring adequate implementation of these action programs. Bank staff have also been advising the Government on feasibility studies for the proposed Bangkok Mass Transit project, which is a key part of the effort to reduce congestion in the BMR. Lending and technical assistance would also support the RTG's goals to promote private-sector financing and operation of water supply and sewerage facilities, as well as its efforts to decentralize urban infrastructure management and financing in secondary cities.

48. Parallel to the Bank's investment support, we have undertaken a comprehensive analysis of Thailand's public enterprises (Increasing Private Participation and Improving Efficiency in State Enterprises: Report No. 13132-TH, due to be discussed with the RTG in September 1994). The study looks at the operations and financial health of the 55 state enterprises (SEs) classified in five groups: public utilities that have been short-listed by the RTG for possible private sector participation in the near future; financial SEs; commercial enterprises that produce goods and services that are also being provided by the private sector and therefore should be divested expeditiously; other enterprises that are not considered suitable for private sector participation; and SEs engaged in promotional activities, like tourism information and sports. The 14 public utilities include some of the largest and best-run corporations in Thailand, and some of these entities (such as EGAT and PTT) have been successful in financing a substantial portion of their investment requirements from the local market. However, these entities still need technical advice from the Bank and a limited amount of financing to underpin their large investment programs, which will continue to be critical to Thailand's ability to maintain its growth momentum. Regarding these public utilities, the Bank would support RTG's strategy of gradual privatization on a case-by-case basis, taking into account such factors as market absorption and timing, and the development of an adequate regulatory framework for the subsector.

49. Human Resource Development. Since the early-1980s, the Bank has financed little in human resource development because RTG policy excluded external borrowing for social sector projects.

However, with labor quality constraints becoming increasingly serious, there has been recent interest in obtaining Bank support for efforts to upgrade education and health systems. The Bank is currently working with RTG agencies to prepare projects that would support quality improvements in vocational and technical training, secondary education, and undergraduate science and engineering programs in the universities. On health, Bank advice has been sought on occupational and environmental disease, technology choice, and financing strategies, and project assistance in these areas is a possibility. Bank assistance is also being discussed in dealing with various aspects of the AIDS epidemic, which is growing in seriousness with an estimated half a million persons already infected with HIV and between 2 to 4 million cases forecast by the WHO in the year 2000.

50. Reduction of Poverty and Income Disparities. Several RTG agencies have expressed interest in the Bank devoting its next major piece of analytical work to an in-depth analysis of policy options and issues regarding poverty incidence and income distribution. The need for such a study stems from the lack of understanding of the causes of the relatively poor performance in reducing poverty and of the widening of income disparities since the late-1980s. For example, a recent Bank regional study noted that Thailand was the only country out of six in the East Asia region that failed to make significant advances in reducing poverty during the late-1980s, despite the economic boom. This conclusion is based on data from 1990 and therefore needs to be re-evaluated in light of updated data. The proposed work, which would be a collaborative effort with Thai researchers, would use more recent data to analyze past and current economic and sectoral policies. Thus, it would also attempt to identify ways in which sectoral policies and investments in agriculture, health, education, roads, power and water supply can reduce poverty. In addition, it would examine the impact of power tariff and connection charges, credit and water charge policies, land titling and registration on the income-earning capacity of the rural poor; and the effect of the AIDS epidemic on low-income households and the labor market. It is likely that the findings of this report would translate into social sector or other poverty reduction projects.

51. Environmental and Natural Resource Management. Issues affecting the environment have come under close scrutiny, not only because of the concerns of non-governmental agencies, but because the RTG, with the support and leadership of the King, has emphasized that rapid economic growth should not be achieved at the cost of environmental degradation. The Bank has assisted in tackling these issues through our economic and sector work (ESW), as well as through components of various investment projects and self-standing environmental projects. The Bank's major ESW piece in FY93 was a country economic report on policies to address the environmental effects of industrial, transport and energy growth (Thailand: Managing Environmental Impacts in a High-Growth Economy, Report No. 11770-TH). A sector study of long-term options to meet energy demand (Thailand: Fuel Option Study, Report No. 11948-TH) has also been completed. The Bank also plans to participate in various studies on water resource planning and management and could provide assistance for a new program on managing coastal and marine resources. Further, the Bank is exploring ways to use experience from other countries in helping to improve the process of consultation between Government, NGOs and local communities on environmental and development issues. Finally, the Bank has been involved with other agencies in helping the RTG to begin formulating a national environmental action plan.

52. Ongoing projects with major environmental components include the Fourth Highway Sector Project and the Energy Efficiency Project. A project to assist Thailand in making investments to phase out ozone-depleting CFCs is being prepared. Work also continues on preparing an Industrial Pollution Control Project. In the area of natural resource management, a Forest Areas Protection Project is being prepared for Bank financing, which includes innovative measures such as the introduction of community forest management schemes in the surrounding buffer zones.

#### **4. Proposed FY95-97 Lending and Economic and Sector Work**

53. An indicative lending program for FY95-97 has been developed in discussions with the Thai authorities (Annex 1). The increment in lending envisaged in FY95 is a result of the fact that in FY94 no projects were presented to the Board, while the issue of procurement of goods and services under Bank-financed projects (the Revised Procurement Guidelines, in particular the clause relating to bid validity periods and cost adjustment) was being reviewed. Thus, FY95 shows an artificial increase over FY93, but is in line with the normal increase that was originally envisaged for FY94. The salient features of the lending program are: (i) in the high case, average lending of about \$300 million annually, which is higher than in FY91-93 when annual lending averaged \$180 million; and (ii) about half of the proposed lending would be for infrastructure, especially energy and transport, but there would be greater diversification of lending into sectors such as education, environment and natural resource management; and (iii) the increase in average lending reflects this broadening of the Bank's assistance strategy into sectors in which it had not previously lent in Thailand.

