

**Economic Crisis and the  
Role of Technical Assistance**


Department of Technical and Economic Cooperation  
Office of the Prime Minister  
The Royal Government of Thailand

# **Economic Crisis and the Role of Technical Assistance**

International Economic Relations Program (IER)  
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## **Executive Summary**

### **“Economic Crisis and the Role of Technical Assistance”**

This study, initiated by the Department of Technical and Economic Cooperation (DTEC) under the Office of the Prime Minister, is aimed at identifying the technical assistance (TA) strategies as well as direction of activities of the assistance with a view to: (a) mitigating the social and economic hardships in both the short- and long-term; (b) reducing the duplication of work on TA; (c) setting economic and social priorities for technical assistance projects to maximize the benefits of limited resources. The objectives of the study are to: (1) identify the economic and social impacts of the crisis; (2) review the implementation of the government's projects under foreign loan programs; (3) survey technical needs of the government agencies concerning measures taken in tackling the crisis problems; (4) identify strategies for technical assistance, coming through DTEC, in terms of direction and activities.

The economic crisis together with the IMF conditionalities have brought along a number of problems, economic and social ones, upon Thailand. Regarding the economic impacts, the economy has been contracting with high inflation (based on the 5<sup>th</sup> Letter of Intent, the projection on GDP growth ranges from -6 to -7 percent and inflation between 9-10 percent). Servicing foreign debts are on the rise due to the depreciation in Thai bahts. In a related matter, the insolvency of most financial companies and some banks as non-performing loans and their debt burdens have been escalating over time leads to the collapse of Thailand's credit system. Moreover, the credit crunch and high interest rate result in a fall in investment and production activities. The export earning in US dollars has been declining due to the significant drop in the import demands in crisis-plagued Asian nations and competitive devaluation in the region. For the public sector, it too has to go through the cut in its expenditures and reduction in its revenues which in turn affect the operation of government agencies and provision of social services in education, public health, labor and social welfare, and community development.

Social impacts does not fare better, either. Unemployment rose significantly. In May 1998, the number of the unemployed reached 1.6 million – doubling what was a year earlier. Between January 1997 and January 1998, as many as 140,000 persons were laid off and 100,000 persons unemployed due to the business closures. The pressure on unemployment is greater as school graduates enter the labor market (for an annual average of 500,000 individuals during 1997-2001) and overseas Thai workers return home. With rising urban unemployment, reverse migration back to the farmland is taking place at a large scale. Though an increase in food prices benefits some groups in the tradable agricultural sector, it hurts the poor and the hardship is greater for the unemployed.

Long-term competitiveness can not be overlooked. The crisis has caused the slowdown in foreign direct investment (FDI), lower capacity utilization, and intensifying competition among Asian countries. The drop in capacity utilization has led to a fall in investment. The 1998 World Bank Survey reveals that the capacity utilization, on average, fell in all five selected industries (garments, textiles, electronics, food processing, and auto parts) in the years 1996 and 1997. A need for industrial restructuring (to sustain

international competitiveness) is called for. The emphasis should be placed on upgrading and restructuring industries to manufacture higher value-added products. Yet, the agricultural development which lies at the core of sustaining Thailand's comparative advantage must not be sacrificed.

As is well known, a major decision by Thai government in response to the crisis is to have requested for an IMF rescue package of US\$17.2 billion in standby credits to support a financial and economic adjustment program. (This fund is basically kept as an international reserve.) Another loan funding of US\$4,411 million has been intended for 3 major programs: (a) Structural Adjustment Loan (SAL, US\$2,700 million), (b) Social Investment Program (SIP, US\$411 million), (c) Liquidity Enhancement (US\$1,300 million). An additional loan of US\$1,191 million is being sought for Industrial Restructuring (SAL-Industry)<sup>1</sup> and another of US\$400 million for the public-sector reform. It is noted that some of the loan projects, namely SAL, SAL-Industry, and public-sector reform, are technical in nature and contain a large portion of technical assistance. For example, the SAL-Industry will include, among others, technology transfer/machinery upgrade, hiring of experts for technology transfer, and manpower training.

The official development assistance (ODA) indicates a downward trend worldwide. ODA in 1996 dropped to its lowest level in 30 years, i.e., a mere 0.25 percent of the combined GDP of all 21 OECD's member economies. Possible explanations are economic difficulty of donor countries as well as economic success in terms of stability and growth in the developing (receiving) countries. For Thailand, her technical assistance (TA) has dropped in baht and dollar terms in the last 10 years – from US\$255.2 million (6,448.3 billion baht) in 1988 to US\$112.4 million (3,520.8 billion baht) in 1997. Together with this drop, TA's composition has shifted from grants with 45.50 percent in 1988 to experts (39.66 percent) and equipment (21.54 percent) in 1997. A breakdown by sectors as classified by UNDP (at 2-digit level) reveals that the biggest budget has gone to natural resources for a total funding of 3,460.689 million baht. Agriculture, forestry and fisheries is able to gather the second largest budget of 3,397.105 million baht; health and human resource development are third and fourth with 2,093.218 and 1,790.135 million baht, respectively. Quantitatively, the top three sectors with the largest number of ongoing projects are health (28), natural resources (25), and social development (21). As a whole, a greater emphasis has been put on natural resources and health.

For DTEC to identify the technical assistance strategy, direction, as well as activities of the assistance, it is imperative to understand the criteria and nature of their assistance before and during the time of the crisis of representatives of key international organizations who provide technical assistance to Thailand. To a large extent, all donors interviewed perceive that economic crisis have run deep. Real sectors are severely affected. At one end, production and investment have been curbed tremendously; while, at the other end, unemployment has been rampant. Fragility in the economic and social structures have begun to surface out of the crisis identified by poor financial sectors, inefficient public sector, low productive labor force, poor management, inadequate regulation as well as check and balance system, and lack of social safety net. So, the long-term structural adjustments are implied. Tasks to be undertaken are: (1) reform in financial and government sectors, (2) human resource development, and (3) industrial restructuring (technology

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<sup>1</sup> This is a proposed figure. Sources and term of loan will be finalized.

upgrade/innovation). Still, there are certain ongoing issues that will not go away easily after the crisis. Several donors voice their concerns over the issues of environment, poverty, health services, women and children, skilled workers, and grass root community development. Assistance and effort into these areas must not level off despite current economic difficulties.

Responses to these economic and social hardships differ across donors. They are more or less determined by a host of factors, namely, resource constraints, commitment, and areas of interests/specialization. Some donors have approved the supplementary budgets largely applied to the emerging issues. Some are unable to offer the additional TA beyond the original commitment but TA implementation may be strategically adjusted to fit the current happening. Various measures taken by donors to cope with the crisis are: (1) increasing funding, (2) expediting ongoing projects, and (3) shifting in focus.

Formulation of DTEC's strategies takes into account various factors ranging from social and economic impacts of the crisis to future domestic and international environment, as well as government measures and loan programs to cope with the crisis. Out of these borne a set of criteria which underlies the prioritization of TA activities. They are urgency, adequacy, donors' competency and expectancy, and relevancy. The proposed strategies for utilizing TA are:

*1. Revitalizing the role of TA.* With the declining TA globally and the worst economic and social conditions in Thailand's history hence a significant reduction in national wealth, the time is now for revitalizing the role of TA. In this connection, a crucial strategy is that DTEC should play a more pro-active role both in terms of searching for TA from existing as well as new sources and assisting concerned agencies in finding and/or making better use of resources from TA.

*2. Enhancing efficiency in project preparation and implementation by strengthening cooperation among government agencies and between public and private sector.* Well-prepared projects also make it easier for donors to justify the budget from their respective governments. Here, DTEC can play an active role in seeking cooperation and coordinating many different government agencies in project preparation so that they can directly help alleviate impacts of the crisis. Given that project monitoring is vital for effective project implementation, TA, through DTEC, in the development of mechanisms for project monitoring is strongly encouraged. The fact that Thai private sector has long been our engine of growth, *TA for private* deserves attention. It can come in the form of capability building for the private entities, and the programs should be jointly organized and managed with private bodies like the Federation of Industries or the Thai Banker's Association.

*3. Utilizing TA for institutional building to cope with the crisis and change.* TA can be employed to strengthen the capability of concerned agencies in the preparation, implementation, and monitoring of the program loans which aims at solving the crisis or alleviating the impacts of the crisis. The programs are quite timely and comprehensive; however, the project preparations by agencies are constrained by time and resources. Thus, TA can play a significant role in building up the capability in overall project management.

Furthermore, it can be said that weak institutional settings have led Thailand into the crisis (or at least have made it worse). Originating from an absence of good governance mechanisms (to make the system transparent), bad and corrupting business practices were all

too common which eventually resulted in the loss in investors' confidence. The implication on TA for good governance and other related activities for capability building is evident. An offering of TA activities include:

*3.1 Assisting and monitoring the implementation of Social Sector Program and Social Investment Program*

- a) capability building in project management for executing government agencies
- b) capability building in community projects

*3.2 Good governance program aims at building transparency and accountability in both public and private management*

- a) public awareness program
- b) strengthening the availability and accessibility of public information thereby enabling us to monitor government as well as politicians
- c) guideline for corporate governance, i.e., building up law and regulations such as the audit system

*3.3 Capability building for government agencies*

- a) capability building for government officers
- b) strengthening the information base and technology
- c) strengthening analytical capability of government agencies for economic management

*3.4 Environmental protection*

- a) the construction of infrastructures for provincial and community environment protection
- b) strengthening capacity for assessing the environmental impacts on project analysis

*4. Utilizing TA for economic and social restructuring.* With the process of globalization, liberalization, and integration of financial markets, the external environment will be more competitive with greater volatility. As a result, a reform on economic and social structures is needed for not only surviving the crisis but also being able to cope with the changes well after the crisis.

The key measure is technology capability improvement which will enable Thailand to upgrade the products and production processes hence sustaining her international competitiveness. Thailand also needs the quality improvement in her human resources to cope with the dynamism of external and internal environments, which dictates for skilled manpower. In addition, programs for combating the unemployment problem, particularly urban unemployment, must be introduced. The safety nets are to be developed. With this view, the priority areas recommended for TA's activities are:

#### *4.1 Human resource development*

- a) improving universities' competency in education, training and research
- b) strengthening education reform with an intention of providing sound basic skills not only for competitiveness but also good governance
- c) granting scholarships for graduate study

#### *4.2 Labor market*

- a) alleviating urban and skilled-labor unemployment through retraining and creation of temporary jobs
- b) self-employment program
- c) unemployment insurance system

#### *4.3 Agricultural sector adjustment for competitiveness*

- a) extending long-term credits for farm investment through Bank of Agriculture and Cooperative (BAAC)
- b) technology development for restructuring the agricultural sector

#### *4.4 Manufacturing and service sectors development*

- a) capability building for special research and development institutes
- b) training entrepreneurs and workers
- c) brand creation

# **I. INTRODUCTION**

## **1.1 Justification**

The economic crisis which became quite severe toward the end of 1997 has resulted in a great number of social and economic problems. The closing of more than 50 finance companies and the collapse of the property sector together with many other related businesses have contributed to wide spread layoffs and an unprecedented high rate of unemployment both in rural and urban areas. The newly graduates also find it harder to get employment. High costs of living severely hurt the low-income group. The welfare of the people in general decreases. In addition, there are problems regarding macro-economic management due to economic instability both domestically and internationally. For instance the slow growth of export, the finance institutions' weakness, liquidity problems and high interest rate, as well as declining government revenue which results in a series of tremendous government budget cuts. The government has been trying to solve the problems through a number of measures including seeking loans and assistance from other countries and international financial institutions. It requests assistance from many sources such as the Asian Development Bank (ADB) for the unemployment and social problems, the World Bank for restructuring the finance and social sectors, from Japan and the U.S. export-import banks for export credits. It also allocates more of the government budget for solving economic and social problems.

The Department of Technical and Economic Cooperation (DTEC) under the Office of the Prime Minister, with the responsibility for coordinating foreign technical assistance, can play an important role in alleviating the current economic pains by seeking the needed foreign technical assistance. In order to execute the technical assistance effectively and efficiently, it is imperative for DTEC to identify the technical assistance strategy, direction, as well as types of activities of the assistance with a view to mitigating the economic problems both in the short run and the long run, reducing the duplication of work, setting economic and social priority for technical assistance projects, in order to maximize the benefits from the allocation of limited resources.

## **1.2 Objectives of the Study**

- a) To identify the economic and social impacts of the economic crisis.
- b) To conduct a follow up survey on the implementation of the government's projects under foreign loan.
- c) To conduct a technical needs assessment of the government agencies concerning with action-takings on the crisis problems.
- d) To identify strategy for technical assistance which comes through DTEC with regard to direction and types of activities.

## 1.3 Methodology of the Study

To achieve the above objectives, the study team has employed the methodology as follows:

- a) Examining causes and consequences of the economic crisis with an emphasis on social problems and macro-economic management.
- b) Conducting a tracer study on governmental projects which are financially supported by loan or technical assistance from international organizations, through data collection and interviewing government agencies concerning with allocation of budget and loan execution, in particular, the Fiscal Policy Office under the Ministry of Finance, the National Economic And Social Development Board (NESDB) and the Budget Bureau.
- c) Investigating the utilization of the resources allocated from the government's budget and foreign technical assistance with according to the types of problems they are earmarked to solve, which can be classified as follows.
  - Short term problems:
    - Social problems of the low-income people
    - Unemployment
    - Export slowdown
    - Liquidity problems
    - Financial instability
    - Economic stability and growth
  - Medium and Long term problems:
    - Structural adjustment of the real sector to strengthen the country's competitiveness internationally
    - Restructuring of the public sector and Good Governance
    - Community strengthening
    - Human resource development
- d) Interviewing representatives of key international organizations who provide technical assistance to Thailand with a view to understanding the criteria and nature of their assistance during the time of the crisis.
- e) Conducting questionnaire survey on government agencies. This is to seek information and opinion on the need for technical assistance to solve agencies' problems, the agencies' projects to mitigate impacts of the crisis, as well as other social and economic problems in general.
- f) Based on the above study and information, identifying strategy for DTEC's effective execution of the technical assistance both for the short and the long run benefits. An emphasis will also be placed on avoiding any duplication of work carried out by other projects under different sources of funding. For example, it is believed that the problems in the area of macro-economic management and financial institutions have been receiving and should continue to receive a considerable amount of both financial and technical supports. Hence there will be no need for DTEC to focus on this area, but rather on other issues, such as economic restructuring, or human resources development.



- g) Organizing a seminar between senior DTEC's officials, researchers and representatives from concerned agencies for consideration and comments on the finding of the draft final report. The discussion and responses from the questionnaire survey in the seminar are utilized to prioritize DTEC's TA strategies and activities.

## **1.4 Organization of the Study**

The study comprises five chapters. The next Chapter presents causes of the crisis and identifies economic and social impacts from the crisis. Chapter Three reviews the government measures to cope with the crisis. It emphasizes investigating the utilization of foreign loan programs which have comprehensive plans to revitalize social and economic structure in order to survive through the crisis, and sustainable development. The programs also involve a number of government agencies and communities. Therefore reviewing these programs will provide information for identifying TA activities needs to complement the programs and to avoid any duplication of works. In Chapter Four, we discuss trend of TA activities in Thailand and the results from interviewing the donors. The focus is on how donors perceive the impact of the crisis on Thailand and the roles of TA to alleviate these impacts. The last Chapter applies data and information from previous Chapters, response from questionnaire survey, and comments from the seminar, to identify strategy for DTEC's effective utilization of TA and prioritize TA activities to cope with the crisis for the short-run and long-run benefits to Thailand.

## II. IMPACTS OF THE ECONOMIC CRISIS

### 2.1 Overview

Over the past two decades, the Thai economy had performed exceptionally well owing mostly to a development strategy that emphasized the role of the private sector. Economic growth averaged 7.6 percent during 1977-1996, while per capita GDP dramatically increased from US\$450 to US\$3,080 during the same period (US\$1=25 baht).

Behind the picture of continuously growing economy, nobody seemed to be recognizing the danger caused by macroeconomic mismanagement. The liberalization of the financial system, low world interest rate and the domestic currency which had been pegged to the US dollar, altogether resulted in a large-scale influx of capital, especially in terms of short and long-term foreign loans. The ease of the access to those capital also encouraged private sector to over-invest in some sectors, especially in the real property sector which were largely financed by short-term capital inflows. Consequently, the share of short-term debts relative to reserves in 1996 was quite high at 164 percent while external debts accounted for 50.4 percent of GDP.

While the International Monetary Fund recommended the liberalization of the financial system, the Fund did not supervise and monitor the adverse effects that would have occurred if too large amount of short-term loans were made by a number of private companies. Although this would not have been a problem had the private sector still been profitable. However, the unexpected economic turmoil arose because of the vulnerability of the economy. This could be viewed as a consequence of a number of factors. Firstly, the majority of loans were given to unproductive activities, such as the property sector, capital intensive heavy industries, and speculation in stock markets. Secondly, the current account deficit which rose to nearly 8 percent of GDP in 1996 and the increasing rate of inflation since 1993, and finally the export slowdown in 1996 which was mainly due to loss of competitiveness in labor-intensive products. These altogether led the Thai economy to be more vulnerable to the unexpected shocks both internal and external. In other words, if something went wrong in the economy then suddenly a lot would go wrong. Therefore, it was as if the IMF had taught Thailand to drive a car without teaching her to brake or to control the speed.

The problem became more serious when the attack on the baht by foreign speculators started in November 1996, and again heavily in May 1997. Moreover, the measures of the Bank of Thailand to defend the baht cost the Bank a considerable amount of foreign reserves. The baht was finally floated on 2 July 1997 which in turn led to the collapse of Thailand's financial system. The insolvency and viability of most financial companies and some banks became a serious problem as the Non-Performing Loan ratio and withdrawals by depositors has increased over time. This was mainly due to the increase in debt-servicing burdens of private companies, especially in the real property sector, as the value of the baht continued to depreciate in the third and fourth quarter of 1997, coupled with the slow export growth and the deterioration of confidence in the economy.

The crisis forced Thailand to seek assistance from the IMF similar to that of Mexico in 1995. A number of programs has been proposed concentrating on strict monetary and fiscal policies. Some policies seemed to alleviate problems, however, some which had been applied to Mexico were criticized as somewhat inappropriate for Thailand. Thus several more negotiations between the Thai government and the IMF had been carried out in order to adjust some IMF criteria to be more appropriate for the recent economic situation. In fact the economic crisis together with the IMF constraints have had a number of impacts on Thailand which can be categorized into two main groups. They are *economic impacts*; for example, recession and credit crunch; and *social impacts*; for instance, unemployment and high cost of living.

This Chapter attempts to explain the impacts of the crisis in Thailand. The economic impacts will be provided in section 2.2. Section 2.3 will discuss some issues of the social impacts; for example, unemployment, increase in costs of living, and decrease in social services. Impacts on long-term competitiveness will be provided in the final section.

## **2.2 Economic Impacts**

### *2.2.1 Growth and stability*

According to the Fifth Letter of Intent proposed to the IMF, the Thai economy was estimated to be further deteriorated in 1998. The GDP growth rate at constant prices was expected to be in a range of -6 to -7 percent, while inflation rate was believed to be as high as 9 to 10 percent. Compare these figures to those estimated in the Fourth Letter of Intent, a decrease in inflation rate was a result of the stability of the exchange rate and a slight increase in commodity prices due to a fall in purchasing power and a decline in oil prices. However, a decrease in GDP growth rate relative to the previous estimation can be viewed as a result of the more severe insolvency problems of private companies and financial institutions due to illiquidity and high interest rates. In addition, the fiscal deficit of 3 to 4 percent was expected since the strict IMF constraint on government expenditure had been loosened in order to stimulate the economy. Although the current account balance was estimated to be positive at 11 billion US dollar, this surplus was expected to be mostly due to a reduction of imports (in US dollar) of 25 to 30 percent rather than an increase in exports. In fact, the value of exports in US dollar was believed to have reduced by 3 to 5 percent which was mainly due to a significant decrease in imports of primary and intermediate products and high degree of competition among Asian countries.

### *2.2.2 Financial sector*

As mentioned above, many financial institutions have experienced the problems of insolvency and illiquidity because an increasing share of their loans have become non-performing and because of the unwillingness of foreign lenders to continue lending. Moreover, the Bank of Thailand also required these financial institutions to increase their capital base. Altogether, they became much less willing to lend to their customers which in turn led to the contraction of the economy since the support of the domestic private companies by local financial institutions has been withdrawn. *Credit crunch* arose as banks were reluctant to lend to most corporations whose balance sheets have been significantly deteriorated as a result of the depreciation. In addition, credit crunch could also be viewed as a result of a set of conditionalities stipulated by the IMF, along with its rescue package,

for the purpose of financial reform. The tighter regulations and supervision of financial institutions were needed in order to restore both confidence in and stability of the financial system, the more difficult for investors to be approved to have an access to banks' loans.

High interest rate was also one of the obstacles to investment. Although high interest rate could be viewed as a mechanism to screen out bad borrowers, it discouraged investment. Interbank rates, which stayed in a range of 9-11 percent in 1995-1996, surged to 15-16 percent in 1997, and continued to increase to approximately 20 percent in the first four months of 1998. The minimum overdraft rate (MOR) and minimum lending rate (MLR) also shifted in a similar fashion in which MOR increased from 13.25-13.50 percent in June 1997 to 15.75-16.25 percent in April 1998, while MLR increased from 12.75 percent to 15.25-15.50 percent during the same period.

