

RETURN TO
REPORTS DESK
WITHIN
ONE WEEK

RESTRICTED

Report No. EAP-28

This report is for official use only by the Bank Group and specifically authorized organizations or persons. It may not be published, quoted or cited without Bank Group authorization. The Bank Group does not accept responsibility for the accuracy or completeness of the report.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT ECONOMIC POSITION

AND PROSPECTS

OF

THAILAND

(in six volumes)

VOLUME I

THE MAIN REPORT

January 11, 1972

East Asia and Pacific Department

CURRENCY EQUIVALENTS

Currency Unit - Baht

| | | |
|----------------|---|----------------|
| U.S. \$1.00 | = | ฿ 20.80 |
| ฿ 1.00 | = | U.S. \$ 0.048 |
| ฿ 1.00 million | = | U.S. \$ 48,077 |

Foreword

This report is based on findings of an economic mission, which visited Thailand from early July to mid-August, 1971. Its members were:

| | |
|-----------------------------|--------------------------------|
| Mr. David Kochav | Chief of Mission |
| Mr. Christian Merat | Deputy Chief of Mission |
| Mr. Peter Streng | Chief Economist |
| Mr. Jayme Garcia dos Santos | Econometrician |
| Mr. Madhusudan Joshi | Fiscal Economist |
| Mr. Toshikazu Nasu | Economist |
| Mr. George Perazich | Industrial Economist |
| Mr. Carl Goderez | Industrial Engineer |
| Mr. Klaus Bahr | Education Economist |
| Mr. Raif Savas | Rural Educator |
| Mr. Kenneth A. Bohr | Urban Economist |
| Mr. James Bogle | Town Planner |
| Mr. Kunio Kikuchi | Urban Economist |
| Mr. Charles D. Spangler | Water Supply Engineer |
| Mr. Eric Greenwood | Water Supply Financial Analyst |

The report also incorporates major conclusions of the following missions headed by:

| | |
|--------------------|---|
| Mr. Nathan Koffsky | Agricultural Sector Review Mission |
| Mr. Heinz Vergin | Northeast Regional Review Mission |
| Mr. Andrew Hayman | Tourism Sector Review Mission |
| Mr. Sei-Young Park | Transportation Sector Review Mission |

Secretarial assistance for the mission was provided by:

Miss Aurora G. Arceo
Miss Pontipa Vachanasvasti
Miss Vichitra Tamphiphat
Miss Sununta Wipuchanin

List of Volumes

- Volume I. The Main Report
- Volume II. Statistical Appendix
- Volume III. Annex 1. The Agricultural Sector
Annex 2. Export Projections
Annex 3. The Mining Sector
Annex 4. Industrial Estates
- Volume IV. Annex 5. Tourism
Annex 6. Education
Annex 7. Provincial Water Supply
Annex 8. Urban Development
- Volume V. Annex 9. Development Priorities
 in Northeast Thailand
- Volume VI. Annex 10. Pre-investment Studies

VOLUME I THE MAIN REPORT

TABLE OF CONTENTS

| | <u>Page No.</u> |
|---|-----------------|
| Basic Data | |
| Summary and Conclusions | i |
| <u>Part I - Background and Past Performance</u> | 1 |
| Chapter 1. Political and Social Background | 1 |
| Chapter 2. Recent Economic Performance | 4 |
| Growth Performance and Major Determinants | 4 |
| Employment | 7 |
| Balance of Payments | 8 |
| Fiscal and Monetary Policy | 11 |
| <u>Part II - Third Development Plan, 1972-76,</u> <u>Overall Strategy and Policies</u> | 15 |
| Chapter 3. Overall Plan Framework | 15 |
| Major Plan Objectives | 15 |
| Major Plan Strategy and Policies | 16 |
| Investment and Savings | 17 |
| Sectoral Growth Pattern | 19 |
| Chapter 4. Balance of Payments | 21 |
| Export Projection | 21 |
| Imports | 23 |
| Services and Transfers | 25 |
| External Capital Requirements | 26 |
| Chapter 5. Domestic Financing Requirements | 30 |
| Development Expenditures | 30 |
| Central Government Expenditures and Financing | 32 |
| Local Government and State Enterprises | 33 |
| Domestic Financing: Revenue Policy | 34 |
| Domestic Borrowing | 35 |
| Capital Market Improvement | 36 |
| Chapter 6. Development Planning and Implementation | 39 |

TABLE OF CONTENTS (Cont'd)

Page No.

| | |
|--|----|
| <u>Part III - Sectoral and Regional Development Policies</u> | 41 |
| Chapter 7. Economic Sector Policies | 41 |
| Agriculture | 41 |
| Manufacturing | 52 |
| Mining | 56 |
| Tourism | 57 |
| Transportation | 58 |
| Power | 60 |
| Water Supply | 61 |
| Chapter 8. Social Development Policies | 64 |
| Family Planning | 64 |
| Educational Policy | 65 |
| Employment Prospects | 69 |
| Chapter 9. Regional Development Policies | 72 |
| Northeast | 72 |
| North | 74 |
| South | 75 |
| Bangkok's Urban Problems and Prospects | 75 |

MAP

B A S I C D A T A

| | | |
|--|--|------------------------------------|
| <u>Area</u> | 514,000 km ² | |
| | | |
| <u>Population</u> | | |
| Total (mid-1970 estimate) | 36.2 million | |
| Growth rate | 3.1 % per annum | |
| Density | 70 per km ² | |
| | | |
| <u>Gross National Product</u> | | |
| Total (1970) <u>1/</u> | ¥135.7 billion | |
| Growth rate, constant prices (1966-1970) | 8.5 % per annum | |
| Per capita, current prices (1970) <u>2/</u> | US\$180 | |
| | | |
| <u>Industrial Origin of Gross Domestic Product</u> | <u>Annual Growth 1966-1970 (%)</u> | <u>Share in 1970 (%)</u> |
| Agriculture | 5.4 | 29.6 |
| Manufacturing | 9.9 | 14.9 |
| Trade | 8.8 | 17.2 |
| All other sectors | 10.3 | 38.3 |
| | | |
| <u>Expenditure on Gross Domestic Product</u> | <u>Annual Growth 1966-1970 (%)</u> | <u>Share in 1970 (%)</u> |
| Consumption | 8.8 | 81.9 |
| (Private) | (8.1) | (69.4) |
| (General government) | (13.4) | (12.5) |
| Fixed capital formation | 12.6 | 22.5 |
| (Private) | (13.0) | (15.1) |
| (General government) | (11.8) | (7.4) |
| Change in stocks, incl. statistical discrepancy | - | 0.9 |
| Exports of goods and non-factor services | 6.8 | 16.4 |
| Imports of goods and non-factor services | 13.9 | 21.7 |
| Expenditure on GDP | 8.4 | 100.0 |
| Gross national savings | 7.3 | 18.4 |
| Marginal national savings rate (1965-1970) | 16.3% | |
| Resource gap as % of investment (1970) | 16.7 | |
| | | |
| <u>Internal Financial Situation</u> | <u>Annual Growth 1966-1970 (%)</u> | <u>End of 1970 (¥ billion)</u> |
| Total money supply | 8.5 | 19.45 |
| Time and savings deposits | 21.9 | 26.72 |
| Bank credit to the central government, net | 60.0 | 11.50 |
| Bank credit to the private sector | 17.3 | 27.84 |
| Consumer price index (1962=100) | 2.4 | 117 |

| <u>Central Government Finances</u> ^{3/} | <u>Annual Growth</u> 1966-1970 (%) | <u>FY 1970</u> (฿ billion) |
|---|---|---|
| Current receipts | 10.9 | 19.5 |
| Current expenditures | 14.0 | 16.6 |
| Budgetary savings | -0.8 | 2.9 |
| Capital expenditures, incl. transfers | 12.7 | 8.2 |
| | | |
| <u>Balance of Payments</u> | <u>Annual Growth</u> 1966-1970 (%) | <u>1970 ^{1/2/}</u> (US\$ million) |
| Merchandise exports, f.o.b. | 2.4 | 685.4 |
| Rice | (-10.3) | (120.9) |
| Rubber | (2.2) | (107.3) |
| Maize | (13.9) | (89.3) |
| Tin | (6.8) | (77.9) |
| Merchandise imports, c.i.f. ^{4/} | 11.7 | 1,274.7 |
| Net services | 30.4 | 262.2 |
| Net goods and services ^{4/} | 43.6 | -327.1 |
| Net private capital inflow ^{5/} | 9.1 | 113.8 |
| Net public capital inflow ^{5/} | -4.4 | 36.1 |
| Foreign exchange reserves (end of period) | 1.7 | 766.5 ^{6/} |
| | | |
| <u>External Debt</u> ^{7/} | | |
| Amount disbursed and outstanding | 11.9 | 801.3 |
| (Private) | (17.5) | (454.3) |
| (Public) | (6.4) | (347.0) |
| Debt service payments | 20.2 | 187.8 |
| (Private) | (28.1) | (143.8) |
| (Public) | (6.2) | (43.8) |
| Debt service as % of exports (1970) ^{8/} | | 16.4 |
| (Private) | | (12.6) |
| (Public) | | (3.8) |
| | | |
| <u>Bank Position</u> | <u>Sept. 30, 1971</u> (US\$ million) | |
| IBRD loans outstanding, excluding undisbursed | 158.9 | |
| IBRD loans outstanding, including undisbursed | 240.8 | |

^{1/} Preliminary.

^{2/} Converted from baht at the par rate of 20.80 per dollar.

^{3/} Thai fiscal years end September 30.

^{4/} Excluding military imports, including non-monetary gold.

^{5/} Including transfer payments.

^{6/} Equivalent to 6.3 months' imports of goods and services.

^{7/} Debt with maturity of over one year.

^{8/} Goods and services.

SUMMARY AND CONCLUSIONS

Recent Economic Performance

1. In the last two years, Thailand has undergone a process of adjustment from an unusually favorable combination during 1966-69 of 9 percent GDP growth a year, balance of payments surpluses and price stability to a pattern more typical of ~~the~~ developed countries of about 6 percent GDP growth, accompanied by balance of payments deficits. From 1965 to 1969, the major growth stimulants were rapidly rising investments, favorable world rice markets and exports of services, mainly to the U.S. military, which increased from \$44 million in 1965 to a peak level of \$254 million in 1968. Optimistic expectations as to external and domestic demand, as well as high gross national savings of about 20 percent of GDP predominantly in the private sector, led to an increase in private investments by 23 percent a year in 1966-67 and 13 percent a year in 1968-69. Public investments also increased over 13 percent a year in 1966-69, concentrating mainly on irrigation dams, power and transportation. National savings were sufficient to finance almost all investments, and the resource gap - net imports of goods and non-factor services - was very small.

2. The increase in demand generated by additional incomes from investment activity and U.S. expenditures was met by an expansion in real production, thanks to vigorous entrepreneurship, and to abundant and adaptable labor. The non-agricultural sectors increased at a faster rate than GDP. Manufacturing output grew in 1966-69 about 10 percent a year, producing almost exclusively for the local market behind tariff protection. Power, transportation, construction and services also expanded rapidly. Despite a fairly high growth rate of fish, maize and tapioca, total agricultural output increased at a slower rate of 6 percent a year, mainly due to slow growth in production of rice, Thailand's major crop.

3. The high rate of GDP growth would not have been possible without a steep increase in imports, particularly of equipment and raw materials. Affected by changes in investments and in U.S. military expenditures, imports grew 20 percent a year in 1966-67 and 8 percent a year in 1968-69. Merchandise exports, the weak spot in the overall rapid growth, increased only 3 percent a year in 1966-69, mainly due to declining rice exports. However, some progress was made in export diversification, particularly in agricultural products. Despite rapidly rising imports and sluggish merchandise exports, the balance of payments was continuously in surplus until 1968 when foreign exchange reserves reached a peak of \$938 million, thanks to the growth of service exports, transfers and net private capital inflow.

4. The turning point in the balance of payments came in 1969 due to a combination of a decline in U.S. military expenditures and transfers, and a reduction in prices of rice and rubber. In 1970, aggregate demand growth

also slowed down considerably, when deceleration in private investments growth was added to the decline in export earnings. GDP increased by an estimated 6 percent in 1970, and is expected to increase at a similar or even slightly lower rate in 1971. At the same time, import growth slowed down, particularly after June 1970 following a substantial increase in duties and sales taxes on vehicles and imported consumer goods. Since net capital inflows, particularly on public account, were not large enough to finance the current account deficit, reserves fell by \$44 million in 1969 and by \$128 million in 1970. A further but smaller reserve loss is expected in 1971.

5. During the 1966-70 period, the net inflow of official credits was insignificant, as repayments nearly equalled small gross inflows. At the same time, the Government permitted a continuous increase in private suppliers' credits, which financed most of the industrial equipment imports. They were the main factor behind an increase in debt service payments from 10 percent of export of goods and non-factor services in 1965 to 18 percent in 1971.

6. Conservative monetary and fiscal policies, balance of payments surpluses, and a high rate of private savings contributed to the maintenance of monetary and price stability during most of the 1960's. In the early phases of the Second Plan, 1967-71, expenditures of the central government increased rapidly, but they were later restrained, because some monetary pressures began to accumulate in 1968. However, expenditures on defense and interest continued to grow at a high rate. The tax effort has not increased commensurate with rising expenditures, and net borrowings from the public declined by more than half between 1966 and 1971. The government, therefore, had to borrow increasingly from the banking system, up to one-fifth of its cash expenditures in fiscal 1971. The price level remained remarkably stable due to increasing imports and declining rice prices.

7. The rapid growth in 1966-69, particularly in construction and services, provided sufficient employment opportunities to absorb the additional urban labor force. Only by 1970 did some unemployment emerge, particularly in Bangkok. Despite its rapid output growth, manufacturing provided relatively little employment, as it generally used capital intensive methods encouraged by easy access to import of equipment. The basic problem of the general state of underemployment in the agricultural sector, which provides means of livelihood for almost 80 percent of the population, still persists.

8. Past development concentrated heavily around Bangkok where most of the manufacturing plants, public utilities and services were located. A large share of investments in agriculture, particularly irrigation works, were also made in the Central Plain. Large income disparities prevailed between Bangkok, with a per capita income of \$500 in 1970, and the rest of the country, with a per capita income of \$140. In the Northeast, where the government was particularly concerned over security conditions, efforts were made to promote community development by road building and provision of utilities, such as power and water, but there was slight progress in developing the region's productive capacity.

Third Plan Overall Strategy and Policies

9. The unfavorable turn in external factors provides the background of the Third Five-year Plan, 1972-76. The Plan was prepared mainly by the National Economic Development Board (NEDB) on the basis of submissions by implementing agencies; it was approved by the Cabinet in September 1971. Since the Thai economy is predominantly private, the Plan is only indicative, and its main emphasis is on public sector expenditures. Its major objective is to sustain GDP growth of 7 percent a year, while maintaining "monetary and financial stability." The Plan regards the balance of payments as the major constraint on future growth, and stipulates a reserve level of \$400 million as a minimum required for confidence and liquidity.

10. To help relieve the balance of payments constraint, the Plan calls for more rapid export growth and slower import growth compared to the Second Plan, 1967-71. Expecting little improvement in external demand for rice, the Plan projects merchandise export growth of 7.7 percent a year, based mainly on maize, tapioca and rubber, and to some extent on other agricultural and manufacturing products. Imports are projected to increase at an annual rate of 5.4 percent, taking into account the reduction of imports related to U.S. expenditures, slower investment growth, and import substitution, particularly of cotton, tobacco and dairy products. Under these trade projections, and expecting a further decline in service receipts from the U.S. military, the current account deficit is projected to grow from an estimated \$220 million in 1971 to \$420 million in 1976.

11. Total public development expenditures in the Plan amount to ฿ 100 billion (\$4.8 billion equivalent). Recognizing the central role of agriculture in export growth and diversification, the Third Plan gives higher priority to this sector than the Second Plan did. In addition, the shares of public development expenditures on education and other social sectors will increase, while those on irrigation dams, transportation and power will decline. Eighty-three percent of the Plan is expected to be financed by domestic sources and 17 percent only by external loans and grants. In order to raise domestic resources to the required level, the Plan calls for a slow growth of non-developmental outlays and for new tax measures yielding ฿ 10.4 billion in 1972-76. These targets will be difficult to achieve. Since non-expansionary borrowings are expected to be smaller than they were in the Second Plan, 25 percent of Plan financing will be met by net credit expansion from the banking system.

12. Gross investments are projected in the Plan to increase about 7 percent in constant prices. The domestic financing of such investments requires gross national savings of about 18-19 percent of GDP, which should not be difficult to obtain in view of the high savings propensity of the private sector.

13. Regarding external financing, the Plan requires a large increase in total gross capital inflow to \$2,380 million in the 1972-76 period, compared with an estimated \$1,460 million in 1967-71. The Plan expects gross

private capital inflows, including suppliers' credits and other loans to the private sector, to continue to play an important role. They are expected to increase from \$1,190 million in 1967-71 to \$1,730 million in 1972-76. However, due to short maturities on existing suppliers' credits and despite planned measures to bring about longer maturities in the future, the net inflow would increase much less, from about \$510 million on 1967-71 to \$675 million in 1972-76.

14. A major departure from the Second Plan is the much greater reliance on official credits. The net inflow of public capital is projected to increase from \$45 million only in 1967-71 to an estimated \$475 million in 1972-76. To generate this net inflow, the Plan calls for new commitments of official loans of \$875 million or \$175 million a year on average. The Plan recognizes that a great effort in project preparation and implementation is needed to raise official loans to this level. It expects this amount of capital to be provided from bilateral donors (primarily Japan and the US) and multilateral institutions (ADB and IBRD) on average terms of 5 percent interest and 20 year maturities, including 5 years of grace.

15. The balance of payments projections of the Plan imply an increase in debt service payments, as a percentage share of exports of goods and non-factor services, from 18 percent in 1971 to 24 percent in 1976. Despite this considerable increase, the debt service burden would still be tolerable considering Thailand's excellent repayment record and the availability of \$400 million reserves, equivalent to 3 months of imports in 1976.

16. In the mission's view, the growth objectives of the Third Plan are about right considering Thailand's human and natural resources as well as the need to provide for its rapidly growing population. The overall strategy, which is proposed in the Plan to achieve these objectives, appears appropriate although some of the policy implications are not fully stated. The export growth target seems feasible, provided effective policy measures are implemented by the government. The projected levels of investments and savings, as well as overall sectoral priorities, appear generally consistent with the Plan objectives. However, the magnitude of the problems facing Thailand is large, and the achievement of the Plan objectives will require strenuous efforts on the part of the government, as well as on the part of bilateral and multilateral sources of external assistance. Despite those efforts, the economy might still have difficult problems of balance of payments and external debt service after the end of the Third Plan.

17. The import growth projection appears reasonable to sustain a 7 percent real growth rate of GDP. But, to keep import growth at the planned level, government programs to encourage economically justified substitution of imports in agriculture and manufacturing will be essential. Implementation of these programs is expected to be difficult. If results do not materialize fast enough, other measures, including selective tariff increases, might become necessary to slow down import growth without disrupting GDP growth and investments.

18. Achievement of the export targets requires steps to remove existing obstacles to the production and distribution of agricultural crops, and to provide financial incentives for exports. These steps involve some far-reaching changes in the role which the government plays towards helping the private sector. They will lay the foundation for an acceleration of export growth, which as argued later might be needed after the Third Plan period.

19. Mobilization of domestic resources will require strong measures. Tax revenues need to be increased significantly, especially by better administration, and also by raising some rates of excises, truck registration fees and company income tax. Some tax changes are also required on grounds of equity and to facilitate the development of the capital market. Non-expansionary domestic borrowings need to be increased if reasonable price stability is to be maintained. Their share in total domestic borrowings could be doubled during the Third Plan period by offering attractive terms on government bonds and on deposits with the Government Savings Bank. The above measures would be more pressing if public consumption grows at a higher rate than the planned annual rate of 6 percent.

20. Changes in Thailand's external borrowing strategy, which the Plan recommends, are in the right direction, but they should probably be more pronounced than stated in the Plan in order to reduce debt service liabilities after the end of the Third Plan. Thus, the reliance on private borrowings appears excessive and could be reduced. Despite measures to lengthen repayment periods, these borrowings (especially suppliers' credits) still provide little net additional financing. They will also lead to large service obligations. For instance, service payments on private debt will rise from 14 percent of exports of goods and non-factor services in 1971 to 18 percent in 1976. Suppliers' credits could play an important role in financing private equipment imports if they were provided on sufficiently long maturities. If longer term credits could not be obtained directly by the private sector, domestic financial institutions should be developed to serve as appropriate channels to contract loans with longer maturities and more favorable terms for relending to finance private equipment imports. These institutions could borrow from official sources of assistance on a large scale.

21. Simultaneously, official capital inflows should be increased more sharply than assumed in the Plan. However, the inflow of official capital in the past was small, and the build-up to a much higher level involves serious difficulties. On the part of the Thai government it calls for great improvement in project preparation. The public development program should be reviewed to identify and prepare more projects and programs suitable for external financing than are presently available. This calls for upgrading the quantity and quality of work carried out in NEDB and in various ministries, for closer coordination among them and for better guidance of the planning and executing entities by NEDB.

22. On the part of official sources of external financing, the achievement of these objectives would require a large increase in bilateral and multilateral lending at lower than commercial terms. Moreover, more flexibility in lending techniques would be needed to include some program lending and local cost financing in official assistance programs. Finally, technical assistance directed towards helping to improve development planning and project preparation at all levels would be essential.

23. The capacity to finance imports will not be a constraint on GDP growth in the early years of the Third Plan. Investments are not expected to increase much in 1972 and possibly also in 1973 due to existing excess capacity, as well as non-buoyant expectations. Income growth will be below the average for the Plan period in these two years. Moreover, the present level of exchange reserves, which are equivalent to 7 months of merchandise imports, provides a cushion to finance import requirements if needed. The problem of financing imports is, therefore, likely to arise only in the later years of the Third Plan period. Nevertheless, the government and external sources of assistance would be well advised to prepare for the future by taking immediate measures to increase borrowing capacity in the public sector and to build up institutions able to finance private imports with long-term credit.

24. If the required policy measures are not promptly and vigorously implemented, Thailand might have to choose between the following alternatives: either to grow more slowly than now projected, perhaps 5 percent a year, or to borrow on commercial terms and face serious debt servicing problems, unless of course exports do better than expected. Neither of these alternatives is desirable considering Thailand's long-run needs.

25. Beyond the Third Plan period, tentative projections made by the mission show that the balance of payments will continue to be the main constraint on GDP growth, unless exports grow at a higher annual rate than is projected for 1972-76. If, after 1976, real GDP growth continued at 7 percent a year, and merchandise exports and imports increased at the same annual rates as during the Third Plan, the trade deficit would increase rapidly. With steeply rising payments of interest on external debt as projected in the Plan, the current account deficit would increase even more rapidly to more than \$600 million in 1980 and debt service payments would exceed 30 percent of exports of goods and non-factor services in that year. If the government succeeds in borrowing more from official sources than stated in the Plan, debt service payments could be reduced to around 27 percent of exports in 1980, but they would still be rising faster than exports. Thus, it appears that the burden of debt service obligations could be kept at a tolerable level - say 25 percent of exports - only if export growth accelerated after the Third Plan period. This long-term prospect highlights the need to build up the export capacity of the economy more rapidly than the Third Plan calls for.

26. This overall framework has important implications for sectoral and regional developments which are reviewed in other volumes of this Report. Some major policy changes required are summarized in the following.