54. The continued Bank involvement that is envisaged in the energy and transport sectors would help provide technical and financial assistance to Thailand in addressing the increasingly serious bottlenecks in physical infrastructure. Moreover, Bank lending in these sectors would be a means for providing policy and technical advice regarding such cross-cutting issues as private sector participation, institutional coordination, and environmental protection. At the same time, however, more effort will be devoted to developing projects in other priority sectors such as education and environmental management.

55. It is possible that strong interest on the part of RTG agencies could lead to opportunities for increased lending in areas such as the social sectors and environment more rapidly than is envisaged in this program. In that event, a larger lending program would be justified so long as the expansion in lending occurred in areas viewed as critical to Thailand's medium-term development and if economic management remained sound. These factors would imply that Thailand would remain highly creditworthy while making the investments and complementary policy and institutional changes needed to improve export competitiveness and social and environmental conditions.

56. The increase in lending, particularly into social sectors and environmental management, would depend on several factors: an improvement in coordination among the key RTG agencies; greater consensus emerging on ways to address key development issues; and strengthening of line agencies. There is now greater awareness of the role that external assistance can play in these sectors. To develop the proposed assistance program, understandings will be sought with the central RTG agencies on the thrust of this program and priority areas for future assistance. It is also intended to establish a clearer mechanism for determining at early stages whether the RTG wishes to proceed with Bank financing for specific projects (para. 59). In pursuing these new initiatives, the Bank will also be looking to develop new lending instruments, whether in the financial area where Thailand's financial sector is already relatively sophisticated or in collaboration with broad-based community groups, such as local NGOs, some of whom are active in the health and education sectors.

57. If Thailand's economic performance were to deteriorate, for instance from the **Base Case** to the **Low Case** in para. 32, the Bank's response would depend on the causes of this deterioration. If economic conditions worsen due to unfavorable trends in the global economy, it is anticipated that the gradual increase projected in Bank lending in FY95-98 would still be justified in light of the relatively small size of the existing program. However, if the source of deterioration in economic performance

were domestic policy weaknesses, such as lax macroeconomic management or deficiencies in infrastructure planning, then this moderate expansion in lending in FY95-98 will not occur.

58. Proposed ESW program. The aim of the Bank's ESW program would be to help the Government address the key constraints to Thailand's long-term development. Planning and resource allocation for ESW would be guided by the principle that the findings of these tasks would underpin the Bank's assistance strategy. Closer consultation with the RTG would be emphasized as a more demand-driven approach to ESW programming is tested within the Department. Hence, the substantive content of ESW would be related to development issues agreed to be of central and long-term importance in Thailand. The proposed program consists of one major ESW task each year supplemented with two or three shorter reports on specific issues of more immediate interest to policymakers. The three major tasks envisaged for FY95-97 include: strategies for improving income distribution and reducing poverty; water resource management in the Chao Phraya River Basin; and social security. Possible topics for shorter reports include financial sector reform and domestic savings mobilization; education and health financing; and administrative and budgetary decentralization. Bank analytical work in defining new instruments of support (e.g., leveraging mechanisms) will be important. An illustration of this is an ongoing study on bond markets in several East Asian countries. The analysis and recommendations regarding the potential for increasing bond market financing in Thailand could have important implications for broadening financing mechanisms in the future. In each case, the ESW program represents continued analytical attention to those areas where we can provide policy advice based on global experience.

59. The role of the Bank's Resident Mission in Bangkok (RMB) is essential in obtaining an early reading from the RTG on whether it wishes the Bank to proceed in these new initiatives. The annual Country Implementation Review (CIR) of the portfolio and the discussion of the planned ESW and lending are facilitated by this office. The RMB also plays a role in carrying out the Bank's program in Lao PDR and Cambodia, and generally improves the Bank's ability to meet clients' needs in a rapidly changing region.

60. Aid coordination. Foreign loan assistance is coordinated by the RTG through the Fiscal Policy Office of the Ministry of Finance, with all foreign borrowing decisions subject to Cabinet approval while external grant assistance is coordinated through the Department of Technical and Economic Cooperation of the Prime Minister's Office. The Bank coordinates its assistance to Thailand directly with the Asian Development Bank (ADB), Japan OECF/EXIM, the Nordic Development Fund and Investment Bank, other bilateral donors such as Australia, France and Germany, and with the UNDP, particularly on technical assistance, environmental management and social programs. The volume of ADB lending to Thailand in recent years has been roughly comparable to that of the Bank, and has included parallel cofinancing for a number of projects in the energy and highways sectors. Such cofinancing also takes place with the OECF (the largest single lender) and, more recently, for a major energy project, with the European Investment Bank. On economic reporting and policy analysis, close coordination is maintained with the IMF, which maintains an annual Article IV Consultation with the Thai authorities (the last one being in March 1994).