Pakorn (1998) suggests that the primary reason for the escalation of interest rates is that money supply was drained out of the system to an increasing extent. The difference between the balance of payments (BOP) and the government cash surplus (GCS), which represents the net amount of money injected into the system, fell significantly from 53.3 billion baht in 1995 to 11.4 billion baht in 1996 and -308.3 billion baht in 1997, mostly attributed to worsening BOP. The drastic deterioration of BOP was mainly due to speculation on a baht devaluation, and repayments of external debts in 1996-1997. However, in 1998, the improvement of the balance of payments, a further decrease in manufacturing production and private investment have not resulted in the reduction of interest rates. In contrast, interest rates have moved up slightly, which in turn indicated that the credit crunch in 1998 was not mainly caused by liquidity shortage, but rather due to a set of IMF requirements as mentioned above.

### *2.2.3 Debt burden*

Foreign debts outstanding increased from US\$43.6 billion in 1992 to US\$90.5 billion at the end of 1996. Foreign debts continued to increase in the first, the second and the third quarter of 1997 but then decreased through the fourth quarter of 1997, the first and the second quarter of 1998 to US\$88.2 billion.

Apart from less financial support received, corporations were also hit by the increasing burden of servicing their foreign debts because of the sharp increase in the price of dollar. Although foreign debts in term of US dollar decreased through the fourth quarter of 1997 and the first quarter of 1998, the baht depreciation caused a dramatic increase in foreign debts in term of baht from 3.093 trillion baht in the third quarter of 1997 to 4.274 trillion baht in the first quarter of 1998. While the exchange rate became more stable in the second quarter of 1998, the current rate has still been devaluated more than 60 percent compared to the rate before the baht was floated.

### *2.2.4 Saving and investment*

A reduction of capacity utilization was also leading to a fall in investment. According to Dollar and Driemeir (1998), capacity utilization on average fell in all five selected industries; garments, textiles, electronics, food processing, and auto parts, from 1996 to the first half of 1997, and again in the second half of 1997. Half of firms reported cutting back their capacity in the second half of 1997, and 40 percent of firms still anticipate a further contraction in their rate of production in 1998.

While a number of firms had cut back their capacity utilization, fifteen percent of firms reported an expansion. However, it should also be noted that 70 percent of them are exporters and 60 percent are large ones. In addition, the overall increase in capacity utilization is small (60 percent of firms reported increases of 10 percent or less). Moreover, more than 20 percent of firms had abandoned the path, which was planned before July 1997, to expand their capacity.

The withdrawal of foreign money was also expected to have effects on saving and investment. However, this was likely to reflect more in the decrease in investment rather than in saving, which in turn reversed the trend of the current account deficit during the past couple of years.

### *2.2.5 Exports*

Considering exports, aside from agriculture, the benefit from the baht devaluation has not had the effect on export volumes as much as expected. This is mainly due to the simultaneous collapses of other Asian currencies, and also the shortages of working capital as a result of the credit contraction. During the period of 1 July 1997 to 13 July 1998, the Yen and the Taiwanese dollar depreciated approximately by 23 percent, while the Singapore dollar and the Malaysian ringgit also depreciated by 21 and 68 percent, respectively. Indonesia was most severely affected by the crisis since the relative value of the rupiah to the US dollar on 13 July 1998 was 5 times less than it was on 1 July 1997. Since exports from Thailand to East Asian and Southeast Asian countries in 1996 were accounted for almost 50 percent of the total exports, such a collapse of Asian currencies should more or less affect Thai exports. At least, it would affect the prospect to increase exports to these countries which is essential in this economic situation. Moreover, the simultaneous depreciation may also lead to a more intensifying competition among Asian countries since all countries realise the necessity of export promotion.

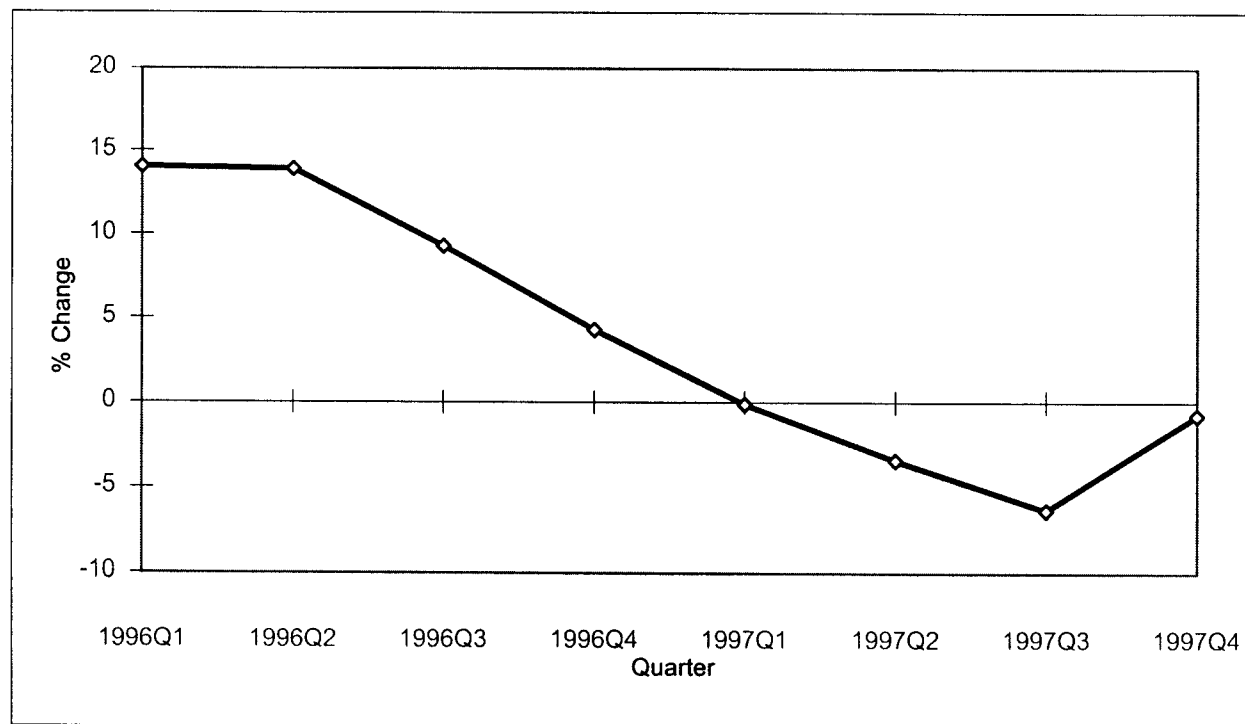
For agriculture, as the prices of most agricultural products turned sharply upwards responding to the rise in the exchange rates, and increased demand arising from the impact of El Nino on other countries, the volumes and value of export of such products have been expected to increase.

### *2.2.6 Government revenues and expenditure*

Government revenues were also affected by the crisis. As shown in Figure 2.1, government revenues began to deteriorate in the first quarter of 1997 and then significantly decreased in the third quarter. Although the improvement of government revenues could be seen in the fourth quarter, such improvement was likely to be the result of the value added tax increase and the rise in gasoline and diesel excise taxes, rather than because of the recovery of the economy.

One can view government expenditure as the main factor to stabilize or to stimulate the economy, the reduction of the government revenues thus also affected the government expenditure in a number of crucial areas for example; expenditure for projects on human development (Health and Education), technology development, and those aimed to increase the domestic aggregate demand. Such reduction in government expenditure therefore affected both real economic and social sector.

**Figure 2.1** Change in Government Revenues (percent relative to the same quarter of the previous year)



Source: Ammar and Orapin, 1998.

The budget cuts resulting from the tight fiscal policy also affected government expenditure. Since the administrative expenditure; for example, salaries of officers, were difficult to be deducted, the government investment in number of projects mentioned above, including those investments in physical and institutional infrastructure, had to be canceled or postponed. This in turn affected the future prospect of economic growth.

## **2.3 Social Impacts**

In this section, only important selected issues of social problems resulting from the crisis are discussed.

### *2.3.1 Labor Market*

#### **a) Unemployment**

One of the major concerns on the social impacts since the beginning of the crisis has been the increase in unemployment and underemployment. The credit crunch forced most of manufacturers to reduce production, and thus a fall in output. This in turn affected employment as many economic sectors have had to lay off workers or reduce their working hours at both high and low ends of the market. According to data from the National Statistical Office (Table 2.1), the number of total unemployed persons<sup>1</sup> surveyed in February 1998 has increased from that in February 1997, from 1.73 million persons to 2.74 million persons. More than 80 percent of the people unemployed was in rural areas, accounting for 2.36 million persons, while 0.38 million persons were unemployed in the urban areas.

The above unemployment figures may be misleading, however, with regards to the impacts of the crisis on unemployment since it includes seasonal unemployment of approximately 1.25 million. Seasonal unemployment is not uncommon in Thailand and is not caused by the crisis. The unemployment figure adjusted for the seasonal unemployment was approximately 1.48 million, an increase of more than double from 0.7 million in 1997.

Because of a decline in labor demand in the formal sector and there expects an employment increase in the informal sector, the number of self-employed and unpaid family workers was anticipated to increase. However, the data surveyed only shows a slight increase or a slight decline for most of the cases, except for the case of self-employed rural males in which the number was dramatically increased by 200,000 persons, and while in the case of rural women unpaid family workers, the number was significantly decreased by 210,000 persons.

The total employment declined by 0.86 million persons between February 1997 and 1998. If we consider employed persons classified by sector, it can be seen that the decline in total employment was mostly contributed by a decline in employment in construction accounted for 0.94 million persons, half of which was due to the decline in rural areas. Such a decline reflected a significant decrease in demand for properties which can be viewed as a result of the collapse in real estate sector.

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<sup>1</sup> The number of unemployed is defined as those actively seeking work as well as those merely willing to work including the seasonally unemployed.

**Table 2.1** Employment and Unemployment of Persons Who Are 13 or Older in February  
1995-1998

Unit : Millions

	Male				Female			
	1995	1996	1997	1998	1995	1996	1997	1998
<b>A. Employed Persons by Hours Worked</b>								
<i>Rural</i>	11.66	12.01	12.03	11.65	8.26	8.6	8.56	8.13
Less than 20 hours	0.18	0.26	0.21	0.42	0.21	0.28	0.24	0.4
Between 20 and 39 hours	1.7	1.68	1.63	1.97	1.57	1.67	1.63	1.67
More than 40 hours	9.77	10.08	10.19	9.26	6.48	6.65	6.69	6.06
<i>Urban</i>	5.07	5.24	5.33	5.23	4.07	4.25	4.35	4.4
Less than 20 hours	0.05	0.05	0.05	0.27	0.05	0.05	0.05	0.38
Between 20 hours	0.79	0.74	0.76	1.14	0.74	0.7	0.72	1.09
More than 40 hours	4.23	4.45	4.52	3.82	3.28	3.49	3.58	2.93
<b>B. Employed Persons by Industry</b>								
<i>Rural</i>	11.66	12.01	12.03	11.65	8.26	8.6	8.56	8.13
Agriculture	6.39	6.46	6.33	6.47	4.65	4.83	4.76	4.33
Industry (excl. Construction)	1.37	1.47	1.45	1.38	1.4	1.48	1.42	1.39
Construction	1.54	1.81	1.84	1.24	0.32	0.41	0.45	0.24
Services	2.35	2.27	2.41	2.56	1.9	1.87	1.93	2.17
<i>Urban</i>	5.07	5.24	5.33	5.23	4.07	4.25	4.35	4.4
Agriculture	0.48	0.51	0.5	0.51	0.32	0.35	0.34	0.33
Industry (excl. Construction)	1.26	1.21	1.3	1.27	1.07	1.03	1.06	1.12
Construction	0.63	0.7	0.56	0.48	0.16	0.2	0.13	0.08
Services	2.7	2.83	2.96	2.97	2.51	2.67	2.81	2.86
<b>C. Employed persons by Status</b>								
<i>Rural</i>	1.66	12.01	12.03	11.65	8.26	8.6	8.56	8.13
Employees	4.83	5.12	5.12	4.56	2.76	2.94	2.94	2.81
Self-employed	5.36	5.46	5.33	5.53	2.32	2.33	2.25	2.25
Unpaid family workers	1.47	1.43	1.58	1.56	3.18	3.33	3.38	3.07
<i>Urban</i>	5.07	5.24	5.33	5.23	4.07	4.25	4.35	4.4
Employees	3.21	3.4	3.37	3.29	2.36	2.54	2.63	2.69
Self-employed	1.55	1.5	1.6	1.59	0.92	0.91	0.89	0.91
Unpaid family workers	0.31	0.34	0.36	0.36	0.79	0.8	0.83	0.81
<b>Total Employment</b>	<b>16.72</b>	<b>17.25</b>	<b>17.36</b>	<b>16.88</b>	<b>12.33</b>	<b>12.84</b>	<b>12.91</b>	<b>12.53</b>
<b>D. Unemployed persons</b>								
<i>Rural</i>	0.7	0.49	0.49	1.04	1.35	1.09	1.01	1.32
Actively seeking work	0.06	0.04	0.07	0.18	0.04	0.02	0.03	0.08
Ready to work	0.22	0.2	0.18	0.51	0.25	0.24	0.24	0.4
Seasonal	0.42	0.25	0.23	0.35	1.06	0.83	0.73	0.83
<i>Urban</i>	0.11	0.1	0.1	0.18	0.14	0.12	0.13	0.2
Actively seeking work	0.04	0.04	0.04	0.08	0.02	0.02	0.03	0.06
Ready to work	0.04	0.04	0.04	0.08	0.05	0.04	0.05	0.09
Seasonal	0.03	0.02	0.02	0.02	0.07	0.6	0.05	0.05
<b>Total Unemployed</b>	<b>0.8</b>	<b>0.59</b>	<b>0.59</b>	<b>1.22</b>	<b>1.49</b>	<b>1.21</b>	<b>1.14</b>	<b>1.51</b>
<b>E. Not in the Labor Force</b>								
<i>Rural</i>	3.1	3.14	3.32	3.34	5.7	5.82	6.12	6.42
Housework	0.04	0.06	0.07	0.06	2.49	2.5	2.67	2.9
Study	1.73	1.77	1.9	1.89	1.57	1.72	1.83	1.91
Too young or old	1.08	1.03	1.07	1.12	1.36	1.28	1.31	1.39
Others	0.26	0.29	0.29	0.28	0.29	0.32	0.3	0.22
<i>Urban</i>	1.72	1.71	1.76	1.92	3.06	3.08	3.14	3.2
Housework	0.02	0.04	0.03	0.03	1.42	1.41	1.42	1.36
Study	1.06	0.99	1.04	1.13	0.91	0.99	1.05	1.16
Too young or old	0.47	0.5	0.52	0.56	0.61	0.57	0.57	0.59
Others	0.17	0.18	0.17	0.2	0.11	0.11	0.11	0.1
<b>Total outside the Labor Force</b>	<b>4.82</b>	<b>4.85</b>	<b>5.08</b>	<b>5.26</b>	<b>8.77</b>	<b>8.89</b>	<b>9.26</b>	<b>9.63</b>

Source: Labor Force Survey (Round 1) 1995, 1996, 1997, 1998, National Statistical Office, data tapes.



## b) Layoff and underemployment

The unemployment figure alone does not tell the whole story of the impacts of the crisis as there are a considerable number of workers whose employment is affected by the crisis in forms of layoff or reducing work hours or wage rate. Besides those who are laid off, they did not necessarily become unemployed. Since there is no unemployment benefits to be collected or no substantial social insurance to cope with the unemployment, some of the laid off had to earn a living in the informal sector or return to their hometown for social safety. There is an evidence that the average number of working hours has declined during the crisis.

Between February 1997 and 1998, the number of people working less than 20 hours a week increased from 0.55 million persons or 1.7 percent of the labor force in 1997 to 1.47 million persons or 4.6 percent in 1998. Such an increase was relatively more significant in urban areas as the number of people underemployed in urban areas increased from 100,000 persons in 1997 to 650,000 persons in 1998, while the number of people underemployed in rural areas increased from 450,000 persons to 820,000 persons during the same period. Ammar and Orapin (1998) also indicated that among the underemployed in urban areas, almost half of the men and three quarters of the woman were in the industrial sector. This in turn suggested that the underemployment of a large number of industrial workers now became a new phenomenon.

Although manufacturing employment had slightly decreased from the previous year, a significant decrease of manufacturing employment after February 1998 was expected as illiquidity and insolvency problems of a number of manufacturers became more serious. The total number of labor which had been laid off estimated by the Ministry of Labour and Social Welfare accounted for almost 0.3 million persons. More than half of them were laid off while the establishment was still in operation, and the rest were laid off because the establishment was closed down. According to the Department of Labor Protection and Welfare survey on 31 April 1998, 790 manufacturing factories (excluding automotive industry), which had the illiquidity problem and employed 272,769 workers, had already laid off 39,621 workers since the baht was floated (Table 2.2). A worse case could be seen in the automotive industry in which almost 30 percent of workers had been laid off, and more were expected due to a sharp decline in demand for automobile. Therefore, if illiquidity problem of manufacturers cannot be solved either by themselves or by government assistance, there will be more laying off and thus unemployment.

## c) Returned labor from abroad and new entrants

Since the crisis has not affected only Thailand but rather most of the countries in Asia, there was an increase in the number of returned labor from abroad. A large number of Thai labor working abroad; for example in Taiwan and Brunei, were sent back to Thailand and this exacerbated the number of the unemployed. Although the government carried out a number of policies to support labor to work abroad in order to alleviate unemployment, the target has not yet been met.

**Table 2.2 Industries Facing Liquidity Problem (31 April 1998)**

Sectors	No. of Company	Employees	Lay Off	Amount of Grant Requirement ( Million Baht)
Mining	18	2,126	72	330.0
Food, Beverage and Tobacco	103	35,417	2,400	4,205.0
Textile, Leather and Shoe	74	31,090	3,798	2,523.0
Wood and Furniture	36	6,552	659	368.5
Paper and Printing Products	18	8,364	1,434	570.5
Chemical Products	21	5,003	717	3,261.5
Petroleum and Plastic Products	25	6,551	807	2,580.0
Rubber	21	7,454	482	564.0
Ceramic and Glasses	13	8,919	908	764.0
Metal and Non-Metal	17	10,880	670	5,122.0
Metal and Non-Metal Products	62	14,407	3,087	1,829.5
Machinery and Electrical Appliance	72	51,782	3,087	1,284.5
Transport Equipment	29	11,792	3,694	2,090.3
Measurement Equipment	25	13,467	1,482	192.5
Construction Contractor	26	23,815	10,352	3,799.5
Wholesale	18	2,975	421	184.0
Store, Department Store and Restaurant	23	3,207	552	140.0
Retail Stores	80	9,093	2,031	353.0
Hotel and Housing	46	8,345	990	1,727.0
Ground and Air Transportation	7	1,492	70	-
Finance and Insurance Company	9	821	248	35.0
Services	35	9,311	1,660	3,528.0
<b>Total</b>	<b>790</b>	<b>272,969</b>	<b>39,621</b>	<b>35,633.75</b>

*Source:* Poojadkarn Daily 21 July 1998.

The unemployment situation has been and will be hampered by the influx of new entrants to the labor market. Thailand Development Research Institute Foundation (1998) indicated that the number of graduated students in all levels of education to enter the labor market during 1997-2001 was averaged at 525,823 persons per annum. While more than half of the new entrants would graduate at university level, the demand for this group of labor accounted for only 20 percent of its supply. This over supply reflected that more labor would be unemployed. Moreover, considering demand and supply of labor during 1997-2001, it can be seen from Table 2.3 that there will be an excess demand for labor with lower than primary and primary education accounting for 219,220 persons. In contrast, the excess supply of labor attained secondary and university education accounted for more than 0.26 million persons. In the case that the excess supply of labor is not able to adjust themselves to work in the agricultural sector in which there is an excess demand, unemployment among educated labor will become more serious. Although there is an excess demand for labor with lower than primary and primary education, it can be substituted by alien labor which recently account for more than 0.7 million persons. Therefore, the policy to send this labor back to their countries is necessary, otherwise unemployment among uneducated labor will become more severe.

**Table 2.3** Demand and Supply of Labour Classified by Levels of Education in the Eighth Economic and Social Development Plan (1997-2001)

Unit: Persons

Levels of Education	The Eighth Economic and Social Development Plan (1997-2001)					
	Demand				Supply	Excess Demand
	Agriculture	Industry	Services	Total		
Lower than primary and primary	1,615,144	546,982	307,345	2,469,471	2,250,251	219,220
Lower secondary	99,649	100,779	86,629	287,057	653,098	-366,041
Upper secondary	22,239	31,157	32,428	85,825	1,017,903	-932,078
University	14,968	70,081	150,598	235,647	1,600,367	-1,364,720
Total	1,752,000	749,000	577,000	3,078,000	5,521,619	-2,443,619

Source: Thailand Development Research Institute Foundation 1998.