Development Policies of the Major Economic Sectors

27. Roughly half of the increase in export earning by 1976 is expected to come from agriculture. Agricultural production will have to make a major contribution to the achievement of the Third Plan targets. As recognized in the Plan, this calls for attention to rainfed upland crops, particularly maize, as well as to irrigated agriculture. In the mission's view, the Plan targets and improvement in farm income, which lags far behind non-farm income, can be achieved only if crop yields are substantially raised. In addition to measures suggested in the Plan, the introduction of high-yielding seed-fertilizer technology, presently barred by high prices of domestically produced fertilizers, is essential. Reduction of fertilizer prices, by permitting imports, or, if necessary, by subsidizing domestic production, is a matter of high priority. A seed improvement program is also urgent. In addition, upcountry drying and storage facilities have to be built in order to stabilize prices paid to farmers. The marketing system, particularly for food grains, needs modernization, including better port facilities to reduce the presently high shipping costs.

28. Areas best suited for cultivation have to be demarcated from forest areas and adequate support services have to be provided to settlers. The extension services, particularly for crop and livestock production, have to be strengthened and consolidated in the Department of Extension, rather than scattered in several ministries. Similarly, the tasks facing agriculture require centralization of functions now shared by various institutions; the Ministry of Agriculture should be given full responsibility for agricultural development.

29. The overall Plan expenditures for agriculture appear reasonable; those for irrigation, which indicate a modest increase, could well be tailored further to fiscal possibilities without significant ill effect on production in the short run. The financing of agriculture could be improved by the establishment of an Agricultural Development Fund to be administered by the Bank of Thailand, to provide discount facilities for development loans through various financial institutions. These medium and long-term credit facilities could be given for various activities ranging from improvement in the productive capacity of land and livestock to pedigree seed programs and upcountry storage drying facilities.

30. The major challenge facing the manufacturing sector in the Third Plan period is to continue rapid growth, while shifting its orientation from the domestic market toward exports, deepening its structure from mere assembly, and becoming more efficient and competitive. Such a shift is necessary not only because of balance of payments problems, but also because the easier import substitution opportunities have been generally exhausted, and new industries will need to export some output to achieve economies of scale. Manufacturing will also have to absorb a higher share of the labor force, particularly in labor-intensive, export-oriented industries. The major task of the

government industrial policy is to help the establishment of new industries by utilizing the comparative advantages of Thailand; namely, an adaptable labor force, low wages, plentiful agricultural, forest and mining raw materials, a large domestic market and vigorous entrepreneurship. These ingredients could help Thailand repeat some of the success stories of industrial development in other East Asian countries.

31. The manufacturing sector could increase exports at a fairly high rate, if financial incentives are provided. To increase efficiency, protective tariffs should be gradually reduced. Establishment of a free trade zone could help attract export industries. A number of industrial estates are desirable to overcome difficulties due to high costs of land and inadequate services. Industrial financing institutions, such as the Industrial Finance Corporation of Thailand (IFCT), should be encouraged to borrow more from external and domestic sources and to lend on a much larger scale. The whole government set-up dealing with industrial development, presently fragmented and operating on a case-to-case basis, needs to be reorganized and streamlined.

32. The mining sector, which produces mainly tin and fluorite, is expected in the Plan to increase output and exports at a modest rate. Prospects for additional exploration in the mining sector are believed to be promising, but existing policy restricts mine exploration and development in most of Thailand to firms with majority Thai ownership. A removal of this restriction might help attract international mining firms, which command the necessary financial, technical and managerial resources.

33. Despite some recent sluggishness and present hotel overcapacity, prospects for future growth of tourism appear good, provided the government implements appropriate policies. An early decision on the role of the Tourist Organization of Thailand is urgently required. Fifth freedom restrictions imposed on foreign airlines should be reviewed. Cumbersome immigration and customs procedures have to be removed. In the next few years, promotion of 2 or 3 tourist centers outside Bangkok seem to be the main investments required.

Social Development Policies

34. A bright spot on Thailand's performance has been the family planning program. Without official high level decision, a family planning program was introduced in 1968 by the Ministry of Public Health. Although the activities and financial resources of the program were limited, it achieved remarkable success. Acceptance rates in Bangkok, as well as in the provinces, seem to be high. In March 1970, the Cabinet approved a population policy, and authorized the implementation of an official National Family Planning Project within the Third Plan, which sets an objective to reduce population growth from around 3.1 percent in 1970 to 2.5 percent in 1976. This objective is ambitious; but, considering the favorable conditions existing in Thailand and modest budget requirements, it seems to be within reach, if given full support by all government agencies.

35. The Third Plan justifiably emphasizes the critical importance of education improvement. The vast majority of children in Thailand receive only four years of education, which are compulsory. This cycle is too short to achieve lasting literacy; only one-third of four-year graduates progress into upper primary schools, with wide regional discrepancies. The enrollment rate in secondary schools is only about 7 percent of total student population.

36. The objectives of the education policy in the Third Plan are to increase enrollement in line with school age growth, and to improve the quality and content of education. The size of expenditures for education has been greatly increased. Although the Plan does reflect considerable improvement, it is unlikely that the far-reaching changes needed in the quantity and quality of education will be fully introduced in the next five-year period. A number of important improvements can, however, be introduced in the educational system, within the Plan budgetary limitations. These include an increase in effective school days at the primary level from 150 to 210 days per year and concomitant reduction of the primary cycle from 7 to 6 years, the provision of free textbooks for all primary pupils and free teaching aids for teachers, the reform of curriculum and textbooks, and the lowering of the progression rate from primary to secondary schools.

37. Employment generation in the Third Plan period is unlikely to be large enough to absorb the total increase in labor force, and unemployment may rise somewhat. This could be alleviated if government took action to stimulate labor-intensive industries, as well as other activities such as construction of low-cost housing, which are labor-intensive and have a low import content. Investments in construction could be mostly financed by mobilizing private savings, and need not strain the public sector financial position.

Regional and Urban Development Policies

38. Following the heavy concentration of past development in Bangkok and in the Central Plain and the resulting large regional income disparities, the narrowing of regional income disparities is a worthwhile objective of the Third Plan. This calls for special efforts to develop the outlying regions. A regional development plan for the Northeast region has been prepared with U.S. assistance. The main plan recommendations are to promote rainfed export crops, livestock and agro-based industries in the Northeast. If implemented forcefully, these recommendations would lead to more self-sustaining growth than in the past, as well as contribute to the achievement of national export and employment targets. Administration of development in the Northeast is, however, insufficiently coordinated. The Government should, therefore, give more authority to the existing regional center and act to strengthen the general and financial autonomy of local governments.

39. A regional development plan is presently under preparation for the North. This region is abundant in forest and agricultural resources, most of which are presently transported for processing to the Bangkok area. The preliminary recommendations call for establishment of processing industries based on local agricultural and mineral resources. A proposal for assistance in the preparation of a development plan for the Southern region is presently being considered by the U.K. Government.

40. The rapid growth of Bangkok from 1.7 million in 1960 to 2.9 million in 1970, without any city plan, zoning or other regulations, created serious problems, such as inadequate public services and traffic congestion. The Third Plan proposes some remedial measures, including the introduction of city planning. In the mission's view, municipal institutions need to be strengthened for preparing projects in areas neglected in the past, such as low-cost housing, sewerage and drainage, in addition to the projects prepared in water supply, power and telecommunications.

41. The far-reaching improvements needed in general economic performance, as well as in sectoral and regional development, depend a good deal upon the effectiveness of government ministries and agencies. A clear definition of authority of various ministries, avoiding division or duplication of responsibility, is called for. Particular efforts are required to improve project and program preparation if official capital flow is to be considerably increased.

PART I - BACKGROUND AND PAST PERFORMANCE

CHAPTER 1 - POLITICAL AND SOCIAL BACKGROUND

1. The political and social system of Thailand has been characterized by remarkable stability for more than a decade. In 1958, Field Marshall Sarit Thanarat, the then army chief, staged a successful coup d'etat which ended a period of competition among several political factions. Following Sarit's death in 1963, key members of his government, Field Marshall Thanom Kittikachorn and General Prapass Charusatien, took over as Prime Minister and Deputy Prime Minister, respectively. The government promulgated a permanent constitution and a political parties act in 1968, which gave the country's political system the main characteristics of a constitutional monarchy with safeguards for a strong executive. The government party (United Thai People Party) emerged victorious from the national elections held in 1969, clearly ahead of fourteen other parties. Only one of these, the Democratic Party offered strong opposition as it had wide following in Bangkok and influential personalities in its ranks. This parliamentary experience came to an end in November 1971, when the military leadership again decided to rule the country by decree under a state of emergency dictated by difficult, external and internal circumstances. Parliament was dissolved and political parties banned. The Revolutionary Party, formed by the late Prime Minister, Field Marshall Sarit Thanarat, and consisting of members of the Armed Forces and loyal civilians, took over state powers giving Thailand a single-party type of government. Field Marshall Thanom now heads the National Executive Council, which governs the country, and General Prapass is deputy. Thus, the same men are still in power, and political stability is expected to continue.

2. The government represents a close-knit coalition between the military, aristocracy and private businessmen. The strongest element are military commanders, who take a most active part in government administration as well as in business. They are also active leaders of the party. At the same time, non-military men hold some key positions as members of the National Executive Council and heads of government agencies.

3. Individualism has traditionally been one of the strongest traits of the Thai society. This has also been demonstrated in the Thai government and civil service. Several ministries and agencies often deal in related and not well-defined fields, with little cooperation or coordination. In most ministries, low efficiency and red tape are widely prevalent. Although the civil service carries a high degree of prestige, enabling it to attract many outstanding individuals, it has increasingly suffered from lower salaries compared to the private sector. Consequently, many key officials have been forced to hold several jobs, and some left government service for more lucrative jobs in the private sector or in semi-autonomous agencies.

4. A strong emphasis on financial stability has been one of the features of the Thai economy. The government has traditionally encouraged cautious fiscal and monetary policies, and attached considerable importance to price stability and to maintenance of a high level of exchange reserves. This contributed to a general attitude of confidence, domestically as well as internationally.

5. The private sector has proven to be dynamic, flexible and quick to take advantage of changing opportunities. It has also demonstrated remarkable openness to minority groups (particularly Chinese), as well as social and economic mobility. Such mobility has apparently strengthened rather than weakened the overall framework of social stability. Government attitude to the private sector is generally "laissez faire". However, red tape, duplication and hesitancy have often held back the private sector. A recent outstanding example is the slowness of the government to take much needed measures to induce export growth and improve services for tourists.

6. Another characteristic of the Thai political and social system is the extreme centralization in Bangkok. This tendency has been strengthened by rapid development in the last decade, particularly of manufacturing and financial services, which added economic strength to the political concentration in the Bangkok area. The corollary is the extreme weakness of local governments in other regions, which comprise the majority of Thai population and area.

7. The hostilities in Indochina left a strong imprint on Thailand in many ways. It strengthened national unity and through U.S. expenditures, formed one of the major sources of rapid growth during the 1960's, particularly in construction, services and manufacturing. At the same time, some insurgency has taken place in the Northeast region, bordering with Cambodia and Laos. Certain local unrest in the North and in the South, not necessarily related to the former, has recently caused concern to the government.

8. In external relations, Thailand has maintained very close ties with the U.S. in military, political and economic affairs, and expects to continue such ties in the future. Recently, it has taken some steps to improve trade and political relations with the Soviet Union. Japan is a major trade partner and Japanese interests and know-how play an important role in some industries. With the increasing role of Japan in the world economy, and particularly in Southeast Asia, economic relations between Thailand and Japan, both official and private, are likely to be strengthened and to assume increasing importance in Thai economic development.

9. The tasks facing the Thai economy in the next few years are likely to be much more difficult than those in the previous decade. Several features of the political and social system, particularly its dynamism, openness and economic mobility, are conducive to the required changes. However, it

would perhaps not be realistic to expect rapid far-reaching changes, which are considered to be at variance with "the Thai way". What requires particular improvement is government development policy; that is, its providing sufficient inducement to changes in the economic and social structure. This depends mainly on the effectiveness of government leadership and administration.

CHAPTER 2 - RECENT ECONOMIC PERFORMANCE

Growth Performance and Major Determinants

10. Thailand established an enviable GDP growth record of 9 percent a year in 1966-69, after 7 percent annual growth in the first half of the 1960's. This rapid growth was due to a combination of favorable external factors, and vigorous expansion of private investments and public sector expenditures. A high level of U.S. military expenditures, which steeply increased until 1968, and then declined, raised domestic incomes and foreign exchange earnings. Thanks to a high level of national savings, of about 20 percent of GDP, coupled with optimistic expectations, a steep increase of private investments provided a strong impetus to GDP growth, particularly in the earlier years.

11. Although the entire 1966-69 period was characterized by high GDP growth, the sources of such growth changed significantly (Table 1). In 1966-67 the major sources were a combination of rising U.S. military expenditures and an investment boom, reflected in an increase in private investments of about 23 percent a year - two and a half times faster than GDP growth rate - and a rise in public investments of 19 percent a year. Both factors weakened considerably in 1968-69. U.S. military expenditures reached a peak in 1968, and declined slightly in the later years, while remaining an important source of growth. The growth of private investments decelerated, but still was almost 13 percent a year in 1968-69. The growth of public investments decelerated to less than 8 percent a year. In 1968-69, public consumption was the fastest growing source of demand, rising at an annual rate of over 15 percent. This was due to an increase mainly in defense and to some extent in general administration expenditures. Private consumption increased throughout the 1966-69 period at a somewhat lower rate than GDP.

12. The increase in demand was met by a rapid expansion in real production made possible by entrepreneurship and availability of labor. However, production could not have increased as fast as it did without an ample supply of foreign exchange, which financed a rapid increase in imports, particularly of equipment and raw materials. Thus, the sharp increase in demand did not create inflationary pressures on the domestic price level.

Table 1: RESOURCES AND USES /1
(Constant prices)

| | Average Annual Growth | | |
|------------------------|-----------------------|------------|-------------|
| | 1966-67 | 1968-69 | 1966-69 |
| 1. <u>Resources</u> | <u>11.0</u> | <u>9.9</u> | <u>10.5</u> |
| Gross Domestic Product | 8.8 | 9.3 | 9.0 |
| Imports | 20.9 | 7.9 | 16.5 |
| (Goods) | (21.8) | (12.0) | (16.8) |
| (Services) | (11.5) | (19.9) | (12.8) |
| 2. <u>Uses /2</u> | <u>11.2</u> | <u>9.0</u> | <u>10.1</u> |
| Private Consumption | 8.5 | 8.2 | 8.3 |
| Public Consumption | 9.5 | 15.2 | 12.4 |
| Gross Fixed Investment | 21.9 | 11.1 | 16.2 |
| (Private) | (22.8) | (12.7) | (17.7) |
| (Public) | (18.9) | (7.7) | (13.2) |
| Exports | 14.8 | 0.8 | 7.6 |
| (Goods) | (3.3) | (0.1) | (1.7) |
| (Services) | (58.6) | (2.2) | (27.3) |

/1 National expenditure data for 1970 are not available.

/2 Data are not completely reconciled with resources due to discrepancy.

Source: Vol. II, Table 2.4.

13. Practically all gross investments were financed by gross national savings up to 1966. The share of national savings declined somewhat since 1967, but even in 1969 it financed about 80 percent of gross investments (Table 2). About 90 percent of all national savings came from the private sector, whose gross savings averaged about 19 percent of GDP. Government contributed only some 10 percent of gross national savings. The resource gap - net import of goods and non-factor services - was small, but increased from only 6.5 percent of gross investments in 1966 to about 17 percent in 1969.

14. The weak spot in the rapidly growing economy was the slow growth of merchandise exports. In contrast with rapid export growth in the first half of the 1960's, merchandise exports increased in 1966-69 by only 3.0 percent a year, and remained unchanged in 1970 mainly as a result of shrinking rice markets. The latter led to a decline in the volume, and since 1969 also in prices of rice exports. Since 1968, service exports have shown little growth due to declining U.S. military expenditures.

15. In 1970 exports of merchandise and services did poorly. Incomes of many farmers declined because of a reduction in earnings from rice. Private investments increased little due to slowdown in actual and anticipated demand, which took place despite the removal of most taxes on rice exports. Consequently, GDP increased in 1970 by only 6 percent, and imports grew by only 4 percent. Similar trends appear to continue in 1971, and on the basis of preliminary and partial indicators, GDP is expected to grow perhaps even slightly more slowly than it did in 1970.

16. The output of non-agricultural sectors grew in 1966-70 at a faster rate than total GDP. Manufacturing increased about 10 percent a year, while construction, utilities and public services expanded at considerably higher rates. On the other hand, agricultural output increased at an average rate of 5.5 percent a year, considerably lower than the GDP growth rate. Within the agricultural sector, only fisheries expanded at an exceptionally high rate of about 18.5 percent a year. Maize also increased at a relatively high rate, but the predominance of the declining rice output reduced the growth rate of total crop production. Due to its relatively slow growth, the share of agriculture in GDP declined somewhat, but even in 1970 it was still the largest sector, contributing about 30 percent to GDP, and about 70 percent to exports.

Table 2: SAVING PERFORMANCE AND RESOURCE GAP
(Current prices)

| | <u>1965</u> | <u>1967</u> | <u>1969</u> | <u>Average 1966-69</u> |
|--|----------------|----------------|-------------|----------------------------|
| 1. Gross national savings as percent of gross national product | 20.6 | 20.9 | 20.4 | 21.3 <u>/1</u> |
| Private <u>/2</u> | 17.8 | 17.8 | 18.6 | 18.8 <u>/1</u> |
| General government | 1.8 | 3.1 | 1.8 | 2.5 |
| 2. Gross national savings as percent of gross fixed investment | 102.2 | 91.9 | 78.3 | 87.8 |
| Private <u>/2</u> | 88.0 | 78.2 | 71.6 | 77.7 |
| General government | 14.2 | 13.7 | 6.7 | 10.1 |
| 3. Resource gap <u>/3</u> as percent of | | | | |
| - gross domestic product | 1.3 | 2.2 | 4.3 | 2.9 |
| - gross fixed investment | 6.5 | 9.7 | 16.8 | 12.0 |
| 4. <u>Memorandum:</u> | <u>1965-67</u> | <u>1967-69</u> | | <u>1965-69</u> |
| Marginal gross national savings rate during interval | 22.0 | 17.6 | | 19.9 |
| Private <u>/2</u> | 18.0 | 12.8 | | 20.1 |
| General government | 4.0 | - 4.8 | | - 0.2 |

/1 Average increase due to exceptionally high private savings in 1966.

/2 Residual.

/3 Excess of total expenditure on consumption and investment over GDP; it is equal to net imports of goods and non-factor services.

Source: National Economic Development Board.

17. Growth concentrated heavily in Bangkok and in the Central Plain, in part reflecting the rapid growth of manufacturing and public services. Output in other regions grew at a slower rate, and regional disparities seem to have increased.

Employment

18. During the 1960's, employment increased 2.8 percent a year, according to the 1960 Population Census and the 1969 Labor Force Survey (Volume II, Table 1.3). Total employment increased by 3.5 million reaching 16 million in 1969, while the working age population grew by 4.2 million. However, participation rates declined, particularly in the lower age brackets, and thus practically all additional labor force could find employment. The 1969 Labor Force Survey estimated the total number of unemployed at around 35,000. The highest rate of unemployment was 5 percent for young male workers, aged 15-24 years, in the Bangkok-Thonburi area; most of the unemployed had only elementary education or no education at all. Although no open widespread unemployment was evidenced, it ought to be strongly emphasized that 56 percent of the labor force were self-employed family workers in agriculture who were underemployed most of the year.

19. GDP per worker grew in the 1960's at the high rate of about 6 percent a year, mainly as a result of a considerable increase in capital stock per worker and of an increasing recourse to capital intensive methods of production, especially in the more modern sectors of manufacturing, electric power and sea fishing. Growth in agricultural product per worker was about 4 percent a year in 1960-66, but declined to 1.5 percent in 1966-69 due to slowdown in rice production. The gap between labor productivity of agriculture (excluding sea fishing) and that of the rest of the economy remained wide and showed no tendency to narrow. Due to a slowdown in GDP growth in 1970-1971, GDP per worker increased less than 4 percent a year, a considerably lower rate than in previous years.

20. Despite the rapid increase in GDP and the rising share of manufacturing and other non-agricultural sectors, the sectoral composition of employment has changed little since 1960. As shown in Table 3, agriculture absorbed over 60 percent of incremental employment. Its share of total employment, which declined slightly during the decade, is still very high. The very slow process of change in the sectoral composition underscores the limited employment-generating effect of non-agricultural activities, particularly manufacturing which accounted for less than 7 percent of incremental employment during the period. The regional composition of employment also changed little in the 1960's, and the largest increases in employment took place in Bangkok and the Central Plain.

21. In 1970 and 1971, the rate of unemployment increased somewhat due to the slowdown in GDP growth, particularly in the non-agricultural sectors. Unemployment is estimated to have reached 100,000 in 1971, which is still very small at less than one percent of the total labor force, one of the lowest rates in developing Asian countries.

Table 3: SECTORAL COMPOSITION OF EMPLOYMENT

| | <u>Percentage Composition</u> | | <u>Increments, 1960-69</u> | |
|-----------------------|-------------------------------|-------------|----------------------------|----------------|
| | <u>1960</u> | <u>1969</u> | <u>Thousands</u> | <u>Percent</u> |
| Agriculture <u>/1</u> | 82.9 | 78.1 | 2,101 | 60.5 |
| Mining, quarrying | 0.2 | 0.3 | 30 | 0.9 |
| Manufacturing | 3.4 | 4.3 | 231 | 6.6 |
| Construction | 0.6 | 0.9 | 79 | 2.3 |
| Electricity, water | 0.1 | 0.2 | 18 | 0.5 |
| Transportation | 1.3 | 1.7 | 106 | 3.1 |
| Commerce | 6.0 | 7.1 | 388 | 11.2 |
| Other services | <u>5.2</u> | <u>5.8</u> | <u>522</u> | <u>15.0</u> |
| Total | 100.0 | 100.0 | 3,475 | 100.0 |

/1 The share of agriculture in total employment is overstated because of the inclusion of women as family workers in agriculture.

Source: Vol. II, Table 1.3.

Balance of Payments

22. Merchandise exports grew sluggishly in the 1966-69 period at an average annual rate of 3.0 percent, and stagnated in 1970. This weak performance was due mainly to a drop in rice exports from \$208 million in 1965 to \$121 million in 1970, as a consequence of a sharp volume decline coupled since 1969 with a substantial price reduction. Merchandise exports other than rice increased at a fairly vigorous rate of 7.3 percent a year, mainly due to the rapid expansion of maize and tapioca products, as well as tin. On the whole, some progress was made in export diversification, particularly in crops, but this was insufficient to counteract the deterioration in rice exports.

23. One of the major sources of the favorable balance of payments position was the sharp increase in net service exports, from a modest \$69 million in 1965 to \$297 million in 1968 and \$262 million in 1970. The increase was due mainly to U.S. military expenditures related to the hostilities in Indo-China. These expenditures declined since 1968. Earnings from tourism increased continuously between 1965 and 1970, despite a reduction in Rest and Recreation expenditures of U.S. military personnel in 1970.