#### **E. Other Bank Group Activities**

61. As shown in Annex 5, as of June 30, 1994, IFC's gross commitments amounted to US\$1,368.5 million (primarily in industry, mining, cement and construction materials, petrochemicals, and money and capital markets). Prospects for increasing operations have been enhanced by expanded

private-sector activity generally, and the RTG's commitment to increasing private-sector participation in infrastructure projects. IFC intends to continue to assist in the financing of infrastructure and industrial projects, such as Thai Airways Expansion and the Bangkok Transit Scheme. It might also help raise long-term funds for Thai financial institutions on international markets and assist second-tier companies in improving their access to financial markets. The Bank coordinates its activities closely with IFC, both at headquarters and in the respective field offices. Thailand is not currently a member of MIGA, but is considering joining in the future.

#### **F. Agenda for Board Consideration**

62. The main conclusions that emerge for Bank strategy are as follows:

- (i) Thailand can maintain an economic growth rate of about 8 percent p.a. for the next five years. This is predicated on a strengthening of political stability and continued sound macroeconomic management. Without policy reforms and institutional changes aimed at easing the constraints described earlier (in infrastructure and skilled labor), medium-term growth could be jeopardized;
- (ii) Thailand's medium-term development needs in conjunction with its strong economic management and creditworthiness make it an excellent candidate for continued Bank assistance. A moderate increase in lending over previous years would be justified if the Government responds positively to the Bank's analytical work and takes strong ownership of policy and institutional reforms in priority areas (selected infrastructural, human resource and environmental projects). Therefore, the Bank's assistance strategy will be to increase involvement gradually, taking into account the degree of responsiveness of the Thai authorities; and
- (iii) the recommended areas of the Bank's assistance strategy are: (i) supporting infrastructure development; (ii) developing the human resource base; (iii) reducing poverty and improving income distribution; and (iv) improving environmental and natural resource management.

**Lewis T. Preston**  
**President**

Attachments  
Washington, D.C.  
August 9, 1994

Thailand-- Bank Group Fact Sheet, FY92-98  
IBRD Lending Program, FY92-98

Category	Past		FY94	Current	Planned a/		
	FY92	FY93		FY95	FY96	FY97	FY98
Commitments (US\$m)	271.5	214.0	0.0	642.0	300.0	290.0	300.0
Sector (%) b/							
Agriculture & natural resources				18.0	11.0	24.0	20.0
Energy		49.0		24.0	42.0		
Power	35.0	51.0		23.0		34.0	15.0
Infrastructure & urban dev.	65.0			27.0	13.0		20.0
Human resources				8.0	14.0	14.0	25.0
Environment					20.0	28.0	20.0
TOTAL	100.0	100.0	0.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans c/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans others	100.0	100.0	0.0	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	0.0	100.0	100.0	100.0	100.0
Disbursements (US\$m)	181.5	184.9	108.1	5.0	n.a.	n.a.	n.a.
Adjustment loans c/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Specific investment loans and others	181.5	184.9	108.1	5.0	n.a.	n.a.	n.a.
Interest (US\$m)	181.0	163.9	147.1	17.9	n.a.	n.a.	n.a.

a. Ranges that reflect most likely scenario.

b. For future lending, rounded to nearest 0 or 5%.

c. Structural adjustment loans, sector adjustment loans, and debt and debt service reduction loans.

Thailand-- IFC Program, FY91-FY94

Category	FY91	FY92	FY93	FY94
IFC Approvals (US\$m)	13.7	242.4	18.5	713.7
Sector (%)				
Agri-business				1.4
Cap-Markets	10.9			4.2
Manufacturing	43.8	86.2	16.3	22.6
Oil-mining				63.1
Services	4.3	6.6	81.0	8.7
Small & Medium Scale Enterprises	41.0	7.2	2.7	
TOTAL	100.0	100.0	100.0	100.0
Investment Instrument (%)				
Loans		93.0	94.5	99.7
Equity	100.0	7.0	5.5	0.3
TOTAL	100	100	100	100