#### d) Migration

It is evident that a large-scale reverse migration is taking place which reflects in the increasing number of unemployed people in rural areas. This in turn raises the concern whether the Thai rural economy, especially the farm sector, is able to accommodate all the returned migrants after it has been neglected for years. The poor quality of public services (health and education), the natural resources and environment which are already fragile and the expected severe and long drought in rural areas can altogether be viewed as obstacles for the expansion of the rural economy.

Before the crisis, most of families living in rural areas consisted of elderly people and children, while youngsters and parents of the children were away to work in Bangkok, big cities and abroad. Although the return of migrants would benefit the society in the sense of the increasing family values, this in turn increased the burden of women and the old to feed all members of the family, sometimes by using their saving. This happened especially when there is no other occupation; for example, handicraft and small-scale livestock, to accommodate the returnees.

#### *2.3.2 High Prices and Higher Cost of Living*

Although the baht devaluation has affected both the real economic and social sector, it seemed to benefit some of the poor especially those in the tradable agricultural sector. As mentioned, they should benefit from higher prices and the increase in demand for most of agricultural products. However, those who are food buyers would be adversely affected by the sharp rise in food prices.

For the people who were laid off and those whose salaries and work time were reduced, the immediate impact was the reduction and loss of their nominal income. The rise in inflation therefore exacerbated the problem by further reducing income in real terms.

## Box A: The human face of Asia's crisis.

Bangon Pahilak, "What does her 4-year old daughter need, food or a mother?"

DOES THE IMF CARE ABOUT THIS CHOICE...THAT ITS POLICIES FORCES A MOTHER TO MAKE THIS CHOICE?

As a result of the Asian financial crisis, her husband has lost his job as a construction worker.

The girl Saiyamon is already anemic and malnourished.

Anecdotal reports that Indonesian mothers can no longer afford milk, which has tripled in price and are giving their babies tea.

...The picture that emerges suggests increases in death rates, school dropouts, and malnutrition.

"When children are malnourished before they are 5 years old, the impact on their intelligence is permanent," said Dr. Anugerah Pekerti, chairman of World Vision Indonesia, an aid organization.

On the eve of the crisis, Indonesia had 20 million people who lived below the poverty line, getting by with incomes of less than \$1/day. Now World Bank officials suggest that 40 million people live below the poverty line.

For some of these 40 million and for those in Thailand, Vietnam and Burma, the question is not whether to live in poverty but living at all.

Data suggests that the number of school dropouts in Thailand may have tripled in one year. In Indonesia, the government estimates that 8 million elementary and junior high school students may drop out this year, compared with 2.8 million in a normal year.

Source: Kristof, Nicholas D., "Human costs of Asian meltdown," June 9, 1998, New York Times

### 2.3.3 Decreased Social Services

#### a) Budget cuts

Another major concern concentrates on the social impact caused by a fall in the government expenditure, occasioned by a fall in government revenues. While there is increasing demand for public services, especially health and education, the budget constraints have forced the government to curtail some social programs. In cutting expenditures, the government acted under the advice of the IMF. Following the criteria set by the IMF, a number of programs, for example, programs which have low priority in the Eighth National Economic and Social Development Program, construction projects which are not urgent, and programs which are no longer appropriate because of changing economic conditions, were eligible for cuts. In contrast, programs that are aimed at improving the Thai competitiveness, lessening the social impact of the crisis, and at improving the economy of the provinces would not be affected by the budget cuts.

Although there was an attempt to follow those criteria, it was not consistently done. The sharpest cuts were in transport and communications, but balanced against that were equally severe cuts in environment and in *social services* (Ammar and Orapin 1998).

According to the 1998 budget which had been revised several times to accommodate the IMF conditionalities, more than 18 percent of the firstly submitted budget, accounted for 182,000 million baht, was cut from the budget bill. The budget cut had been carried out three times, the first cut was accounted for 59,000 million baht while the second and third cuts were accounted for 100,000 and 23,000 million baht, respectively. This section will mainly consider the budget cuts of the Ministry of Education, the Ministry of Public Health, the Ministry of Labour and Social Welfare and Ministry of Interior, since these budget cuts directly affect the number of programs related to social development.

#### b) Education and scholarships

The 1998 budget for the Ministry of Education reflects a 10.7 percent reduction from the budget bill with a cut of 17,731.8 million baht, leaving 148,577.15 million baht available for all the departments of the Ministry (Table 2.4). While more than 80 percent of the budget was distributed to the Office of National Primary Education Commission, the Department of General Education and the Department of Vocational Education, only 25,686.86 million baht was available to other 9 departments, including the Department of Non-Formal Education and the Office of the Teacher Civil Service Commission.

This decline in budget raises concerns on the human resources development problem of the country, as it is evident that the number of students dropped out from schools and universities has significantly increased over time since the crisis started. Such an increase can be viewed as a result of the loss or reduction of income of their parents, causing their children to drop out from schools and universities to look for jobs. A survey by the Ministry of Education indicates that more than 45,000 students have been affected because their parents have lost their jobs (UNDP 1998). Although the government provided loans for drop-out students for 1,000 million baht, only 10 percent of the amount has been made.

The crisis has not only affected students, both public and private schools also face the problem of decreasing budget and increasing costs. While private schools all over the country recorded 923 million baht overdue tuition for the second semester of the 1997 academic year, public schools experienced a decreasing budget expenditure for stationary, tuition fee, and food.

The impact of the budget cut on the government scholarships should also be taken into consideration since this is an important means to develop human resources in the government sector. Table 2.5 presents the number of scholarships subsidized by the government. The total number of scholarship provided by the Office of the Civil Service Commission in 1998 increases from those provided in 1997, partly because of the introduction of the government project aimed at increasing manpower in the government sector. Under this project, 500 scholarships are proposed each year from 1998 to 2002. With the budget constraints, even though expenditure on scholarships was untouched and protected from cuts, it became insufficient due to the baht depreciation. The budget constraints also affected the ongoing scholarships in the form of a 10% reduction on allowance, and reduction in other expenses, such as funds supporting for computer appliance, learning materials, trips or seminars.

**Table 2.4** Budget, Ministry of Education, 1998

Unit: Million Baht

	<b>FY 1998</b>	<b>Cut</b>	<b>Actual Balance</b>
<b>Ministry of Education</b>	166,308.91	17,731.76	148,577.15
Office of Permanent Secretary	4,330.24	382.13	3,948.11
The Religious Affairs Department	2,487.60	130.82	2,356.78
The Office of Rajabhat Institutes Council Education Ministry	5,669.52	891.99	477.52
Department of Physical Education	2,519.47	551.26	1,968.21
The Fine Arts Department	1,852.16	298.03	1,554.12
Department of General Education	35,199.31	3,998.85	31,200.46
Department of Non-Formal Education	3,029.80	316.99	2,712.82
Department of Vocational Education	13,864.87	2,900.09	10,964.78
Office of the National Culture Commission	366.45	45.87	320.58
Rajamangala Institute of Technology Office of the President	3,949.09	722.99	3,226.10
Office of the National Primary Education Commission	87,991.95	7,266.91	80,725.05
Office of the Teacher Civil Service Commission (TCSC)	133.96	10.18	123.78

*Source:* The Bureau of the Budget.**Table 2.5** Number of Scholarships given by the Office of the Civil Service Commission and the Ministry of Science, Technology and Environment in 1997 and 1998

	<b>Total Scholarship</b>	<b>Applicants</b>	<b>Scholar Students</b>
<b>Scholarships in 1997</b>			
King's Scholarship	9	258	9
Post-secondary education	13	1263	12
Under Graduate and Graduate	44	250	32
<b>Total</b>	<b>66</b>	<b>1771</b>	<b>53</b>
<b>Scholarships in 1998</b>			
King's Scholarship	9	295	8
Post-secondary education	125	1905	98
Under Graduate and Graduate	228	1806	136
<b>Total</b>	<b>362</b>	<b>4006</b>	<b>242</b>

*Source:* The Office of the Civil Service Commission.

Although parts of the scholarship budget for this fiscal year was transferred to support the ongoing scholarships, some programs under this project were suspended. These suspended programs consist of the scholarships for the first and second class honor students, domestic training by foreign experts, and short-course training for prospective executive officers. For this fiscal year, 106 from 242 scholarships; eight of the King's scholarships, ninety eight of post-secondary education scholarships, get the full support from government budget, while others which are for students at university level are partly supported by government agencies and international organizations through the Department of Technical and Economic Cooperation and the Ministry of Foreign Affairs. The rest of the scholarships are in the process of seeking supporters since the Thai government is unable to subsidize all the scholarships in the current economic situation.

#### c) Health service

The Ministry of Public Health's budget also suffered a 14.57 percent cut resulting in 14.62 percent reduction from the 1997 budget (Table 2.6). While more than 75 percent of the 1998 budget accounted for 45,245.39 million baht was earmarked for the Office of Permanent Secretary, only 13,258.23 million baht or 22 percent of the 1998 budget was for the Department of Medical Services, Department of Communicable Disease Control (CDC), Department of Mental Health, and Department of Health.

The insufficiency of public health services now become more severe as public hospitals are now facing problems of being overloaded with fewer budgets, higher cost of imported medical supplies, and an increasing number of patients who can no longer afford private hospitals and clinics even though private hospitals have lowered their charges in order to attract more patients.

#### d) Labor and social welfare

Although the crisis has caused a dramatic increase in unemployment as mentioned above, the 1998 budget for the Ministry of Labour and Social Welfare has been cut by 1,717.97 million baht or 15.4 percent reduction from the budget bill (Table 2.7).

The Ministry of Interior which has extensive community development programs and projects in the provinces also experienced a more drastic reduction of more than 25 percent from the budget bill accounted for 45,830.038 million baht (Table 2.8). While Department of Local Administration received 25 percent of the budget which was more than any other departments in the Ministry, the Community Development Department received only 3,861.41 million baht for several projects for example; projects for the community development, public security services, and the prevention and alleviation of narcotics problems.

Since 1993, the Community Development Department has carried out a project on poverty alleviation with the objectives of distribution of income and decentralization of power to rural areas. At the end of 1997, 11,608 villages have been targeted and Vocational loans of 280,000 baht have been provided to each village. The budget cut and the crisis resulted in a decrease in a number of target villages to receive loans, and the amount of each loan in real term was also affected by a rise in inflation. The number of villages targeted under this project in 1998 was reduced from 2,000 villages to only 300 villages (TDRI 1998).

**Table 2.6** Budget, Ministry of Public Health, 1998

Unit: Million Baht

	<b>FY 1998</b>	<b>Cut</b>	<b>Actual Balance</b>
<b>Ministry of Public Health</b>	70,145.50	10,224.61	59,920.90
Office of Permanent Secretary	53,509.21	8,263.81	45,245.39
Department of Medical Services	3,769.48	462.10	3,307.38
Department of Communicable Disease Control (CDC)	4,193.58	480.06	3,713.51
Department of Medical Sciences	1,004.54	127.49	877.05
Department of Mental Health	1,663.70	225.59	1,438.10
Department of Health	5,355.05	555.81	4,799.24
The Food and Drug Administration	576.94	96.73	480.21
Institute of Research on Public Health System	73.00	13.00	60.00

*Source:* The Bureau of the Budget.**Table 2.7** Budget, Ministry of Labour and Social Welfare, 1998

Unit: Million Baht

	<b>FY 1998</b>	<b>Cut</b>	<b>Actual Balance</b>
<b>Ministry of Labour and Social Welfare</b>	11,155.17	1,717.97	9,437.21
Office of the Permanent Secretary	947.71	175.65	772.05
Department of Employment	691.17	68.23	622.94
Department of Public Welfare	4,695.36	642.64	4,052.71
Department of Skill Development	2,594.02	620.01	1,974.01
Department of Labour Protection and Welfare	833.35	178.84	654.50
Social Security Office	1,393.57	32.58	1,360.99

*Source:* The Bureau of the Budget.**Table 2.8** Budget, Ministry of Interior, 1998

Unit: Million Baht

	<b>FY1998</b>	<b>Cut</b>	<b>Actual Balance</b>
<b>Ministry of Interior</b>	178,540.267	45,830.038	132,710.229
Bangkok Metropolitan	10,822.118	3,158.888	7,663.280
Department of Local Administration	39,365.986	4,804.314	34,561.671
Department of Town and Country Planning	742.469	129.795	612.673
The Community Development Department	4,403.568	542.168	3,861.410
Department of Lands	3,008.647	211.819	2,796.827

*Source:* TDRI 1998.



### 2.3.4 Other Social Impacts

Apart from the social impacts mentioned above, other social problems; for example drug abuse, crime, and prostitution, were also expected to increase due to the crisis. Since laying off a large number of workers has the immediate impact on the loss of income, the contracted economy also makes it more difficult for laid off workers to find new jobs, and the drastic rise in cost of living severely hurt this group of people. These altogether may pressure or induce the unemployed to engage in crimes. More and more criminal acts have been reported in newspapers everyday, especially the selling of amphetamine and ecstasy, robbery and car theft. Furthermore, such pressure and tension may also worsen the problem of drug abuse as a number of frustrated people may turn themselves to drugs.

Prostitution has long been a problem in Thailand. Although the survey by Thailand Development Research Institute Foundation in 1998 suggested a decrease in total number of bawdy houses and massages in Chiang Mai as a result of the crisis, a number of private or self-employed prostitutes was expected to increase.

Mr. Montree Sinthawichai, the secretary of the Children Protection Foundation, suggested that the number of prostitution has significantly increased as a result of the crisis in which some of them are voluntary while some are lured into the business. Therefore it is essential for the police to beware and put their attention on these problems, especially on the latter case (*Matichon Daily*, 5 August 1998).

Another group of people affected by the crisis were those who needed social welfare. Although the expenditure on social welfare were protected from cuts according to IMF conditionalities, the amount of such expenditure in real term was lessened as a result of the significant increase in the cost of living. Moreover, the increasing number of people unemployed and the reduction of income of a number of workers severely worsen the problem since the demand for social welfare has significantly increased, while the supply has been unchanged.

## 2.4 Impacts on Long-Term Competitiveness

The disrupted export growth in 1996, and the continued declining of market shares in labor-intensive products due to an increase in wage raise the concern on the loss of long term competitiveness of Thailand. Although the total value of exports in term of baht in 1997 significantly increased by 27.97 percent from that of the previous year which could partly be viewed as a result of baht depreciation, the value of exports in term of US dollar slightly increased by only 3.2 percent.

The European Union, the United States and Japan have been three main export markets of Thailand for more than a decade since Thailand's exports to these countries have been accounting for more than half of the total value of Thailand's exports to world market. The share of Thailand's exports in these markets in 1996 decreased from those in 1995. While the market share of Thailand's exports in the United States decreased from 1.53 percent in 1995 to 1.43 percent in 1996, during the same period, the market share of Thailand's exports in the EU and Japan also decreased from 0.5 to 0.44 percent and 3.01 to 2.92 percent respectively.

Consider the market share of products classified by Harmonized System (HS) codes in 1996, the market share of Thailand's exports of garments, frozen shrimp, footwear and canned seafood decreased in all the three markets while exports of integrated circuits, air conditioners, television receivers and sugar have an increasing share in all three markets. In addition, Thailand's market share of plastic products and rubber in the USA and Japan also decreased as well as jewelry which has a decreasing market share in the USA and the EU. It should be noted that products in which Thailand lost her market share were mostly labor-intensive products as a result of the increase in wages, while those skilled and technology-intensive products were likely to become more competitive. This in turn induce the need for the development of technological capabilities to support industrialization along the path of competitive and sustainable development.

The crisis worsened such problems by causing the slowdown of foreign direct investment (FDI), declining capacity utilization, and intensifying competition among Asian countries. Foreign direct investment (FDI) can be viewed as a major source of the technology transfer in Thailand since investment in research and development by both government and private sector is insufficient for industrial development. Technology may come in various forms; physical capital, human capital and recorded information. The slowdown of FDI thus adversely affect Thailand's competitiveness in technology-intensive products via a decrease in technology transfer.

A decrease in capacity utilization also led to a fall in production and investment. According to Dollar and Driemeir (1998), capacity utilization on average fell in all five selected industries, namely; garments, textiles, electronics, food processing, and auto parts, from 1996 to the first half of 1997 and again in the second half of 1997. In addition, it also suggested that those firms with large-scale of production, firms with links to foreign companies and exporting firms have significantly been less affected by the crisis than those firms with small-scale of production, purely locally owned firms and firms that produce solely for the local market.

The slowdown of FDI and the decline in capacity utilization, accompanied by the baht depreciation in which increased the cost of imported physical capital and other inputs might lead Thai companies to be in a disadvantage position to compete in the world market. These problems was worsened by the intensifying competition among Asian countries especially those which also face the economic crisis. While policymakers often bear in mind that exports are the main source to gain foreign currency and are essential, especially during the crisis, export promotion may not be easy as mentioned above since Thailand has lost the comparative advantages in labor-intensive products. Furthermore, Thailand's technology base which was lagged behind those of NICs, for example; Singapore and Malaysia, also constrained the expansion of trade in technology-intensive products.

Lall (1997) suggested that if the export slowdown and the crisis prove to be temporary, the crisis may in fact have positive effects on future export growth. The financial sector may be stronger and better managed which in turn lead to a more effective funding for economically viable sectors rather than real estate activities. Consequently, there will be greater inflows of foreign capital, and there may be renewed policy emphasis on improving competitiveness.

However, if export performance continues to lag, reflecting structural changes in Thailand's competitive base and an inability to adjust such base, the crisis will thus further

weaken its position at a critical period when China, South Asia, Indonesia and other parts of the developing world are liberalizing and gearing up for their own assaults on world markets. Poor export performance will constrain economic growth, feeding into a vicious circle that restricts export upgrading, a process that requires investment, stability and a long-term perspective.

Moreover, if the crisis itself is prolonged, in terms of continuing budget cuts and tight liquidity, there will be adverse effects on new investment and on the upgrading of the human capital and technology base in Thailand. It is likely that inward investment will be diverted to other countries, existing firms will be reluctant to invest in equipment and training, and government expenditures on training/education, infrastructure, or technology will be cut. Small and Medium Enterprises (SMEs) are likely to suffer more from squeeze than large firms and foreign affiliates, weakening an already weak supply and subcontracting base.

Consequently, there is a need for industrial restructuring to sustain international competitiveness. The concentration should be on upgrading and restructuring industries to manufacture higher value-added products. In addition, agricultural development remains essential in the view that this is the sector that Thailand can sustain comparative advantage.

### **III. GOVERNMENT'S PROGRAMS TO COPE WITH THE CRISIS**

#### **3.1 Introduction**

The 1997 crisis due to its severity has been receiving wide reactions from the public, private as well as political sectors. These responses have been substantially delineated by Ammar and Orapin (1998) and UNDP (1998) among others with broad coverage. In this section, the study reviews major government's Programs, with an emphasis on those involving loans from abroad, to cope with the crisis. As is well known, a major decision of the government in response to the crisis is to have requested for an IMF rescue package of US\$17.2 billion in stand-by credits to increase foreign exchange reserve and support a financial and economic adjustment program, with quantitative monetary, fiscal and external targets. Disbursement is linked to the attainment of those targets and to specific performance (as specified in the Letters of Intent). Under the IMF rescue package, international loans have been mobilized from the international and inter-governmental organizations particularly the International Monetary Fund (IMF), the World Bank, The Asian Development Bank, OECF (Oversea Economic Co-operation Fund), and a number of IMF member countries who expressed the intention to offer rescue loans.

An amount of US\$4,911 million of the loan has been utilized under 4 major programs, namely,

- a) Structural Adjustment Loans (SAL: US\$2,700 million);
- b) Social Investment Project (SIP: US\$411 million);
- c) Liquidity Enhancement, (US\$1,800 million); and
- d) Industrial Restructuring (Industrial SAL: US\$1,191 million).<sup>1</sup>

The loans by major programs and sources of fund are shown in Figure 3.1.

#### **3.2. Structural Adjustment Loans (SAL)**

An amount of US\$2,700 million of the loan is utilized under SAL. The program usage of the loan is shown in Figure 3.2. Summarily, the loan is composed of US\$1,500 million from IBRD and US\$1,200 million from ADB. The proposed usages of the loan are:

##### *3.2.1 Financial Restructuring*

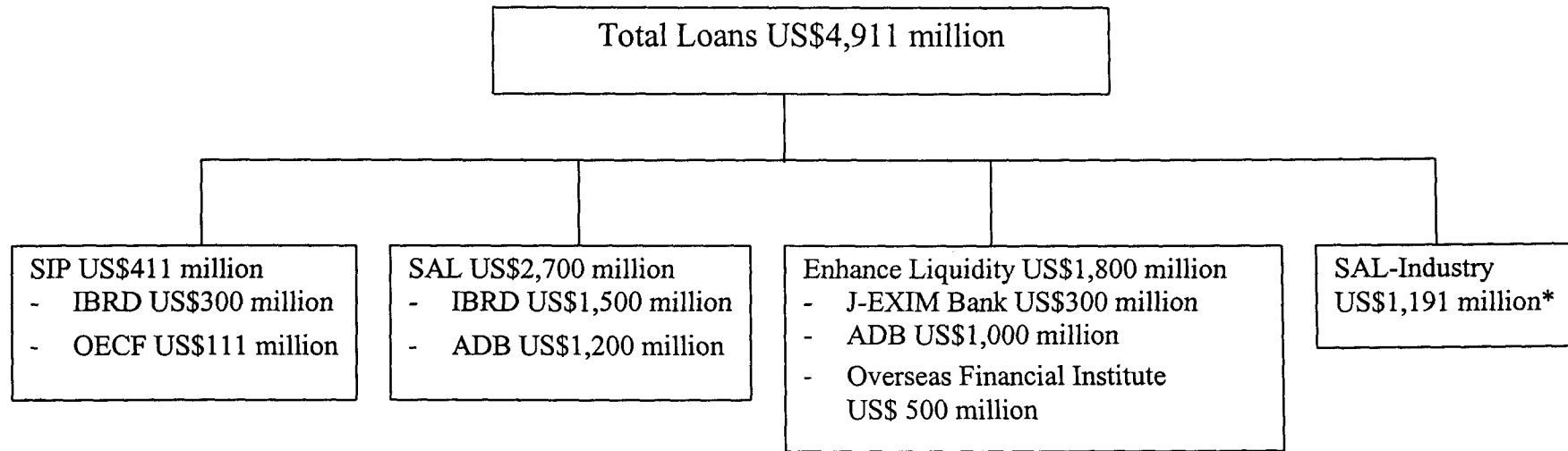
An Amount of US\$1,070 million composed of:

- a) Finance company restructuring loan (US\$350 million: IBRD);
- b) Economic and financial adjustment loan (US\$400 million: IBRD);
- c) Legal systems development loan (US\$20 million: IBRD); and
- d) Financial markets reform program loan (US\$300 million: ADB).