24. The vigorous growth of GDP was accompanied by a rapid increase in merchandise imports at an average rate of 11.7 percent in 1966-70. Most of the increase was in capital goods, as well as in intermediate products and raw materials, while imports of consumer goods increased more slowly. The composition of import growth reflected the high level of investment and some import substitution. Part of the import growth was directly related to U.S. military expenditures, which had a high import component particularly of capital goods for construction. Import growth slowed considerably from 20 percent a year in 1966 and 1967 to around 8 percent in 1968 and 1969, and to less than 4 percent in 1970. The slowdown in 1970 was due mainly to a slowdown in consumer demand, particularly for durables, and to the reduction in U.S. expenditures and their import content. After July 1970, a rise in the rates of import duties and other taxes on imported goods also helped to slow import growth.

25. Due to the combination of rapid import growth and sluggish merchandise exports, the trade deficit increased from \$123 million in 1965 to almost \$590 million in 1970. The trade deficit was partly compensated by the growth of net service exports and net transfers until 1968; after that year these two items declined. As a result, the current account deficit increased from \$15 million in 1965 to \$278 million in 1970.

26. Until 1968, net capital inflows (including errors and omissions) exceeded the growing current account deficit, so that reserves steeply increased. However, since 1969, external financing has not kept pace with the continuous increase in the current account deficit. Reserves declined by \$44 million in 1969, \$128 million in 1970, and \$32 million in the first ten months of 1971 (including an SDR allocation of \$14 million).

27. Gross disbursements from official borrowings amounted to an average of \$47 million a year in 1966-70. However, due to repayments obligations, net official capital inflow did not exceed \$14 million in the five year period 1966-70. At the same time, net private borrowings increased steeply. Gross suppliers' credits increased from \$53 million in 1966 to \$159 million in 1970. Due to short maturities, the net inflow of suppliers' credits was considerably smaller. Heavy reliance on suppliers' credits, particularly for financing of equipment for promoted industries, was in fact encouraged by the Government. Another substantial source of external private capital was direct investment, which on a gross basis averaged \$49 million a year, mostly from the U.S. and Japan.

28. Due to widespread recourse to suppliers' credits, debt service payments of the private sector steeply increased from about \$44 million in 1965 to \$144 million in 1970. Although suppliers' credits formed less than one-third of outstanding external debt in 1970, service payments on suppliers' credits amounted to 55 percent of all debt service payments. The ratio of private and public debt service to exports of goods and services increased from 10 percent in 1965 to 16.4 percent in 1970. This ratio is still tolerable but the rapid increase in service payments on private credits, if continued, might put a substantial burden on the balance of payments.

Table 4: BALANCE OF PAYMENTS

(Millions of U.S. \$)

| | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969</u> | <u>1970</u> ^{1/} |
|--|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| Exports, f.o.b. | 664.3 | 663.9 | 635.9 | 685.9 | 685.4 |
| Imports, c.i.f. ^{2/} | <u>879.6</u> | <u>1,055.7</u> | <u>1,147.9</u> | <u>1,229.1</u> | <u>1,274.7</u> |
| Trade deficit | -215.3 | -391.8 | -512.0 | -543.2 | -589.3 |
| Net services (Receipts from U.S. military) ^{3/} | 197.4 (130.6) | 284.3 (207.7) | 297.5 (254.0) | 281.4 (236.8) | 262.2 (219.2) |
| Net transfers (U.S. grants) | 46.3 (<u>21.1</u>) | 57.6 (<u>38.4</u>) | 74.4 (<u>56.4</u>) | 57.1 (<u>41.6</u>) | 48.6 (<u>29.5</u>) |
| Current account deficit | 28.4 | 49.9 | 140.1 | 204.7 | 278.5 |
| Net capital inflow (Private sector) | 64.4 (62.8) | 108.4 (98.8) | 115.4 (101.0) | 124.9 (127.0) | 101.2 (111.0) |
| (Public sector) | (<u>1.6</u>) | (<u>9.6</u>) | (<u>14.4</u>) | (<u>- 2.1</u>) | (<u>- 9.8</u>) |
| Total recorded transactions | 92.8 | 58.5 | -24.7 | -79.8 | -177.3 |
| Errors and omissions | 66.1 | 4.6 | 46.3 | 35.8 | 49.8 |
| Changes in reserves | 158.9 | 52.5 ^{4/} | 21.6 | -44.0 | -127.5 |

^{1/} Preliminary.

^{2/} Including non-monetary gold imports.

^{3/} Including estimated R.R. receipts.

^{4/} Net of sterling devaluation loss of \$10.6 million.

Source: Volume II, Tables 3.6, 3.8.

Fiscal and Monetary Policy 1/

30. The central government 2/ followed a policy of financing its expenditures entirely by non-expansionary means during the early 1960's. With the launching of the Second Plan in fiscal 1967, a less conservative fiscal policy was adopted. Expenditures increased rapidly from 14 percent of GDP in fiscal 1966 to 20 percent in fiscal 1971. But during this period, tax and non-tax revenues remained around 14 percent of GDP, net receipts from external grants and loans fluctuated around 1 percent of GDP, and net borrowings from the public declined steeply. To meet the remaining financing requirements, the government borrowed increasingly from the banking system. It is estimated that in fiscal 1971 the central government will require \$5.8 billion of net credit expansion from the banking system, mainly in the form of borrowings from the central bank. This amount equals 21 percent of total estimated cash spending by the central government, and about 4 percent of estimated GDP.

31. About 72 percent of central government expenditures during the Second Plan period were on current account, 28 percent were on capital account and the rest on transfers to local governments and state enterprises. Both current and capital expenditures increased at about 14 percent a year, whereas transfers increased at 11 percent. In the first two years of the Plan, total expenditures increased at an annual rate of 20 percent, but slowed down to around 10 percent a year in the last three years (Table 5), reflecting the conscious efforts of the government to restrain expenditures since FY 1969.

32. In spite of this policy, pressures exerted by defense and interest payments have continued throughout the period. For example, more than 50 percent of the growth in expenditure in FY 1971 was spent on defense and police, raising the share of such expenditures to 4.6 percent of GDP. With increasing domestic borrowings, the interest burden has risen continuously from 4.5 percent of total cash spending in FY 1966 to 6.6 percent in FY 1971. Education expenditures also increased markedly in accordance with the high priority attached by the government to this sector. Spending on other sectors was slowed down, and was even reduced in the case of general administration in FY 1971.

1/ The general period of reference for this report, 1966-70, could not be strictly followed in this analysis for three reasons: (1) expenditure data for FY 1965 are not comparable with those of succeeding years, (2) the launching of the Second Plan in FY 1967 was the occasion for a distinct change in fiscal policy as explained in the text, (3) turning points for expenditures and revenues appear to be in FY 1969 and FY 1970, respectively. As data for FY 1971 are reasonably firm revised budget estimates, the period of reference here is that of the Second Plan, 1967-71.

2/ Central government operations referred to here include receipts and expenditures from foreign grants and loans, which are not covered by Thai budgets for legislative reasons. Receipts and expenditures are on a cash basis for fiscal years ending September 30.

Table 5: CENTRAL GOVERNMENT EXPENDITURES

| | Percentage Rate of Growth | | | Percentage Distribution |
|------------------------------|-------------------------------|-------------------------------|------------|-------------------------|
| | FY 1967- 1968 (Average) | FY 1969- 1970 (Average) | FY 1971 | FY 1971 |
| Defense and police | 18 | 16 | 27 | 24 |
| General Administration | 24 | 2 | -13 | 11 |
| Interest payments | 23 | 18 | 32 | 7 |
| Agriculture | 27 | 10 | 9 | 11 |
| Transport and communications | 37 | 4 | 9 | 13 |
| Education | 20 | 8 | 20 | 17 |
| Transfers | 9 | 16 | 6 | 7 |
| Other items | <u>4</u> | <u>6</u> | <u>- 1</u> | <u>10</u> |
| Total | 20 | 9 | 11 | 100 |

Source: Volume II, Table 5.4.

33. A commensurate tax effort to meet these increasing expenditures has not been made by the central government. Throughout the 1960's the ratio of tax revenue to GDP has increased only slightly. It reached a peak of 12.7 percent in FY 1968 and FY 1969, and declined in the last two years of the Second Plan. The distinct reduction of the growth rates of most of the important tax items in FY 1970 and FY 1971 is evident in Table 6 below.

34. Sharp reduction in tax rates on rice exports in 1969 and 1971, and the general growth slowdown which began in 1970 adversely affected government revenues. Increases in the rates of selected tariffs, business and excise taxes introduced in early 1970 improved collections only slightly, while they achieved their other purposes of slowing down the growth of consumption, and imports of consumer goods and cars. In FY 1971, a slower growth of income tax collections and non-tax revenues, and a decrease in receipts from monopolies and other taxes slowed down revenue growth.

Table 6: CENTRAL GOVERNMENT REVENUES

| | <u>Percentage Rate of Growth</u> | | | <u>Percentage Distribution</u> FY 1971 |
|------------------------|----------------------------------|----------------|----------------|---|
| | <u>FY 1966-1969</u> (Average) | <u>FY 1970</u> | <u>FY 1971</u> | |
| Import duties | 15 | 2 | 3 | 31 |
| Business (sales) taxes | 15 | 7 | 11 | 23 |
| Excise taxes | 16 | 10 | 32 | 21 |
| Income taxes | 15 | 10 | 4 | 13 |
| Export duties | 1 | -38 | -50 | 3 |
| Other tax revenues | <u>7</u> | <u>12</u> | <u>-13</u> | <u>9</u> |
| Total tax revenues | 12 | 2 | 5 | 100 |

Source: Volume II, Table 5.1.

35. Fiscal policies of the Second Plan period were not sufficiently successful in tapping non-expansionary domestic sources, which mainly comprised sales of government securities to the Government Savings Bank (GBS), and to a minor extent also to the public. The importance of such financing declined steadily over the Plan period primarily because of the deceleration of growth of private deposits with the GBS and the unattractiveness of government bonds to the public.

36. The finances of local governments and state enterprises cannot be analyzed in sufficient detail due to data limitations. ^{1/} The combined revenues of local governments amounted to only 6 percent of those of the central government, reflecting the relatively minor role of the former. Approximately one-third of their total expenditures and most of their capital expen-

^{1/} The serious shortcomings of financial reporting by local governments and state enterprises to the central government deserve special mention. Although detailed controls over the activities of both are exercised by one or another ministry, compilation of their accounts is neither systematic nor timely. For this reason, the consolidation of the accounts of the public sector in Vol. II, Table 5.11 is partial. An urgent task for the central government would be to establish, and enforce, procedures whereby the accounts of local governments and state enterprises would be centralized in sufficient detail, and processed rapidly. These are essential for adequate financial control, as well as for analysis and budgeting purposes.

ditures are financed by grants and loans from the central government. Existing legislation gives them little scope for autonomous fiscal action; the Ministry of Interior controls strictly their fiscal operations. Their revenues increased at an average rate of only 4 percent during FY 1966-70. In FY 1970, even a part of their current expenditures had to be financed by transfers from the central government. 1/

37. Capital expenditures of state enterprises increased at an average rate of 16 percent during FY 1966-1970. The share of such expenditures financed by the enterprises' own resources went up from 51 percent in FY 1966 to 68 percent in FY 1970. State enterprises provide power production and distribution, telecommunications, water supply and sewerage, and are important in transportation. Tobacco manufacture, lottery and a few other minor activities are state monopolies. In industry, agriculture and trade, state enterprises are only a marginal factor, as a result of the government policy to disengage progressively from activities, which can be performed by private enterprises. The government adopted a policy of making state enterprises autonomous and financially sound. With a few exceptions, such as in water supply and sewerage, this policy has been successful.

38. Throughout the 1960's, Thailand maintained remarkable price stability. The consumer price index rose by 2.5 percent a year during 1966-70. The same trend was reflected in the wholesale price index. As a result of the July 1970 tax measure and rising import prices, the prices of some consumer goods increased in 1971. But due to declines in the prices of rice, which took place despite the removal of most rice exports taxes, and of some other foodstuffs, the overall price level has remained stable.

39. Conservative fiscal policies up to 1967, balance of payments surpluses up to 1968 and the considerable mobilization of private savings by commercial banks were the main factors affecting monetary developments. Since 1968, increasingly strong pressure to expand domestic credit to the public sector has arisen. At the same time, private credit demand continued to be satisfied without much restrictions, except those of sound banking practices. As a consequence, total domestic credit increased by more than 25 percent a year in 1968-70. More recently, the decline in rice prices and the demand induced slowdown in economic activity have led to a distinct deceleration in the demand for private credit, and to a shift of loanable funds from the unorganized market into time deposits with commercial banks.

1/ Discussion of the problems arising from this situation is included in Part IV and in Volume IV, Annex 8.

PART II - THIRD DEVELOPMENT PLAN, 1972-76
OVERALL STRATEGY AND POLICIES

CHAPTER 3 - OVERALL PLAN FRAMEWORK

40. The Third Five Year Economic and Social Development Plan, 1972-76 was prepared by NEDB on the basis of submissions from, and consultations with, implementing ministries and agencies. During its visit to Thailand in July-August 1971, the mission was presented a preliminary draft, which later underwent considerable revisions. The Plan was approved by the Cabinet in September 1971, and became effective on October 1, 1971. But, at the time this report was written, the mission had received only some revised key figures, on which the following is based, not a complete final version of the Plan.

41. Since the Thai economy is predominantly private, the Plan is only indicative. Its macroeconomic content is intended to serve as a uniform frame of reference for the various ministries and agencies in charge of sectoral planning and policies. The major emphasis of the Plan is on public sector development expenditures, for which NEDB is directly responsible.

Major Plan Objectives

42. The major objective of the Third Plan is a real GDP growth rate of 7 percent a year, or about 7.5 percent in current prices. This target is lower than the 9 percent annual growth rate achieved during 1966-69, but higher than the estimated 6 percent growth in 1970 and 1971. The 7 percent growth target was chosen because of the need to provide sufficient job opportunities for a labor force increasing at about 3 percent a year, taking into account the continuation of fairly high increases in GDP per worker.

43. A number of fundamental ingredients for achieving the growth target will continue to exist during the Third Plan. Thailand is well endowed with natural resources. It has capable entrepreneurs and abundant reserves of labor, which is well motivated and can be trained easily. Wages are comparatively low. Thai people have a high propensity to save.

44. The major constraint on growth in the Third Plan, in sharp contrast with the Second Plan, will be import financing capacity, that is, the country's ability to earn or borrow enough foreign exchange to pay for the required imports. To a certain extent, foreign exchange earnings are determined by exogenous factors which are not promising; these include uncertain prospects for rice exports and declining receipts from U.S. military spending. However, to a greater extent, the import financing capacity will be determined by government policy and action. For instance, maize, tapioca products and manufactures have favorable export prospects, but their supply growth is constrained by obstacles to production, marketing and transportation. Government action will, therefore, be required to remove these obstacles quickly, and also to provide financial incentives for export growth. Similarly, Thailand can attract the amount of official capital necessary

to cover Plan requirements, but this depends on rapid improvements in the government's capability to prepare and implement projects and programs suitable for official borrowing. Given the existing political and social constraints, which will make it difficult and time consuming to introduce far reaching changes in economic management in the government, a somewhat lower GDP growth target, say 5-6 percent, might be considered a more feasible prospect. The resulting employment problem could be partly relieved by specific measures to stimulate labor intensive methods of production, particularly in manufacturing and in construction.

45. The Plan also emphasizes, as an objective, "monetary and financial stability", including the maintenance of an adequate level of external reserves. There is a good chance that reasonable stability, which was a mainstay of Thai economic policy in the past, will be maintained, if adequate fiscal and monetary measures indicated later are taken. But the balance of payments will be under great pressure, and the maintenance of reserves at the level considered minimal in the Plan, \$400 million equivalent to nearly 3 months worth of merchandise and services imports by 1976, will be a difficult task.

46. Another objective of the Plan, which is not stated in specific terms, is to reduce income disparities, particularly among the regions. Following the heavy concentration of past development in Bangkok and in the Central Plain and the resulting large regional income disparities, the narrowing of such disparities is a worthwhile objective. This calls for special efforts to develop the outlying regions, particularly the Northeast. These efforts are also needed to expand rainfed crop production for exports. Even if effective measures are taken, it will be a long time before regional disparities are significantly reduced. This points to the need for a vigorous effort during the Third Plan period, in addition to what has been done in the past.

Major Plan Strategy and Policies

47. The Plan emphasizes the need for major changes in development strategy. To help relieve the balance of payments constraint, exports would be diversified and increased at a high rate, while import growth would be checked by fiscal and monetary measures as well as specific import substitution programs. The Plan also calls for large increases in capital inflow, both official and private, and recognizes that such increases will require great improvements in project and program preparation. A reserve level of \$400 million is considered to be a minimum to maintain confidence and liquidity. The Plan strongly emphasizes the need for fiscal and monetary measures to maintain price stability.

48. The Third Plan gives higher priority than the Second Plan did to agriculture and education, whose shares in public development expenditures are expected to increase considerably. On the other hand, the share of expenditures on dams and some infrastructure projects, such as roads and power is reduced. The emphasis on agriculture reflects the recognition of the sector's potential contribution to export diversification and growth.

49. The Plan stresses the government's continued reliance on the private sector to increase production and exports. Thus, the role of government policy and administration would continue to be to provide infrastructure, utilities and incentives to the private sector. The Plan also emphasizes the need for an active policy to reduce population growth.

50. Implications of the Plan strategy and major policies will be analyzed in some details below. Generally, the strategy and policies appear consistent with objectives, and, if vigorously implemented, could help sustain continued growth at a fairly high rate. However, much work still has to go into the analysis of implications, and the preparation of projects and programs.

Investments and Savings

51. The overall macroeconomic framework of the Plan, which was prepared in current prices, is summarized in Table 7. The Plan projects an increase of gross investments about 7 percent a year in constant prices. The rate is significantly lower than that during the Second Plan, when gross investments grew at about 8.5 percent in constant prices. Public investments are planned to increase in the Third Plan at a high rate of 7.5 percent a year, and private investments at only 7 percent (in constant prices).

Table 7: RESOURCES AND USES
(Billions of baht; current prices)

| | 1966 <u>Actual</u> | 1971 <u>Estimate</u> | 1976 <u>Projection</u> | <u>Percent Annual Growth</u> | |
|------------------------|-----------------------|-------------------------|---------------------------|------------------------------|-------------------------------|
| | | | | <u>1967-71 Estimate</u> | <u>1972-76 Projection</u> |
| 1. <u>Resources</u> | | | | | |
| Gross domestic product | 96.0 | 142.0 | 205.8 | 8.2 | 7.7 |
| Imports | 19.7 | 28.7 | 37.5 | 7.8 | 5.5 |
| (goods) | (18.3) | (25.8) | (33.5) | (7.1) | (5.4) |
| (services) | (1.4) | (2.9) | (4.0) | (15.7) | (6.6) |
| 2. <u>Uses</u> | | | | | |
| Consumption | 76.0 | 115.5 | 166.5 | 8.7 | 7.6 |
| (private) | (66.7) | (97.1) | (141.8) | (7.8) | (7.8) |
| (public) | (9.3) | (18.4) | (24.7) | (14.6) | (6.1) |
| Gross fixed investment | 20.4 | 32.1 | 47.5 | 9.5 | 8.1 |
| (private) | (13.6) | (21.8) | (32.0) | (9.9) | (8.0) |
| (public) | (6.8) | (10.3) | (15.5) | (8.7) | (8.5) |
| Exports | 19.3 | 23.1 | 29.3 | 3.7 | 4.9 |
| (goods) | (13.8) | (15.5) | (22.5) | (2.4) | (7.7) |
| (services) | (5.5) | (7.6) | (6.8) | (6.7) | (-2.2) |

Source: National Economic Development Board.

52. The growth rate of investments as indicated in the Plan appears consistent with the GDP growth target. Slower GDP growth than in the Second Plan, as well as reduction in the share of projects which are capital intensive and have long gestation periods, such as dams and irrigation works, would be consistent with slower growth of investments. The mission tried to analyze the implications for capital productivity. Due to data limitations, however, only rough indicators could be obtained. During the 1960's the overall Incremental Capital Output Ratio (ICOR) fluctuated between 2.5 and 3.0, which is indicative of a fairly high marginal capital efficiency, not uncommon in rapidly growing and poor countries. A somewhat better rate of capacity utilization, particularly in irrigation and manufacturing, might tend to reduce ICOR in the Third Plan period. On the other hand, an increase in the share of expenditures on education, as well as large investments in a few capital intensive projects, such as steel and possibly petro-chemicals, would work in the opposite direction. The growth rate of investments projected in the Plan corresponds to an ICOR of 3.5, which seems reasonable to the mission. Thus, the mission considers the investment projection of the Plan generally consistent with the 7 percent GDP growth target.

53. The Plan data available to the mission do not analyze savings implications. However, mission calculations based on these data indicate that gross national savings have declined from about 20 percent in 1966-69 to about 19 percent in 1971, probably due to slower income growth compared to the previous period. The Plan implies a similar rate of national savings in 1972-1976 (Table 8).

Table 8: NATIONAL SAVINGS
(Billions of baht)

| | 1965 <u>Actual</u> | 1967 <u>Actual</u> | 1969 <u>Actual</u> | 1971 <u>Estimate</u> | 1976 <u>Projection</u> |
|--|-----------------------|-----------------------|-----------------------|-------------------------|---------------------------|
| Gross domestic product at current market prices | 84.3 | 108.2 | 130.6 | 142.0/1 | 205.8/1 |
| Plus: Net investment income from abroad | - | 0.2 | 0.2 | - | -1.9 |
| Gross national product | 84.3 | 108.4 | 130.8 | 142.0 | 203.9 |
| Less: Private consumption | 58.6 | 75.0 | 89.5 | 97.1 | 141.8 |
| Public consumption | 8.3 | 10.7 | 14.7 | 18.4 | 24.7 |
| Gross national saving | 17.4 | 22.7 | 26.6 | 26.5 | 37.4 |
| - as percent of GNP | 20.6 | 20.9 | 20.3 | 18.7 | 18.3 |

/1 Plan figures exclude changes in stocks and statistical discrepancy and are, therefore, not strictly comparable to previous years' actuals.

Source: National Economic Development Board.

54. A national savings rate of around 19 percent of GDP could be maintained on the basis of private savings, with no additional savings effort by the public sector. This, however, assumes that the growth of government consumption can be kept at the low rate of 6 percent (Table 7). If it could not, measures recommended by the mission to improve public sector finances and the transfers of private savings to the government would be essential. If implemented, these measures and the development of the capital market could help raise gross national savings to higher levels than those implied in the Plan. Thus, higher investments could also be undertaken. But, given the import financing constraint, the appropriate policy would be to stimulate only those investments, which have a low import content and are labor intensive, such as construction of low cost housing, as well as public service buildings in rural areas. If the government introduces the institutional improvements necessary to finance such projects out of private savings, these investments would serve useful economic and social purposes, and help create employment opportunities without straining the balance of payments and public finances.

Sectoral Growth Pattern

55. Within the 7 percent GDP growth target, the Plan expects some significant changes in sectoral growth rates compared to the Second Plan, as shown in Table 9. Agricultural output is expected to grow by more than 5 percent a year, compared to 4 percent in the Second Plan. Faster agricultural output growth would result from rapid expansion in production of crops other than rice, particularly maize. On the other hand, production of fisheries and forestry is expected to slow down. Due to more sluggish demand, the non-agricultural sectors are expected to grow slower than in the Second Plan. Public utilities, particularly electric power, as well as transportation and communication, are expected to increase at a considerably slower pace than in the Second Plan, reflecting the reduction in the share of public development expenditures on these sectors. Slower growth of construction and services is expected partly because of the slowdown in general demand growth, and partly as a result of the further decline in U.S. military expenditures.