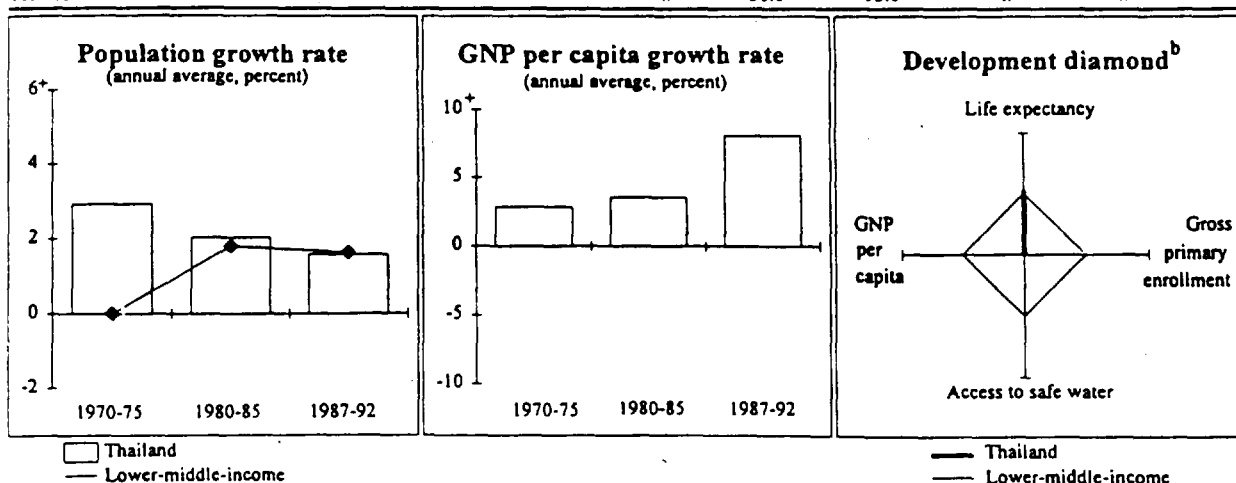


# Thailand

Indicator	Unit of measure	Latest single year		Most recent estimate 1987-92	Same region/income group		Next higher income group
		1970-75	1980-85		East Asia	Lower-middle-income	
<b>Priority Poverty Indicators</b>							
<b>POVERTY</b>							
Upper poverty line	local curr.	..	..	..	..	..	..
Headcount index	% of pop.	30	23	22	12	..	..
Lower poverty line	local curr.	..	..	..	..	..	..
Headcount index	% of pop.	..	..	..	9	..	..
GNP per capita	US\$	360	810	1,840	760	..	3,870
<b>SHORT TERM INCOME INDICATORS</b>							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	47	96	128	..	..	..
Lower income	"	..	..	..	..	..	..
Food <sup>a</sup>	"	31	98	134	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
<b>SOCIAL INDICATORS</b>							
Public expenditure on basic social services	% of GDP	..	4.6	..	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	83	96	113	121	..	107
Male	"	87	100	92	126	..	..
Female	"	80	97	88	117	..	..
Mortality							
Infant mortality	per thou. live births	55.0	44.0	26.0	39.0	45.0	40.0
Under 5 mortality	"	..	..	31.1	49.0	59.0	51.0
Immunization							
Measles	% age group	..	22.0	60.0	88.4	..	82.0
DPT	"	..	47.0	69.0	89.5	..	73.8
Child malnutrition (under-5)	"	..	..	13.0	24.7	..	..
Life expectancy							
Total	years	60	64	69	68	68	69
Female advantage	"	3.9	4.6	5.1	3.6	6.4	6.3
Total fertility rate	births per woman	5.0	3.5	2.2	2.4	3.1	2.9
Maternal mortality rate	per 100,000 live births	..	270	37	114	..	..

## Supplementary Poverty Indicators

Expenditures on social security	% of total gov't exp.	4.0	2.9	3.5	..	..	..
Social security coverage	% econ. active pop.	..	..	..	..	..	..
Access to safe water: total	% of pop.	25.0	56.0	72.0	72.0	..	85.6
Urban	"	69.0	..	85.0	83.4	..	94.3
Rural	"	16.0	66.0	..	60.2	..	73.0
Access to health care	"	..	30.0	93.0	..	..	..



a. See the technical notes, p.389. b. The development diamond, based on four key indicators, shows the average level of development in the country compared with its income group. See the introduction.

# Thailand

Indicator	Unit of measure	Latest single year		Most recent estimate	Same region/income group		Next higher income group
		1970-75	1980-85	1987-92	East Asia	Lower-middle-income	
<b>Resources and Expenditures</b>							
<b>HUMAN RESOURCES</b>							
Population (mre=1992)	thousands	41,359	51,683	57,992	1,688,909	942,547	477,960
Age dependency ratio	ratio	0.92	0.67	0.58	0.55	0.66	0.64
Urban	% of pop.	15.1	19.5	23.5	29.4	57.0	71.7
Population growth rate	annual %	2.7	1.9	1.5	1.4	1.4	1.6
Urban	"	5.1	4.4	4.2	2.9	4.8	2.5
Labor force (15-64)	thousands	20,491	26,657	30,571	928,465	..	181,414
Agriculture	% of labor force	75	71	..	..	..	..
Industry	"	8	10	..	..	..	..
Female	"	47	46	44	41	36	29
Females per 100 males							
Urban	number	103	106	..	..	..	..
Rural	"	102	102	..	..	..	..
<b>NATURAL RESOURCES</b>							
Area	thou. sq. km	513.12	513.12	513.12	16,367.18	40,697.37	21,836.02
Density	pop. per sq. km	80.6	100.7	111.4	101.8	22.8	21.5
Agricultural land	% of land area	33.7	40.3	47.0	44.5	..	41.7
Change in agricultural land	annual %	2.0	2.6	0.5	0.1	..	0.3
Agricultural land under irrigation	%	14.1	18.6	18.3	14.5	..	9.3
Forests and woodland	thou. sq. km	185	149	140	..	..	..
Deforestation (net)	annual %	..	..	3.4	..	..	..
<b>INCOME</b>							
Household income							
Share of top 20% of households	% of income	50	..	51	42	..	..
Share of bottom 40% of households	"	15	..	16	18	..	..
Share of bottom 20% of households	"	6	..	6	7	..	..
<b>EXPENDITURE</b>							
Food	% of GDP	31.4	19.2	..	..	..	..
Staples	"	9.7	4.6	..	..	..	..
Meat, fish, milk, cheese, eggs	"	10.7	8.3	..	..	..	..
Cereal imports	thou. metric tonnes	62	174	992	33,591	74,924	49,174
Food aid in cereals	"	2	4	75	581	4,054	282
Food production per capita	1987 = 100	89	110	104	133	..	109
Fertilizer consumption	kg/ha	10.5	21.1	35.3	75.1	..	68.8
Share of agriculture in GDP	% of GDP	26.9	16.8	11.9	21.5	..	8.1
Housing	% of GDP	4.2	4.6	..	..	..	..
Average household size	persons per household	5.8	5.2	..	..	..	..
Urban	"	5.8	4.9	..	..	..	..
Fixed investment: housing	% of GDP	2.6	3.6	..	..	..	..
Fuel and power	% of GDP	2.1	2.1	..	..	..	..
Energy consumption per capita	kg of oil equiv.	203	300	614	593	1,882	1,649
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	5.0	8.5	..	..	..	..
Fixed investment: transport equipment	"	4.3	1.9	..	..	..	..
Total road length	thou. km	57	76	72	..	..	..
<b>INVESTMENT IN HUMAN CAPITAL</b>							
<b>Health</b>							
Population per physician	persons	8,394	5,975	4,497	..	..	..
Population per nurse	"	1,171	1,845	928	..	..	..
Population per hospital bed	"	899	651	620	553	516	385
Oral rehydration therapy (under-5)	% of cases	..	..	43	51	..	54
<b>Education</b>							
Gross enrollment ratio							
Secondary	% of school-age pop.	26	30	33	53	..	53
Female	"	23	28	32	47	..	..
Pupil-teacher ratio: primary	pupils per teacher	28	19	18	23	26	25
Pupil-teacher ratio: secondary	"	32	18	18	16	..	..
Pupils reaching grade 4	% of cohort	79	84	85	89	..	71
Repeater rate: primary	% of total enroll	10	8	3	6	..	11
Illiteracy	% of pop. (age 15+)	21	9	7	24	..	14
Female	% of fem. (age 15+)	..	13	10	34	..	17
Newspaper circulation	per thou. pop.	22	52	71	..	100	117