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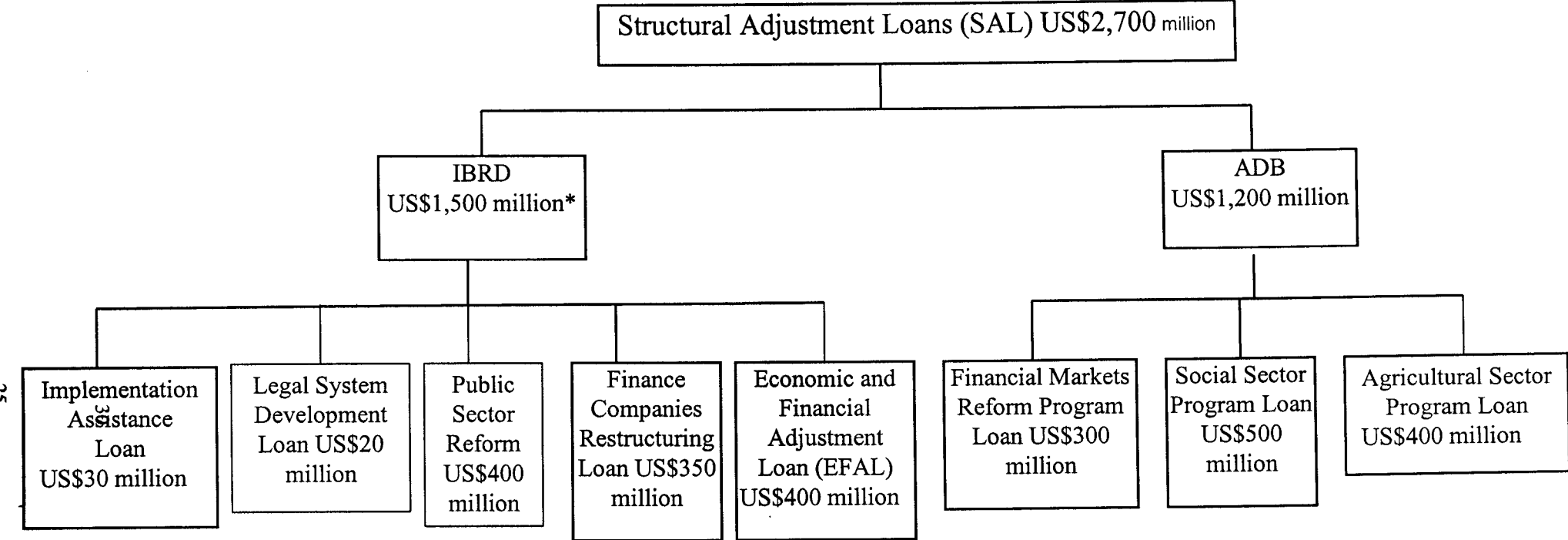
<sup>1</sup> This is a proposed figure. Sources and terms of loan will be finalized.

**Figure 3.1** Total loans targeted for alleviating the economic problem



Note : \* This is a proposed figure. Sources and terms of loan will be finalized.  
Source : The Fiscal Policy Office, Ministry of Finance, 1998

**Figure 3.2** Structural Adjustment Loans (SALs)



Note : \* Full amount inclusive of remaining loan.  
Source : The Fiscal Policy Office, Ministry of Finance, 1998.

Some of the SAL projects are for strengthening or restructuring of financial institutions, which includes increasing capital for the Government Housing Bank and the Export-Import Bank of Thailand, to enable them to perform their functions effectively, or to increase their lending to the private sector. Part of the projects also involve the establishment of new financial institutions, namely the Assets Management Corporation (AMC) to manage the low quality assets transferred from troubled financial institutions. Others are the Radanasin Bank, Radanatun Finance Public Company Limited, and the Financial Sector Restructuring Authority (FRA) whose purpose is to consider rehabilitation plans, and later the clearing up of the assets of the 58 failed finance firms. Other parts of the loan have been provisioned through governmental financial institutions, such as those through the Industrial Finance Corporation of Thailand (IFCT) are loans for the industrial sector, the Small Industry Finance Corporation (SIFC) are loans for the small industry, the Export-Import Bank of Thailand are loans for merchant marine business and for machinery upgrading, the Bank for Agricultural and Agricultural Cooperatives are loans for agricultural sector for export and rural development project.

The Economic and Financial Adjustment Loan (EFAL), along with the proposed Legal System Development Loan, will focus on several keys area to help restore investor confidence, namely: (1) to help study and pass legislation regarding bankruptcy, (2) to help study and pass legislation for secured transactions and securities, (3) increasing transparency and disclosure of financial transactions of listed companies (4) building the capability of legal professionals to improve the efficiency of the judicial system and (5) supporting privatization and regulatory reform of state enterprises.

### *3.2.2 Public Sector Reform*

Another aspect of the SAL, Public-sector Reform Loan, has the objective of reforming the swollen government bureaucracy, which could otherwise hamper the country's economic recovery. The program aims to shape up the public sector, which is lagging behind other countries at the same level of development, in delivering the necessary services. In a preliminary agreement, the parties give priority to the need for the public sector to modernize its fiscal management, to downsize its workforce, to rationalize work processes and to increase accountability.

The public sector has become overstaffed and underpaid, and the administrative procedure has contributed to a lack of motivation and weak performance. The government's bureaucracy is now seen as an impediment to the country's economic recovery.

The proposed loan, which can probably be dispensed by next year, will be a major boost for the Office of the Civil Service Commission's planned drastic reform, which has been bogged down by the lack of funding. The loan is expected to be drawn from the remaining SAL/IBRD which will be disbursed by the second half of 1999.

### *3.2.3 Agricultural Sector*

The official detailed activities of the Agricultural sector program loan is not available since it is still being negotiated between the Minister of Finance and the ADB.

### *3.2.4 Implementation Assistance*

This is a loan from the IBRD under SAL program and amounted at US\$30 million. The loan consists of:

1. Financial Sector Implementation Assistance project at US\$15 million. This amount has been earmarked for the FRA and the Bank of Thailand. The loan to FRA is to strengthen financial institution resolution process. Other objectives of the loan are to improve capacity to early identify future problem of financial institutions and improve supervisory standard, to strengthen market discipline and regulatory regime, to improve bankruptcy and collateral foreclosure process, and to provide appropriate financial infrastructure.

2. Economic Management Assistance Project at US\$15 million which is divided into three parts:

(2.1) Streamlining economic management which is again sub-divided into 3 groups. First, **Macroeconomic analysis and data management** which the Fiscal Policy Office (jointly with NESDB, BOT and Bureau of the Budget) are the responsible agencies. Second, **Public resource management** which has the Bureau of the Budget, the Comptroller General, and Revenue Department as the responsible agencies. Third, **Administrative renewal** which has the Civil Service Commission as the responsible agency.

(2.2) Reforming public enterprises which is sub-divided into four groups, namely **Framework development, Institutional development, Privatization preparation, and Performance monitoring and evaluation**. The Secretariat to State Enterprise Policy Commission is the responsible agency for these groups.

(2.3) Strengthening industrial competitiveness which is sub-divided into three groups. First, **Industry survey** which has the Ministry of Industry to be the responsible agency. Second, **Public policy framework** which has the NESDB as the responsible agency. And third, **Customs Modernization** which has the Customs Department as the responsible agency.

### *3.2.5 Social Sector Program Loan*

The Social sector program loan under ADB/SAL seems to be an immediate response to the crisis. To be sure, the ADB Social Sector Program loan involves providing assistance to those socially affected people under the guidance of a memorandum of understanding. The second sub program loan was agreed upon between the government and the Asian Development Bank on the 16 January 1998. The memorandum of understanding outlines certain policy measures that the government will undertake with regard to three important sectors:

- a) Labor market and social welfare,
- b) Education, and
- c) Health.

The US\$500 million for **Social sector program loan** is divided into two disbursement, US\$300 million for the first disbursement. Each disbursement provides US\$100 million for alleviation of social impacts from the crisis. Since the disbursement of



the IMF loan is conditional on the program commitment, under the **Social sector program loan** a number of measures have been undertaken by concerned government agencies to alleviate the immediate problems. For example, the Ministry of Labour and Social Welfare (MLSW) launched a Center for Assistance to Laid-off Workers (in response to one of the IMF conditionalities) in August 1997 as a one-stop service for laid-off workers. The services include assistance in the areas of severance pay, social security card, placement and counseling service, training courses and low-interest loans. In addition, the Ministry has sponsored several job fairs, an employment website, and mobile counseling and training units to factories. While these measures seem to work, during this period the New Labor Protection Law, which sought an increase in the amount of severance pay, was promulgated on 7 January 1998 to be effective on 19 August 1998. There is a concern that the law will force some employers to hasten the lay-off prior to that date.

In so far as the labor market and welfare is concerned, support to the Center for Assistance to Laid-Off Workers will be expanded for at least 6 months after retrenchment. This includes medical, maternity, disability, and death benefits. In education and health the objective of the program is to:

- a) Minimize the incidence of **drop out**;
- b) Protect operational budgets for teacher training and instructional materials in **science, mathematics, and foreign language education**;
- c) Relocate the budget toward **health programs for the poor** and redeploy health staff to rural areas;
- d) Maintain program coverage for maternal, child health, and HIV/AIDS activities.

The loan, estimated at US\$500 million will provide balance of payment assistance, along with grant technical assistance for necessary policy adjustment. Together with the Social Sector Program Loan, three technical assistance programs have been provided by ADB:

- a) Capacity-building for Social Sector Reform;
- b) Education Management and Financial Study; and
- c) Health Management and Financing Study.

These TA programs were expected to provide the basis for the government to review and revise the targets and scope of the 8<sup>th</sup> National Economic and Social Development Plan (1997-2001).

### **3.3. Social Investment Project (SIP)**

The project has been developed with a view to providing supplementary resources over a period of 3 years for the government to support ongoing government programs to address unemployment, loss of income and higher costs of social services arising from the crisis. To put it more precisely, the 4 important objectives are:

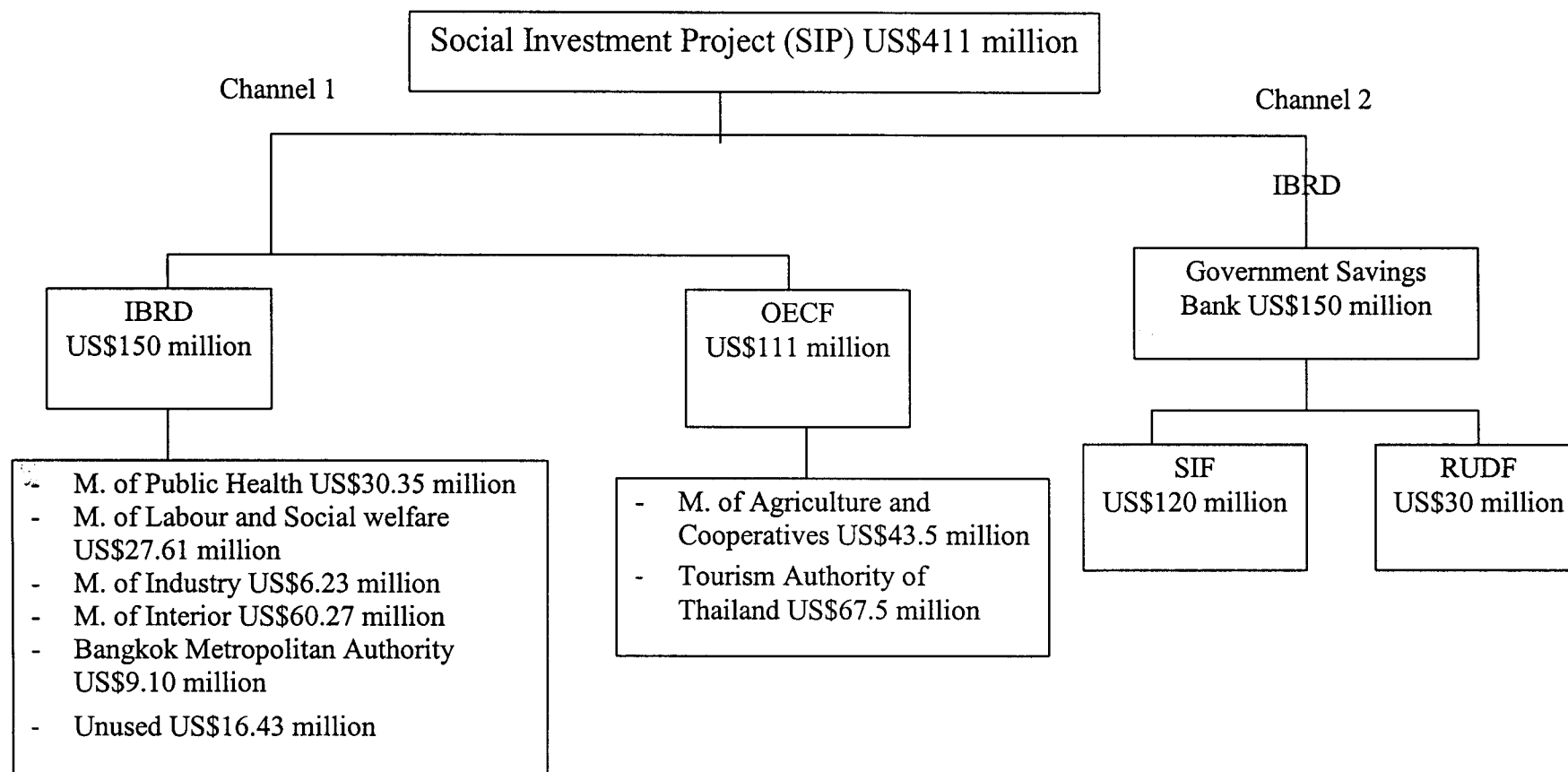
- a) To alleviate unemployment problem by creating more job and income opportunities for those who are affected by the crisis, especially the poor and the low income group,
- b) To reform the provision of social services by strengthening the administration and services of local organizations,
- c) To promote and support the decentralization of social service provision system and to increase the efficiency of the community economy, and
- d) To improve the efficiency and the transparency of the social service system emphasizing people participation.

The loan under this project is US\$411 million, consisting of US\$300 million from IBRD and US\$111 million from OECF. The project is divided into two channels (Figure 3.3). Channel I is for short term problems in the form of financial support for projects by government agencies with the objectives of solving problems involving unemployment, losses of income and increase in social burdens. The money has been allocated to seven agencies: the Bangkok Metropolitan Administration, the Ministry of Public Health, The Ministry of Labour and Social Welfare, the Ministry of Industry, the Ministry of Interior, the Tourism Authority of Thailand, the Ministry of Agriculture and Cooperatives. The activities under this program range from public works in Bangkok and construction of water weirs in rural areas; expansion of vocational training for the unemployed, improvement and increase of subsidies for health insurance under the Low-Income and Voluntary Health Card schemes, and promotion of rural industries (Table 3.1).

As for channel II of the project, it involves long term solution to the social problems and the laying of foundation for sustainable development. It provides financial support to projects which have impacts on long term social restructure and decentralization of power, giving an emphasis on strengthening local authorities and the participation of local activities by the local communities. The project will be implemented through the funds set up by the Ministry of Finance, and the Government Saving Bank will be responsible as well as manage the funds. There are two funds set up:

1. Social Investment Fund (SIF) which will serve as a financial mechanism for the local communities which have the demand. The Fund will allocate grants for small investment projects as required by the local communities, provided that they pass the criteria set up by the SIF.
2. Regional Urban Development Fund (RUDF) which will similarly serve as a financial mechanism for the local communities. But the Fund will be for loans to the local councils for the development of economic and social infrastructure that can provide income in return. The National Economic and Social Development Board will provide advice to the local councils which have been selected in order to enhance their capability in preparation and administration of their projects, and to ensure that the directions are consistent with those set in the Eight National Economic and Social Development Plan.

**Figure 3.3 Social Investment Project (SIP) Loans**



Note : For IBRD US\$1=45 baht, for OECF US\$1= 41.6 baht

Source : The Fiscal Policy Office, Ministry of Finance, 1998

**Table 3.1 Social Investment Project (SIP)**

Unit: Million US\$

Projects	Executing agency	Period	Loans	Budget	Total
<b>Channel I</b>					
<b>Loans from IBRD</b>					
1. Bangkok Metropolitan Authority					
1.1 Short Vocational Courses for Community unemployed			1.39	-	1.39
1.2 Pavement Improvement Project			6.12	0.68	6.80
1.3 School Renovation by Using Skill Labors			1.60	0.18	1.78
2. Ministry of Public Health					
2.1 Public Assistance Indigent Scheme	Office of the Permanent Secretary for Public Health	1998-1999	27.80	-	27.80
2.2 Community Based AIDS Program	Dept. of Communicable Disease Control	1999-2000	2.55	-	2.55
3. Ministry of Labour and Social Welfare					
3.1 Local Job Training Project	Dept. of Skill Development	1999-2000	22.59	4.35	26.94
3.2 Local Job Training Project for Disadvantaged Women and The Disables	Dept. of Public Welfare	1999-2000	3.04	0.16	3.20
3.3 Local Job Training Project for Women Development of Tourism for Local Employment	Dept. of Labour Protection and Welfare	1999-2000	1.98	0.18	2.16
4. Ministry of Industry					
4.1 The Promotion of Rural Industrial Development Project (PRID)	Dept. of Industrial Promotion	1998-2000	6.23	0.72	6.95
5. Ministry of Interior					
5.1 Labor-based Construction Cum Rural Self-Employment Project	Public Works Dept.		23.98	2.66	26.65
5.2 Weir Construction Project	Dept. of Local Administration	1999	20.03	2.23	22.26
5.3 Weir Foreground Dredging Project	Dept. of Local Administration	1999	16.25	1.81	18.06
<b>Total</b>			<b>133.57</b>	<b>12.97</b>	<b>146.54</b>
<b>Loans from OECF</b>					
6. The Tourism Authority of Thailand					
6.1 Rehabilitation, Conservation and Development of Tourism for Local Employment			40.71		40.71
1. Historic Parks and Sites	Fine Arts Dept.		16.06		16.06
2. National Parks and Marine Parks	Royal Forest Dept.		14.23		14.23
3. Provincial Tourism Resources			10.41		10.41
	Office of the Accelerated Rural Development		1.03		1.03
	Dept. of Local Administration		7.36		7.36
	Office of the Permanent Secretary for Interior		1.97		1.97
	Public Works Dept.		0.05		0.05

*(Continued on page 32)*

**Table 3.1 (Continued)**

Unit: Million US\$

<b>Projects</b>	<b>Executing agency</b>	<b>Period</b>	<b>Loans</b>	<b>Budget</b>	<b>Total</b>
6.2 Facilities Development and Improvement for of Local Employment			16.74		16.74
1. Provincial Tourism Resources			16.74		16.74
	Office of the Accelerated Rural Development		0.22		0.22
	Dept. of Local Administration		7.45		7.45
	Dept. of Public Welfare		0.60		0.60
	Fine Arts Dept.		1.20		1.20
	Office of the Permanent Secretary for Interior		1.44		1.44
	Public Works Dept.		4.92		4.92
	Royal Forest Dept.		0.91		0.91
6.3 Human Resource Development Plan for Tourism-related Employment Creation and Public Relations			8.10		8.10
1. Training for Tourism Promotion			4.07		4.07
	Community Development Dept.		0.06		0.06
	Dept. of Local Administration		0.02		0.02
	Royal Forest Dept.		0.16		0.16
	Office of the Permanent Secretary for Interior		0.04		0.04
	Tourism Authority of Thailand		3.79		3.79
2. Tourism Public Relations through Informative Signs and Printed Media			4.03		4.03
	Fine Arts Dept.		0.53		0.53
	Tourism Authority of Thailand		3.50		3.50
6.4 Project Implementation Unit			1.97		1.97
<b>Total</b>			<b>67.51</b>	<b>7.51</b>	<b>75.02</b>
7. Ministry of Agriculture and Cooperatives					
7.1 Small Scale Irrigation Improvements and Rehabilitation Project (SSIRP)	Royal Irrigation Dept.		43.49	4.83	48.32
<b>Total</b>			<b>111.00</b>	<b>12.35</b>	<b>123.34</b>
<b>Channel II</b>					
Social Investment Fund (SIF)			120.00	12.00	132.00
Rural Urban Development Fund (RUDF)			30.00	7.50	37.50
<b>Total</b>			<b>150.00</b>	<b>19.50</b>	<b>169.50</b>

Notes: For IBRD US\$1 = 45 baht.