Table 9: GDP GROWTH AND DISTRIBUTION
(In constant prices)

| <u>Sector</u> | <u>Percent Annual Growth</u> | | <u>Percent Distribution</u> <u>1976</u> |
|---------------------------------------|------------------------------------|----------------------------------|--|
| | <u>1967-71</u> <u>Estimates</u> | <u>1972-76</u> <u>Targets</u> | |
| Agriculture | 4.1 | 5.1 | 27 |
| Crops | 2.7 | 4.6 | 18 |
| Livestock | 2.7 | 3.4 | 3 |
| Fishery | 17.3 | 10.0 | 4 |
| Forestry | 6.5 | 3.4 | 2 |
| Mining and quarrying | 8.1 | 6.0 | 2 |
| Manufacturing | 9.2 | 8.0 | 18 |
| Construction | 8.4 | 6.5 | 7 |
| Electricity & Water Supply | 20.7 | 15.0 | 2 |
| Transportation & Communication | 7.5 | 6.0 | 7 |
| Wholesale and Retail Trade | 7.7 | 7.0 | 8 |
| Banking, insurance and real estate | 14.4 | 15.0 | 14 |
| Ownership of dwellings | 4.1 | 2.5 | 2 |
| Public administration and defense | 10.0 | 6.0 | 4 |
| Services | <u>8.8</u> | <u>7.0</u> | <u>10</u> |
| Gross domestic production | 7.2 | 7.0 | 100 |

Source: National Economic Development Board.

CHAPTER 4 - BALANCE OF PAYMENTS

56. The major constraint on GDP growth in the Third Plan period is likely to be the balance of payments, as well recognized in the Plan. Unless exports grow much faster than in the past, and net capital inflow increases considerably, Thailand is likely to face a shortage of foreign exchange to finance imports needed to sustain growth at an acceptable rate. The balance of payments prospects appear, therefore, a critical factor in the Third Plan, which deserves careful evaluation.

Export Projection

57. One of the focal points of the Third Plan is to accelerate export growth. In contrast with the Second Plan, when merchandise exports increased only by above 2.4 percent a year, the Third Plan expects export earnings to increase above 7.7 percent a year. This target is expected to be achieved mainly by a rapid increase in agricultural exports, particularly maize and tapioca products, and, to a minor extent, by exports of manufactures. Although the mission estimates differ somewhat on volume or prices of individual commodities, the growth rate of aggregate export earnings estimated by the mission is similar to that in the Plan. These export targets depend to a large extent on effective measures taken in time by the Government to remove the existing obstacles on production, transportation and marketing of agricultural crops, and to introduce financial incentives for exports of manufactures and some agricultural products.

58. Details of the export projections are given in Annex 2, the main highlights of which are as follows: Rice exports are expected in the Plan to increase 3.4 percent a year from \$110 million in 1971 to \$130 million in 1976. This projection assumes a volume increase from 1.2 million tons in 1971 to 1.5 million tons in 1976, and a price reduction from \$91 a ton in 1971 to \$87 a ton in 1976. The mission estimates are somewhat more optimistic on prices, which are expected to recover from the particularly low level of 1971. It expects rice earnings to increase from \$119 million ^{1/} in 1971 (assuming a volume of 1.3 million sold at a price of \$91 per ton) to \$148 million in 1976 (1.5 million tons at \$99 per ton).

59. Maize exports are expected to increase rapidly to \$159 million in 1976 (3 million tons at \$53 per ton), implying an annual growth of 8.8 percent. The mission doubts that such a rapid increase can be achieved because of supply constraints stated in Chapter 7. It considers more likely that maize exports will rise to \$143 million (2.7 million tons at \$53 per ton) in 1976, resulting in a 5.4 percent growth per year.

^{1/} The difference in estimates for 1971 is due to a higher volume estimate by the mission based on data for the first nine months of 1971. More recent information shows that rice exports may reach almost 1.5 million tons in 1971; this short-term development was not taken into account in the projection.

60. Similarly, the mission's projections are less optimistic on rubber exports. The Plan expects rubber exports to increase from \$105 million in 1971 to \$133 million in 1976, at a rate of 4.7 percent a year. In the mission's view, rubber prices are not likely to recover in the next five years, and value of exports is not likely to increase at a rate higher than 1 to 1.5 percent a year.

61. On the other hand, exports of tapioca products are expected by the mission to increase steeply, at an annual rate of over 12 percent to \$104 million in 1976. This increase is projected on the expectation of an expanding volume while prices would remain at their present level. The Plan projects an increase of only 9 percent a year, based on slower volume growth.

62. Tin metal exports are expected to increase at a low rate of 2.8 percent a year in the Plan, and at a somewhat slower rate by the mission, unless investments in mines are considerably increased.

63. Kenaf is the single commodity among major exports which is expected in the Plan to decline from \$49 million in 1971 to \$40 million in 1976. This decline would result from the expected weakening in demand for Thai kenaf as the market returns to normal conditions with the end of upheavals in Pakistan, and the mission concurs with the Plan projection.

64. Exports of shrimps and tobacco are projected in the Plan to grow fastest among major commodities, both at an annual rate of close to 12 percent. In the mission's view shrimp and tobacco are likely to increase at annual rates of 14 percent, because of strong demand conditions in external markets. The major constraint is likely to be on Thai supply. Similarly, external demand for teak will be strong, but volume exports are expected to be slow-growing due to supply limitations and increasing demand in the domestic market.

65. The aggregate of these nine major export commodities is expected in the Plan to increase to \$695 million in 1976, at an annual rate of 5.2 percent a year. The mission projection is somewhat lower, 4.8 percent a year. All the same, these commodities are not expected to increase sufficiently to meet the balance of payments requirements. Other exports, including minor agricultural products, manufactures and mining products, will have to grow faster. The Plan projects an annual increase in other exports of 10.5 percent, from \$248 million in 1971 to \$408 million in 1976. In the mission's view, this group might grow at such a rate if export incentives are introduced.

66. The above projections are of course subject to a wide margin of uncertainty. It is important to emphasize that, notwithstanding exogenous demand constraints for a number of commodities (particularly rice, rubber and kenaf), market prospects for exports of other Thai products (including maize, tapioca, kenaf and some manufactures) will mainly be determined by supply factors, which can be strongly influenced by Government policies and measures.

Imports

67. The Plan projects merchandise imports to increase at an average rate of 5.4 percent a year in current prices, a lower rate than the average of 7.1 percent a year during the Second Plan, 1967-71. This projection appears reasonable to the mission, as it was prepared taking into consideration the factors, which may be expected to account for a different import performance during the Third Plan.

68. Among these factors, slower growth of production and investment, declining US military expenditures and an increase in rates of duties and other indirect taxes in July 1970 have already led to a reduced growth of merchandise imports of 3.9 percent in 1970 and a decline estimated at 2.7 percent in 1971. It is expected that economic growth will continue to be below the average of the 1972-76 period during the first two years of the Third Plan and accelerate thereafter when the economy benefits from appropriate policy adjustments recommended in the Plan. Investment growth is expected to follow a similar and even more pronounced trend because some of the excess capacity, which has appeared in construction, services and manufacturing in the recent past, will permit production growth in the initial years of the Third Plan without much new investment. Since investment is the main factor contributing to import growth in the Thai economy, these developments are expected to lead to slow import growth in 1972 and 1973. Further, declining service receipts from the US military, which have a high import content, might also tend to slow import growth.

69. However, these factors alone would not be sufficient to account for the entire reduction in the overall elasticity of imports to GDP, which is implied by the Plan projection. This reduction is expected mainly to come from import substitution in manufacturing and agriculture, and measures are required on the part of the government to encourage the private sector to seize economically justified possibilities of import substitution in these two sectors. In manufacturing, suggestions for reducing import dependence are made later in the section on manufacturing (Chapter 7), which imply some radical changes in industrial policy and planning functions of the government. In agriculture, the main import substitution possibilities identified in the Plan concern tobacco, cotton and dairy products, which together represent about \$80 million worth of import at present. The Plan expects that programs aimed at increasing domestic production of these commodities could help achieve net savings of around \$50 million on the 1976 import bill. These programs need to be prepared rapidly. Given preparation time, they will not start reducing import dependence until the second half of the Plan period, and they may present difficult implementation problems, especially in the case of cotton. On the other hand, as mentioned in the agricultural section (Chapter 7), Plan policy of yield improvements in agriculture may be expected to lead to requirements for imports of fertilizer and pesticides increasing by 15 percent a year during the Plan; these imports are presently worth about \$22 million. In brief, while economically justified opportunities of import substitution have been identified, they may be more difficult, and take more time to seize than the Plan assumes.

70. The mission made an independent projection of commodity imports by end-use categories, which largely confirmed the results of the Plan. But, given the uncertainties regarding import substitution, the mission thinks that in the light of future developments, additional measures might have to be taken to slow down the growth of imports, without disrupting GDP growth and investments. The Thai government is likely to reject the introduction of quantitative restrictions, which might increase inefficiencies and distortions in production, and raise the present high level of protection of local industries. The mission fully concurs with this position. An economically efficient way of slowing import growth would be through the price mechanism, namely by raising the Baht prices of imports relative to domestic prices, which could lead to further substitution of some imports by domestic production. To prepare for this eventuality, a thorough review of duties and indirect taxes on imports taking into account the considerations mentioned in paragraph 158 should be undertaken immediately.

71. Thus, on the basis of a 7.7 percent nominal growth of GDP, the mission agrees that import requirements at current prices may increase at 5.4 percent only. But, to keep import growth at this level, government programs to encourage economically justified substitution of imports will be essential, and may present difficult problems of implementation. If results from these programs materialize more slowly than expected, other measures, including selective tariff increases, might become necessary to slow down import growth without disrupting GDP growth and investments.

Table 10: BALANCE OF PAYMENTS SUMMARY
(Millions of US dollars)

| | 1971 | 1976 | 1967-1971 | 1972-1976 |
|--|-------------------|-------------------|---------------------|---------------------|
| | <u>Estimate</u> | <u>Projection</u> | <u>Estimate</u> | <u>Projection</u> |
| Exports f.o.b. | 747 | 1,082 | 3,418 | 4,695 |
| Imports, c.i.f. ^{/1} | <u>-1,241</u> | <u>-1,609</u> | <u>-5,948</u> | <u>-7,171</u> |
| Trade deficit | -494 | -527 | -2,530 | -2,476 |
| Service receipts (U.S. military ^{/2}) | 432 (186) | 355 (67) | 2,186 (1,118) | 1,768 (452) |
| Service payments | <u>-203</u> | <u>-311</u> | <u>-832</u> | <u>-1,289</u> |
| Net services | 229 | 44 | 1,354 | 479 |
| Transfers, net (U.S. grants) | 45 <u>(30)</u> | 61 <u>(40)</u> | 283 <u>(196)</u> | 266 <u>(170)</u> |
| Current account deficit | -220 | -422 | -893 | -1,731 |
| Capital, net (Private) | 106 (74) | 250 (161) | 557 (513) | 1,149 (675) |
| (Public) | (32) | (89) | (44) | (474) |
| Allocations of SDR's | <u>14</u> | <u>14</u> | <u>14</u> | <u>72</u> |
| Total recorded transactions | -100 | -158 | -322 | -510 |
| Errors and omissions | <u>39</u> | <u>39</u> | <u>174</u> | <u>191</u> |
| Change in reserves | -61 | -119 | -148 | -319 |

/1 Including non-monetary gold imports.

/2 Including estimated R & R receipts.

Source: National Economic Development Board.

Services and Transfers

72. Exports of services are expected to decline according to the Plan from \$432 million in 1971 to \$355 million in 1976. The reduction is due to a further decline in U.S. military services, including Rest and Recreation expenditures from \$186 million in 1971 to less than \$70 million in 1975, remaining at the same level in 1976. On the other hand, earnings from tourism are expected to increase by 10 percent a year. These projections are generally accepted by the mission, although the projection of earnings from tourism appear somewhat conservative.

73. Imports of services are expected to increase from \$203 million in 1971 to \$311 million in 1976, mainly due to an increase in transportation and travel expenditures, as well as in interest payments on a considerably larger external debt.

74. Net transfers are expected in the Plan to increase from \$45 million in 1971 to \$61 million in 1976. The total is mainly affected by U.S. grants which are estimated at \$30 million in 1971, and to decline somewhat in 1972-73. According to recommendations of the U.S. administration, a modest increase is projected after 1972, to about \$40 million a year in 1975 and 1976. The amount is, of course, dependent on political conditions in South East Asia, as well as on the U.S. Congress.

External Capital Requirements

75. On the basis of the above projections, the Third Plan expects the current account deficit to increase to \$1,730 million in the whole five-year period, 1972-76, compared to an estimated \$890 million in 1967-71 (Table 10). This deficit is expected to be financed by increasing inflows of private and public capital, as well as by a drawdown on reserves of \$320 million to a level of around \$400 million by 1976. Capital inflows are in Table 11 below.

Table 11: CAPITAL INFLOWS
(Millions of US dollars)

| | 1967-1971 | | 1972-1976 ^{/1} | |
|---------------------------------------|--------------|------------|-------------------------|--------------|
| | Gross | Net | Gross | Net |
| 1. <u>Private Sector</u> | <u>1,188</u> | <u>513</u> | <u>1,730</u> | <u>675</u> |
| 1.1 Equity capital | 185 | 180 | 220 | 210 |
| 1.2 Loans ^{/2} | 212 | 88 | 425 | 185 |
| 1.3 Suppliers' credits | 644 | 181 | 840 | 175 |
| 1.4 Other | 147 | 64 | 245 | 105 |
| 2. <u>Public Sector</u> ^{/3} | <u>274</u> | <u>44</u> | <u>650</u> | <u>475</u> |
| 2.1 Loans | 240 | 116 | 620 | 485 |
| 2.2 Suppliers' credits | 15 | -38 | - | -25 |
| 2.3 Other | 19 | -34 | 30 | 15 |
| 3. <u>Total</u> | <u>1,462</u> | <u>557</u> | <u>2,380</u> | <u>1,150</u> |

^{/1} Rounded to the nearest \$5 million.

^{/2} Including direct investment loans.

^{/3} State enterprises, central and local governments.

Source: National Economic Development Board.

76. The Plan calls for continued heavy reliance on private sources of capital, particularly suppliers' credits. The gross inflow of suppliers' credits is expected to increase to about \$840 million in 1972-76 from \$644 million in 1967-71. The Plan also calls for measures to lengthen the maturities on suppliers' credits and other private borrowings. But, despite longer, assumed maturities on new suppliers' credits, downpayments and repayments are expected to amount to almost 80 percent of the gross inflow. And the net inflow is expected to be slightly smaller in 1972-76 (\$175 million) than it was in 1967-71 (\$180 million). Thus, the net financing, which suppliers' credits provide, has become small despite the large gross inflow, on which interest charges are due.

77. Other private loans, related mostly to financing of investments, are expected to increase on a gross basis to \$425 million in 1972-76, from \$212 million in 1967-71. Due to the relatively small amount of such borrowing in the past, the net inflow is expected to increase to \$185 million in 1972-76. The projected increase is in part based on the expectations that large investment programs (such as steel and petro-chemicals) will be implemented during the Third Plan period. Some of these projects, particularly petro-chemicals, are still subject to a high degree of uncertainty, and might not be carried out during that period, which could reduce the amount of such loans. Inflows of equity capital, both on a gross and on a net basis, are forecast at a slightly higher level than in the Second Plan; the net inflow is expected to amount to \$210 million. This amount appears feasible.

78. The Third Plan expects a large increase in gross disbursements of official capital to \$650 million in 1972-76, compared with \$274 million in 1967-71. Disbursements of this magnitude would require, according to Plan estimates, new commitments of official loans amounting to about \$875 million, an average of \$175 million a year, in addition to an end-1971 pipeline of undisbursed commitments of about \$120 million. The new official loans are expected in the projection to be obtained on favorable terms, an average of about 5 percent interest, 20-year maturities, including a 5-year grace period. On the basis of these assumptions, repayments on new loans will be made after 1976, and net inflows are expected to increase steeply to \$475 million in the whole of 1972-76, compared to only \$45 million in 1967-71.

79. The inflow of official capital in the past was small, and the build-up to a much higher level involves serious difficulties. On the part of the Thai government, it calls for great improvements in the preparation of projects and programs suitable for external financing. According to tentative estimates in the Plan, the new commitments of official loans are needed to finance the foreign exchange cost (\$600 million) and some local currency costs (\$75 million) of development projects of the central government, public enterprises and local governments. Further, new commitments would be sought to finance part of the lending operations of the Industrial Finance Corporation of Thailand (IFCT, \$110 million) and the Bank for Agriculture and Agricultural Cooperatives (BAAC, \$90 million). While these possibilities have

been identified, considerable work is still needed to prepare development projects and programs for external financing in the above amounts, as well as to build up the lending operations of IFCT and BAAC.

80. On the part of sources of official capital, a steep increase in the amount of lending at lower than commercial terms is required. Moreover, more flexibility in lending techniques is needed so that some program lending and local cost financing will be made available to supplement the financing of the foreign exchange cost of projects. To help the government increase rapidly its borrowing capacity from official sources, technical assistance would be essential. Pre-investment studies requiring external assistance are listed in Annex 10.

81. Given the expected slow growth of imports in 1972 and possibly also in 1973 as well as the current high level of reserves, which provide a cushion to finance import requirements, large increases in public capital inflows would be required only in the last three years of the Third Plan. However, external aid agencies and the Thai government would be well advised to prepare for the future by taking immediate steps to increase Thailand's borrowing capacity from official sources.

82. Despite the sharp increase in net capital inflows, a shortfall of \$580 million would appear in 1972-76. In the past, Thailand enjoyed significant unrecorded net receipts, mostly on private account; these are expected to continue at an annual rate of about \$38 million. Further, the Plan expects that between 1971 and 1976, Thailand will receive \$72 million of Special Drawing Rights (SDR's) on the IMF, and will draw its reserves down gradually by about \$320 million to fill the gap (Table 10).

83. The external borrowing projections imply that Thailand's external debt will increase to \$1.8 billion in 1976, from \$0.9 billion in 1971. The mission has calculated that service payments on this debt would rise from 17 percent of exports of goods and non factor services in 1970 to 24 percent in 1976. At this level, the debt service ratio would be high but quite tolerable, considering Thailand's excellent repayment record and the availability of \$400 million reserves, equivalent to 3 months of estimated imports in 1976. Looking beyond the Third Plan period, however, prospects become alarming. If trade trends of the Third Plan continue after 1976, the current account deficit would increase to more than \$600 million and the debt service ratio would exceed 30 percent in 1980.

84. In the mission's view, the Plan relies too heavily on private credits with short maturities to meet the economy's external capital requirements. Debt servicing problems towards the end of the 1970's and in the 1980's would be less acute if this reliance was reduced. As shown in Table 11, the gross inflow of private loans and suppliers' credits has to grow by \$410 million between the Second and the Third Plan periods in order to increase the net inflow by \$90 million only. This reflects the short amortization schedules, particularly on existing suppliers' credits. Besides, service payments on private debt are expected to rise from 14 percent of exports of goods and non-factor services to 18 percent in 1976. Certainly, suppliers'

credits could continue to play a role in financing private imports of equipment, if they were provided on a competitive basis and on reasonable terms. But, if longer maturities could not be obtained on direct borrowings by the private sector, then domestic financial institutions should be developed even more than the Plan proposes to serve as appropriate channels to borrow funds on longer maturities and more favorable terms from official sources for relending to finance private investment. If IFCT and BAAC cannot be expanded fast enough, other channels could be considered.

85. The effect of a more pronounced shift in external borrowing from private to official sources could be quite substantial. For instance, the mission has calculated that debt service payments could be reduced from more than 30 percent of exports of goods and non-factor services in 1980 to around 27 percent, if the gross inflow of official capital increased to \$340 million in 1976 and to \$515 million in 1980, while the inflow of suppliers' credits would be reduced gradually to about 6 percent of merchandise imports by 1980. With adequate support from external sources of official capital, Thailand could make such a shift in its external borrowings although it would imply strenuous efforts on the part of the government and sources of external assistance. Nevertheless, debt service obligations would still be high and rising in relation to export receipts. To keep them at a more manageable level, say 25 percent of exports, the growth of exports would have to accelerate towards the end of the 1970's.

86. In brief, changes in Thailand's external borrowing strategy, which the Third Plan recommends, are in the right direction. However, in order to reduce debt service obligations after the Plan period, these changes could be even more pronounced than the Plan proposes. In particular, controls over direct external borrowings by the private sector, especially from suppliers, could be stricter, while the build up of domestic financial institutions channeling long-term external loans to finance private investments could be accelerated in order to maintain the flow of funds to private investors. Moreover, Thailand should use the Third Plan to build up its capacity to accelerate export growth after 1976, since in any case debt service obligations would be high. Manufacturing, mining and tourism would seem capable of generating greatly expanded exchange earnings, provided the appropriate policy measures are taken during the Third Plan period.

CHAPTER 5 - DOMESTIC FINANCING REQUIREMENTS

Development Expenditures

88. Public development expenditures in the Third Plan are estimated at ₦ 100.3 billion, an increase of about 54 percent over estimated development expenditures during the Second Plan (Table 12). 1/ This amount covers capital and current expenditures of the central government, local authorities and state enterprises on programs and projects included in the Plan. 2/ The overall size of Plan development expenditures would seem to be feasible if the Government raises sufficiently tax revenues and is capable to increase greatly mobilization of resources from external and non-expansionary domestic sources. Approximately 70 percent of public development expenditures during the Third Plan would be financed by central budget appropriations, 14 percent by the current surpluses of local governments and state enterprises, and 17 percent by external loans and grants. The latter do not include external loans, which will be sought to finance local currency costs, because these had not been identified precisely when this report was prepared. Some local currency financing by external loans would raise their share in total financing, while the shares of central and local governments would be reduced. Thus, the Third Plan relies somewhat more heavily on external financing than the Second Plan. As shown in Table 12, external grants and loans financed an estimated 15 percent only of total public development expenditures.

89. The sectoral composition of public development expenditures in the Third Plan indicates a shift in the emphasis from infrastructure to social sectors, whose combined share has increased from 51 percent in the Second Plan to 57 percent in the Third Plan. Plan expenditures on education are projected to nearly double. Education has been given the highest share with one-third of the total development expenditures, followed by transport and communications, and agriculture. These three sectors constitute two-thirds of the public development expenditures in the Third Plan. Spending on manufacturing and mining have been allotted merely 2 percent of the total planned expenditures because of continuous government policy to rely on the private sector in this field. Whereas the overall sectoral allocations of the Third Plan appear to be appropriate, they do not sufficiently focus on key priority programs within the education and agriculture sectors. 3/

1/ The original size of the Second Plan was ₦ 57.5 billion; but this amount was exceeded, largely because of an expansion of the definitional coverage of development expenditures, which include increasing amounts of current expenditures for "development projects", as defined by NEDB.

2/ Separate figures for state enterprises and local authorities are not available; similarly breakdown of capital vs. current expenditures could not be obtained.

3/ Comments on intra-sectoral expenditures are made in detail in the respective sections of Chapter 7.

Plan allocations to be financed by foreign loans and grants, a total of ¥ 17 billion (\$817 million), appear attainable considering Plan requirements, if the government improves project preparation and aid utilization. But, of this amount, only 12 percent would be for agriculture and 10 percent for education, since these sectors have a low capacity to absorb external aid.