## Thailand: Key Economic Indicators

Indicator	Actual				Estimated	Projected		
	1989	1990	1991	1992	1993	1994	1995	1996
<b>National accounts</b>								
(% GDP at current market prices in Baht)								
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	--	--	--
Agriculture	15.1	12.7	12.6	11.8	11.8	--	--	--
Industry	36.3	37.0	38.6	38.6	38.6	--	--	--
Services	48.7	50.2	48.8	49.5	49.5	--	--	--
Total Consumption	67.5	66.4	65.0	65.5	65.5	65.4	64.7	64.7
Gross domestic investment	35.1	41.1	42.0	39.5	39.3	39.7	39.7	39.7
Nonfinancial public sector	5.0	6.1	7.2	7.9	8.3	9.5	9.7	9.7
Private investment (includes changes in stocks)	30.0	35.0	34.8	31.6	31.0	30.2	30.0	30.0
Exports (GNFS) a/	34.9	34.0	35.4	36.0	37.0	38.1	39.9	39.9
Imports (GNFS) a/	37.5	41.5	42.5	41.1	41.7	43.2	44.3	44.3
Gross domestic savings	32.5	33.6	35.0	34.5	34.5	34.6	35.3	35.3
Gross national savings	31.3	32.4	29.0	33.3	33.4	33.5	34.2	34.2
<b>Memorandum items</b>								
Gross domestic product (US\$ billion at current prices)	72.3	85.6	98.2	110.6	123.7	134.2	149.1	165.9
Gross domestic product per capita (US\$)	1,303	1,521	1,718	1,907	2,103	2,252	2,466	2,707
<b>Real annual growth rates</b>								
(% , calculated from 1988 prices)								
- Gross domestic product at market prices	12.2	11.6	8.1	7.6	7.8	8.0	8.0	8.0
- Gross domestic income	11.2	10.6	7.8	7.9	7.9	8.8	8.0	7.6
<b>Real annual per capita growth rates (% , calculated from 1988 prices)</b>								
- Gross domestic product at market prices	10.3	9.9	6.5	6.0	6.2	6.5	6.4	6.6
- Total consumption	8.5	7.0	3.6	6.4	6.1	7.0	6.5	6.5
- Private consumption	9.8	7.1	3.3	6.7	6.4	7.4	6.6	6.7

## Thailand: Key Economic Indicators

Indicator	Actual				Estimated	Projected		
	1989	1990	1991	1992	1993	1994	1995	1996
<b>Balance of payments (US\$bil.)</b>								
Exports (GNFS) a/	25.3	29.2	35.5	40.1	45.5	51.2	59.5	68.6
Merchandise f.o.b.	19.8	22.8	28.2	32.1	36.6	41.1	48.2	55.7
Imports (GNFS) a/	27.1	35.7	42.1	45.6	53.8	58.0	66.1	76.1
Merchandise f.o.b.	22.8	29.6	34.2	36.3	45.1	46.7	53.5	61.8
Resource Balance	-1.8	-6.5	-6.6	-5.5	-8.3	-6.8	-6.6	-7.5
Net factor income	-0.9	-1.0	-1.3	-1.5	1.5	-0.6	-0.7	-0.9
Net current transfers b/	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.5
Current account balance (after official capital grants)	-2.5	-7.3	-7.6	-6.6	-6.5	-7.0	-6.8	-7.9
Net private foreign direct investment	1.7	2.3	1.8	2.0	1.0	3.3	3.5	3.7
Long-term loans (net)	2.4	3.3	3.1	1.5	1.0	-0.8	-1.0	-1.1
Official	0.0	-0.1	0.1	-0.3	0.4	0.7	0.9	0.3
Private	1.6	1.9	3.0	1.8	-2.9	-1.6	-1.9	-1.4
Adjust-arrear red/prepay.	0.8	1.5	0.2	0.0	0.0	0.0	0.0	0.0
Other capital (net, including errors and omissions)	3.3	4.9	7.3	6.0	5.7	6.8	6.8	7.8
Change in reserves	-5.0	-3.2	-4.6	-2.9	-1.2	-2.3	-2.5	-2.5
<i>Memorandum items</i>								
Resource balance (% of GDP at current market prices)	-2.5	-7.6	-6.7	-4.9	-6.7	-5.1	-4.4	-4.5
Real annual growth rates (1987 prices)								
Merchandise exports (f.o.b.)	24.3	11.9	19.1	12.4	7.1	11.9	11.8	11.9
Merchandise imports (c.i.f.)	20.7	21.2	8.7	7.3	8.0	10.0	10.9	11.6