For OECF US\$1 = 41.6 baht.

Source: The Fiscal Policy Office, Ministry of Finance, 1998.

The Social Investment Project serves as the source of fund for various projects. There are also other sources of fund from UNDP and AUSAID which are grants for technical assistance in management, and the auditing and monitoring the implementation of projects so that they are in accordance with the objectives, transparent, and also accountable. The grants are amounted to US\$2 million and are allocated in three parts:

1. Implementation which comprises:
  - 1.1 Advisory services in procurement and hiring for projects in both of the 2 channels
  - 1.2 The setting up of the accounting systems for projects in the 2 channels
2. Hiring advisors to monitor the progress of the projects regarding whether they have reached their objectives, and not regarding monitoring the projects in terms of policy evaluation purposes

The Ministry of Finance will take care of activities under 1 and 2.

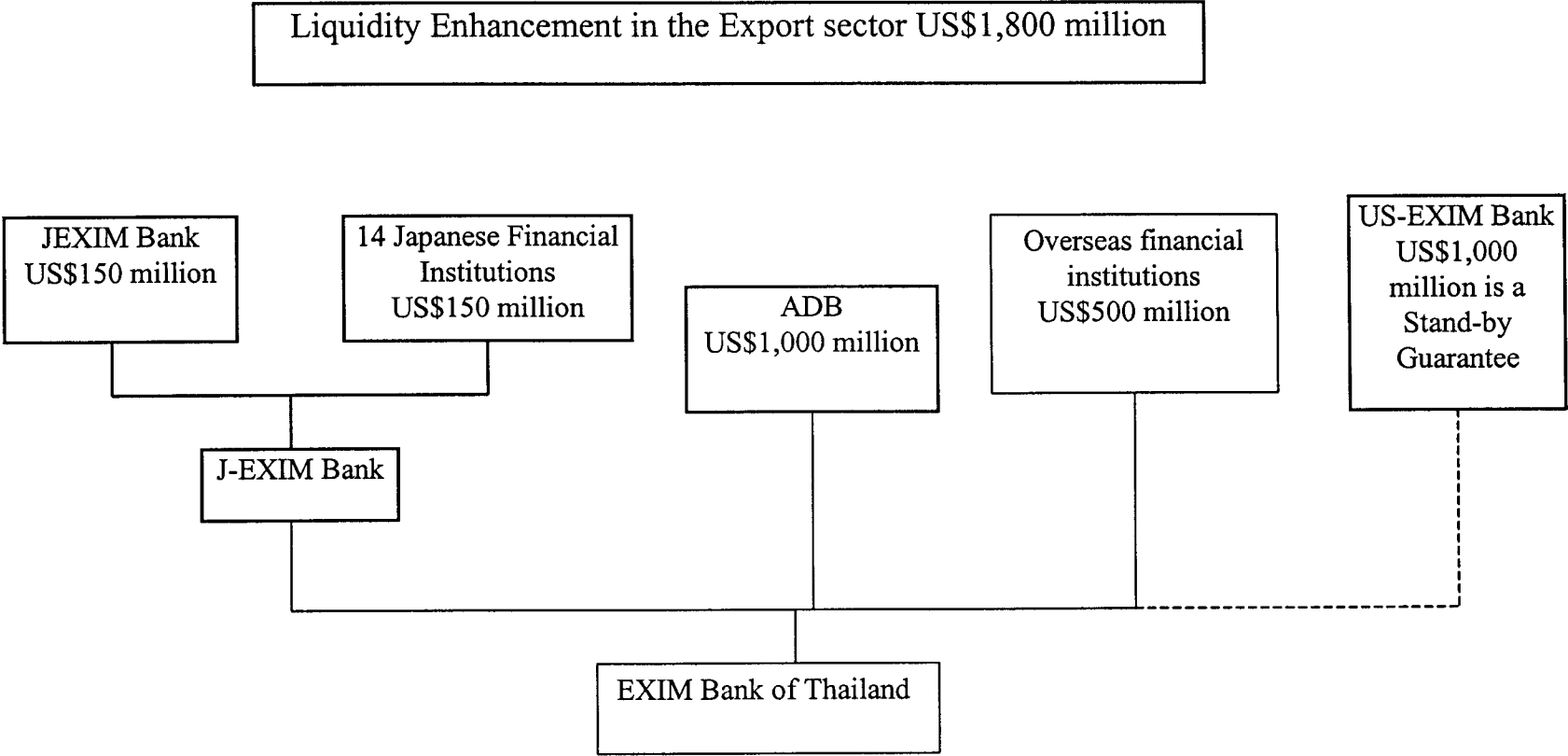
3. Crisis evaluation and monitoring. This is to monitor and evaluate projects which have been finished whether they are as in their objectives, as well as help solving problems. TDRI and the National Economic and Social Development Board will implement these activities.

### **3.4 Liquidity Enhancement**

In order to mitigate the liquidity problem, especially in the Thai export sector, a total of US\$1,800 million loan has been sought from the following:

- a) Export-Import Bank of Japan: US\$300 million—a 40-billion yen equivalent, US\$150 million from JEXIM, guaranteed by Japan's Ministry of Finance. The other half of the loan is contributed by 14 Japanese financial institutions with the guarantee of JEXIM. The loan maturity period is five years including a three-year grace period. The purpose of the loan is to fund EXIM Thailand's Pre-shipment Financing Facilities for exporters (Figure 3.4).
- b) Asian Development Bank (ADB) and 64 financial institutions: US\$1 billion co-financing loan. The co-financing loan facility consists of a direct loan of US\$50 million from ADB and US\$950 million syndicated loan from commercial lenders.
- c) Overseas financial institutions: US\$500 million.

Figure 3.4 Loans for Liquidity Enhancement



Note : US\$1= 40.5 baht  
Source : Export-Import Bank of Thailand, 1998.

In this connection, to ease the liquidity problem affecting the Thai export sector, the Export-Import Bank of Thailand has introduced a number of facilities (Table 3.2) which are provided directly to exporters, or indirectly via commercial banks as follows:

- Facilities for direct lending to exporters:

- Term loan for maritime businesses and for machinery upgrading funded by a credit line of one billion baht, US\$24.69 million equivalent, under the Structural Adjustment Loan (SAL).

- Direct Packing Credit in baht at an interest rate of 13 percent (This is a new facility where EXIM Thailand extends packing credit directly to exporters.) The capital source of 5 billion baht, a US\$205.75 million equivalent, is from the Bank of Thailand.

- Pre-shipment facility in US dollar and Yen financed by a US\$300 million loan from Export Import Bank of Japan.

- Indirect facilities through commercial banks:

- Special packing credit facility: The facility is funded by US\$500 million loans from financial institutions overseas and can be accessed through commercial banks.

- Reduction of the proportion in commercial banks' contribution to the packing credit facility from 50 to 40 percent and increase in the interest rate charged to exporters from 12 to 13 percent to provide incentives for commercial banks to extend more loans. The Bank of Thailand supports 33 billion baht, a US\$814.82 million equivalent, to the Export-Import Bank of Thailand.

- Export credit insurance for commercial banks which indemnifies commercial banks who negotiate or purchase export bills under Documents against Acceptance (D/A) or Documents against Payment (D/P) terms for loss resulting from non-payment of overseas buyers.

- Export liquidity financing which is funded by a US\$1 billion loan from ADB. The facility is extended to exporters through commercial banks to finance import of raw materials and post-shipment negotiation of export bills.

### **3.5 Industrial Restructuring Loan (SAL-Industry)**

Another loan proposal has been made by the government based on the Master Plan for Industrial Restructuring. The Plan was initially approved by the Cabinet on 30 September 1997 and, because of the crisis, was later revised on 14 January 1998 for reconsideration of funding and implementation. The Plan points out the need to strengthen the competitiveness of Thailand in the international and regional markets and is aimed at achieving the following goals:

- a) Production of high and intermediate technology goods;
- b) Reducing cost of production and increasing speed of production and delivery;
- c) Upgrading the capability and productivity of industrial manpower;
- d) Increasing production and trade partners;
- e) Promoting sustainable industrial production; and
- f) Decentralizing industrial production to the provincial and rural areas.



**Table 3.2** Facilities for Liquidity Enhancement in the Export Sector

Unit: Million US\$

Facility	Source	Commencement Date	Liquidity Enhancement
<b>1. Facilities for direct lending to exporters</b>			
1.1 Term loan for merchant maritime business and for machinery upgrading	SAL	Mid-February 1998	24.69
1.2 Direct Packing Credit	Bank of Thailand	28 April 1998	205.75
1.3 Pre-shipment Facility in USD and Yen	JEXIM Bank	1 April 1998	300
<b>2. Indirect facilities through commercial banks</b>			
2.1 Special Packing Credit Facility	Financial Institutions Overseas	22 October 1997	500
2.2 Packing Credit Facility	Bank of Thailand	20 January 1998	814.82
2.3 Export Credit Insurance for Commercial Banks	EXIM Bank	Mid-March 1998	approximately 370.37
2.4 Export Liquidity Financing	ADB		1,000
<b>Total</b>			<b>3,215.63</b>

Note: US\$1=40.5 baht.

Source: Export-Import Bank of Thailand, March 5, 1998.

To achieve the goals, the Plan has proposed 8 constituent programs, namely:

1. Productivity and Production Improvement for Cost-Effectiveness and Competitive Delivery,
2. Upgrading Production Technology and Machinery in Target Industries,
3. Upgrading the Capability and Productivity of Industrial Manpower,
4. Strengthening the Small and Medium Scale Enterprises (SMEs) in the in the Provincial and Rural Areas,
5. Promoting Production and Distribution of Brand-name Products in the World Market,
6. Mobilizing the Labor-intensive Industrial Production to the Provincial and Rural Areas,
7. Promoting or Inducing Foreign Direct Investment in High-Technology Industries, and
8. Relocating and Re-engineering the Environmentally-Harmful Industries and Promoting Sustainable or Environmentally-Sound Technology.

The Industrial SAL project will require a loan of approximately \$US1,192 million for the purposes of (a) private investment in technology transfer or machine upgrading, (b) hiring experts for new technology transfer, (c) training of industrial manpower, and (d) subsidies for private institutions or organizations to support or promote industrial development.

Currently, the government has approved a loan of US\$122.9 million for urgent projects in 1998 under the 4 plans (from total of 8 plans) of the Industrial SAL, as presented in Table 3.3.

### **3.6 Other Government Measures**

In addition to the above comprehensive loan programs, the government also initiated measures to solve the crisis. Some of the projects utilizing regular budget is presented in the appendix. This section notice the briefly presents selected measures to government's efforts to cope with this difficulty.

#### *3.6.1 Unemployment*

The National Committee for the Alleviation of Unemployment, chaired by the Prime Minister, was set up in December 1997 to oversee that unemployment problems are efficiently tackled. The MLSW acts as the secretariat to the Committee. The National Action Plan to Alleviate the Unemployment Problems has also been approved by the cabinet. The Plan features 6 immediate, intermediate and long-term measures with designated high-ranking officials as focal points. The issues addressed by the Plan include:

**Table 3.3 Industrial Restructuring Projects, 1998**

Program	Restructuring Loan					Government Budget	Other Sources
	Credits	Experts	HRD	Others	Total		
The first program: Productivity and production improvement for cost-effectiveness and competitive delivery (7 projects)	319.2	86.9	148.3	104.3	658.7		
The third program: Upgrading the capability and productivity of industrial manpower (5 projects)	146.0	2.7	93.5	28.7	270.9	80.8	
The fourth program: Strengthening the Small and Medium Enterprises (SMEs) in the provincial and rural areas (7 projects)	1,376.8	71.3	163.5	69.7	1,681.3		
The sixth program: Mobilizing the labour-intensive industrial production to the provincial and rural areas (2 projects)	2,300.0	-	-	42.0	2,342.0		
Other projects (3 projects)	-	-	-	-	-	42.4	Foreign loan 7,906 million baht
Industrial restructuring administration	-	9	-	32.1	41.1	-	
Total (million baht)	4,142.0	169.9	405.3	276.8	4,994.0	123.2	Foreign loan 7,906 million baht

Source: Ministry of Industry.

**Immediate issues:**

- Rising cost of living, promotion of self employment and rural employment
- Rehabilitation of tourist sites and natural resources

**Intermediate issues:**

- Repatriation of illegal migrant workers
- Labor exportation
- Promotion of industrial labor

**Long-term issues:**

- Implementation of His Majesty the King's New Theory on "contented economy" or integrated farming.

For each measure, a sub-committee led by a designated high-ranking official is established. In addition, a sub-committee, chaired by the Permanent Secretary for the Office of the Prime Minister, is also established to monitor and evaluate the overall outcomes and impacts. Provincial governors and district chief officers are appointed chairpersons of the committees at the provincial and district levels, respectively. The private sector, NGOs, community organizations are encouraged to participate in activities in their communities. The Action Plan also calls for the establishment of an assistance center at the village level.

Other government's immediate measures include:

- a) A network of centers established by the Department of Local Administration to assist the people in time of economic downturn that goes all the way to the grass roots level
- b) A Center for Community Business Development established by the Ministry of Interior to coordinate government and private efforts to promote community businesses.

Furthermore, in response to the crisis, the 8<sup>th</sup> National Economic and Social Development Plan (1997-2001), which is people-centered, has been revised to reflect distinct emphases on economic stability and the provision of social safety net. It features a downward revision of macro economic targets, a new strategy to foster a better linkage among agriculture, industries and services, a move toward higher value-added production.

### *3.6.2 Fiscal Measures*

In addition to loans from overseas, in 1998 the government was able to increase its budget of 40,000 million baht for the 1998 fiscal year. A half of this additional expenditure is for alleviating the social impact. The expenditure is allocated in order to keep the government expenditure at the level before the previous budget cut of 30,000 million baht. The expenditure gives priority for projects that are aimed at alleviating the social impact, for example, employment creation, income raising, increasing budget in education and public health. In Social Investment Project (SIP), the government has to set up counter-part funds at the rate of 10 percent of project expenditure under SIP channel I and under SIP channel II, and at the rate of 10 percent and 25 percent of project expenditure

for SIF and RUDF, respectively. The government budget also takes care of the managerial and administrative expenditure.

The remaining of the 1998 additional budget is allocated for the payments of the loan from the Social Security Fund, and the loss of the Bangkok Mass Transit Authority (BMTA) and the State Railway of Thailand, the two organizations which suffer chronic losses due to their subsidized low fares to provide services for the low income.

For the 1999 fiscal year, the government allocated a budget of US\$157,800 million or 21.1 percent of the government budget after loan services for projects aimed at the poor, farmers, laborers, and the disadvantaged. The government allocated more budget than that of the 1998 fiscal year for programs such as increasing central fund for employment of 5,000 million baht, loans for education of 1,700 million baht, and the administration of rural public welfare of 2,500 million baht.

### *3.6.3 Financial Institute Strengthening*

Due to the crisis, the government had to close down 56 finance companies in 1997. It also implemented many measures to strengthen remaining finance companies and commercial banks. To establish transparency and foreign confidence, the BOT imposed stricter rules on loan classification and provisioning which came into effect on December 31, 1997. It will be gradually upgraded to the best practices internationally by the end of the year 2000.

Thai commercial banks need to recapitalize to satisfy the BIS criteria. To facilitate raising capital from abroad, BOT amended share holding constraint for foreigners. At the present foreign institutions are allowed to hold shares of financial institution unlimited up to 10 years. After the tenth year, they will be able to hold the majority stake the shares but they cannot receive newly issued shares. Therefore, one can anticipate emerging of foreign investors in Thai financial system.

The downturn of the economy still persists and further causes the insolvency in some financial institutes. The government has intervened by tanking over 4 medium sized banks and 7 finance companies. These 7 finance companies were merged with the government finance company, while the 4 banks management were replaced and the capital of share holder were written down. The Financial Institutions Development Fund (FIDF) converted its debt to equity to recapitalize these banks.

Furthermore, on August 14, 1998, the government announced "Comprehensive Package" for financial reform. The essence of the Package was to consolidate financial institutions and to assist remaining commercial banks and finance companies raise their capital.

In this Package two medium size banks were merged into Krung Thai Bank (KTB). Two previously intervened banks would be sold to new investors. One small bank (Laemthong Bank) was taken over by Ratankosin Bank and another, Union Bank was done by KTT. Moreover, five other finance companies were intervened and merge into KTT. It is believed that this scheme would strengthen financial position of surviving financial institutes.

The Comprehensive Package also included Capital Supporting Facilities (CSFs). They were designed to provide assistance for the government to provide liquidity for viable banks and finance companies and absorb loss from debt restructuring. However, to get help for recapitalization the shareholder's equity must be written down first in order to wipe out losses in bad debt.

### **3.7. Concluding Remarks**

The basic purpose of the review in this chapter is to shed some light on how the external resources and technical assistance could be of help to Thailand in the time of need. In this regard, the review is not a comprehensive list of all government measures to respond to the crisis. The review does not cover the many government measures undertaken under the regular budget. Nevertheless, most of the measures under the loan programs are more directly for the purpose of coping with the crisis problems, while those under the regular budget could be considered as regular responsibilities of the concerned agencies. To a great extent, the review indicates that there is a large room for technical assistance, either in the form of grant, or "technical" technical assistance, such as expert consulting services, technology transfer, research studies, brain-storming workshops, human resources development, improvement of industrial technology, export promotion, to name but a few.

It should be noted, however, that the responses to the crisis that have been based mostly on the huge amount of foreign loans could turn the crisis into another long-run problem of chronic debt services. Although it is inevitable at this time when the government is broke and was initially conditioned (forced) by the IMF to run a budget deficit, and thus has to rely on foreign loans in the implementation of various government measures. The problem could be mitigated by seeking technical assistance in terms of grants wherever possible.

## IV. TREND OF TECHNICAL ASSISTANCE AND RESPONSES TO THE CRISIS

### 4.1 Trend of Technical Assistance

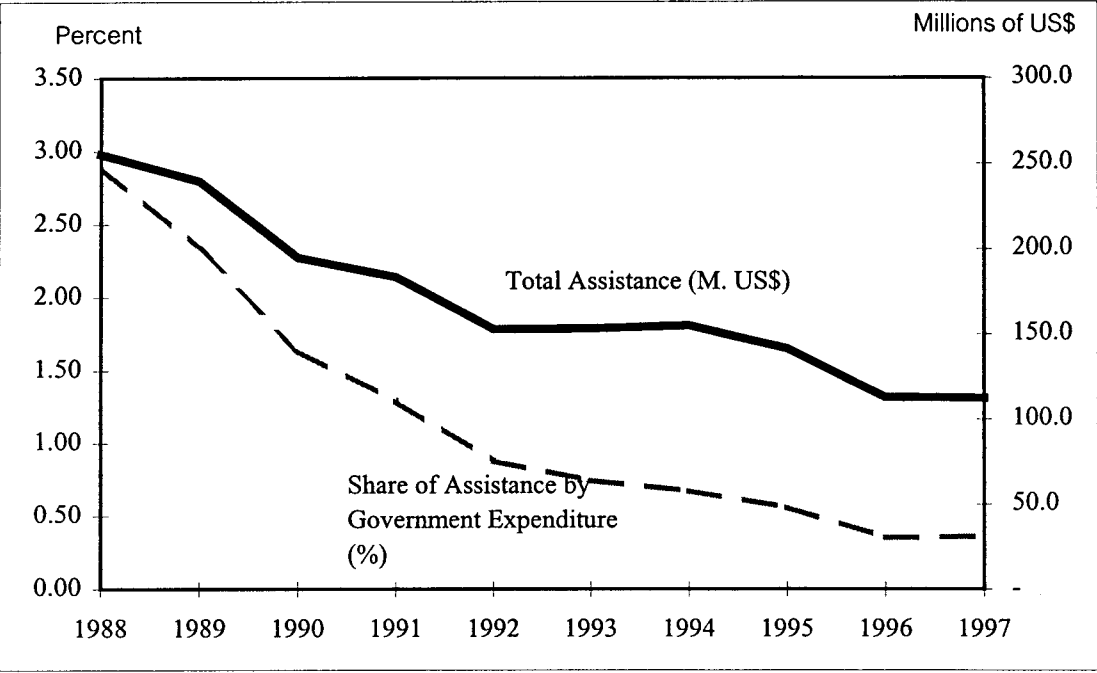
#### *4.1.1 Global Trend*

As a whole, the official development assistance (ODA) has been declining worldwide. The OECD's February 1998 Report shows that the ODA to the developing world in 1996 dropped to its lowest level in 30 years, i.e. a mere 0.25 percent of the combined GDP of all 21 OECD member economies. Whereas over 30 years ago, the United Nations set the goal at 0.70 percent. Possible explanations, among others, include economic difficulties experienced by the donor countries as well as economic success in terms of stability and growth in the developing nations. Their implications on the spending cut and the economic graduation, respectively, have a combined effect on the overall reduction in ODA.