Table 12: PUBLIC DEVELOPMENT EXPENDITURES

(Billions of baht; current prices)

| | Second Plan Total | Third Plan | | | |
|-----------------------------------|-----------------------------|-------------|------------------|--|-----------------------------|
| | | Total | Central Govt. | Local Govts. and State Enterprises | Foreign Loan & Grants |
| <u>Economic Sectors</u> | <u>32.0</u> | <u>43.4</u> | <u>25.2</u> | <u>7.8</u> | <u>10.4</u> |
| Agriculture and Irrigation | 9.5 | 13.7 | 11.6 | 0.1 | 2.1 |
| Industry, Mining and Commerce | 0.7 | 2.4 | 0.7 | 1.5 | 0.2 |
| Transport and Communica- tions | 16.0 | 19.5 | 10.9 | 3.2 | 5.4 |
| Power | 5.8 | 7.8 | 2.0 | 3.1 | 2.7 |
| <u>Social Sectors</u> | <u>33.1</u> | <u>56.9</u> | <u>44.3</u> | <u>6.0</u> | <u>6.6</u> |
| Education | 16.8 | 32.9 | 31.2 | - | 1.7 |
| Public Health | 3.3 | 6.3 | 5.5 | - | 0.8 |
| Others | 13.0 | 17.7 | 7.6 | 6.0 | 4.1 |
| Total Third Plan | - | 100.3 | 69.5 | 13.8 | 17.0 |
| Total Second Plan | 65.1 | - | 46.8 | 8.6 | 9.7 |

Source: National Economic Development Board; Vol. II, Table 5.8.

90. Present development planning practices suffer from serious weaknesses. They would be greatly improved if development expenditures were clearly defined, more detailed estimates were acquired on the basis of sectoral and project priorities, and more explicit analysis of the use of existing, as well as introduction of new financial sources, were presented. Similarly, expenditures directly contributing to growth of exports and those designed to remove bottlenecks in production and marketing should be identified as deserving priority. On the basis of such priorities, it might be useful to distinguish the "hardcore" of the Plan from the second priority expenditures, which could be postponed in case of revenue shortfall. It is also difficult to assess the past performance of development programs for want of details of past achievements in the annual plans. Annual budgets, as prepared by the Budget Bureau, need to be closely integrated within the framework of the overall plan, rather than as presently done on an independent basis.

Central Government Expenditures and Financing

91. According to Third Plan estimates, total budget appropriations of the central government during the Plan period would amount to ¥ 169.6 billion, consisting of ¥ 69.5 billion for "development projects" as defined in the Plan, and ¥ 100.1 billion for non-development purposes (mainly defense, police, general administration and debt services). Plan projections are based on the assumption that budget appropriations in each year would be as large as the revenue forecasts plus borrowings limited to 20 percent of appropriations, which is the present legal ceiling. These projections imply that current spending, excluding interest payments, would increase by about 6 percent a year. Considering planned requirements for education and other social sectors, as well as likely needs of export promotion and defense, this low growth rate will be difficult to maintain. Except for external loans contracted during the second Plan to finance highway construction, Plan projections of central government expenditures do not include the component financed by foreign grants and loans -- this is budgetary practice in Thailand. As a result, financial implications presented in the Plan omit receipts and payments on account of external grants and loans as far as the central government is concerned. These are in Table 13 below.

TABLE 13: CENTRAL GOVERNMENT FINANCES IN THE THIRD PLAN
(Billions of baht)

| | |
|-----------------------------------|-------|
| Budget appropriations | 169.6 |
| Less: Adjustments ^{/1} | -7.7 |
| Estimated cash expenditures | 161.9 |
| Financed by: | |
| Tax revenue | 116.5 |
| Non-tax revenue ^{/2} | 14.5 |
| Domestic borrowings ^{/3} | 30.9 |

^{/1} For a normal shortfall of 3 percent on annual budget appropriations and for conversion to cash basis.

^{/2} Including extra-budgetary receipts of ¥ 1,750 million.

^{/3} Including use of cash balances.

Source: National Economic Development Board.

92. The above projection of tax revenue includes ¥ 106.1 billion from taxation at existing rates, and ¥ 10.4 billion from new tax measures, which the Plan does not specify in any detail. Due to the expected sluggishness of receipts from taxes on foreign trade, 34 percent of tax receipts in fiscal 1971, revenue from taxes at existing rates is expected to grow at only 6.8 percent a year during the Plan period. Planned receipts from new tax measures would help maintain the "tax effort" (elasticity of tax revenue to

GDP) at about its historical level experienced during the 1960's. Tax revenue would increase from around 12.5 percent of GDP in 1971 to less than 13.5 percent in 1976. In the mission's view, the new tax measures constitute a strict minimum in order to avoid excessive recourse to expansionary sources of financing. Projections of non-tax revenue appear reasonable.

93. As for domestic borrowings, the Plan expects the central government to raise $\text{Nkr } 3.6$ billion (net) from the Government Savings Bank and the public, which are non-expansionary sources of financing. The rest, $\text{Nkr } 27.3$ billion, would be net borrowings from the banking system, mainly the central bank, and a small net use of cash balances, which are expansionary means of financing. If growth of money and quasi-money at the rate of 9 to 10 percent is assumed to be compatible with reasonable price stability, and if growing credit requirements of the private sector are taken into account, the mission estimates that permissible use of expansionary means by the central government might be around $\text{Nkr } 22$ billion for the Plan period as a whole. This is about $\text{Nkr } 5$ billion less than the Plan calls for. As much as $\text{Nkr } 1$ billion of this amount might be financed by the external loans, which the government intends to seek for still unidentified local costs of its expenditure program.

94. These financing considerations suggest that cash expenditures of the central government should not exceed $\text{Nkr } 158$ billion, compared to $\text{Nkr } 162$ billion on the basis of Plan assumptions. Due to slow project preparation, a shortfall on development spending may well be experienced, as it was during the Second Plan, when several development projects failed to materialize or slipped into the Third Plan. On the other hand, pressures on non-development spending might turn out to be greater than expected in the Plan. Clearly, expenditure levels will have to be reviewed on an annual basis in the light of developments concerning project preparation, prices and balance of payments. To the extent such reviews show that a higher level could be spent for justifiable projects, this level could be financed by a somewhat higher than presently planned tax effort and by selling more government bonds to the public either directly or through the Government Saving Bank.

Local Governments and State Enterprises 1/

95. Local government development expenditures during the Third Plan would be heavily concentrated on education, amounting to over 61 percent of the total. Over 77 percent of development expenditures would be financed through central government grants, and hence local governments would be

1/ The information on planned expenditures and financing for local governments and state enterprises is not available in sufficient detail.

even more dependent on the central government than they were in the past. The share of central government grants varies from 20 percent for metropolitan authorities to as high as 92 percent for rural communities. Regarding local government revenues, the Plan projects a high growth rate of self-financing at 9 percent a year, but does not make any specific recommendations to achieve this goal. Given the weakness of tax collection by local government, this goal could not be achieved without an increase in present tax rates, particularly of property taxes.

96. Development expenditures of state enterprises are dominated by two sectors, power and transport (including communications), which together account for 87 percent of the total. More than 50 percent of the finances for these two sectors is expected to be obtained from foreign loans. Industry, agriculture and trade have only a marginal allocation, as the private sector will continue to assume an overwhelmingly important role in these sectors. Although state enterprises are expected to receive loans and grants from the central government to the extent of over $\text{฿} 2$ billion, their contribution to the budget through profit remittances and dividend payments is expected to increase steeply to $\text{฿} 6$ billion during the Third Plan period.

Domestic Financing: Revenue Policy

97. Taxes on foreign trade contributed about one-third of all tax revenues in FY 1971.^{1/} This already reflects a considerable reduction from the early 1960's when they provided almost half of tax revenues. The declining trend in the share of such revenues is expected to continue, as a result of the need to slowdown import growth and provide incentives for rapid export expansion. Consequently, the tax base of other sources has to be enlarged.

98. Tax revenues could be increased significantly, ^{2/} even at existing rates, if tax administration were substantially improved. Evasion and under-reporting of income and other taxes is widespread, and tax administration is particularly lax in collection of customs, business and income taxes. Regarding income taxes, assessment and audit functions need considerable improvements. The shortage of technically qualified staff, especially at the inspectorate level, appears to be the main drawback in the administrative set up.

^{1/} This represents the shares of import duties and export taxes; in addition, about 45 percent of business tax receipts are derived from imports and exports, and collected at the customs station at the time of importation and exportation.

^{2/} Detailed recommendations for improvement in the tax effort were made by the International Monetary Fund in its Reports on "A Survey of Thailand's Tax Structure" dated July 1, 1970, and the mission generally concurs with them.

99. Additional revenues could be obtained by increasing rates of excise taxes, company income taxes and truck registration fees. Substantial scope exists for increasing excise tax rates on gasoline and diesel oil, which are presently low. Excise tax rates could also be increased on alcoholic liquors, including beer, and additional commodities could be brought under excise tax, such as textiles, electric bulbs and soap. Motor vehicle registrations have increased rapidly in recent years; the level and structure of registration fees needs to be re-examined. A higher registration fee for trucks should be considered. Especially with the increasing number of diesel using vehicles, and a very low rate of excise tax on diesel oil, a special tax on diesel vehicles would be justified, so that they pay a fair share of road users' charges. The company income tax rates are low, and their structure needs rationalization. The first bracket applies to too wide a group of the net annual income of up to ₱ 500,000, and the present rates are quite low. The present tax differences between registered and non-registered partnerships, based on their legal distinction, do not seem to be warranted, and both should be subjected to personal income tax.

100. Tax reforms needed mainly for equity reasons concern taxes on capital gains on property and inheritance taxes. A serious loophole exists at present as a result of a liberal interpretation of the law, which practically exempts capital gains on real estate. The law also exempts gains on property acquired by bequest. This encourages real estate speculation, creates inequities in the system and impedes development of market for private securities. Closing the loophole by taxing capital gains on property and introducing inheritance taxation should be given serious consideration.

101. The encouragement of private securities market would require certain fiscal incentives in the initial stages. For example, in order to induce business firms to go public, fiscal incentives could be provided by increasing the company income tax rates on private companies. Similarly, dividend income should be given the same tax treatment as interest income from bank deposits and government bonds, in order to induce investors to buy securities.

102. Local government taxes could be raised by reforming the present regressive rate structure of land development tax. Substantial improvements could also be made by removing the exemptions and preferential treatments of different types of lands. Similarly, municipal revenues could be increased by introducing the property tax, as a substitute for the present house and rent tax, which favors owned property, and discriminates against rented property. The government is considering new legislation on property taxes justified on economic and social equity grounds. It might also reexamine fees and charges for government services, such as education, health services and highway tolls, which appear unduly low, particularly for higher income groups.

Domestic Borrowing

103. As suggested in the Third Plan, domestic borrowings will continue to be a major source of government receipts. However, the suggested composition of these borrowings implies a heavy reliance on expansionary sources.

The Plan expects a substantial part of these borrowings to be financed by the Bank of Thailand, whose contribution to development expenditure is expected to be 25 percent of development expenditures. Sales of government bonds and treasury bills to commercial banks also form a part of expansionary financing.

104. The share of non-expansionary domestic borrowings needs to be increased, if reasonable price stability is to be maintained. In the mission's view, its share in domestic borrowings could be doubled during the Third Plan, by making vigorous efforts to sell bonds to individuals, who benefit from tax exemption on interest income. The recent measures, which subjected interest on government bonds to corporate income taxation, have made them unattractive to private corporations and commercial banks. Selling efforts are also hampered by some technical shortcomings. Simplification of categories, of issues and sales procedures, and introduction of uniformity in the tax status of various bondholders could help increase the share of non-expansionary financing.

105. The contribution of the Government Saving Bank (GSB) could be increased in the Third Plan compared to the Second Plan. Due to its widespread network of branches in the country and long established background, the GSB has acted effectively in channeling private savings to the financing of public investments in the past. However, because of lower interest rates of GSB compared to those of commercial banks, the growth rate of private deposits with the GSB declined steeply from 24 percent in 1966 to 8 percent in 1970. There is sufficient scope for useful competition between GSB and commercial banks, and the recent decision to make GSB pay rates as competitive as those of the commercial banks should help it increase its role in the mobilization of private savings for public investments.

Capital Market Improvement

106. Thailand clearly needs a more developed financial system, so that private investments can in part be financed by selling bonds or shares to savers, rather than being almost wholly dependent, as they presently are, on owner's capital, short-term bank credit or external suppliers' credits. Although Thailand has achieved a remarkably high rate of national savings at 20 percent of GNP in 1969, predominantly in the private sector, it does not have a well-developed financial structure. Commercial banks still dominate the organized financial sector, whereas other financial institutions, such as insurance companies, provident funds, financial houses, development banks and securities markets play only a marginal role. Similarly, bank deposits are by far the most popular financial instrument, whereas bonds, shares, etc., are insignificant.

107. Although comprehensive information on sources of funds for business enterprises is not available, it is evident that their growing needs of local financing are mostly met by the commercial banks. Particular attention has to be paid to the growing requirements for longer term funds. Apart from the contribution of the unorganized market, which is difficult to quantify, banks

have been in effect providing longer term finance to customers mainly by means of overdrafts, which are rolled over. This practice leaves excessive control with the banks, since an overdraft can be terminated at the end of the short period for which it is extended, usually one year. The progress of the Industrial Finance Corporation of Thailand (IFCT) has been slow and its share in financing industrial investments is small. Another specialized institution, Bank for Agriculture and Agricultural Cooperatives (BAAC), provides short and medium term credits to individual farmers and agricultural cooperatives. A few more financial institutions, which deal with instalment credit, short-term commercial paper, underwriting and investment services, have sprung up recently. They were established with the support of leading, local, as well as foreign banks. Although they have successfully attracted funds of varying maturities by offering annual interest rates ranging between 8 percent for liquid funds and 10 percent, they are still very small in size.

108. The basic solution to the problem of providing longer term funds to private enterprises would be to encourage establishment and growth of specialized financial institutions, such as life insurance companies, provident funds, and trust funds. These institutions should offer investment opportunities to satisfy savers in terms of safety, liquidity and yield. Their financial instruments should also be made comparable to the existing forms of financial savings, especially in terms of their income tax treatment. This observation applies more particularly to life insurance companies, which, as in many other countries, should be encouraged to expand by the tax system in view of the role they could play to finance residential and other construction; at the same time they would be encouraged, there would be a need to control their use of funds for investment. In 1969, the Bank of Thailand undertook an in depth study on the overall financial structure and capital market development with the assistance of Professor Robbins. Several recommendations have been made in this study, and as a first step, Legislation is now pending, which will bring all the financial institutions under government control. In the meantime, the Securities Exchange Formation Committee was formed in September 1970 with the principal objective of forming a securities exchange, and is expected to submit its proposals shortly. Another committee has been formed to work on accounting and auditing requirements. Revision of the public companies' code is under study by the Ministry of Economic Affairs. The Bank of Thailand, as monetary authority and fiscal agent of the government, has undertaken the overall responsibility of a program for capital market development, and established a working group for this purpose. However, progress appears to be rather slow; work needs to be expedited faster.

109. The present operations of the Bangkok Stock Exchange are very limited and are dominated by government bonds. The development of equity market is essentially a long-term process, and initially emphasis might be placed on bond issues. For example, specialized financial institutions like IFCT and BAAC might be encouraged to increase their borrowings in the domestic market.

Presently, they rely heavily on funds from the government and from the banking system. The government has shown some signs of encouragement to IFCT, as it is evident from its recently concluded arrangement of refinance and rediscount from the Bank of Thailand. IFCT and BAAC should assume a larger and more important role in the financial system in the near future by mobilizing additional private savings, in addition to borrowing from external sources. With dynamic leadership, they could become important instruments in channeling private savings and external borrowings into long term financing of private investments.

CHAPTER 6 - DEVELOPMENT PLANNING AND IMPLEMENTATION

110. The objectives of the Third Plan are not likely to be achieved without far-reaching improvements in development planning and implementation, as well as in general economic management. Previous Bank reports noted many weaknesses in project and program preparation undertaken by various ministries and agencies, insufficient coordination and the lack of effective local government organization. Despite the efforts made in preparation of the Third Plan, which involved a good deal of cooperation between NEDB and many ministries and agencies, there is great need for an overall improvement in development planning and implementation. While improvements in this respect are needed at all levels, a few particular examples, which bear directly on development planning and implementation, might be noted.

111. To achieve better coordination in overall economic policy, a Cabinet-level Committee on Production and Marketing was set up in 1970, chaired by the Minister of National Development, who was also Deputy Prime Minister. This Committee had admittedly failed to improve the situation, since all its decisions were referred to the Cabinet, which seemed to be clogged by an endless number of routine economic matters, in addition to other affairs of State. The Committee could have been considerably more effective if it had been given the authority to make final decisions on behalf of the Cabinet on all but exceptionally important economic policy matters. It would also have needed a full-time small staff to prepare policy papers, in coordination with various ministries. Hopefully, the recent governmental change will provide an opportunity of achieving coordination in economic management.

112. To improve planning and project preparation, effective planning units should be set up in the various sectoral ministries and agencies, of which the ministries of agriculture, industry and education are of particular importance. These units, while reporting to their ministries, should also work in close cooperation with NEDB and the Budget Bureau on a continuous basis. In sectors in which government programs and projects play a major role, such as agriculture and education, they should be capable of undertaking project preparation, or of reviewing projects prepared by consultants. In predominantly private sectors, such as industry, mining and tourism, the planning units need not prepare projects, but should be responsible for preparation of guidelines for sectoral priorities and criteria, as well as for appraising projects prepared by the private sector, and submitted to the government in support of applications for promotional certificates.

113. To improve economic policy management, greater cooperation is needed between the ministries and agencies in charge of balance of payments, fiscal policy, monetary affairs, and development. During the later stages of Third Plan preparation, representatives of the Ministry of Finance, the Bank of Thailand and NEDB, and to some extent, the Budget Bureau formed a working group to prepare data and analyze their implications. Similar work is needed on a continuous basis not only to improve data and projections, but also to consider policy alternatives, and to recommend courses of action as a basis for decisions to be made at the ministerial level.

114. The budgeting procedures also need great improvements, particularly with respect to development expenditures. The budget submitted to the Cabinet is prepared by the Budget Bureau, which customarily can approve only a part of the ministries' requirements. But, before that step is taken, implementing ministries and agencies have to submit their proposals for "development projects" to NEDB for approval on grounds of economic feasibility and conformity with development priorities. While scrutiny by the Budget Bureau is detailed and financially oriented, NEDB's review is general and based mainly on economic considerations. Thus, the criteria followed by these two agencies differ, and a fair degree of confusion prevails -- in the first place, as to what are development expenditures. Closer consultations between NEDB and the Budget Bureau would be required, first, to agree on definitions and criteria for the budget and the development plan, and, second, in the light of these definitions and criteria, to monitor the implementation of development projects by central ministries, state enterprises and local governments. The processes of budgeting and Plan implementation could be improved if annual budget allocations were made within the framework of priorities, on which the Budget Bureau and NEDB would be in agreement.

115. These are just a few examples of improvements required. The mission has not undertaken to review the administration of development planning and policy. But it cannot fail to emphasize that unless effective measures are taken without delay to improve project and program preparation, it is difficult to foresee how the flow of official capital could be steeply increased to the levels required. In the mission's view, highest priority should be given to introduction of improvements in economic management and in development planning and policy. There are indications that bilateral and international assistance could be obtained for such purpose, but the improvements can be initiated and implemented only by the Thai government.

PART III - SECTORAL AND REGIONAL DEVELOPMENT POLICIES

CHAPTER 7 - ECONOMIC SECTOR POLICIES

a. Agriculture

Recent Performance

116. Agriculture made an impressive contribution to Thailand's economic growth. The country has been spared the difficulties of finding enough food for its people, who are well-fed by Asian standards. Rather, agricultural commodities provided most of merchandise export earnings. With substantial forest areas available for settlement, Thailand has not faced the extreme pressures of people on land and the overwhelming problems of unemployment which pervade much of the developing countries.

117. The data in Table 14 give some insight into the changing role of agriculture in the economy in the 1960's.

Table 14: INDICATORS OF THE SHARE OF AGRICULTURE IN
THE NATIONAL ECONOMY

| <u>Year</u> | <u>Percent of Employment</u> | <u>Percent of GDP</u> | <u>Percent of Total Export Value</u> | <u>Rice Exports as Percent of Total Export Value</u> |
|-------------|------------------------------|-----------------------|--------------------------------------|--|
| 1960 | 83 | 40 | 91 | 31 |
| 1965 | 80 | 35 | 82 | 33 |
| 1970 | 78 | 30 | 70 | 17 |

Source: National Economic Development Board and Bank of Thailand.

These trends are encouraging in that the nation's economic base has broadened and diversified quite rapidly. Furthermore export earnings are becoming somewhat less vulnerable to changes in the agricultural sector, although it still is the main source, even with a substantial falling off in rice exports. On the other hand, the relative shares of agriculture in employment and GDP indicate pressure from the agricultural labor supply, and a severe and increasing imbalance between the incomes of those engaged in agriculture and those in other sectors. During 1965-70, the working force increased on average about 420,000 persons a year, of which roughly 250,000 entered agriculture raising employment in agriculture to 12.8 million in 1970. Many of these found employment by unorganized settlement in forest areas, engaging in slash and burn agriculture.

118. The sector's average growth of output during 1966-70 was 5.6 per cent a year, substantially in excess of the annual population increase of 3.1 percent and was also significantly higher than that during the preceding five-year period.

Table 15: ANNUAL GROWTH RATES IN AGRICULTURAL GDP

| <u>Subsector</u> | <u>1961-65 Percent</u> | <u>1966-70 Percent</u> | <u>Percent of GDP in 1970</u> |
|-------------------|----------------------------|----------------------------|-----------------------------------|
| Crops | 4.5 | 4.9 | 19.6 |
| Livestock | 2.6 | 2.9 | 3.9 |
| Fisheries | 18.3 | 18.6 | 3.6 |
| Forestry | <u>5.8</u> | <u>4.5</u> | <u>2.5</u> |
| Total Agriculture | 4.8 | 5.6 | 29.6 |

Source: National Economic Development Board.

119. Despite lack of current data, it seems clear that area expansion was by far the major factor in increased crop output. Average yields of most crops were either little changed or lower in 1966-68 (1967-69 when available) than in 1960-62 ^{1/}. The major exceptions were rice and cotton, the former apparently benefitting from better control of flood waters and the latter reflecting the situation prior to heavy incidence of plant diseases in recent years. It is notable that yields of maize, cassava and rubber, upon which attaining the Third Plan export targets substantially depends, declined about 6 percent, 13 percent and 20 percent respectively, in a time span of only 6-7 years.

120. Export value of rice, the most important commodity, dropped 40 percent between 1965 and 1970. However, the total value of agricultural exports was reduced only 4 percent; declines in rice and kenaf were largely offset by increases in exports of maize, cassava and rubber. This period also witnessed the emergence of shrimp and tobacco exports in significant amounts.

121. Although Thailand's agriculture is oriented towards exports, there are some significant imports of dairy products, animal and vegetable crude materials, textile natural fibers, tobacco leaves and pulp and paper. Altogether, the value of imports of these items increased about US\$35 million between 1965 and 1970.

^{1/} See Annex 1.

Major Problem Areas

122. An overview of the state of agriculture in Thailand reveals some encouraging aspects, but also some disquieting trends.