## Thailand: Key Economic Indicators

Indicator	Actual				Estimated	Projected		
	1989	1990	1991	1992	1993	1994	1995	1996
<b>Public finance c/</b>								
(% of GDP at current market prices)								
Current revenues	17.6	18.8	18.5	18.2	18.1	18.9	19.5	19.6
Current expenditures	12.2	11.4	11.5	11.6	11.9	12.2	13.0	13.0
Current account surplus (+) or deficit (-)	5.4	7.4	7.0	6.6	6.2	6.7	6.5	6.6
Capital Expenditure	2.0	2.5	3.0	4.0	2.8	3.5	3.5	3.5
Foreign financing	-0.3	-1.8	-0.2	-0.6	-0.1	--	--	--
<b>Monetary indicators</b>								
M2/GDP (at current market prices)	65.0	69.8	73.1	75.4	--	--	--	--
Growth of M2 (%)	26.2	26.7	19.8	15.6	--	--	--	--
Private sector credit growth/total credit growth (%)	129.0	115.1	131.6	115.0	--	--	--	--
<b>Price indices (1987 = 100)</b>								
Merchandise export price index	111.3	114.1	118.2	120.1	121.1	124.9	130.7	135.2
Merchandise import price index	118.2	124.8	130.7	131.9	138.2	136.2	140.4	145.3
Merchandise terms of trade index	94.2	91.4	90.4	91.0	87.6	91.7	93.2	93.1
Real exchange rate (US\$/Baht)	0.041	0.042	0.042	0.041	0.041	--	--	--
Real interest rates	2.6	6.1	5.3	6.8	5.5	5.0	5.5	5.5
Consumer price index (% growth rate)	5.4	5.9	5.7	4.2	3.5	4.5	4.5	4.5
GDP deflator (% growth rate)	6.1	5.7	5.8	4.2	3.5	0.3	2.9	3.0

a/ "GNFS" denotes "goods and nonfactor services."

b/ Including official grants.

c/ Federal Government.

## Thailand: Key Exposure Indicators

Indicator	Actual				Estimated	Projected		
	1989	1990	1991	1992	1993	1994	1995	1996
<b>Total debt outstanding and disbursed (TDO) (US\$m) a/</b>	23,432	28,208	35,828	39,620	47,379	53,040	59,244	65,487
Net disbursements (US\$m) a/	2,071	3,057	3,091	1,581	6,931	5,666	6,178	6,412
Total debt service (TDS) (US\$m)	3,625	3,774	4,921	5,962	5,398	5,946	5,392	5,945
<b>Debt and debt service indicators (%)</b>								
TDO/XGS b/	87.2	90.2	94.9	93.6	96.5	98.5	94.6	90.7
TDO/GDP	32.4	32.9	36.5	35.8	38.3	39.5	39.7	39.5
TDS/XGS b/	13.5	12.1	13.0	14.1	11.0	11.0	8.6	8.2
<b>IBRD exposure indicators (%) c/</b>								
IBRD DS/public DS	25.8	12.0	21.3	37.9	15.9	24.8	16.4	17.2
Preferred creditor DS/public DS	50.0	37.1	60.6	67.8	47.2	56.8	56.8	62.5
IBRD DS/XGS b/	2.3	1.3	1.0	1.9	0.7	1.0	0.5	0.5
IBRD portfolio share	9.7	8.6	6.8	4.8	4.1	3.0	2.8	2.3
<b>IFC (US\$m; Fiscal year gross commitments)*</b>								
Loans and quasi-equity	25.7	5.0	5.8	222.2	13.6	713.3	--	--
Equity	15.0	17.7	1.5	12.2	18.1	0.5	--	--

a/ Includes public and publicly guaranteed debt, private non-guaranteed debt, use of IMF credits, and short-term capital.

b/ Export of goods and services.

c/ Total prepayment of US\$216.8 million equivalent for various loans to IBRD as of 5/15/94 is reflected in the figures.

\* Data as of July 22, 1994. Projections are not available by country.