#### *4.1.2 Thailand*

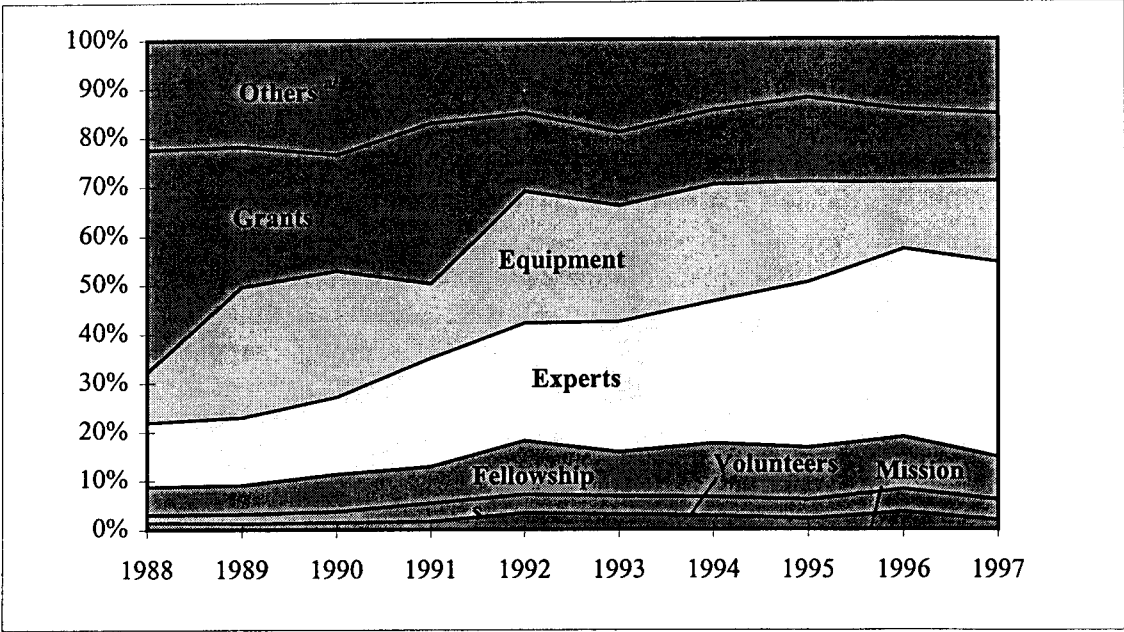
Thailand is no exception. The technical assistance (TA) targeted for the Kingdom has been sliding down both in baht and U.S. dollar terms at least in the last 10 years. In 1988, TA for Thailand totaled US\$255.2million (or 6,448.3 million baht); came 1997 with much lower TA value at US\$112.4million (or 3,520.8 million baht), a big reduction of 7.26 percent on annual average (Figure 4.1). In the same period, Thai government has expanded its spending amid the drop in TA to Thailand. Hence, the share of TA relative to government budget definitely has gone down steadily from 2.89 percent in 1988 to 0.36 percent ten years later. Together with this drop emerged another significant change, that is, the shift in TA's composition. Grants and other forms of technical assistance (per diem, training programs, seminar support, evaluation, and supplies as well as materials) were dominant in 1988. Over time, however, choices have gradually shifted away from them and their significance has been much reduced. In their replacement are two different forms of assistance: experts and equipment. Of all TA given to the Kingdom of Thailand during the years 1988-1997, grants commanded a share of 45.50 percent in 1988 and those categorized as "Others" were second with 22.42 percent. Over time, the former took a big plunge down to 13.77 percent and the latter, similarly though smaller, dropped to 15.31 percent in 1997. On the contrary, TA in the form of experts jumped from a small share of 13.17 percent in 1988 to the sizable 39.66 percent in 1997 (Figure 4.2). For equipment, with the second largest share in 1997, its change has been quite impressive with 21.54 percent growth rate as of 1997. In that year, experts and others both experienced positive but small growth of 3.11 percent and 5.18 percent, respectively; grants have consistently become less and less seen through negative growth for 2 consecutive years, 1996-1997 (Table 4.1).

**Figure 4.1** Value and Share of Technical Assistance



Source : 1. Department of Technical and Economic Cooperation, Office of the Prime Minister.  
2. The Bureau of the Budget, Office of the Prime Minister

**Figure 4.2** Share of Total Assistance by Type



Note : a/ Per diem, training program, seminar support, evaluation, supplies and material

Source : Department of Technical and Economic Cooperation, Office of the Prime minister.



**Table 4.1** Growth Rate of Technical Assistance by Type

Unit: Percent

Type	1989	1990	1991	1992	1993	1994	1995	1996	1997
Experts	-1.09	-7.52	32.42	-9.97	11.08	10.18	6.39	-9.37	3.11
Mission	-18.18	-9.92	9.83	63.24	-6.69	-9.08	-28.85	29.86	-46.52
Volunteers	14.04	-1.62	56.86	-16.16	-2.24	3.60	-7.52	-3.19	-11.73
Fellowships	-3.02	4.25	-7.66	23.22	-17.71	23.42	-11.49	-20.76	-17.48
Equipment	144.83	-21.21	-44.81	47.57	-11.82	1.66	-21.56	-47.20	21.54
Grant	-40.95	-32.52	29.77	-59.47	-5.66	2.72	3.21	-30.97	-7.65
Others <sup>a</sup>	-8.97	-12.33	-31.23	-26.37	26.02	-22.60	-24.59	-3.78	5.18
Total	-6.18	-18.59	-5.88	-16.73	0.26	1.17	-8.72	-20.23	-0.36

Note: a/ Per diem, training program, seminar support, evaluation, supplies and material.

Source: Department of Technical and Economic Cooperation, Office of the Prime Minister.

Regarding the source of technical assistance, Japan has been strong as Thailand's biggest donor country having a big share well over other donors. In 1992, that share was as high as 49.35 percent (or US\$75.39million)—a big lead over the second largest donor, the United Nations at 14.40 percent (or US\$22.0million) and Germany at 6.13 percent (or US\$9.36million). In 1997, the lower share by Japan at 27.66 percent (or US\$31.10million) was registered, but still the highest. In that year, Germany replaced the United Nations in second place with a share of 13.16 percent (or US\$14.79million). Close behind in third and fourth were NGOs and the United Nations at 12.54 percent and 12.45 percent (US\$14.10million and 14.0, respectively). It can be said that donors' contribution to TA in absolute term has plunged (Table 4.2). Even a top donor, Japan has continued her TA with less funding for a difference between 1992 and 1997 of US\$44.29 million, or a big change of -16.09 percent annually. On a positive note, Germany enlarged her TA for an increase of US\$5.43million or a growth of 6.04 percent annually in that same period (Table 4.3). Some other donors like Australia and Canada have curbed their shares and monetary values of TA for Thailand. Back in 1992, theirs were 9.14 percent and 2.63 percent (or US\$13.96million and US\$4.02million, respectively). Then in 1997 the shares lowered to 3.00 percent and 0.72 percent (or US\$3.37million and US\$0.81million) for the huge drop in terms of annual growth of -24.55 percent for Australia and -28.92 percent for Canada.

A breakdown by sectors as classified by UNDP (at 2-digit level) reveals that the distribution of TA to various sectors in Thailand is not even in term of budget and number of projects. The biggest budget so far has gone to natural resources for a total funding of 3,460.689 million baht. Agriculture, forestry and fisheries is able to gather the second largest budget of 3,397.105 million baht; health and human resources development are the third and fourth with 2,093.218 and 1,790.135 million baht, respectively (Table 4.4). Quantitatively, the top three sectors with the largest number of ongoing projects are health (28), natural resources (25), and social development (21). As a whole, greater emphasis has been put on natural resources and health.

Table 4.2 Share of Technical Assistance by Donors

	Donors	1992	1993	1994	1995	1996	1997
1	Japan	49.35	31.84	32.70	33.81	29.51	27.66
2	Germany	6.13	6.36	6.27	7.65	7.85	13.16
3	Non-Government Organization	0.82	14.61	13.69	14.36	14.71	12.54
4	United Nation	14.40	14.36	11.62	10.61	11.30	12.45
5	Denmark	0.75	0.61	6.87	9.49	8.90	7.63
6	France	2.15	0.71	2.89	2.58	3.70	4.79
7	Volunteers	1.14	3.69	3.81	3.82	4.63	4.10
8	Sweden	1.14	0.49	1.50	2.17	1.03	3.80
9	USA	1.00	5.87	3.79	2.33	3.47	3.24
10	Australia	9.14	7.19	6.66	6.99	6.02	3.00
11	Belgium	0.39	5.52	0.30	0.68	1.58	2.19
12	European Union	3.16	4.18	5.99	2.65	3.30	2.14
13	United Kingdom	1.05	0.63	0.91	0.90	0.73	0.97
14	Canada	2.63	1.28	0.81	0.84	0.87	0.72
15	New Zealand	0.14	0.43	0.23	0.04	0.12	0.58
16	Asian Countries	0.25	0.18	0.27	0.06	0.39	0.43
17	Netherlands	0.92	0.51	0.43	0.43	0.50	0.41
18	SEAMEO	0.35	0.24	0.11	0.05	0.07	0.09
19	CPSC/CPS	na	0.01	0.01	0.01	0.01	0.04
20	Egypt	na	na	0.01	0.00	0.02	0.02
21	ASEAN	0.23	0.17	0.12	0.05	0.01	0.01
	Others	4.87	1.11	1.02	0.51	1.29	0.01
	Total (Million US\$)	152.76	153.16	154.95	141.44	112.82	112.42

Source : Department of Technical and Economic Cooperation, Office of the Prime minister.

Unit : Percent (US\$)

Table 4.3 Growth Rate of Technical Assistance by Donors

	Donors	1992	1993	1994	1995	1996	1997
1	Japan	-16.09	-31.37	-35.32	3.89	-5.61	-6.60
2	Germany	6.04	na	4.08	-0.29	11.42	67.07
3	Non-Government Organization	31.95	-15.28	1693.17	-5.22	-4.26	-18.27
4	United Nation	-11.65	-4.35	0.00	-18.18	-16.67	-15.00
5	Denmark	49.69	-18.50	1035.75	-25.99	-25.13	-14.57
6	France	18.00	na	-67.00	313.06	-18.55	29.16
7	Volunteers	12.99	-74.70	225.06	4.51	-8.61	-3.27
8	Sweden	17.45	na	-57.06	211.43	32.11	-62.19
9	USA	3.58	-81.75	486.70	-34.77	-43.90	18.91
10	Australia	-24.55	na	-21.12	-6.30	-4.19	-31.34
11	Belgium	9.08	na	1329.58	-94.45	104.35	86.25
12	European Union	-17.17	112.20	32.91	44.96	-59.64	-0.69
13	United Kingdom	-7.13	na	-40.08	46.33	-10.09	-34.88
14	Canada	-28.92	na	-51.13	-36.32	-4.94	-17.43
15	New Zealand	-2.62	na	206.85	-44.77	-83.45	126.25
16	Asian Countries	2.61	na	-28.83	52.19	-80.26	430.12
17	Netherlands	-18.85	na	-44.40	-14.87	-9.16	-5.81
18	SEAMEO	-40.46	12.30	-30.62	-55.11	-60.71	19.48
19	CPSC/CPS	na	na	na	20.99	17.35	23.48
20	Egypt	na	na	na	-76.23	651.72	-16.97
21	ASEAN	-79.35	53.43	-22.54	-29.81	-63.78	-89.68
	Others						
	Total	-7.26	-16.73	0.26	1.17	-8.72	-20.23
	Average Growth						-0.56

Note : a/ Average Growth Rate is calculated from the semi-log regression during 1992-1997

Unit : Percent (US\$)

**Table 4.5** Sector Classification of Technical Assistance (4 digit)

Code	Sector	No. of Proj.	Total Amount (,000 Baht)	No. of Non-Budget Commit. <sup>/a</sup>
<b>01</b>	<b>Economic Management</b>	<b>2</b>	<b>15,000</b>	<b>1 Gm</b>
0103	Monetary Policy and Planning	2	15,000	1 Gm
<b>02</b>	<b>Development Administration</b>	<b>8</b>	<b>369,594</b>	
0201	Public administration and management	6	323,802	
0202	Foreign aid coordination & Planning	2	45,792	
<b>03</b>	<b>Natural Resources</b>	<b>25</b>	<b>3,460,689</b>	<b>3 Jpn</b>
0301	Social legislation and administration	2	19,225	
0302	Land use planning <sup>b</sup>	4	2,500,179	
0303	Water resources planning	5	65,030	2 Jpn
0304	Environmental preservation and rehabilitation	10	549,405	
0305	Mineral resources exploration and exploitation	1	101,250	
0307	Wildlife and national parks	2	13,516	1 Jpn
0308	Sea-bed resources	1	212,084	
<b>04</b>	<b>Human Resources Development</b>	<b>12</b>	<b>1,790,135</b>	<b>2 Jpn</b>
0402	Primary schooling	2	40,800	
0405	Technical and managerial education and training	10	1,749,335	2 Jpn
<b>05</b>	<b>Agriculture, Forestry &amp; Fisheries</b>	<b>17</b>	<b>3,397,105</b>	<b>3 Jpn, 2 Fr</b>
0502	Research and Development	2	20,834	
0503	Support services	4	1,486,200	2 Jpn
0504	Food crops	3	578,651	
0505	Industrial crops	3	248,917	1 Fr
0506	Livestock	2	10,360	1 Fr
0507	Forestry	1	967,509	
0508	Fisheries	2	84,634	1 Jpn
<b>06</b>	<b>Area Development</b>	<b>7</b>	<b>1,099,183</b>	<b>1 Jpn</b>
0601	Integrated rural development	2	152,925	
0602	Village/community development	4	946,258	
0606	Regional planning and development	1	-	1 Jpn
<b>07</b>	<b>Industry</b>	<b>11</b>	<b>562,413</b>	<b>3 Jpn</b>
0702	Technological research and development	2	73,500	1 Jpn
0703	Support Services and facilities	3	130,170	1 Jpn
0704	Cottage and small-scale industry	2	123,552	

(Continued on page 49)

**Table 4.4** Sector Classification of Technical Assistance (2 digit)

Code	Sector	No. of Proj.	Total Amount (,000 Baht)	No. of Non-Budget Commit. <sup>/a</sup>
01	Economic Management	2	15,000	1 Gm
02	Development Administration	8	369,594	
03	Natural Resources <sup>/b</sup>	25	3,460,689	3 Jpn
04	Human Resources Development	12	1,790,135	2 Jpn
05	Agriculture, Forestry & Fisheries	17	3,397,105	3 Jpn, 2 Fr
06	Area Development	7	1,099,183	1 Jpn
07	Industry	11	562,413	3 Jpn
08	Energy	5	162,280	1 Jpn
09	International Trade in Goods & Services	1	6,927	
11	Transport	3	55,410	1 Jpn
12	Communications	3	-	3 Jpn
13	Social Development	21	747,487	3 Jpn, 1 Gm
14	Health	28	2,093,218	2 Jpn, 2 Fr
<b>Total</b>		<b>143</b>	<b>13,759,441</b>	<b>28 /c</b>

Notes: /a Donors commit the economic cooperations in term of activities only (not in term of budget).

/b There is a project cost 2204 million Baht in Natural Resources (03).

/c The 28 Non-Budget Commitment are 22 of Japanese projects, 4 of French projects, and 2 of German projects.

Jpn = Japanese project, Fr = French project, Gm = German project.

Source: Department of Technical and Economic Cooperation, Office of the Prime Minister.

Projects are diverse across sectors. Those in natural resources, one of the priority sectors in Thailand, are heavily involved with environmental preservation and rehabilitation for a total of 10 projects worth 549.405 million baht. Health projects are focused too; they are primary health care and immunization and other disease control campaigns (HIV/Aids included) with 12 projects each at the values of 369.109 million and 755.597 million baht, respectively (Table 4.5). For human resources development, effort has been channeled overwhelmingly into technical and managerial education and training with 10 projects totaled 1,749.335 million baht. By the same token, projects in agriculture, forestry and fisheries basically deal with support services, which include credit extension, input supply, crop protection, and agrometeorology, for 4 projects worth 1,486.2 million baht.

Of interests among key donors, Denmark gives priority to natural resources. So does Australia with an addition of agriculture, forestry and fisheries. On the other end, the United Nations is more concerned with health projects. Japan and Germany have projects in almost all sectors ranging from natural resources to health. But some differences remain. Japan gives preferences over infrastructure projects, namely transport and communications; whereas Germany selects public matters in the areas of economic management and development administration. For Canada, attention is paid to human resources development and somewhat less to development administration as well as agriculture, forestry and fisheries (Table 4.6).

**Table 4.5 (Continued)**

Code	Sector	No. of Proj.	Total Amount (,000 Baht)	No. of Non-Budget Commit. <sup>/a</sup>
0704-05	Small and medium-scale industry	4	235,191	1 Jpn
<b>08</b>	<b>Energy</b>	<b>5</b>	<b>162,280</b>	<b>1 Jpn</b>
0801	Sector policy and planning	2	64,780	
0805	Conventional energy sources, generation and transmission	2	37,500	1 Jpn
0806	Energy Conservation	1	60,000	
<b>09</b>	<b>International Trade in Goods &amp; Services</b>	<b>1</b>	<b>6,927</b>	
0903	International trade policies and procedures	1	6,927	
<b>11</b>	<b>Transport</b>	<b>3</b>	<b>55,410</b>	<b>1 Jpn</b>
1101	Sector policy and planning	1	45,000	
1102	Road transport	1	10,410	
1105	Air transport	1	-	1 Jpn
<b>12</b>	<b>Communications</b>	<b>3</b>	<b>-</b>	<b>3 Jpn</b>
1202	Postal services	1	-	1 Jpn
1205	Development support communication	2	-	2 Jpn
<b>13</b>	<b>Social Development</b>	<b>21</b>	<b>754,448</b>	<b>3 Jpn, 1 Gm</b>
1301	Social egislation and administration	5	467,258	1 Jpn
1302	Urban development	4	67,803	1 Jpn
1304	Housing	1	-	1 Jpn
1305	Culture	1	93,000	
1306	Prevention of crime and drug abuse	10	119,426	1 Gm
<b>14</b>	<b>Health</b>	<b>28</b>	<b>2,097,717</b>	<b>1 Jpn, 2 Fr</b>
1401	Sector policy and planning	2	663,907	
1402	Primary health care	12	369,109	1 Jpn
1403	Immunization and other disease control campaigns	12	755,597	1 Jpn, 2 Fr
1405	Hospitals and clinics	2	304,604	
<b>Total</b>		<b>143</b>	<b>13,759,441</b>	<b>28 /c</b>

Notes: /a Donors commit the economic cooperations in terms of activities only (not in terms of budget).

/b There is a project costed 2204 million Baht in Land use planing (0302).

/c The 28 Non-Budget Commitment are 22 of Japanese projects, 4 of French projects, and 2 of German projects.

Jpn = Japanese project, Fr = French project, Gm = German project.

Source: Department of Technical and Economic Cooperation, Office of the Prime Minister.

**Table 4.6** Sector Classification of Technical Assistance by Donor

Code	Sector	Donor							No. of Proj.	No. of Non-Budget Commit. <sup>/a</sup>
		Australia	Canada	Denmark	Germany	Japan	UN	Others		
01	Economic Management				2				2	1 Gm
02	Development Administration		2		2		3	1	8	
03	Natural Resources <sup>b</sup>	3	1	11	4	3		3	25	3 Jpn
04	Human Resources Development	1	3		2	2	2	2	12	2 Jpn
05	Agriculture, Forestry & Fisheries	5	2		1	3		6	17	3 Jpn, 2 Fr
06	Area Development		1	1	3	1		1	7	1 Jpn
07	Industry			1	3	3		4	11	3 Jpn
08	Energy			1	2	1		1	5	1 Jpn
09	International Trade in Goods & Services							1	1	
11	Transport				1	1		1	3	1 Jpn
12	Communications					3			3	3 Jpn
13	Social Development		1	2	1	4	4	9	21	3 Jpn, 1 Gm
14	Health	1		1	1	2	13	10	28	2 Jpn, 2 Fr
<b>Total</b>		<b>10</b>	<b>10</b>	<b>17</b>	<b>22</b>	<b>23</b>	<b>22</b>	<b>39</b>	<b>143</b>	<b>28<sup>c</sup></b>

Note : /a Donors commit the economic cooperations in terms of activities only (not in terms of budget).

/b There is a project costed 2204 million Baht in Natural Resources (03)

/c The 28 Non-Budget Commitment are 22 of Japanese projects, 4 of French projects, and 2 of German projects.

Jpn = Japanese project, Fr = French project, Gm = German project

Source : Department of Technical and Economic Cooperation, Office of Prime Minister

It is interesting to note that at the end of this year 1998, out of 143 projects currently underway, 59 projects (or 41.26 percent) will be completed. Additional 48 projects (or 33.57 percent) will be terminated at the end of 1999 and other 22 (or 15.38 percent) at the year 2000 (Table 4.7). In other words, in the next few years, as many as 129 projects for a huge share of 90.20 percent valued at 11,805 million baht will come to a close. Given diminishing technical assistance and a large number of projects disappearing in the near future, Thailand must act promptly and effectively in coping with these developments in lieu of current economic crisis.