- a. Over the past two decades Thailand's rate of growth in agricultural output averaged 4.6% a year according to FAO; the highest among Asian developing nations.
- b. By far most of the gains in output has come from lateral expansion of cultivated area, particularly through unorganized encroachment on forest lands; a means for employment of the growing rural labor force, but also a destructive use of the nation's land resources.
- c. Thai agriculture has hardly been touched by the improved seed-fertilizer technology; essentially organized in small units with 70 percent of the land holdings less than 4 hectares low productivity brings low incomes. Crop yields of most products, low by international standards, appear to be declining as marginal lands are brought into cultivation.
- d. A resourceful private sector in agriculture, which, on its own in the past decade, has made remarkable progress in developing production and exports of maize, cassava, kenaf (an upland crop grown under rainfed conditions) and shrimp. Thailand's traditional dependence on rice has been substantially diminished.
- e. Public investment in irrigation facilities has had some effect in increasing output and yields of rice mostly through better water control; as yet, contribution of dry season irrigation to production of upland crops has been small.
- f. Government policies generally have not been sufficiently encouraging to agricultural development, and thus inhibited private investment in agriculture.
- g. A marketing system, while technically efficient in many aspects for the major export commodities, works against the farmer particularly at harvest time; high handling costs at portside and uncertain quality dampen Thailand's competitive position in foreign markets for most commodities.
- h. The institutional infrastructure particularly concerning agricultural research, extension, education and cooperatives, is still grossly inadequate to support a strong development effort.

Third Plan Targets

123. Agricultural development in the Third Plan is largely shaped by the need to increase export earnings and to improve farm income, especially urgent in view of the turn-about in world markets for rice. Thus, the central strategy for agriculture is to accelerate diversification of the production base. The Plan expects an increase of about 32 percent in the value of agricultural exports in 1972-76 providing more than half of the projected increase in total export earnings. Whether the overall Plan target materializes will depend substantially on increased production and export of maize, which is projected to account for some 32 percent of the increase in value of agricultural exports, while cassava is expected to account for 19 percent, and rubber, 16 percent.

124. Viewed from past experience, including the demonstrated flexibility of the agricultural sector to adapt to new opportunities, the mission does not feel that the production targets on the whole are over-ambitious (Table 16). The overall growth rate projected for the sector of about 5 percent a year is well within the actual rates obtained in the past decade and somewhat below that of 1965-70. Projected increases in output for most commodities are not greatly out of line with past performance. The mission has no serious question as to the capability of Thai agriculture to meet production targets for rice, rubber, cassava or kenaf, all important items, even if present methods of farming continue.

125. The most serious reservation is related to maize, the keystone of the plan. Although there are still lands available to expand maize cultivation, it seems quite unlikely that the target of 3.5 million tons would be approached, without some improvement in yields, presently on a declining trend. With declining yields, the area in maize would need to be expanded from the present 5 million rai to around 12 million rai. Even with a program of improved seeds and fertilizer, there may well be a shortfall considering the time element involved. But this could be substantially offset by an increase in grain sorghum beyond its target. Areas where low moisture conditions make maize production risky are better adapted to sorghum, and improved varieties, more acceptable in export markets than the present varieties, could outyield maize on these lands.

126. The mission finds little promise for reaching the soybean target, especially in view of the low yielding varieties available and poor returns to cultivators. A shortfall is also likely for coconut. Nevertheless, with increased supplies of groundnuts, the supply of vegetable oils would be ample to meet domestic requirements. In the case of cotton, where a serious deficit exists, it is likely that the government will need to enforce certain practices to overcome the boll worm infestation. The achievement of the tobacco target depends largely on government action through the tobacco monopoly to provide the seeds and other inputs for increasing output.

Table 16: AGRICULTURAL PRODUCTION AND GROWTH RATES

| | P r o d u c t i o n | | | Annual | |
|--|---------------------|----------------------|---------|--------------------|-----------|
| | 1961 | 1969 | Targets | Percent Change | |
| | Actual | Actual | 1976 | 1962-1969 | 1970-1976 |
| <u>Selected Crops ('000 m. tons)</u> | | | | | |
| Paddy (NEDEB data) | 10,231 | 12,339 ^{a/} | 14,617 | 2.7 | 2.1 |
| Paddy (Div. of Agr. Economics) | 8,430 | 12,347 | 14,617 | 4.9 | 2.4 |
| Rubber | 184 | 269 | 397 | 4.9 | 2.0 |
| Maize | 602 | 1,677 | 3,500 | 13.6 | 11.1 |
| Sorghum | n.a. | n.a. | 171 | n.a. | n.a. |
| Kenaf (washed) | 185 | 326 | 450 | 7.4 | 4.7 |
| Cassava (Tapioca) | 1,675 | 2,770 | 4,850 | 6.5 | 8.3 |
| Sugar cane | 4,173 | 6,658 | 6,047 | 6.0 | -1.3 |
| Tobacco | 57 | 81 | 148 | 4.5 | 9.0 |
| Coconut ('000 fruits) | 348 | 338 ^{a/} | 574 | -0.4 ^{b/} | 6.8 |
| Cotton (with seeds) | 41 | 93 | 200 | 10.8 | 11.6 |
| Groundnuts | 124 | 179 | 400 | 4.7 | 12.2 |
| Soybeans | 27 | 59 | 300 | 10.3 | 26.0 |
| Mungbeans | 52 | 203 | 480 | 18.6 | 13.1 |
| <u>Selected Livestock ('000 heads)</u> | | | | | |
| Cattle | 506 | 613 ^{a/} | 820 | 2.4 | 3.7 |
| Buffalo | 332 | 346 ^{a/} | 422 | 0.5 | 2.5 |
| Swine | 3,710 | 4,330 ^{a/} | 5,870 | 2.0 | 3.9 |
| <u>Fisheries ('000 m. tons)</u> | | | | | |
| Shrimp | 12 | 73 ^{a/} | 110 | 25.0 | 5.2 |
| Marine Fish | 210 | 646 ^{a/} | 1,975 | 15.1 | 15.0 |
| Fresh Water Fish | 72 | 88 ^{a/} | 109 | 2.6 | 2.7 |
| <u>Forestry ('000 m³)</u> | | | | | |
| Teak | 128 | 245 ^{a/} | 422 | 8.5 | 7.0 |
| Yang | 339 | 507 ^{a/} | 561 | 5.2 | 1.3 |
| Other | 835 | 1,672 ^{a/} | 2,490 | 9.1 | 5.1 |

^{a/} 1968 (i.e., average 1967-1969); corresponding growth rates are for 1962-1968 and 1969-1976 period.

^{b/} Data of the Ministry of Agriculture indicate a trend increase of 2.6 percent a year.

Source: Ministry of Agriculture, Division of Agricultural Economics; National Economic Development Board (NEDEB).

127. For the livestock subsector, the projected growth rate of 3.4 percent a year appears on the high side, especially in view of the increasing number of cattle and buffalo and slaughter rates which have prevailed for a considerable number of years. Here, the need is to improve the basic stock, animal nutrition and management, a lengthy process which will have little impact on Third Plan targets. The poultry and swine industries have the potential to expand more rapidly than cattle. In fisheries the potential to exploit remote ocean fishing grounds and establishment of shrimp culture along the Thai coastline hold more promise for years beyond 1976. For forestry, production targets could well be attained at the expense of further depletion of teak forests.

128. Thailand has a good chance to achieve its overall agricultural export targets. Port capacity is a major obstacle. By 1976, the volume of rice, maize (and sorghum) and cassava for export could be 2 million tons larger than in 1971, when the capacity of Bangkok port was already strained by heavy seasonal load in the early months of the year. Some relief could be obtained from evening out the seasonal movement by building up-country storage for partly dried maize and cassava chips and pellets, and providing some means for financing inventories. Even so, port capacity would be inadequate. There is need for a deep sea port facility which can handle large vessels and reduce operation costs.

129. Thailand will also need to improve and standardize the quality of the products it exports, much as it has done for rice. Cassava and kenaf particularly need immediate attention, and it is likely to become of increasing importance for maize and sorghum, if Thailand is to improve its competitive position in those commodities.

130. It is likely that world markets can absorb the increased volume of exports, although prices of some commodities such as rubber are not expected to increase, while prices of most others may show little improvement. Exceptions are likely for shrimp, tobacco and teak, for which demand and prices are expected to strengthen during the plan period.

131. Modest gains in export volume and price are anticipated for Thai rice, even though the world market fails to expand. The high quality of Thai rice, the recently adopted aggressive credit sales policy particularly under government-to-government sales, and the prospect of reducing costs of production, could help Thailand to weather the immediate depressed markets better than most other developing countries and to expand exports if markets improve. Uncertainties as to future rice markets are underscored by the hostilities between India and Pakistan.

132. Prospects for approaching export targets for maize (and sorghum) are directly related to trade with Japan and Taiwan, which now purchase about 80 percent of Thai exports of maize. Thailand's share of the Japanese market has declined to some extent since mid-1960, but it retains most

of Taiwan's imports. Both countries are giving grain sorghum a more important role in their import feed supply. If Thailand can reduce shipping costs and regain a larger share of the Japan maize requirements and also provide sorghum of desired quality, the prospects for increasing penetration of these markets are encouraging. Lower freight costs would also enable Thai exporters to compete in some European markets.

Major Strategies and Policy Measures
The Role of Irrigated Agriculture

133. It is clear that Thai agriculture has an enormous potential for development and considerable flexibility in how it might go about it. The nation is fortunate in that there are still large tracts of land that can be opened up to cultivation if needed. At the same time, a transition from traditional agriculture to improved technology offers very large possibilities for rapid increases in output on existing farm lands. There are the differing emphasis that might be placed on developing irrigated agriculture and on improving rainfed agriculture, which has long been neglected. There is the evident capacity to take up new lines of production as well as a built-in national advantage in producing rice.

134. Thailand need not embark on a single track of development with the risks that such a course would entail. Rather an appropriate strategy for the immediate years ahead would be to move in a number of ways so as to keep open its options for long term development. It is clear that at the same time Thai agriculture is learning how to develop and use irrigation facilities more effectively, a large effort must also be directed toward increasing productivity in rainfed agriculture which is the condition under which most Thai farmers operate.

135. Public investments in irrigation facilities in the Chao Phya project of the Central Plain were primarily for the purpose of alleviating flooding in the basin in order to improve the conditions for growing rice in wet season. This important objective has been realized. However, the programs to extend dry season irrigation to the northern part of the Chao Phya plain have not been adequate and progress has been slow with the dry season area covering some 165,000 rai.

136. The Third Plan proposes to extend dry season irrigation in this area to 1.3 million rai. This appears to be overambitious within the time frame of the next 5 years. It would require attention to canals and laterals to provide water during the dry season (present systems can serve only 424,000 rai) to farm improvements for proper water use (especially necessary for upland crops), and to strengthening of the supportive services such as extension, credit, availability of seeds and fertilizers and market facilities, which are now grossly inadequate and lack coordination. Further, with some 70% of the soils as the area ill-suited for upland crops, more rice than upland crops would likely be produced.

137. For these reasons, the Government might proceed more slowly in developing dry season cropping than is proposed in the Third Plan. A selective program of pilot projects, which take advantage of investments already made and which give priority to those areas with the best potentials for producing upland crops, should go forward. As capabilities and performance improve, the pace of development in this area could be increased.

138. The development of the Nan River Basin should proceed. It is a matter of immediate urgency since closure of the Sirikit Dam reduced flooding in the Uttaradit and Pitsanuloke areas between the Cam and Chainat, upon which wet season crops are dependent. Thus, some 820,000 rai of wet season rice were affected adversely. The Royal Irrigation Department is using portable pumps in an attempt to supply these lands with water, but this measure is expensive and does not adequately serve the damaged area.

139. The soils of the Nan River Basin appear to offer better opportunities for dry season irrigation of upland crops than the northern part of the Chao Phya plain. A total area of over 1.5 million rai is irrigable, of which some 60 percent has soils suitable for upland crops. Investments costs for the project, fully designed for dry season irrigation, are presently estimated at roughly US\$250 million. Since this is a matter which will take many years, the experiences with upland crops to be gained in the northern part of the Chao Phya plain will assist fairly rapid development as the project is completed.

Land and Land Tenure Policies

140. Although about 20 million rai have been encroached from forests in the past 6 or 7 years, approximately 50 percent of the total land area is still in forest land. But the lands opened up are increasingly marginal for crop production, and the process of unorganized settlement and slash and burn cultivation leaves in its wake serious problems of soil and water conservation and unproductive use of valuable timber resources. It is essential that effective control on land settlement be established.

141. Settlement schemes need to be substantially improved. Settlers rarely have sufficient credit resources available, particularly long-term credit. If settlers are to be given a better opportunity, larger public investment in infrastructure, improved supporting services and access to more financial resources would be required. The Cabinet has recently approved the allocation of 8.6 million rai from forest land for land settlement during the Third Plan. A settlement program of this size would accommodate most of the increase in rural labor force during the plan period.

142. The conditions of tenancy as they exist at present not only impede development but also disadvantage the tenant. The Act of 1950 providing, among other things, for low rental rates and 5-year lease periods is clouded with ambiguities which have made it unenforceable. Thus, tenants generally do not have access to institutional credit. Their yields and incomes are substantially lower than owners. It would seem a matter of urgency from the viewpoints of overall development and of equity for the tenant to amend the legislation to improve the conditions of tenancy and make it effective.

Fertilizer Price Policy

143. The high cost of fertilizers relative to prices farmers receive for their products is one of the most important obstacles to improving crop yields and incomes in agriculture. Thai farmers pay high prices for fertilizers, which partly reflect protection of domestic output of ammonium sulphate and urea at prices more than double the costs of imports, and are partly due to a distribution system involving small volumes and high credit charges linked to produce sales in the private sector.

144. According to the FAO/UNDP Soil Fertility Research Project, fertilizer use in 1969 was only 40 percent of the levels required to maintain soil productivity and only 10 percent of the amount that would increase yields significantly. There is little use of fertilizers on maize and cassava, which rank high in the Third Plan. With declining prices of rice, fertilizer use on rice has declined.

145. Present product/fertilizer price relationships do not provide incentives for cultivators to use fertilizers. The added returns to rice, maize and cassava are generally too low to compensate for the risks involved. However, a reduction of fertilizer prices to cultivators of about one-fourth, from approximately ₪ 2 to ₪ 1.5 per kilo would increase average returns to cultivators for these commodities by more than double the cost of the fertilizer, generally accepted as a yardstick favoring fertilizer use. A significant reduction in prices could be accomplished by lifting restrictions on importation of fertilizer materials at current world prices, and by providing more institutional short-term credit for fertilizers at official interest rates which are substantially lower than those extended by non-institutional sources.

146. It is clear that a significant reduction in prices of fertilizers is essential, if the decline in crop yields is to be arrested and reversed. It is of such overriding importance, that it must be achieved even if it is necessary to subsidize part of the costs to farmers.

147. Concurrent with the change in fertilizer policy a program to improve seeds is needed. Few Thai farmers use quality seeds that are responsive to fertilizer application. Varieties of maize and sorghum, available in Thailand, have a definite superiority in this respect to traditional varieties. But the system of seed multiplication and distribution is lacking so that they are not generally available. Seed improvement is of critical importance, if the fertilizer policy is to pay off well. Beyond this, there is a further large potential to increase yields by directing the research program to develop new varieties with high fertilizer response characteristics.

Other Policy and Institutional Measures

148. At present there is no effective link between agricultural research and the extension services, which assist farmers to adapt research findings into practice. Further, the extension services are inadequately manned, poorly trained and poorly paid and the responsibilities are so scattered among several government departments that they are substantially uncoordinated. Consolidation of the services for crop and livestock production is a necessary first step. The Ministry of Agriculture is moving in this direction under a unified Extension Service. But similar activities carried on by other ministries should also be transferred and consolidated in the Department of Extension.

149. Although significant progress has been made in developing institutional credit for agriculture in recent years, the supply of such credit is still very short of requirements for both seasonal and long-term credit, and relatively few farmers are being reached by institutional sources. In addition to provision for more credit, there is need for a higher share of long-term credit available for investments, such as in land improvement and livestock enterprises.

150. In a strategy which looks for a very large increase in maize output, it will be important to prevent depressed prices to producers at harvest time. The price guarantee program for rice, which has been quite ineffective, indicates the undesirability of mounting a similar program for maize or other commodities. The recent programs of the Bank of Thailand to discount warehouse receipts for stored paddy appears to offer a better alternative for stabilizing seasonal prices. Application of this program to maize and cassava requires up-country drying and storage facilities, which are also needed to even the flow of commodities to port.

151. The extreme disarray of government agencies and functions concerned with agricultural development has been emphasized repeatedly in previous Bank reports. It is all the more important now that a major shift in agricultural strategy is underway. It remains abundantly clear that the development effort requires centralization of organization and day to day administration. This is rightly in the purview of the Ministry of Agriculture, and the Ministry should be strengthened and given those responsibilities. This includes improving agricultural statistics which are extremely inadequate.

152. Various Government agencies have developed or sponsored a wide array of farmer institutions for group action, ranging from Government controlled and supervised farmer cooperatives to informal associations of farmers for a more limited purpose. These institutions are still in a developing stage, and it is too early to prescribe any one form as the standard means for agricultural development at the farm level, as is proposed for the multipurpose cooperatives. There is, in fact, a danger that these young institutions will be called on to do too much for their present capabilities.

Financing Requirements

153. The planned development expenditures for agriculture and irrigation in the Third Plan period is about ฿ 13.7 billion. It is not possible to relate planned public expenditures for agriculture during the Third Plan to the production and export objectives, which are largely a matter of developments in the private sector. The overall size of public development expenditures on agriculture other than irrigation appears reasonable to the mission. At the same time, expenditures on irrigation projects are projected to increase about 13 percent, emphasizing programs to bring dry season irrigation to the upper Chao Phya basin. The latter has limited possibilities to contribute to the plan targets for upland crops, as stated above. Expenditures for this purpose could be reduced, perhaps by ฿ 100-150 million over the plan period.

154. There are many opportunities to effect broad agricultural development, which will have wide impact in a relatively short time. This has particular reference to financing imports of fertilizers and credits to farmers for fertilizers. The need to accelerate rubber replanting on small holdings may require assistance of a long-term loan on concessionary terms.

155. External financing would be suitable for several agricultural projects and programs of a long term nature which include continued support for development of the Northern part of the Chao Phya plain and the development of the Nam river basin. An agricultural development fund to be administered through the Bank of Thailand could provide discount facilities for development loans for the Bank of Agriculture and Agricultural Cooperatives (BAAC), commercial banks, the Industrial Finance Corporation Thailand (IFCT) or other credit agencies. These activities could range from intermediate and long-term credit to cultivators for improving the productive capacity of their farms to financing pedigree seed programs, and up-country storage and drying facilities.

Feasibility studies should be made of the prospects for seed and storage programs. This fund might require external financing of about US\$20-25 million during the Third Plan period. There also appear to be prospects for external financing of projects designed to upgrade the quality of livestock in specific areas and to develop small sericulture. The feasibility of establishing pine plantations for pulp and paper, an enlarging import deficit item (requiring external financing of about US\$10 million) and commercial development of timber resources in Southern Thailand for export (about US\$15 million) should be reviewed. Over the longer run, there are additional possibilities for financing coconut plantings if high yielding varieties are successfully introduced from West Africa, and for establishment of coastline shrimp culture if the technology under research now scheduled in the UNDP program proves feasible.

b. Manufacturing

156. Throughout the 1960's, manufacturing was one of the fastest growing sectors, and a high level of industrial investments formed one of the most important sources of growth. The general orientation was to substitute imports for the rapidly growing demand in the local market under fairly high tariff protection. The main sub-sectors included consumer goods, such as processed foods and textiles, as well as wood products, cement, a petroleum refinery and automobile assembly. Nearly all industrial enterprises were private; only a few remained under government ownership. In many cases, joint ventures were established with foreign investors, particularly from Japan, the US and Germany. Investments were generally financed by the owners, supplemented by external suppliers' credits and commercial banks overdrafts. About 70 percent of all newly established industries were given "promotion certificates", which provided exemption for five years from corporate income tax, custom duties and taxes on imported equipment; promotion certificates were often accompanied by tariff protection. Although the share of modern manufacturing in GDP amounted to about 12 percent in 1969, its contribution to employment was only about 4 percent, indicating a high capital intensity. Capital intensity was encouraged by exemption of duties on capital imports and easy recourse to suppliers' credits to finance purchases of equipment abroad.

157. Notwithstanding its impressive growth record, the manufacturing sector is still at an early stage, and in recent years, has been facing increasing difficulties. As an indication, the rate of expansion of value added in manufacturing at 10 percent per annum during 1966-70 was less than it had been in the first half of the 1960's. With uncertain expectations as to the future course of domestic demand, industrial investments have distinctly slowed down in recent months. Generally, these difficulties arise from Thailand's industrialization strategy, which largely focuses on the production of consumer goods behind tariff protection. This strategy has been successful in achieving substantial import replacement, but at a high cost, and thus with high prices for consumers. High prices have in turn

limited the domestic market, and make exporting difficult. The scale of production is, therefore, usually relatively small, and costs of production are high despite low and stable wages, and the good management practices common in the new industrial plants. High tariffs, however, ensure high profits to industrialists.

158. Thus, the major challenge facing the manufacturing sector in the Third Plan period is to continue rapid growth, while becoming more efficient and competitive, and shifting some of its orientation from the domestic market towards exports. This shift is needed not only because of the balance of payments problems facing Thailand, but also because the easier import substitution opportunities have been generally exhausted, and new industries introduced will need to export at least some output to achieve economies of scale. Unless a significant share of output is exported, the growth of the manufacturing sector might lose its momentum.

159. Besides this general problem, the manufacturing sector is characterized by several other weaknesses. First, because it is at an early stage, Thai industry only has both ends of a fully developed industrial structure; that is, consumer goods industries, often with high import content, and basic industries, such as cement, some chemicals and steel. The middle range -- the production of intermediates, spares and simple machinery -- is not well developed. Second, most plants are located in the Bangkok metropolitan area, contributing to traffic congestion and demand on public utilities; the case for greater regional dispersion of industries can easily be made. Third, modern manufacturing should be able to absorb a higher share of the labor force, hopefully in labor-intensive, export-oriented industries. Finally, government policy regarding industrial developments is decided upon a case-to-case basis, rather than according to guidelines or priorities. It is beset by a multiplicity of little-coordinated agencies and bureaucratic practices.

160. The changes, which are required to overcome these problems, will be difficult to make. But, Thailand enjoys a number of important advantages, which can provide a basis for rapid growth of the manufacturing sector. Good management is available. Wages are low, among the lowest in South and East Asia, and there are sizeable reserves of labor, which appears to be easily adaptable to industrial production requirements. The domestic market is fairly large and expanding. Local raw materials are potentially available in good quality, particularly tropical fruits, vegetables, timber and certain minerals. Although at an early stage, the sector is large enough to offer opportunities of manufacturing intermediates, spares and simple machinery. The major task of government industrial policy is to formulate and implement the necessary measures to reorient or consolidate existing industries, and help establish new industries to utilize more fully the country's comparative advantages.

161. The Third Plan does recognize some of the problems and opportunities of the manufacturing sector, and envisages an increasingly important role for it in the future expansion of the Thai economy. During the 1972-76 period, manufacturing is expected to contribute nearly a fourth of the projected increment of some B43 billion in the gross domestic product, whereas in the past five years it contributed about a seventh. Growth targets for industrial subsectors indicate a continuing emphasis on middle- and high-income consumer goods, with petroleum and automobiles to account for more than 25 percent of the increase in value added between 1971 and 1976. The textile industry is also to be a fast growing subsector, accounting for a further 13 percent of total growth in the sector. A new emphasis on exports, which are expected to treble between 1971 and 1976, represents a new orientation in industrial policy. But, with this exception, the Third Plan does not indicate major departures from past, industrial strategy.