The Status of Bank Operations in Thailand  
Statement of IBRD Loans and IDA Credits  
(as of June 30, 1994)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount in US\$ million (less cancellations)			Undisb. relative to appraisal projection (US\$m) a/	Last ARPP supervision rating b/	
				IBRD	IDA	Undisb.		Development Objectives	Overall objectives
92 Loans and 6 Credits closed				3,548.54	115.42				
2097	1982	Thailand	SAL I	150.00					
2256	1983	Thailand	SAL II	175.50					
				325.50					
L2520	1985	Thailand	Reg. Cities Dev.	20.33		0.44	-0.44	1	1
L3138	1990	Elec.Gen.Auth.	Power System Dev.II	94.00		6.83	-6.83	1	1
L3220	1990	Thailand	Highways Sector III	50.00		3.80	2.00	1	1
L3254	1991	Thailand	Land Titling II	30.00		3.77	10.43	1	1
L3294	1991	Thailand	Tax Computerization	32.00		25.89	-6.59	2	2
L3404	1992	Prov.Elec.Auth.	Distr. Sys. Upgrading	40.00		34.16	-11.66	2	2
L3423	1992	Elec.Gen.Auth.	Power System III	54.00		8.12	2.18	1	1
L3446	1992	Thailand	Highways IV	177.50		67.93	67.87	1	1
L3508	1993	Petroleum Auth.	Gas Transmission	105.00		62.14	-36.44	1	1
L3598	1993	Metro.Elec.Auth.	Disr.System & Energy	109.00		101.90	-16.90	1	1
Total				4,260.37	115.42	314.98			
Of which has been repaid				2,575.30	11.23				
Total now held by IBRD and IDA				1,685.07	104.19				
Amount sold				193.91					
Of which repaid				182.40					
Total undisbursed				314.98		314.98			

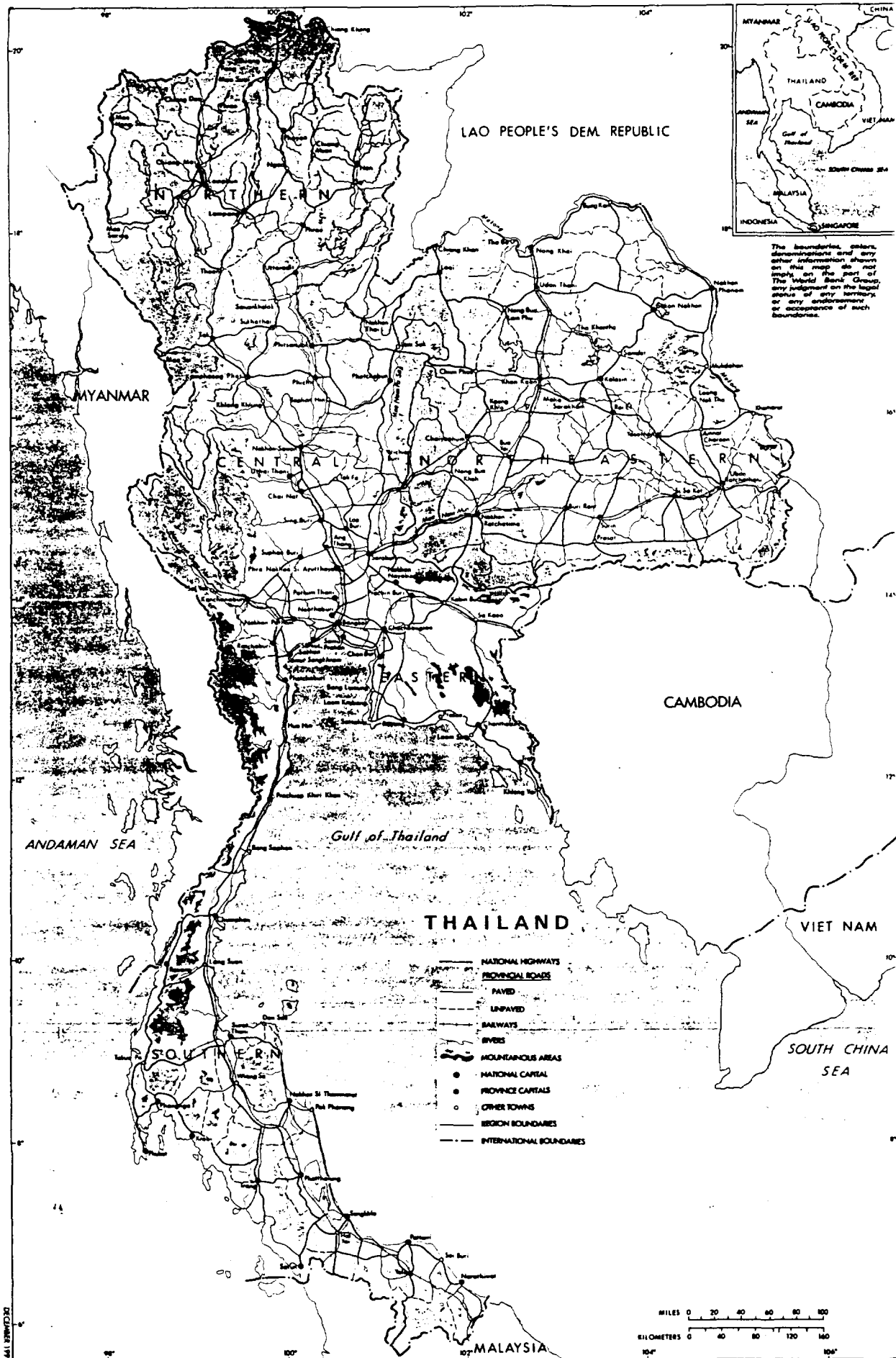
b. Rating of 1-4; see OD 13.05, Annex D2.