## **4.2 Donors and Crisis**

### *4.2.1 Perception of the Crisis*

For the Department of Technical Cooperation (DTEC) to identify the technical assistance strategy, direction, as well as types of activities of the assistance with a view to mitigating the economic problems both in the short run and the long run, reducing the duplication of work, and setting economic and social priority, it is imperative to understand the criteria and nature of their assistance before and during the time of the crisis of representatives of key international organizations who provide technical assistance to Thailand.

Based upon historical data on technical assistance by sources, shares, and types, 6 key donors were identified: Australia, Canada, Denmark, Germany, Japan, and the United Nations Development Programme (UNDP). Interviews were arranged and questions were drafted with the frame of thought of drawing out the views and perception of donors on the trend and magnitude of the technical assistance in general and specifically for Thailand at the time of the crisis.

To a large extent, all donors perceive that economic crisis have run deep. Real sectors are severely affected. On one end, not only production but also investment that have been curbed tremendously; while, on the other end, unemployment has been rampant. In fact, it is not limited to only those from the financial sector but also a large pool of workers from other sectors in the Thai economy, for example, import industries and automobiles. Another growing concern is that a long period with out works could pose a threat to family basic needs. For those individuals who remaining working, still, do not have all the luxuries either. They experience a pay cut and/or reduction in the number of hours worked. Most donors share one common concern, that is, this sudden change in socioeconomic status has invited many undesirable social repercussions: stress, family tension, marital breakup, suicide, and crime. Without any doubt, these unemployment and social malaise must be combated with various short-term and long-term measures.

Yet, the crisis have one virtue: fragility in the economic and social structures has begun to surface out of the crisis. Many donors name poor financial sector, inefficient public sector, low productive labor force, weak producers (big and small alike), inadequate regulation as well as monitoring system, and lack of social safety net. So, long-term structural adjustments—social and economic—are implied. Tasks to be undertaken are reform in financial and government sectors, which should involve new legislation and governance, human resources development, industry restructuring with respect to the upgrade and/or innovation in production technology for the sake of long-term competitiveness. Without these changes, the road to prosperity and sustainable development will be an uphill battle for Thailand.

**Table 4.7 Termination of TA Projects by Years**

<b>Year</b>	<b>No. of Project</b>	<b>Amount (,000 Baht)</b>
1998	59	4,434,775
1999	48	5,020,626
2000	22	2,349,734
2001	9	774,403
2002	1	-
2003	3	1,170,453
2011	1	9,450
<b>Total</b>	<b>143</b>	<b>13,759,441</b>

*Source:* Department of Technical and Economic Cooperation, Office of the Prime Minister.

On the other hand, there are certain ongoing issues that the authorities have been fully aware of and surely they will not go away easily after the crisis. Several donors voice their concerns over the issues of environment, poverty, health services, women and children, skilled workers, and grass root community development. Assistance and effort into these areas must not level off despite current economic difficulties. In fact, donors view that many issues are in need of immediate actions. For example, poverty becomes more prevalent as a large pool of urban workers are jobless. Cut in government spending definitely makes it harder for public sector to deliver adequate health services to those in need. Technical assistance can step in and play a role in this seemingly short-term nationwide measure of poverty alleviation and health care delivery programs.

#### *4.2.2 Responses from Donors*

Responses to these economic and social hardships differ across donors. They are more or less determined by a host of factors, namely, resource constraints, commitment, and areas of interests/specialization. As it turns out, they may or may not be able to offer additional technical assistance above and beyond that has been originally committed.

##### a) Decision on allocation of TA

Some donors base their TA decisions on economic indicators: gross domestic product (GDP), GDP per capita, economic growth, and local government spending on development. In general authorities in the Ministry of Finance and the Ministry of Foreign Affairs in a donor country will put together annual ODA budget and submit it for a cabinet's official and final decision. Once ODA budget is officially approved through the bottom-up approach, next is country program allocation. The selection process is very competitive. Additional criteria are introduced to screen potential programs and projects for greatest mutual benefits between donor and receiving countries possible. Cited by certain donors, a strong candidate for technical assistance should be a project that has the following properties:



- a) feasible
- b) one of priority areas targeted by donors
- c) sustainable
- d) effective
- e) high-level commitment and support
- f) big impact to the community and nation as a whole.

#### *Priority area*

Regarding priority areas, differences among donors do exist due to their varying degree of interests and specialization. In many instances, area choices are economic-oriented while some are more toward social groups and/or issues. Japan, a leading donor country in Thailand, with her core competencies in industry are more likely to focus her technical assistance on industry-related matters, for example, SME supporting industries, industrial infrastructure, and human resources development for manufacturing sector. Germany too has a dominant position in industry. So, appealing areas for technical assistance are occupation training for skilled workers, industrial development with respect to small and medium enterprises. Other donors with different advantage, say, in natural resources and environment management surely will channel their TA into environment-related projects. Take a case of Denmark. Through Danish Cooperation for Environment and Development, DANCED, the choices of technical assistance include forests, coastal zones, sustainable development of cities and industries, sustainable agriculture, environment-friendly technology, and environment awareness.

Some donors have social issues as the core areas of technical assistance. One such donor is UNDP. Preferences expressed by the organization are (1) poverty alleviation, (2) emerging issues, for example, competitiveness enhancement, governance, environment, and women, and (3) trilateral cooperation with neighboring countries. Canada with her interests and concerns on social issues has concentrated her TA on social and sectoral issues of basic human needs, human rights, governance, infrastructure services, private sector development, and environment. On a similar front, Australia is much eager to offer TA on various development issues in the country like human resources development or infrastructure development.

#### **b) Adjustment in TA to cope with the crisis**

Given the emergence of needs arising out of the crisis, what are immediate and pinpointed by a number of donors are:

- a) production upgrade and innovation in term of process and quality
- b) privatization
- c) governance
- d) legal system restructuring
- e) information system.

While coping with these short-term needs, Thailand must continue on fulfilling the long-term needs that loom large in this difficult period. As the national competitiveness and strong social cohesion have been slipping away, the needs for efficiency and sustainable growth must be addressed and tackled. They are:

- a) human resource development
- b) government reform
- c) infrastructure development
- d) rural community
- e) environment
- f) social safety net.

In the event of economic shocks in Thailand, adjustment in technical assistance, so as to cope with the aftermath of the crisis to various sectors and groups in the country, may or may not be allowed at all. Under this circumstance, the decision and approval if the adjustment were probable would come solely from the top executive branch in the donor country. This assistance, if any, is short-term and intends for pressing issues and needs of a particular country/region.

For Japan, Hashimoto's Three Initiatives has been introduced. It is borne out of the former Prime Minister Hashimoto's policy on ASEAN as he saw this region entangle itself in the economic turmoil. These initiatives are a short-term technical assistance package aim at stabilizing ASEAN economies so that they can regain their economic power. Measures adopted under this plan are:

- a) *Human resources development.* Japan will receive some 20,000 trainees from ASEAN for skill training. For Thailand, the emphasis should be given to training in science and technology
- b) *Competitiveness enhancement.* The development of SME supporting industries in ASEAN will be encouraged.
- c) *ASEAN cooperation.* TA for ASEAN will have more elements in multilateral cooperation.

In addition, the Diet passed the supplementary 5-year budget in Mid-June of this year for a total of 2,570 million yen. Several activities under this funding program are identified. They include accepting 1,000 ASEAN trainees to Japan, dispatching 54 experts on short-term assignments to ASEAN, and conducting project finding study in ASEAN. In a related matter, priorities are given to the three areas of (1) financial sector, (2) SME supporting sector, and (3) skilled workers. To alleviate the traumatic aftermath of economic crisis, TA will be extended to some social groups and sectors in the economy, namely, the unemployed, the disabled, and the agricultural sector in rural areas.

In a similar manner, Australia through her Australia's overseas aid program, AusAID, has responded to the economic crisis by temporarily suspending the "graduation" status of Thailand which TA would have been terminated at the year 2000, and reviewing graduation program in Thailand as the country is suffering long and hard from the crisis. In addition, Australian government officially announces a new Aus\$6 million "Asia Crisis Fund" to provide technical assistance to affected countries. Special emphasis will be given to assisting with economic governance and financial sector reform as well as employment generation. With respect to Thailand, the 1998-1999 budget introduces a provision of an additional Aus\$10.2 million over the next two years (1999-2000) to address particular development challenges caused by the crisis, and continuation of aid beyond the years 2000-01 when Australia's assistance was due to cease. This provision

is intended in principle on 3 sectors: finance and banking; public reform; and grass root community development.

Realizing that not all donors will be able to stretch their TA beyond in the presence of unforeseen or unexpected circumstances, some donors have long term budget plan which based their TA selection upon social indicators such as—population, literacy rate, fertility rate, child mortality rate, and many more. Combining these variables with donor's own international/regional obligations and individual country's social and economic plan, the result will be the formulation of TA policies and guidelines. Country programs and projects could be contested and ranked by their value or the relevancy of issue (economic- or social-wise) or any other criterion. Out of it, an average program is highly probable to be in any diverse area of industry development, poverty alleviation, women and children, health care system, human rights, infrastructure services, environment, or governance. With this procedure the budget can not be flexible enough to adjust for the crisis.

It is undeniable that the economic crisis have wounded the social fabric. They have somewhat imposed some changes, though small, upon donors. Though no adjustments are made to cope with the crisis, there are instances where a shift in fund allocation is made possible. The adjustment can take different forms. One possibility is to alter the weight of total official budget more toward pressing issues or sectors. UNDP has allocated its TA more toward emerging issues as seen by 2 projects worth US\$700,000. The first involves with skill development for rural returnees in three Northeast provinces in Thailand, i.e., Surin, Srisaked, and Burirum, with a total budget of US\$200,000. The remaining is targeted for the second project of promotion of good governance and decentralization. Adjustment can come also in the form of speeding up the ongoing projects. Germany has taken this option and now is stepping up on the projects in three areas of industrial sector restructuring, privatization and outsourcing, and skill enhancement project for the unemployed.

In retrospect, TA commitments remain firm for Thailand. Interests have been expressed by many donors on channeling their TA into the areas of financial sector reform, legal framework, governance, environment awareness, skill development and training, and social safety net for the underprivileged in the urban and rural areas.

### **4.3 Conclusion**

As a whole, technical assistance for Thailand, though not disappearing, is diminishing. They are likely to come in the form of expert assistance in the areas of natural resources, agriculture, health, and human resource development. With unforeseen economic difficulty experienced by Thailand, donors have been coping in their own ways. Some are flexible and able to introduce additional adjustments in technical assistance that are needed in this period of hardship. Some, however, are somewhat restricted; but efforts have been made to accommodate some shifts in budget allocation and speeding up the ongoing projects.

In retrospect, the future of technical assistance for Thailand is dim. The gradual decline in TA is the reality and little will be available in the distant future. With what Thailand gets now and will get in the near future, efforts must be made in earnest to generate as much gains as possible for all sectors and individuals across the nation.

## V. THE ROLE OF TA IN MITIGATING IMPACTS OF THE CRISIS

From the above discussion, one can see that Thailand is facing a serious crisis and the prospect for recovery is not in sight. Many programs have been introduced, with financial resources from international agencies, to solve economic problems or alleviate social and economic impacts of the crisis. In light of declining TA in this difficult period, greater efforts should be made through efficient utilization of TA to generate all possible gains for the nation. Given donors' expertise and long experience with Thai government and government agencies, TA can still play a significant role in mitigating the crisis problems provided that they are in line with government measures.

This section presents strategies for DTEC to promote greater involvement of donors. Taking into account various factors ranging from social and economic impacts from the crisis to future domestic and international environment, as well as government measures and loan programs to cope with the crisis, a series of criteria underlying the prioritization of TA activities have been kept in mind. These criteria<sup>1</sup> are:

- (a) **urgency**: the TA should be aimed at solving *urgent* and *short-term* problems the results of which must be realized within the time frame of 3 years or less;
- (b) **adequacy**: the TA should be in the area where present actions, both governmental and non-governmental, seem to be inadequate. In this regard, the TA should be complementary to the existing remedial measures;
- (c) **donors' competency and expectancy**: the TA must take into consideration donors' expertise and development objectives or expectation;
- (d) **relevancy**: the TA should give priority to those which are in line with the 8<sup>th</sup> National Economic and Social Development Plan to ensure the medium and long-term impact of the remedial measures.

Below are the proposed strategies for utilizing TA.

### 5.1 Revitalizing the Role of TA

With the declining trend of TA globally and the increasing needs for resources to mitigate the crisis problem of Thailand, it is now the time to revitalize the role of TA. This can be justified on two grounds: (1) the worst economic and social conditions in Thailand's history and (2) a significant reduction in national wealth. With the recession and baht devaluation, the gross domestic product of Thailand has reduced from US\$181,607 million<sup>2</sup>

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<sup>1</sup> These criteria are employed to prioritize TA's strategy and programs. In the process of identifying activities in details, competency and absorptive capacity of implementing government agencies should be taken into account.

<sup>2</sup> GDP in baht is from Office of the National Economic and Social Development Board and converted into US\$ by using Bank of Thailand's annual exchange rate.

in 1996 to US\$154,171.5 million<sup>3</sup> in 1997, and the growth rate in 1998 can be as low as minus 8 percent. Thus, Thailand's per capita GDP declined significantly, in term of dollar value, as shown in Figure 5.1. Moreover, the debt burden is very high; the nation's debt has mounted to US\$80 billion. Regarding public debt, the government's guarantee on depositors and creditors of financial institutes imposes burden on fiscal expenditure. Therefore, the evaluation by some donors that, with high level of income and development, Thailand has graduated thereby requiring less assistance needs to be reconsidered under the present situation. The recovery period is uncertain; some international analyses offer a view that it might take Thailand anywhere from 2 to 5 years to revive, depending largely on regional and global happenings. While trying our best to get out of the problems, the crisis in the country as well as in the Asian region have become more severe beyond anyone's anticipation. With limited domestic resources, TA can be of great help for Thailand proceeding through the hardship.

Additional channels for TA might very well come through international forums like *ASEM trust fund* with a provision of US\$50 million for 7 member countries (China, South Korea, Malaysia, Indonesia, the Philippines, Vietnam, and Thailand) that have been hit by the crisis, and *APEC Collaborative Initiatives*, a project intended for capability building in macroeconomic management for APEC members that have been severely affected by the crisis.

In this connection, a crucial strategy is that DTEC should play a more pro-active role both in terms of searching for TA from existing as well as new sources and assisting concerned agencies in finding and/or making better use of resources from TA. DTEC may have to strengthen its role of a middleman between concerned or responsible agencies and donors. With concerned agencies, DTEC may provide advice regarding types, sources and how to obtain technical assistance. It should work more closely with the technical division of concerned agencies in terms of identifying activities that can make use of TA and how to go about obtaining the TA.

## **5.2 Enhancing Efficiency in Project Preparation and Implementation by Strengthening Cooperation among Government Agencies and between Public and Private Sectors**

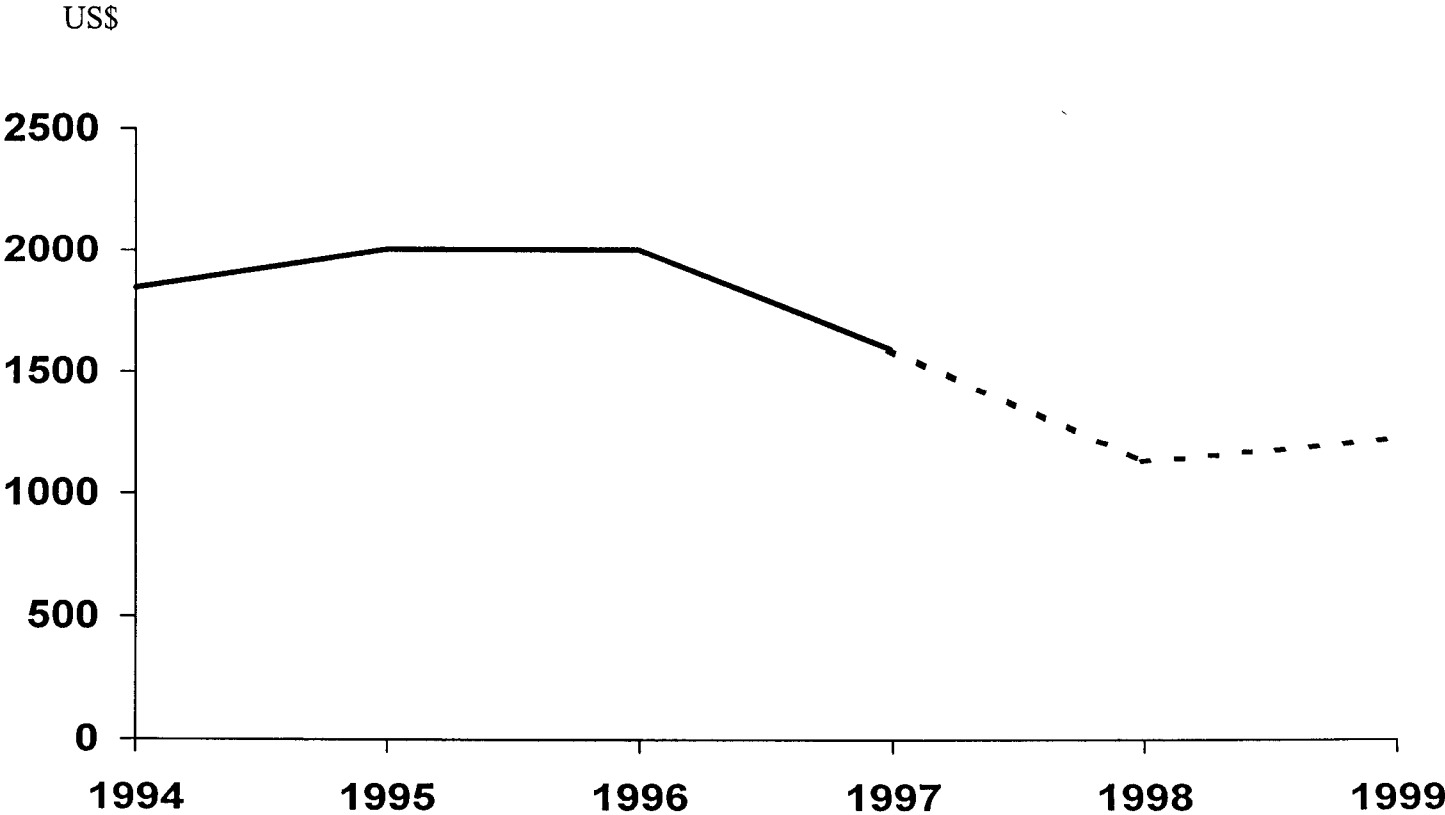
Possibility does exist that TA will increase, but the likelihood is far greater that it would be temporary rather than permanent. With limited resources under the crisis, it is implied that routine implementation of TA projects must be avoided. While being coherent and consistent with government measures, TA projects must address short- and long-term needs stemming from the crisis. Well-prepared projects also make it easier for donors to justify budget from their respective governments. Here, DTEC can play an active role in seeking cooperation and coordinating many different government agencies in project preparation so that they can directly help alleviate impacts of the crisis.

With numerous projects underway, project monitoring is vital for effective implementation. Some donors commented that Thailand is known for not having a good record in this area. TA, through DTEC, in the development of mechanisms for project monitoring is strongly encouraged.

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<sup>3</sup> TDRI's forecast.

**Figure 5.1 Thailand's GDP Per Capita**



Note : 1997-1999 figures are forecasts.

The Thai private sector has long been our engine of growth. It is therefore imperative that the process of revitalizing the Thai economy requires the private sector's involvement. The expansion of TA into private activities is strongly encouraged. In this regard, *TA for private* can come in the form of capability building for the private entities, and the programs should be jointly organized and managed with private bodies like the Federation of Industries or the Thai Banker's Association.

### **5.3 Utilizing TA for Institutional Capability Building to Cope with the Crisis and Changes**

Chapter Three of this report discussed the four Programs of financial loans provided by international agencies. The aim of these programs is to solve the crisis or alleviate the economic and social impacts. One program targets at restructuring financial sector and macroeconomic management and one is packaged to inject liquidity into the economy especially for exports. The Social Investment Program (SIP) concentrates on unemployment problem and strengthening local communities. The other program in the process of finding financial resources is industrial restructuring. The Ministry of Industry has put forth action plans for restructuring 13 manufacturing sectors in Thailand. A study by TDRI council's working groups has proposed a strategic plan for industry development as well.

These programs show the Thai government's effort in tackling short- and long-run (structural) problems. It should be mentioned that while the programs are quite timely and comprehensive, the project preparations by agencies are constrained by time and resources. Clearly, TA can be of great help in project identification and monitoring. In addition, there is more room for TA to build and raise capability in project management and other activities deemed desirable for economic and social development.

It can be said that weak institutional settings have led Thailand into the crisis (or at least have made it worse). Originating from an absence of good governance mechanisms (to make the system transparent), bad and corrupting business practices were all too common which eventually resulted in the loss in investor confidence. In the meantime, the government was too weak to detect that development early on. Worse, the crisis has victimized the government, i.e., making it weaker. The implication on TA for good governance and other related activities for capability building is evident.