162. The problems of import replacement at high cost, particularly with regard to their balance of payments implications, have been stressed in previous IBRD reports. The costs of excessive incentives to investment have also been noted. This mission can only recommend once again that a thorough review of import and export duties, and of the effective incidence of investment promotion policies, is necessary to ensure a more competitive structure of industry, with lower prices for domestic consumers, and a better basis for exports. Where tariffs have been high to protect infant industries, they should be gradually reduced as industries mature, to make them more competitive. For new or infant industries, tariff rates should not be excessive, and rates should be gradually reduced according to a schedule set in advance.

163. The removal of administrative impediments to exports, the improvement of port handling facilities, and the provision of adequate export incentives are urgent. The government has approved refunds to exporters of taxes paid on the exported component of output, and made provisions in the fiscal 1972 budget for these refunds. Prompt payments of these refunds to exporters will greatly help achieve the Plan export target for manufacturers.

164. As in the past, internal company funds will provide a good deal of investment finance, still industrial financial institutions need to be expanded and improved, particularly for new projects. Excessive dependence on suppliers' credits, as the major source of foreign financing for industry, could lead to serious debt servicing problems. Alternative financing sources, particularly credit lines from official aid agencies, ought to be made available on a much larger scale. The most suitable, but not exclusive, channel would be the Industrial Finance Corporation of Thailand (IFCT), which in the past financed only 3 to 4 percent of total industrial investments. Recently, IFCT adopted a more dynamic approach, and is expected to increase its share in industrial financing during the Third Plan. It should be encouraged to increase borrowing from external aid agencies and domestic

sources (other than from the Bank of Thailand), and actively to promote medium- and long-term financing for industrial development. It should also make an effort to develop specialized financing facilities for mining, as well as to finance specific regional needs. In addition, the government should be more active in attracting foreign investments in manufacturing on a selective basis, in accordance with criteria suggested below. Particular efforts should be made to attract investors who can provide marketing outlets or establish component manufacturing.

165. The proposed new Industrial Estates Authority, discussed in more detail in Annex 4, could encourage the growth of industry through the development of industrial estates. But, if it is to be effective, it will require strong leadership, sufficient autonomy and adequate financing. The establishment of a "free processing zone" to encourage export-oriented processing industries, requiring low-cost labor, would be helpful.

166. A regional approach to further industrial development is an obvious necessity. The first requirement is a decision about the site of a deep water port on the east coast of the Gulf of Thailand, as this would in itself greatly assist long-term planning for both the public sector and private entrepreneurs, and relieve the pressure on the immediate vicinity of Bangkok. It is absolutely necessary to the establishment of heavy industry. Regional development in a broader sense, however, requires more specific measures to ensure that public expenditures on infrastructure are economic, and that the incentives designed to establish new industries do indeed help new, infant industries to stand on their feet rather than become a perpetual burden on public revenues. In this light, government policies, particularly regarding the exploitation of forestry resources, and rates of public services, such as railway transportation and power, may need to be revised with a view to remove disincentives to locate industries outside the Central Plain. In general, the most promising industrial development opportunities in outlying areas depend on the development of local resources, and this requires stimulus to agricultural development, and new policies toward private investment in forestry and mining.

167. Government units dealing with the manufacturing sector require reorganization, as their present procedures might impede the implementation of appropriate industrial policies. Criteria for the granting of promotional privileges require tightening, taking into account such factors as share of exports in production, level of required protection, employment effects and regional priorities. To the extent feasible, these criteria should be expressed in quantitative terms, and should measure the social, as well as the private, costs and benefits. Promotion privileges should be linked to performance. The staff of the Board of Investment (BOI) requires strengthening so that it becomes more capable of reviewing and analyzing investment proposals, according to economic, financial and technical criteria. This

highlights the need for effective project evaluation by BOI, which past IBRD reports have also stressed. The work of the BOI, the Ministry of Industry, the Tariff Commission and other government units dealing with industrial affairs needs to be much more integrated than it is at present. Members of the Board of Investment should concentrate on general policy matters, while the promotion of particular industries could be carried out by BOI management and staff. In brief, the whole organizational set-up dealing with industrial development, promotion and financing needs to be reviewed and streamlined.

c. Mining

168. After a period of rapid expansion in the early 1960's mining output increased between 1965 and 1970 at an average rate of about 11 percent. The growth rate decelerated, however, from 26 percent in 1965 to less than 4 percent in 1970. The major expansion was in tin and fluorite, which in processed form contributed about US\$88 million to exports in 1970. The deceleration has occurred despite the generally accepted evidence of a rich mineral endowment. The sector was, however, constrained by lack of advanced technology, credit and basic exploration.

169. The Third Plan projects a relatively slow increase in mining output, about 3 percent a year. Tin, contributing over 50 percent of mineral gross product and 80-90 percent of mineral exports, is the preponderant factor in sectoral growth. Dramatic increases in the production of tin such as occurred in the early 1960's are unlikely in the future. The Third Plan projections of 2 percent average growth for tin output can probably be improved, but sectoral growth, nevertheless, must increasingly be based on more intensive exploration and development of other minerals. In this context, fluorite expansion and upgrading present the best opportunity. Other major and potentially feasible development opportunities are copper at Loei and zinc at Mae Sot where past investigations indicate possible commercial viability. Expanded production of the remaining export minerals - tungsten, antimony and manganese - will in a large measure depend on the steps taken by the Thai government to stimulate and support general sectoral growth.

170. Detailed measures are recommended by the mission in Annex 3. One of the most important is a revision of the policy limiting mine exploration and development north of parallel 11 to firms with majority Thai ownership. Other methods of protecting national interests are available without inhibiting effect on needed foreign investment and technology. For instance, government institutions should be strengthened through administrative reform and staff training in order to provide improved services to Thai miners. The institutional set-up could be greatly improved by the following: (a) the reorganization and strengthening of the Center of Industrial Mining (CIM) to provide technical advice, services and training facilities to the national mining sector, (b) creation of a specialized mining department in IFCT with increased finance and mine loan appraisal capabilities, and (c) establishment of an Exploration Fund to share the risks of exploration.

171. Most of the finance required to implement these measures might come from private sources, external and domestic. However, a substantial increase in public development expenditures would also be required. Potential benefits, particularly in export earnings, appear to justify a higher priority status for the mining sector.

d. Tourism

172. The number of tourist arrivals grew from 225,000 in 1965 to almost 630,000 in 1970, at an average annual rate of about 23 percent. This growth rate is higher than that experienced by neighboring countries. Hotel capacity amounts to approximately 10,000 rooms, most of which are located in Bangkok, and appears to be in excess of demand. The effects of tourism on the economy are significant. Foreign exchange earnings from tourism in 1970 are estimated by the Tourist Organization of Thailand (TOT) at approximately US\$104 million, ^{1/} including expenditures by U. S. forces on rest and recreation leave. The impact of these earnings on domestic income generation is high, in view of the relatively low import content of tourist expenditures.

173. Prospects for the sector appear to be good, provided the government adopts and implements appropriate policies and measures for its development. In this respect, an early decision by the government on the precise role to be played by TOT is urgently required. Once that decision is made, TOT will have to be provided with the necessary human and material resources and authority to enable it to play its role effectively. Fifth freedom restrictions are imposed on foreign airlines in line with normal commercial practice of national carriers, but a review is needed of detrimental effects they may have on the future development of tourism in Thailand. The government should also take action to remove such obstacles as cumbersome immigration and customs procedures and inadequate tourist services.

174. The rate of growth of tourist arrivals postulated by TOT, 12 percent per year in 1972-76, seems attainable and may even be exceeded, assuming quick action by the government along the lines mentioned above. Little new investment in accommodation facilities seems to be required for the time being. Emphasis in the next few years ought to be put on the promotion of the two or three existing tourist centers (Bangkok, Pattaya and, to a lesser extent, Chiangmai). In the longer term, the development of new tourist centers, such as Songkhla, Phuket and Hua Hin in the south, may become justified, and studies of these possibilities might be started in a few years' time.

^{1/} The Bank of Thailand estimate for the same year is US\$76 million; see Volume IV, Annex 5, para. 46 and Table 6.

e. Transportation^{1/}

175. Despite the importance of transportation for the public sector, which accounts for about 1/5 of public development expenditures during the Second Plan and 1/6 during the Third Plan, lack of support from other sectors and inadequate coordination among different modes of transport have hampered the preparation of Third Plan proposals for investment in the transport sector. Other sectors, such as agriculture, mining and manufacturing, did not provide sufficient information on their future transport needs. For each mode, investment programming was done without adequately taking into account the plans of other modes. In order to improve the data base for planning and for coordinated administration of different modes, a management information system would be required; the transport mission expects to indicate how this system could be set up and operated in its final report. In addition, application of a rational pricing policy, particularly concerning road user charges and railway tariffs, would greatly improve operational coordination among different modes. This would ensure more adequate competition among modes, as well as help achieve a more optimum allocation of resources. The level and structure of road user charges would have to be reviewed, and railway tariffs, which have not been revised since 1955, require an overhaul.

Highways

176. The 5-year highway program should be regarded as an outline guide rather than a firm schedule of investments, because little economic analysis went into its preparation. In particular, many of the provincial roads included in the program would be justified in terms of development benefits to service areas; but, the agencies, whose action is needed to bring about these benefits, could not provide assurances as to whether and when they would act. As it is, the program calls for ₪ 16.2 billion of road investments during the Third Plan, of which ₪ 15 billion would be carried out by the Highways Department, and the rest by the Office of Accelerated Rural Development (₪ 656 million) and the Public Works Department (₪ 574 million). The main part of the Highways Department program is ₪ 8 billion for national highways and ₪ 5.6 billion for provincial roads. However, priorities assigned to some projects are not well chosen, and time allowed for preparation appears sometimes too short. Hence, the mission believes that the Highways Department program could be scaled down to a more realistic ₪ 6 billion for national highways and ₪ 4.5 billion for provincial roads. To help finance the road

^{1/} The Transportation Sector Review Mission visited Thailand in October 1971, and had not completed review and analysis of the information, which it had collected, when this report was issued. This section, therefore, is only an interim summary of the mission's major findings, which are subject to revision.

program, government expects to obtain ¥ 2.3 billion (\$110 million) of external loans and grants, including loans already contracted with IBRD for ongoing projects. For most new projects, feasibility studies have yet to be carried out. In addition to this program, it is possible that the team of German experts, presently executing a transport study for the Bangkok metropolitan area, may identify road projects in that area for external financing.

Railways

177. To improve efficiency, the railways plan to purchase 154 diesel locomotives, and associated rolling stock and equipment, at a total cost of \$128 million, of which \$73 million would be in foreign exchange. Execution of at least the major part of this program is urgent, and the railways are capable of carrying it out during the Plan period. However, in order to ensure that cash flows and net income are compatible with the financing requirements of the program, the mission believes that the railways should (1) review the level and structure of its tariffs, (2) improve services through better marketing, (3) reconstruct its timetable and eliminate uneconomic stations, and (4) extend costing to regions, lines and branches with a view to eliminate uneconomic branch lines or activities. The railway program also include construction of a few new lines. Since the feasibility of these investments is not readily apparent, detailed studies are needed before allocating any funds to them.

Ports

178. Construction of 2 additional berths in Klong Toi port, and construction of a second deep water port for Bangkok are the two major issues facing the government during the Third Plan. Regarding the former, the mission had not reached a firm conclusion; on capacity ground, however, there is no clear case for building 2 more berths, at least, until 1978. On the second deep water port, consultants to the government have recommended construction of a new port at Laem Krabang to be started in 1973 and opened to traffic in 1978; the total investment between 1973 and 1978 would be about \$31 million, but development would continue till 1990, by which date the total investment would be about \$122 million. This port would serve exclusively bulk export cargo and containerized import cargo. In the meantime, a study of whether the existing naval port at Sattaahip could fulfill these purposes and at what cost, has been started. Until this study is completed, decision on the site of the new port cannot be made, because the trade-off between Laem Krabang and Sattahip cannot be clearly established.

Inland Waterways

179. Inland waterways have attractive economic characteristics, but the Third Plan includes little provision for their improvement. In order to encourage waterway traffic, adequate water depth and improved operation of

navigation locks appear required. Further studies of these aspects of waterway development should be undertaken in priority. To determine the allocation of water to navigation as against other uses on a rational basis, an overall study of water uses in the Central Plain should be carried out by retaining foreign consultants (this study should be coordinated with the study recommended in para. 190). Present de facto arrangements whereby the Irrigation Department is responsible for engineering works on the waterways, while the Harbor Department is concerned with regulation of navigation, should be formalized as they seem to work reasonably satisfactorily.

Civil Aviation

180. In general, Plan allocations for civil aviation were prepared conservatively; that is, modest investments to meet the immediate requirements. To date, this approach has kept pace with traffic growth domestically. But, traffic handling at the international airport of Don Muang, both of passengers and aircraft, have fallen behind traffic growth. Since planning, design and construction of facilities for international traffic are time consuming, the government should initiate immediately a study, which would cover the following: (1) detailed analysis of future aviation activities in the Bangkok area; (2) review of existing facilities and identification of factor limiting capacity and expansion of these facilities; (3) evaluation of alternative solutions to meet future requirements; and (4) measures to expand Don Muang airport for the Bangkok area.

f. Power

181. Power was the fastest growing sector in the Thai economy. After increasing 33 percent annually in 1966-1969, electricity sales grew by 22 percent in 1970 and are estimated to grow by 21 percent in 1971. This deceleration is in line with the slowdown in overall growth. The rapid increase was mainly in response to industrial and commercial demand, which now purchases three-fourths of total production; demand for domestic use was somewhat less buoyant. Electricity is now available to more than 800,000 consumers constituting approximately 7 million people, mostly in Bangkok. But only about 13 percent of rural population are supplied with electricity. Provision of power in up-country towns is reportedly often unreliable and expensive, which tends to discourage its use. Although per capita consumption has grown rapidly, it is still low, about 90 kwh in 1970, roughly the same as in India.

182. Large investments estimated at ฿ 5.9 billion were made during the Second Plan to increase capacity. In 1971, installed capacity is estimated to have reached 1,168 MW. Sources of power were hydro (39 percent) and thermal (61 percent). The Electricity Generating Authority of Thailand (EGAT) produces 96 percent of the country's electricity, the remainder being generated by the Provincial Electricity Authority (PEA) using plants not connected with the national grid (3 percent), and by private industrial plants (1 percent). Distribution is done by the Metropolitan Electricity Authority (MEA) in the Bangkok area and by PEA in provincial areas, including small towns and villages not accessible to EGAT's transmission system. In 1970, EGAT sold 71 percent of its output to MEA and

21 percent to PEA. The three organizations are state enterprises wholly owned by the central government, but while MEA and PEA are responsible to the Ministry of Interior, EGAT reports to the Ministry of National Development. Despite this split in supervision, planning and coordination are good, thanks to close relations between the authorities concerned.

183. During the Third Plan, demand is expected to increase by 15 percent a year. Purchases from Nam Ngum in Laos are expected to supplement domestic generation by 300 million kwh annually. To provide additional requirements, investments of ฿ 9.5 billion are needed to raise capacity to 2,546 MW in 1976. External loans are expected to finance ฿ 4.0 billion, self-financing by the enterprises ฿ 2.9 billion and the central budget ฿ 1.8 billion, and the rest being foreign grants.

184. Power rates have been reduced several times in the past, and the enterprises feel that rates, which are still high, could be further reduced without impairing their financial position. However, in the mission's view, since further rate reductions might adversely affect revenues of the Central Government, which are expected to be short during the Third Plan period, these should be considered in the light of the overall financial position of the central government and consumption increases expected from such reductions. In up country areas, where high power rates are reportedly a disincentive to industrial consumption, they could be reduced without revenue loss.

g. Water Supply

185. The water supply sector may be conveniently divided into three parts: (a) the Bangkok Metropolitan area; (b) other urban communities; and (c) rural communities with population less than 5,000.

186. The Bangkok water supply system is the responsibility of the Metropolitan Water Works Authority (MWWA). It serves a metropolitan area with a total population of about 3 million, only about 60 percent of which has access to the MWWA's supply. Water production by the MWWA in 1969 averaged 930,000 cubic meters per day, with 65 percent from the Chao Phya River and 35 percent from ground water sources. In addition, an estimated 200,000 cubic meters per day was provided by private wells. Despite the poor service, MWWA's daily average water served per capita is high, about 500 liters per capita per day (1 pcpd) which is twice that of Singapore. The per capita production figure is inflated by the large numbers of unregistered connections. The main cause for high production and unsatisfactory service appears to be an excessive waste of water, resulting from low service rates and poor metering and billing procedures. There does not seem to be financial, economic and equity rationale for MWWA's water rates, which produce revenues covering only about half of the operating expenses and which are one-quarter of those charged in most urban areas in Thailand.

187. A 30-year master plan for water supply and distribution, financed by the government, was completed in 1970. By the year 2000 it is estimated that the metropolitan population would be about 10 million with 8.5 million relying on the public water system. It would be necessary to invest some $\text{฿} 12$ billion (US\$600 million equivalent) for capital improvements in six five-year stages to meet the water demand by that time. Stage I is optimistically scheduled for completion in 1975 and is estimated to cost $\text{฿} 3.1$ billion with a foreign exchange component of about 20 percent, or US\$30 million equivalent. It will include additional treatment facilities, improvements in the distribution system, water meters and engineering and management consulting services. The estimated costs of the first part of Stage I, now under consideration, range from $\text{฿} 400$ to 800 million, with a foreign exchange component of 40 percent, or US\$8 to 16 million. Both IBRD and ADB have been approached tentatively for financial assistance, but no decisions have been made by the government as to what part either institution would play. Conditions for IBRD lending would have to include substantial improvements in management, water use control measures and the rate structure.

188. About 4 million people live in urban communities outside Bangkok. The Provincial Water Works Division (PWWD) of the Public and Municipal Works Department owns and operates most of the public water systems, which serve about one-third of the people in these urban areas; the rest use shallow wells or collect rain water. Under the Second Plan, $\text{฿} 740$ million was spent on 100 projects providing either new or expanded water systems. Preliminary figures for the Third Plan show about the same number of projects at a cost of $\text{฿} 890$ million. Such continued progress would provide most of the urban population with public water supplies within 10 to 15 years. The PWWD has the capability for physical implementation of these projects, but requires technical assistance on planning, design and improvement of its financial performance. Planned capital expenditures for cities outside Bangkok with less than 100,000 population would require US\$8 million in foreign exchange. Several cities would have to be grouped together to form projects large enough for foreign financial assistance. Very little consideration has been given to this approach, and available data are unsuitable for cost estimates. However, it appears unlikely that the foreign exchange cost would exceed US\$3 million for such a group of cities.

189. About 29 million people, 80 percent of Thailand's population, live in rural communities, which receive their water supplies from a number of agencies. A careful review of their work and better coordination of their efforts are necessary to improve the utilization of available funds. Ground water offers good prospects for providing supplies at the lowest cost, and much more emphasis should be placed on this source. About 15 percent of the rural population have access to public water supplies, and the Third Plan objective is to increase the share to 40 percent. The program is within the capability of the agencies concerned. It appears that the program would be of interest to bilateral sources of assistance and WHO.

190. Despite the abundance of water in most areas, problems concerning the allocation of water between industry, agriculture, and domestic uses are developing. Further industrial development would make them more serious. It is, therefore, important that a national water resource policy be developed soon. The policy should cover surface, ground and waste water. A pre-investment study intended to provide guidance to the government in establishing a national water resource policy is proposed by the mission.

CHAPTER 8 - SOCIAL DEVELOPMENT POLICIES

a. Family Planning

191. The rate of population growth in Thailand was about 3.1 percent in the 1960's; the birth rate was estimated at 41.8 per thousand and the death rate at 10.9 per thousand in 1967. In 1970, about 44 percent of the population was under 15 years and 7.5 million women were in their reproductive period, having 6.5 children each.

192. Without official high level decision, a family planning project was introduced in 1968 by the Ministry of Public Health. Although the activities and financial sources of the project were limited, it achieved remarkable success. In three years, more than 6,000 health personnel were trained for family planning activities, and services were started at more than 3,000 clinics throughout the country. The number of new acceptors increased rapidly from about 57,000 in 1968 to 226,000 in 1970. Oral pills and IUD's became the two major contraceptive methods; to a minor extent female sterilization was also used. Pills were distributed mainly by midwives working at rural health centers of the Ministry. Primarily due to this service, 80 percent of all new acceptors were from rural areas in 1970. In addition 87 Ministry hospitals, as well as other public and private clinics, participated in the family planning project.

193. In March 1970, the Cabinet approved a population policy, and authorized the implementation of an official National Family Planning Project within the framework of the Third Plan. The Project set an objective to reduce the population growth rate from around 3.1 percent in 1970 to 2.5 percent in 1976. To achieve this objective, annual targets of acceptors would rise from 350,000 in 1972 to 410,000 in 1976. These targets are ambitious, but considering the favorable experience so far and conditions existing in Thailand, they seem to be within reach.

194. A new organization responsible for planning and implementing the Project was set up in the Ministry of Public Health in 1971. The organization is expected to have about 100 full-time government officials, aided by temporary employees, towards the end of the Third Plan. No public information activities were allowed until the Cabinet decision of March 1970. Following that decision, information will be spread by various media, including mass media and mobile units. Until fiscal 1971, the costs of family planning facilities and services were financed mainly by foreign grants and partly by unidentified budget allocations. In the Third Plan the family planning expenditures are set at \$466 million, of which 56 percent would be financed by foreign grants, mainly the US and the UN Fund for Population Activities, and the rest would come from domestic budgetary resources. Expecting foreign grants, the Government is not presently interested in external loans for these programs.

195. Despite the Cabinet decision of March 1970, constraints still bear on the progress of family planning in Thailand. Lack of interest shown by many officials of other agencies in collaborating with the Ministry of Public Health is one; uncertainty about annual budget allocations is another; and lack of coordination among health centers, other public agencies and private clinics at the provincial level is a third. Progress would be accelerated if steps were taken soon to solve these problems.

b. Educational Policy

196. During the five year period 1966-70, considerable progress was made in education. Enrollment ratios increased at all levels, and in some cases exceeded the targets set by the Second Plan. The growth in enrollments was particularly marked in lower secondary education and teacher training. Dropout and repeater rates decreased considerably at both primary and secondary levels. Annual education expenditures increased at a higher rate (14.7 percent) than total government expenditures (11 percent). The share of the total budget allocated to teacher training and vocational education was increased.

197. The major new element in education during this period was the introduction of comprehensive schools, designed to make secondary education better suited to labor market needs, and to redress the imbalance between academic and vocational secondary education. Other improvements included the modernization of vocational, technical and agricultural education, primarily through investments in new buildings and equipment and through programs to upgrade instructors.

198. At the university level, an attempt was made to achieve better regional distribution of educational facilities, which in the past were completely concentrated in Bangkok.

199. Nevertheless, a number of problems remained during this period. Priority was given to expansion rather than qualitative improvement; this is reflected in the present shortages of textbooks and teaching materials, and the inappropriateness of curricula at all levels, particularly in rural primary schools. A considerable discrepancy continued to develop between Bangkok and rural areas in terms of educational opportunity. Primary education was -- and is -- particularly lacking in relevance and availability. Marked imbalances in the enrollment structure persisted: of every 100 children entering first grade in 1970, only 36 could expect to continue primary education beyond grade 4; 25 would reach, and 10 would complete, secondary education. The potentially beneficial effect of the expansion of teacher training was impaired by the proliferation of training over almost 40 different programs. Non-formal training received little consideration in the Second Plan, and, on the whole, this training was inadequate. Agricultural education and training were not sufficiently directed to prepare farmers, as well as staff of the extension service, for the introduction of modern and diversified agriculture.