**B. STATEMENT OF IFC INVESTMENTS**  
(As of June 30, 1994)

Fiscal Year	Obligor	Type of Business	Original Commitments			Total held by IFC (at cost)	Undisbursed including participants' portion
			Loan	Equity	Total		
			----- US\$ million -----				
1959	Concrete Prod. & Aggregate Co. Ltd.	Cement & Const. Materials	0.3	-	0.3	-	-
1964/71	Ind. Fin. Corp. of Thailand	Development Finance	-	0.4	0.4	-	-
1969/76/ 78/80/85	Siam Cement Group	Cement & Const. Materials	29.7	3.1	32.8	-	-
1977	The Mutual Fund Co. Ltd.	Financial Services	-	0.6	0.6	-	-
1977	United Sugar Terminal	Food & Food Processing	2.5	0.2	2.7	-	-
1978	Small & Medium-Scale Industrial	Money & Capital Markets	2.0	-	2.0	-	-
1979	Thai Orient Leasing Co. Enterprises	Money & Capital Markets	-	0.2	0.2	-	-
1979/80/ 83	Bangkok Glass Industry	Glass Containers	9.9	0.4	10.3	-	-
1979/81/ 85/87/91	Siam City Cement	Cement & Const. Materials	268.1	6.1	274.2	30.0	-
1983	Sea Minerals Limited	Offshore Tin Exploration	-	0.6	0.6	-	-
1984	Thailand Tantalum	Mining	53.5	3.4	56.9	-	-
1984	World Aquaculture	Food & Food Processing	3.1	0.6	3.7	-	-
1984/86/ 88/89/93	National Petrochemical	Chemicals & Petrochemical	35.0	0.6	35.6	28.5	-
1985/91	SEAVI Project	Money & Capital Markets	-	2.5	2.5	1.5	-
1986	Mashbumi Limited	Mining	-	0.1	0.1	-	-
1986	Phya Thai II Hospital	Health Care	4.2	0.8	5.0	-	-
1987/88	The Thailand Fund	Money & Capital Markets	-	26.8	26.8	-	-
1987/90	Northeast Agriculture	Food & Food Processing	1.6	0.5	2.1	0.5	-
1988	HMC Polymers Company	Petrochemical	26.0	1.5	27.5	9.0	-
1988	Phansrivivat Company Ltd.	Palm Oil	3.6	1.1	4.7	1.1	-
1989	Peroxythai Limited	Chemicals & Petrochemicals	10.7	-	10.7	8.0	-
1989	The Thai Prime Fund	Financial Services	-	15.0	15.0	-	-
1990	Collection Industrial	Manufacturing	-	0.5	0.5	0.5	-
1990	Ladprao General Hospital	Health Care	-	0.3	0.3	0.3	-
1990	SCB Equity Line	Money & Capital Markets	-	13.8	13.8	13.8	13.8
1990	Siam Asahi Technoglass	Color TV Glass Bulbs	-	8.3	8.3	8.3	5.4
1990	TFB Equity Line	Money & Capital Markets	-	4.0	4.0	4.0	4.0
1990	Top Easy Company	Manufacturing	-	0.2	0.2	0.2	-
1992	Krung Thai IBJ Leasing	Money & Capital Markets	-	0.4	0.4	0.4	-
1992	Shin Ho Paper	Paper Products	56.0	6.0	62.0	28.0	-
1992/93	Ayudhya Leasing	Money & Capital Markets	-	0.6	0.6	0.6	-
1992/93	Bank of Asia	Money & Capital Markets	20.0	6.1	26.1	23.6	17.5
1993	Central Plaza Hotel	Tourism	-	15.7	15.7	14.0	-
1993	Central Su Khontha	Tourism	7.0	-	7.0	7.0	-
1993	Samui Beach Company	Tourism	8.0	-	8.0	8.0	3.0
1993	Thai Baroda Industries	Textiles	-	0.8	0.8	0.8	-
1993	Wing Fat Group Co.	Manufacturing	-	-	-	2.5	-
1994	Bumrungrad Medical Center	Health Care	60.0	2.2	62.2	27.2	62.2
1994	Chao Khun Agro Products	Food & Food Processing	-	0.4	-	0.4	-
1994	Dhana Siam Finance	Money & Capital Markets	30.0	-	30.0	30.0	15.0
1994	Soon Hua Seng Advance	Forestry	10.0	-	10.0	10.0	10.0
1994	Star Petroleum Refining	Energy	450.0	-	450.0	100.0	405.0
1994	Tuntex Petrochemicals	Petrochemicals	157.5	-	157.5	20.0	72.5
Total Gross Commitments			<u>1,248.7</u>	<u>123.5</u>	<u>1,372.2</u>	<u>378.2</u>	<u>608.4</u>

.. Less than US\$0.5 million.





The boundaries, names, administrative and any other information shown on this map do not imply on the part of The World Bank Group, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.

- NATIONAL HIGHWAYS
- PROVINCIAL ROADS
- PAVED
- UNPAVED
- RAILWAYS
- BIRDS
- MOUNTAINOUS AREAS
- NATIONAL CAPITAL
- PROVINCE CAPITALS
- OTHER TOWNS
- REGION BOUNDARIES
- INTERNATIONAL BOUNDARIES