199. Some measures were taken to improve educational administration, supervision and planning, but much further action in all these areas is an urgent necessity. The fractionation of administrative, financial and policy responsibilities in education between several government authorities continued, and it has become the most serious obstacle to balanced educational development.

200. In the Third Plan, 1972-76, the objectives of the educational policy are twofold: 1) to increase enrollment in line with school age population growth; and 2) to improve the quality and content of education in line with economic development needs. Expenditures for education are to be greatly increased in relation to the public budget and GNP. Although the Plan aims at considerable improvement, it is unlikely that the far-reaching changes needed to improve the quantity and quality of education will be fully introduced in the next five year period, mainly because most of the projects listed and budgeted in the Plan are not sufficiently related to objectives. In preparing the education plan, NEDB, the National Education Council (NEC) and the Education Planning Office (EPO) of the Ministry of Education established some joint planning procedures. But the Plan does not suggest ways and means to improve educational administration, and planning, organization and finance, which are major weaknesses of the system.

201. The quantitative objectives of the Third Plan emphasize increases in primary and higher education enrollments, whilst the growth of secondary and vocational enrollments will be slowed down. Lower primary enrollment (Grade 1-4) would increase by 3.4 percent per year, a higher rate than population growth, mainly due to a reduction in dropout rates. Upper primary enrollments would increase by about 13 percent annually (3.5 percent in 1966-70), primarily due to an increase in progression rates from lower to upper primary from 38 percent in 1970 to 51 percent in 1976. The present high progression rate from primary to secondary education (84 percent) is expected to be maintained. Enrollment in public secondary schools is expected to increase at the same high rate of 14 percent a year as in the past five years. Enrollment in private secondary schools, which now accounts for 45 percent of total secondary enrollment, is planned to rise by only 4 percent annually compared to 10 percent in 1966-70. The pressure of growing numbers of secondary school graduates, together with a planned increase of progression from secondary to higher education from 75 percent in 1970 to 80 percent in 1976, would lead to the high annual growth rate of 7.7 percent for university enrollments, compared to about 3 percent in 1966-70.

202. To improve quality, the Plan proposes measures to reduce dropout and repeater rates, to improve teacher training and to expand the number of comprehensive secondary schools. It also proposes to increase somewhat the provision of textbooks and to introduce incentives to attract teachers to village schools. Perhaps most important, curricula and textbook revisions are planned. However, these measures are not yet clearly defined, and their effect may not be felt during the Plan period. Some improvements in non-formal training programs are also suggested.

203. Public education expenditures in the Plan do not always seem to be consistent with targets for enrollment and quality improvement. Expenditure growth on primary education would slow down considerably to 8.3 percent annually (from 12.3 percent in the Second Plan), although enrollment growth is planned to increase. Expenditures on secondary education would grow faster (18.4 percent annually compared to 16.4 percent), although enrollment growth would remain unchanged. University expenditures, on the other hand, will grow somewhat slower (11 percent compared to 18.6 percent), although enrollment growth rates are expected to double.

204. The overall allocation of funds for educational development in the Third Plan (¥ 32.7 billion, or 33 percent of the total public development expenditures) appears appropriate, although the priorities within the sector need alterations as suggested in para. 206 below.

205. External financing of education has never exceeded 5% of the total public education expenditures, and was estimated at only 3% in 1970. External financial assistance was in most cases related to projects providing support for innovations and changes, such as mobile training units, polytechnics and curriculum development. For the Third Plan, the government has selected about 60 education projects for which foreign financial assistance will be sought. The needs for external financing in education during the Third Plan period are estimated at about \$ 100 million. Some \$ 50-\$60 million are likely to be sought from bilateral and international sources other than the Bank.

206. Further improvements in education and training could be made within the existing financial constraints, if the development of education were made more responsive to manpower requirements and regional development needs, and if the serious imbalance in the enrollment structure is reduced. The overall objective could be to achieve full literacy of the primary school age population in 8 to 10 years instead of 20 years, as implied in present projections. Improvements, as set out below, could be introduced without disrupting the continuous work of the educational system. External financing of education projects could probably be more effective if related to the following proposals for improvements in the educational system, some of which could be undertaken during the Third Plan period:

I. Primary Education

(a) Reduction of the primary cycle from 7 to 6 years; with an extended school year, the number of effective school days could increase more than 10 percent and costs per graduate could decrease.

(b) Increase in the number of effective school days from about 150 today (the lowest in Asia) to 210 days (the present Asian average); this would not necessarily increase unit costs since teachers are already employed on a 12-month basis.

(c) Increase in the progression rate from lower-primary (grade 4) to upper primary (grade 5) from 38 percent at present to 80 percent by 1980 and full progression by 1985, thus achieving a unified 6-year primary cycle.

(d) Distribution of free textbooks to all primary pupils and of free teaching aids to all primary teachers.

(e) Initiation and implementation of curriculum and textbooks reform.

(f) A two-year internship for new teachers together with a comprehensive system of incentives to attract teachers to village schools.

These measures would substantially increase the efficiency and quality of primary education without necessarily increasing unit costs.

II. Secondary Education:

(a) Decrease in the progression rate from primary to secondary from 85 percent at present to 70 percent by 1980; because of the proposed increase in primary enrollments, this would still permit substantial increases in secondary school enrollments and an output in numbers sufficiently high to provide university entrants and satisfy the demands for qualified manpower.

(b) Restructuring secondary vocational education to relate training more closely with local, industrial and agricultural requirements.

(c) Reorganization of the vocational schools to include formal and informal training courses of various lengths so that they would become regional centers for vocational training and upgrading, integrated into local development schemes.

(d) Review of comprehensive school courses, with the aim of increasing their effectiveness, as well as reducing unit costs.

III. Higher Education:

Reduction of growth rates of university enrollment in the metropolitan region with simultaneous increase in the growth rates of regional universities, emphasizing faculties of science and technology and increasing facilities for post-graduate study.

IV. Planning and Administration:

(a) Immediate steps: introduction of an aggregate plan for the entire education and training system and of annual operations programs for each level of education: increase in the educational planning staff of NEC and NEDB; introduction of continuous quantitative and qualitative evaluation

of program performance; establishment of aggregate national education budgeting, covering all levels and types of education and training irrespective of distribution of administrative responsibilities, under a joint committee chaired by the National Education Council.

(b) Further measures: reorganization of the Ministry of Education in order to strengthen executive leadership and control, as well as to facilitate departmental operations through the provision of strong supporting central staff services.

C. Employment Prospects

207. During the Third Plan, a large increase in labor force will combine with slower GDP growth to make the problem of providing full employment more difficult. Notwithstanding the achievements of the family planning program, the growth rate of working age population will start reducing only after 1985. Until then, the working age population will increase at a high rate because of high past birth rates (estimated at 41.8 per thousand in 1967). Thus, NEDB has calculated that during the Third Plan, the working age population will increase by 3.2 percent a year compared to 2.8 percent in the 1960's. NEDB has also calculated that the labor force would increase by 2.8 percent a year, or by 2.6 million in five years. However, to do so it has assumed that participation rates would decline much faster than in the 1960's. It is difficult to predict participation rates, but if they declined only as fast as in the 1960's, the increase in the labor force by 1976 would be 3.1 million, instead of 2.6 million.

208. Calculations as to the range of employment growth which could be expected during the Third Plan period are in Table 17. These calculations are based on the Plan targets of sectoral GDP growth, as well as on alternative high and low projections of GDP growth per worker made by NEDB. ^{1/} They yield a high forecast of employment generation equal to 2.7 million and a low of 2.2 million during the Plan period.

^{1/} For each sector, the employment growth rate (e) was derived from the growth rate of GDP (y) and GDP per worker (p) by means of relation — $1 + y = (1+p)(1+e)$ — suggested by Saburo Yamada (see note, Vol. II, Table 1.3). Thus, differences between high and low projections of employment generation simply reflect differences between NEDB's low and high projections of GDP growth per worker. These differences are large for manufacturing and mining.

Table 17: GROWTH OF EMPLOYMENT

| | <u>Percent</u> <u>1961-</u> <u>1969</u> | <u>Annual Growth</u> <u>1972-76</u> | | <u>Absolute 1972-76</u> <u>Growth (thousands)</u> | |
|--------------------|---|--|-------------|--|-------------|
| | | <u>Low</u> | <u>High</u> | <u>Low</u> | <u>High</u> |
| Agriculture | 2.1 | 2.0 | 2.2 | 1361 | 1503 |
| Mining, Quarrying | 10.7 | 1.9 | 5.0 | 5 | 14 |
| Manufacturing | 4.6 | 1.0 | 2.9 | 36 | 114 |
| Construction | 8.7 | 4.4 | 4.9 | 36 | 41 |
| Electricity, Water | 9.2 | 4.5 | 9.5 | 10 | 24 |
| Transportation | 5.6 | 4.7 | 5.0 | 232 | 345 |
| Commerce | 4.7 | 3.4 | 4.9 | 82 | 88 |
| Other Services | <u>6.7</u> | <u>6.5</u> | <u>7.5</u> | <u>471</u> | <u>555</u> |
| Total | 2.8 | 2.5 | 3.0 | 2233 | 2684 |

Source: NEDB and mission's estimates.

209. Comparing employment generation in Table 17 with expected labor force increments during the Plan period, some increase in overall unemployment is likely. This prospect was one of the reasons for choosing a GDP growth target of 7 percent instead of 6 percent considered earlier during Plan preparation. In addition, the analysis of educational patterns above indicates possible surpluses of graduates in certain professional categories. Thus, in contrast with the Second Plan period job seekers are likely to include skilled and unskilled workers. They would tend to concentrate in the Bangkok area where most job opportunities and the highest wage levels will continue to be.

210. During the Third Plan, as in the 1960's, large employment generation by agriculture stands in sharp contrast with the small contribution of manufacturing. The target for each sector is to produce an additional \$10 billion of value added. But, to do so agriculture is estimated to require 1.36 to 1.50 million new workers, manufacturing only 36,000 to 114,000. Consequently, income and probably also regional disparities might widen further.

211. The Plan expects that projected sectoral growth and public development expenditure will provide employment opportunities. The agricultural

development plan takes employment into consideration, emphasizing an increase in land productivity, based on small and medium-size family farms. It rejects large commercial farms and ranches, except in particularly justified cases, since they tend to use imported machinery rather than domestic labor. In addition, construction and maintenance of feeder roads and village social service facilities is expected to help provide off-season employment to farm workers. If this strategy is vigorously implemented, agricultural employment could increase, although the basic problem of under-employment and low productivity will still remain.

212. In construction and services, such as tourism, the Plan proposes worthwhile measures to increase employment generation. On the other hand, the role of manufacturing is not faced. As stated earlier in this report, existing policies to promote industrial investment favor the use of imported machinery and materials by promoted industries. So does the free access to foreign suppliers' credits to finance imports since these credits carry lower than domestic interest rates. Action needs to be taken to increase employment generation by manufacturing. This calls for active promotion of labor intensive rather than capital intensive industries. In granting "promotion certificates", employment effects should be one of the major criteria. Measures to attract industries and services to outlying regions are needed to provide employment outside Bangkok and the Central Plain area.

213. The difficult problems of matching education and training to job opportunities by professional categories are discussed in Annex 6. In addition to measures regarding the educational system, it is important that labor placement services be strengthened. These services should also provide facilities for migratory workers who are known to be numerous although not officially recorded.

CHAPTER 9 - REGIONAL DEVELOPMENT POLICIES

Northeast

214. The Northeast region has about one-third of Thailand's population area and farmland, but its share of national GDP was only 16 percent in 1969, down from 18 percent in 1960, although during the 1960's, the government made significant efforts to accelerate development in the region; particularly after 1964 with assistance from the U.S. government. The objectives were to raise lagging Northeastern incomes, as well as to improve security which was threatened by insurgents. To achieve these objectives, the strategy was mainly to provide the region with adequate infrastructure, including roads, irrigation works, schools and other social overhead facilities, and to promote development at the village level.

215. As a result, real economic growth was fairly high, an estimated 7 percent a year during 1960-69, but still lower than in the rest of the country, and concentrated mainly in construction and services. Agricultural production, which is constrained by generally less favorable natural conditions than in other regions, grew 4.3 percent a year and its share in regional GDP declined from 58 percent in 1960 to 46 percent in 1969. Output of the main crop, rice, which farmers produce for their own needs, kept pace with population growth. Newly-built roads opened up many areas to the production of cash crops (chiefly kenaf, maize and cassava) and the raising of livestock for sale to outside markets. Manufacturing grew less rapidly than regional GDP mainly due to the distance from markets and to the low level of local purchasing power. The fast growing sectors were construction, quarrying, transportation and services, sustained by large expenditures, especially after 1964, on construction and maintenance of military installations, roads, irrigation works, schools and other civilian facilities. The Northeast emerged from the 1960's with an unbalanced production structure, heavily dependent on government expenditures; its productive sectors, agriculture, manufacturing and mining, had gained insufficient capacity for rapid, self-sustaining growth. The reduction of U.S. military expenditures in the region since 1969 has brought this problem into sharp focus and posed the additional problem of finding jobs for workers unemployed on the completion of construction of military installations.

216. Recognizing these problems, and with U.S. assistance, the government devoted substantial resources during the past 18 months to formulate a Northeast Economic Development (NEED) Plan, as part of the national Third Plan, and to establish a regional planning administration. The Plan's first priorities are to diversify agricultural production, invest more in manufacturing, and raise the standards of education and health to national levels. These overall priorities appear on the whole well chosen.

217. In agriculture, the Plan expects continued self-sufficiency in rice, which appears justified given the low opportunity cost of resources currently employed in its cultivation. Increases of rice production will in part continue to result from bringing new lands under rice cultivation,

and another part will have to come from higher yields per hectare, given the decreasing suitability of these lands. The Plan expects also faster growth than in the past for rainfed cash crops, livestock and forestry. This would help speed up the movement of subsistence rice farmers into the national market economy, raise their cash incomes, and contribute towards achieving national export targets, for maize and kenaf in particular. The implied improvements in research and extension, as well as increased use of good seeds, fertilizer and credit, would require strong and well coordinated actions by the numerous government agencies concerned. The mission did not find convincing evidence of an effective coordinated effort in the required direction.

218. The Plan also calls for completion and better utilization of existing irrigation works. During the 1960's, small and large irrigation facilities were built, but irrigation encountered problems and did not yield expected increases in output. It is now recognized that year-round irrigation for multiple cropping is more difficult and costly than was originally assumed. Therefore, a gradual approach is being adopted and, in the mission's view, deserves high priority. It consists in providing supplementary irrigation water for wet season crops at small additional costs without disrupting too much the existing patterns of land use and tenure. Simultaneously, further studies and experiments on dry season irrigation would be carried out.

219. In transportation and communications, the largest allocation of funds is for the completion of major links in the highway network and construction of feeder roads, which would open up more areas with high potential for agricultural production and link them to the all-weather roads built in the 1960's. The Plan calls for better road maintenance and for closer coordination among the agencies engaged in rural and road construction and maintenance.

220. Growth in the agricultural sector, even under the most optimistic assumptions, would not be enough to maintain, let alone improve, the position of the Northeast in relation to the rest of the economy. Economic development in the Northeast will require a systematic government effort to promote industrial development in the region. Further, the growth and modernization of agriculture would benefit from close proximity of industries processing the region's agricultural products, which are currently shipped unprocessed to Bangkok or abroad. Accordingly, the Plan calls for investments in local processing of the region's agricultural products and in consumer and other light industries. The achievement of this objective might require stronger incentives than those indicated in the Plan, including the establishment of industrial estates with some government support and the provision of more attractive promotional privileges than in the Bangkok area. Government financial support for feasibility studies of industrial projects for the Northeast is also needed. A special regional division of IFCT or a regional development bank might help attract private investors to the Northeast.

221. In education, health and other social services, the Northeast ranks last among the regions of Thailand. It has its population share of school buildings, but not of teachers. The Plan gives high priority to public development spending on these sectors, particularly education. But stepped-up

spending on schools, other buildings and equipment must be matched by professional staffing, and incentives for staff willing to work in the Northeast, particularly in the more backward areas, seem essential. Obviously, schools must have teachers, and health centers trained medical personnel to make effective use of buildings and equipments.

222. The Plan gives insufficient attention to coordination of the activities of central ministries and agencies at the regional and provincial levels, as well as to participation of the people of the Northeast in development efforts. A regional development center has been established at Khon Kaen and development officers have been assigned to advise provincial governors and to help prepare provincial development plans, but their role is limited. Central ministries and agencies operate separately and independently at the local level so that duplication and lack of coordination are not uncommon. A coordinated effort is essential to promote regional development. This could be achieved by giving more authority and responsibility to the Khon Kaen center. In addition, more general and financial autonomy to local governments is needed in the Northeast as well as in other regions.

North

223. The northern region bordering with Burma and Laos comprises about a third of Thailand's area and 20 percent of its population. The region abounds in natural resources and is the second richest region in the country; however, most of the raw materials produced or extracted flow out of the region, accompanied by an outflow of labor and capital, thereby offering it little scope for processing or employment expansion. This is basically due to distance from Bangkok, the center of economic activity and to the lack of direct overseas outlet. As a result the necessary institutions and infrastructure to support economic development did not emerge, nor did the Government pursue policies to correct this situation.

224. A development plan for this region is under preparation since August 1970 by an NEDB team, assisted by an Israeli consultant group financed by UNDP. A draft plan is expected to be ready for government consideration in 1972. As a first step the team presented a number of preliminary recommendations. In agriculture, it proposed to put new forest lands under upland crops for export (maize, soybean and ground nuts) and import substitution (tobacco and cotton) and to turn single crop paddy farms in the lowlands gradually to multiple cropping. In doing so, forest resources areas are delimited to protect water sheds and valuable timber resources. Projects to develop fisheries, livestock and forestry are also proposed. In the industrial sector, projects would complement the proposed shift in agricultural production utilizing local raw materials to increase employment opportunities. These projects would include integrated complexes such as oil solvents, oil cakes and meals. Another would produce meat, as well as meat products, bonemeal and bloodcake. The region's forestry resources could be used to manufacture a variety of wood products within the region, rather than in Bangkok. A farm machinery industry based on the use of scrap iron is also being considered. In mining, small fluorite mines and larger mining enterprises could establish custom milling and dressing plants to increase added

value before shipment. The emphasis in transportation is low-cost all-weather feeder roads linking mining, forest, agricultural and tourism potential areas to the main highway network.

225. One of the major recommendations is to establish a regional administrative structure, linking the provincial governors and their planning staff to a regional center at Chiangmai, with appropriate channels to Bangkok. A number of other recommendations will be made concerning the improvement of institutional set-ups, and the provision of financial incentives. This regional plan once completed could be integrated within the Third Plan and would warrant sympathetic consideration by the Thai government.

South

226. Thailand has requested assistance from the United Kingdom to prepare a development plan for the southern region, which would cover the end of the Third Plan period and the five years beyond. This region produces rubber and tin both for export; it has good potential for other tropical products, for fishing and for processing industries. Its population of 5.8 million includes more than one million ethnic Malays who are moslems. For both Thailand and Malaysia, pockets of insecurity in the border areas have been a long-standing problem.

Bangkok's Urban Problems and Prospects

227. Thailand's urban development is largely synonymous with Bangkok, which has grown rapidly from 1.7 million in 1960 to 2.9 million in 1970. In the absence of any large secondary cities in Thailand, the dominance of Bangkok is more than population alone. It is the residence of the King, and the seat of government; all government functions are concentrated there. It is the main port, the center of finance and commerce; most of Thailand's manufacturing industry is located in the Bangkok area. It has amenities no other city in Thailand can offer, and average income is much higher than it is in the rest of the country. Per capita GDP in Bangkok was estimated at the equivalent of about \$500 in 1968, when the average for the whole country, including Bangkok, was \$170.

228. Bangkok has not developed in recent years according to any plan. Its rapid growth in both population and income has contributed to the strain on public services familiar to many cities throughout the world. At the same time, traffic congestion clearly threatens to impair the functioning of the city. Compounding the problems of utilities and traffic has been the uncontrolled nature of the city's growth. There is no control over land use, neither on what the land is used for, nor indeed whether it is developed at all. This has tended to result in development along the larger roads, pockets of under-developed land throughout large parts of the city, and difficulty in predicting traffic generation and demands on utility services.

229. In 1960 a city plan was prepared by a group of consultants (the "Litchfield Plan"), which proposed measures to deal with many of the city's

problems in the context of an overall view of the city. It proposed a system of controls over land use in order to give coherence and order to the city's future growth. This approach represented a very radical change from the accepted Thai views, and the situation did not seem sufficiently serious to warrant such a change. As a consequence, the plan was not formally approved, and in practice had little impact on the city, its growth or the handling of its problems. It did, however, have some influence on the thinking about the city and resulted in the establishment of a city planning organization in the Ministry of Interior. Following the earlier approach a new city plan was recently prepared by this organization, and another by the Bangkok Municipality. Neither has yet received the government's approval necessary for implementation.

230. Basic tools required for application of conventional city planning practices are not yet available. It is proposed to remedy this deficiency during the Plan period. In the meanwhile, much could be done by using land in the city already owned by the government or the crown, an estimated 36 percent of the city area, which would be consistent with rational development of the city. An alternative to zoning control in some cases may be the purchase and development of land by a government entity itself. More attention to the stimulation of housing development would seem justified. This might consist of improvements in the system of financing home construction and purchase, plus a broad public program fitted to the needs of the low income families. The latter should not be confined to highly subsidized rental flats, but should also include a range of programs, such as providing sites and services for families to construct their own dwellings, and variations of this approach.

231. Under the Third Plan, ₪ 2,522 million baht is allocated for urban development in Bangkok, including ₪ 1,210 million for water supply. 1/ This is in addition to investments that may be included in the normal municipal budgets during this period. Other planned public expenditures for utilities serving Bangkok are electric power, ₪ 6,600 million, 2/ telephones, ₪ 1,919 million, and urban highways, ₪ 1,800 million. Considering the present stage of project preparation, the investment program seems reasonable. However, in the mission's view, particular efforts need to be focused on strengthening institutions and preparing projects, which would enable an increase in the share of neglected investments, such as low-cost housing, sewerage and drainage. Some efforts are already underway, but they need to be expedited.

| | | |
|---------------------------------------|---------------------|---------------|
| <u>1/</u> Other investments included: | roads | ₪ 550 million |
| | drainage & sewerage | ₪ 330 " |
| | bridges | ₪ 240 " |
| | public housing | ₪ 187 " |

2/ ₪ 1,480 million is the program of the Metropolitan Electricity Authority (MEA) and ₪ 5,120 million represents 70% of the program of the Electricity Generating Authority of Thailand (EGAT) to be used to supply Bangkok.

Around half of the investments in these programs is in foreign exchange, and would require external loans.

232. A conscious effort to develop other urban centers is desirable. The effect on Bangkok's growth cannot be expected to be noticeable in the short run, although there might be some effect on congestion if some heavy traffic creating functions are shifted; the long run effect might be substantial. Particular priority should be attached to the development of a new deep water port. A new port would provide a basis for eventually diverting both traffic and urban growth from the Bangkok area, and at the same time increase port efficiency. Selected up-country cities should also receive particular attention, with respect to urban infrastructure and particularly in the establishment of industry or other employment centers; for instance, forestry to the forest area, fisheries to the sea coast, military and police units to other cities. The city planning effort should not be confined to Bangkok's municipal boundaries, but should also include the future development of nearby urban areas. The proposal to develop a new town north of Bangkok is in an early stage, and might be developed into a feasible project.