Suggestions for TA activities are offered below:

#### ***5.3.1 Assisting or monitoring the implementation of Social Sector Program and Social Investment Program***

##### ***a) Capability building in project management for executing government agencies***

There are a number of projects in these social programs since the government places high priority on social issues. The loan amounts to US\$411 million. The projects range from employment creation, health care, vocational training, to tourism and many more. Obviously, a large number of government agencies are involved. An effective implementation of all the projects under the umbrella is still questionable. With

limited resources relative to volume of routine and additional work, TA can help in the formation of institutions to provide assistance in the implementation, monitoring, and evaluation of projects. In fact, the Ministry of Finance has asked UNDP for assistance in setting up a unit at the Ministry to coordinate the Social Investment Program. TA can further assist some other executing agencies.

Generally speaking, projects normally involve numerous resources from government units and local communities with regard to project identification, implementation, and evaluation. With donors having expertise in project implementation and training in certain areas, their supplementary/supportive roles for ongoing projects are evident. Expert assistance can provide consultation as well as training in execution and management of these projects. A good example is the rural industry project by the Ministry of Industry, which requires training for both government officers and local people.

#### *b) Capability building in community projects*

One principal objective of Social Investment Program is to strengthen local communities. With that, in several activities, particularly those of Social Investment loan through Government Savings Bank, communities are required to carry out the identification and implementation of the projects through their own efforts as detailed in Chapter Three. It is the bottom-up approach to encourage people participation. While some communities are strong and capable enough to perform these tasks, others, however, are new to these activities. The latter needs assistance for effective project implementation to generate the largest possible gains from the projects. TA can get involved by helping them identify, appraise, implement, and monitor projects based on their needs.

#### *5.3.2 Good governance program*

The nation's economic downturn led the National Economic and Social Development Board (NESDB) to revise its Eighth Economic Plan (1997-2001) for the third time since its formulation back in 1995. In its latest revision, The Eighth Plan puts an emphasis on four fronts: (1) macroeconomic stability, (2) structural adjustment, (3) human and social development, and (4) administrative change for national development. The latter encompasses good governance through, among others, enhancing community and people participation. TA activities that can pave the way for Thailand in that direction are of many folds.

#### *a) Public awareness campaign*

First and foremost, a campaign must be launched for the general public to fully understand and be aware of the good governance in line of economic and social development.

#### *b) Strengthening the availability and accessibility of public information*

Only the well-informed public will be able to actively and effectively participate in national affairs. Thailand is no exception. To achieve this end, database and mechanisms for accessibility must be made available for the public at large who under the new constitution have legal rights to know and gain an access into information that concerns the public. On one hand, people will be able to monitor politicians and political parties; on



the other hand, they will gain information from the Parliament regarding politicians' conducts and behaviors, the evolution and process of law passages, and the status of new laws proposed for review and approval by government or juridical agencies.

The other aspect is information released from government agencies. Attention must be given to related issues on the domain offered to the public, i.e., what information is or is not subject to confidentiality. For those allowed, process and method of accessibility must be developed. Cost analysis should be carried out so that some costs incurred could be covered through a "users pay" principle in the form of fees or charges. TA can commission a study to set up the framework and provide assistance for implementation.

#### *c) Guideline for corporate governance*

Good governance is not restricted to the public sector. In fact, corporate governance must be reached too. To be successful, various tasks must be performed. One is to strengthen audit systems for private and public sectors alike. Two, a review on laws, regulations, and business practices in Thailand is needed. Mechanisms are to be created for legal reform to facilitate the execution of good corporate governance.

Corporate governance, though quite new in Thailand, has been established in developed countries for some time. It is crucial that we must learn from other countries' experiences in this regard. It is also worthwhile to study all avenues for the imposition of transparency and accountability into the system through international agreements.

### *5.3.3 Capability building for government agencies*

#### *a) Capability building for government officers*

Globalization has brought dynamism upon us all. Changes are far more common today than what we were in the distant past. No one nor sector in whatever part of this world can afford to be stagnant. For Thailand and the Thai government units in particular, this crucial fact was not realized until the crisis struck. Then and now, Thailand has begun to see that the old ways of conducting businesses have little payoff in this newer and more dynamic world. New mindsets and new skills are pressing than ever before.

The Eighth Plan recognizes this shift and puts forth administrative change. It entails public sector reform, greater efficiency in budget administration, and decentralized authorities. These are building blocks for effective policy decision-making and implementation which are critical for our national development. However, to the government officers, these are new conditions of work. Capability building for a smooth transition into the new realm of responsibilities must be pursued.

TA can assist government agencies in their formulation of plans for capability building to cope with changes and meet all future challenges in stride. TA can further offer programs (such as training, workshops, and study tours) to enhance capability of government officers.

*b) Strengthening the information base and technology*

To monitor the environment for potential changes therefore enabling the government sector to act promptly and effectively for the sake of the nation's welfare, information system for decision makers must be developed across government agencies. Technological capability must be improved in the areas of computer hardware and software together with humanware. The Thai government might find its agencies act as intelligence units which surely are of great value as far as policy formulation and decision making as well as service provisions are concerned.

*c) Strengthening analytical capability of government agencies for economic management*

It is critically important that the economic policy executing agencies have their own ability to monitor and process information to serve their economic management needs. This analytical capability includes data collection, forecasting, and assessment of effects of changes in economic and non-economic policy variables. It also includes good MIS for policy making. This system and all the skills needed are inadequate for Thai government agencies. Certainly, TA can fill this gap. One possibility is training for concerning officials in the enhancement of their analytical capability. Another is provision of tools, computer system, and other equipment necessary for economic ministries in carrying out their responsibilities such as economic model building and forecasting.

*5.3.4 Environment*

*a) Provincial and community environment protection*

Environment is not only a long-term problem but also a short-term one in the face of the crisis. Preventive measures and actions have been postponed by both the government and private sectors. This obviously results in unsustainability of the development process. Some donors have a strong interest as well as expertise in environmental program, so activities in this area should be pursued despite the crisis. To utilize limited resources and to adopt projects compatible with the situation, the activities may focus on provinces and local communities. They can include the construction of waste treatment or other facilities for environmental protection. These activities cannot only help solve environment problems but also generate employment and stimulate demand in provinces.

*b) Strengthening capacity for project analysis*

Thailand must strike a balance between men and environment. Environmental encroachment is harmful to all in the long-term. Awareness of green projects, i.e., those activities that are environmentally friendly, must be introduced into the project preparation and analysis carried out by communities through out Thailand.

## **5.4 Utilize TA for Economic and Social Restructuring**

The crisis unfolded fragility in the Thai economic and social structure. We have lost international competitiveness in labor-intensive manufacturing industries as evident from the abruptly slow down in export growth since 1995. Agriculture sector share in gross

domestic products has declined significantly and it still depends on low value-added commodities. With low productivity and large population in this sector, we cannot reassure that agriculture sector will be an effective natural safety net in time of crisis. The sector's sustainability development is also in question.

With regard to human resources, a large portion of labor in manufacturing sector obtains only primary education and we are still lacking engineers and higher level educated workers. This structure is not comparable with the objective of upgrading industries. Furthermore, entrepreneurs are short of vision to improve productivity and technology in order to cope with economic and social changes, and international competition. With family-style management, Thai entrepreneurs depend more on debt than equity to increase capital, which causes high leverage for business. The crisis also shows that Thailand does not provide adequate safety net to cope with the unstable environment.

In the future, with the process of globalization, liberalization and integration of financial markets, the external environment will be more competitive with greater volatility. As a result, we need to reform economic and social structure not only to survive the crisis but also to cope with the changes after the crisis. Some of the measures may have effects in the medium and long term but the delay will make the adjustment more difficult. TA can be utilized to effectively facilitate the changes. With this perspective, the study recommends 4 priority areas for TA's activities.

#### *5.4.1 Human resources development*

Human resources development gets the highest priority from both economic and social perspectives. Competitiveness requires high quality human resources and social development objective is to improve welfare and quality of life of the people. This point is stressed in the Eighth National Economic and Social Plan, both the original and the revised versions. To utilize foreign assistance, proposed projects under this program are as follows.

##### *a) Improving universities' competence in education, training and research*

Education and training are principal instruments for human resource development. To cope with the crisis a lot of resources have already been devoted to vocational education and training for unemployed and dropouts in primary and secondary schools, as presented in Chapter 4. Universities also suffer from the crisis such as higher costs of books and teaching materials, greater expenditure for foreign experts, and elevated operation and investment costs. Higher education is important for technological capability for restructuring production sectors, since it can provide services and knowledge to public and private sectors in the form of research, training, and consultation. It is a duty of universities to provide new knowledge applicable to the structural changes taking into account economic and social dynamism. TA should contribute some assistance to enhance capability in higher education especially when these institutes are designated to be autonomous from the bureaucratic administrative and budgetary system in year 2003.

There are many areas for TA activities, which include:

- strengthening university personnel by providing scholarships and training;
- supplying experts for university programs or services;

- assisting in formulating new education programs that are appropriate for new environment especially in science and technology, and modern public and business management;
- Coordinating joint education or training programs between Thai universities and foreign institutions.

#### *b) Strengthening education reform*

Education reform has been one of the Thai government's priorities. The government has increased compulsory education from 6 to 9 years and amended curriculum and teaching process to make students acquire more of analytical, technological and language skills rather than memorizing skills. Good basis education is important not only for providing quality resources for labor markets but also to build up fundamental for civil society and people participation. Education reform covers enormous scope of work so the process is quite slow even without the crisis. We should not allow resource constraints due to the present situation to undermine the process of the reform.

TA activities under this program may include:

- reviewing and appraise the ongoing education reform
- training teachers to adjust to the reform especially in learning and teaching process, skills in language, and use of new technology
- Providing equipment to improve education especially in provincial area
- Setting up performance index so schools can evaluate and improve their performance.

#### *c) Granting scholarships for graduate study*

Chapter Three shows clearly that the crisis had limited government scholarships granted. The baht devaluation makes cost of education abroad higher and the government has to reduce the number of scholarships. Scholarships are important in developing human resources, especially for the government sector, which need to be competent enough to formulate and implement appropriate policy measures in response to the current crisis, as well as preventing or avoiding the next one. Some donors because of Thailand's economic graduation had suspended some scholarship programs. However, the situation has now changed. Revitalizing these scholarship programs is justifiable and should get high priority.

Area of scholarships should focus on science and technology, engineering, computer science, economic, management and law in the emerging issues, such as risk management, corporate governance, and new international economic order.

### *5.4.2 Labor market*

#### *a) Alleviating urban and skill-labor unemployment*

Under the Social Investment Program and Social Sector Program loans, there are many projects to create temporary jobs and trainings for rural and unskilled labor—mainly at vocational education level. However, there is evidence that urban unemployment of white collar workers is increasing, especially with the restructuring of

financial sectors. The new graduates also find it difficult to get jobs. The unemployment of highly educated persons is wasteful of resources considering investment in human capital for the education. In addition, this pool of resources is needed for upgrading and restructuring of business. TA can arrange for the assistance to manage this issue with many activities.

- *Retraining of high-level manpower.* Since the crisis causes high unemployment of the educated labor force with high proportion of arts and education to science graduates and Thailand has increasing demand for science and technology manpower for competitiveness in the international market. The benefit of this program will be two-fold. Retraining program to provide skills of S&T to art graduates will alleviate problem of the educated unemployed, while it will help strengthen the competitiveness of the Thai economy through an increasing supply of manpower in S&T.

TA can be utilized to study feasibility and to formulate the program. The proposed activities include: identify the extent and fields of study of the educated unemployed; explore demand of those of art and education background to turn into the area of science and technology; design curriculum for the conversion of the BA graduates into Science and Technology; design the admission process and implementation of the program in executing universities and seek funding for the retraining programs.

- *Creating temporary jobs, and training and internship programs.* If we expect that new graduates and the educated unemployed will be able to get jobs after economic recovery, which will take some time to come, we can set up a program to alleviate the problem during this hard time and to prepare them for the future labor market. TA can be of help in the overall process of feasibility study, fund sourcing, implementing, and monitor and evaluation projects.

A program that directly helps the unemployed is to create temporary jobs. The experienced unemployed and also new graduates can be hired to train government officials. Some government agencies need to adjust to new role, for examples, special government banks will play more aggressive role of lenders to stimulate the economy. Therefore concerned government officials require strengthening new skills for the new tasks. The unemployed who has experiences in relating fields can be instructors for the agencies. This can be applied to government agencies or local communities that want to enhance their capability with the training programs. The experienced unemployed can also be utilized to teach in provinces that lack qualified teachers in specific fields or help work in some projects that aim to solve the current crisis, but the government is short of personnel due to workload on routine work by existing officials.

Another program that should be implemented is training and internship for the high-level educated unemployed. This can provide skill such as English, modern management, computer, and analysis of economic and social changes. The program is useful for job opportunity in the future.

#### *b) Self-employment program*

Thailand's growth rates of GDP has been one of the highest in the world for a decade, the crisis has caused a severe contraction in the economic growth. Many businesses have reorganized and reduced the number of employees. A large number of financial institutes will be owned by foreign investors with less demand for Thai employees.

Emerging from the crisis and the bubble economy, the growth rates of Thai economy will never be as high as in the past, so we cannot expect higher job generation in big business establishments. Creating small and medium enterprises will generate employment and help cope with more unstable environment since they are more flexible than big business. TA can help new graduates and unemployed to set up self-employed jobs, or establishing their own businesses. Proposed activities in this project include:

- Study labor market to appraise how labor markets, formal and informal sectors, change and what future market structure will be. Identify opportunities for small and medium enterprise business especially in the international markets. Making recommendation to abolish obstacles in operating small business such as tax system, law and regulations.
- Training and consultation programs for persons who want to establish business.
- Study the possibility and appropriateness of establishment of funds to assist in the set up SMEs business.

#### *c) Unemployment insurance system*

At present there is no unemployment insurance in Thailand, and the social security system does not adequately cope with the unemployment problems. As mentioned before, in connection with the crisis there are widespread lay-off, high unemployment in general, and that of the educated labor force. Furthermore in the future, firms will face unstable environment and need quick adjustment to cope with it. Life-long employment may not be the normal practice and employees will have to change jobs more often than in the past. Therefore, establishing appropriate unemployment insurance will be crucial for future labor market conditions.

TA can provide assistance in examining the social safety net system in Thailand in relation to the unemployment problems and undertake a feasibility study for an introduction of unemployment insurance. It should design a system of unemployment insurance with an emphasis on funding and operation. Furthermore, activities should include training on the establishment and implementation unemployment insurance scheme for concerned officials.

#### *5.4.3 Agricultural sector adjustment for competitiveness*

Agriculture sector is still vital for the Thai economy with respect to employment and international competitiveness. Enhancing the role of this sector requires upgrading agricultural products to high value added and links to demand of world markets. The key is to improve technology capability. With this view, there are two priority programs that TA can contribute.

##### *a) Extending credits for long-term on farm investment*

Expansion of farm investment to improve productivity is a key for structural adjustment, which is based on market mechanism and private decision. Farmer's investment will take precedence over public investment. In this connection, credits for long-

term investment for farmers are crucial. Major productivity enhancement in the agricultural sector will come from long-term investment in land improvement, land integration, water supply and mechanization. The scope of loan is expanded beyond farming activities. Instead of setting up new institution, the investment mechanism should build upon the well-established system of credit between farmers and the Bank for Agriculture and Agricultural Co-operative (BAAC) which has capabilities to service millions of farm households with well-established branches. TA can strengthen role of BAAC in this respect and encourages long-term investment. The activities are as follows:

- *Providing assistance on project appraisal and evaluation of agricultural commodities and product outlooks.* The role of BAAC will be changed as the government is going to ease credit guarantee in order to make BAAC accountable for all loan performance. In addition, BAAC will provide more loans to non-agricultural activities. BAAC will act more like a commercial bank for rural people, with expanding scope of business.

Under this new scope of work, management and officials have to adjust. The expertise in loan appraisal is lacking since BAAC has been considering granting loans more on system of collateral and government guarantees loans, to some extent. Training programs should be conducted to enhance capacity to make assessment of agricultural and non-agricultural loans. BAAC must be able to evaluate long-term investment loans, and establish the system of risk management and risk sharing. Moreover, BAAC must be capable to monitor and evaluate changes in internal agricultural and agro-industry markets so that it can better assess loans and risk.

- *Accelerating the process of issuance of land title deeds*

Only less than 35% of agricultural land have title deeds, so most farmers do not have access to long-term loans, for which land collateral is required. This is an obstacle to long-term investment. The government already established a program on issuance of land title deeds. However, the process must be accelerated to enhance productivity in agricultural sector. TA can be employed to evaluate the current process of the program and identify constraints affecting the issuance process. TA must propose best mechanism to accelerate the issuance process. The study should include the exploring of appropriate measures and means to transform other land rights to title deeds, and recommend BAAC alternative methods of long-term collateral which is necessary since most farmers do not possess land title deeds at the present.

#### *b) Technology development for restructuring the agricultural sector*

Restructuring requires the development of biotechnology and other farming technology. Biotechnology creates productivity, improve plant varieties, improve quality of products, and reduce dependent on chemical fertilizers and pesticides. Other technologies include pre and post harvest cares, and farm management. Technology development should be effective with many components such as infrastructure development, S&T and farm investment, skilled and scientific human resources development and good linkages between farm production, and marketing and industrial process. Thus, integrated strategy should be formulated to enhance technology capability in this sector. There is a suggestion to establish an Agriculture Research Institute that will

coordinate research and development activities in agriculture, to avoid duplication and to make diffusion more efficient. In this respect, we propose TA activities as follows:

- Providing assistance to formulate strategic plans for R&D and transfer of technology to farmers. Evaluate cost and benefit of setting up an Agricultural Research Council to coordinate research works and suggest the appropriate mechanism to coordinate this work.
- Providing HRD program. This is to enhance quality and to increase the number of Thai researchers in related fields of agricultural technology. Activities should include scholarships, workshops and training programs, conferences and seminars and on-the job training.

#### *5.4.4 Manufacturing and service sectors development*

Even before the onset of the crisis, Thai exports of labor-intensive products have been declined. This signified loss of competitiveness is due to rising cost of production. Trends of liberalization and deregulation in multilateral, regional and unilateral levels will intensify competition in the international markets. As mentioned before, the current crisis has generated changes in economic and social environment with the floating exchange rate regime, emerging of foreign companies in financial sector and big business, implementation of privatization program, changes in labor relations. It is crucial that manufacturing and service sectors restructure to be more competitive and more dynamic. TA can facilitate the necessary adjustments with following activities:

##### *a) Capability building for special research and development institutes*

A key to restructure for competitiveness is improving technological capability of business. One proposed measure to increase technological capability is to set up special institutes for specific sectors to promote research and development, to provide S&T infrastructure (such as calibrating, standard, testing, and certifying), to conduct training and consulting services. Examples of already established institutes are the Food Institute and the Textile Institute.

While the set ups of new institutes can be very useful, they are costly. Therefore, there is a need for careful feasibility studies. TA can provide studies on cost and benefit of these institutes and critical factors to make them success. Experience from other R&D institutes in Thailand and other countries will be greatly helpful. The study should cover strategies to set up and to implement R&D activities. Providing that institutes should be established TA can also provide equipment and financial assistance as well.

##### *b) Training entrepreneurs and workers*

Components driving competitiveness of an enterprise are costs and quality of products, on-time delivery, and flexibility. The key to competitiveness is productivity enhancement, which affects these components. This requires efficient management and skillful labor. Training entrepreneurs and labor will help improve productivity and must be a continuing process compatible to changes in technology and economic environment. Training is one of major activities of TA, so it is quite obvious that TA can play a significant role.



The principal objective of the training program is to make entrepreneurs and labor effectively cope with the continuous changes. For management, they must understand causes and consequences of crisis at national, regional and global levels. They must develop analytical capability to evaluate international and domestic environment changes. Entrepreneurs should also improve skills to be able to systematically make decision on commercial viability of projects. Furthermore, understanding risk management, as well as corporate governance, is also essential in the modern and dynamic business practices. Workers need to upgrade their skills to be able to use more high technology equipment and process analytical ability as well as language skills so they have more flexibility to restructuring. Both management and labor require to understand the labor relation issues so they can work together in harmony under dynamic, and sometimes unstable, environment.

### *c) Brand creation*

Many Thai firms are good in production and can export to international market under foreign brand names. This, however, limits our access to markets and restricts scope of product improvement. Brand names can differentiate and increase equity of products, thus enhancing competitiveness. In this respect, Thai exporters should be encouraged to create their own product brand name. At the beginning stage, the target area should be in ASEAN where Thai products are relatively well known than other region.

Most of Thai entrepreneurs lack skills and know-how to develop brand name since this is a new initiative. Only few Thai companies are successful in creating brand names in international market. Therefore, experience from foreign experts is necessary. TA can provide information, training programs, expert assistance for both entrepreneurs and government agencies concerned. These activities will offer entrepreneurs guidelines and required skills to develop brand names for which they have to make their own investment decision, based on cost and benefit analysis. The government should not take the role of an investor, but it can facilitate the process and eliminate any obstacles for the private sector.

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# **Appendix A**

## **List of Interviewees**

## List of Interviewees

1. Mr Raymond Barge, Counsellor, Technical and Economic Cooperation, Australian Agency for International Development (AusAID)
2. Mr Brodie Anderson, Counsellor (Development), Canadian International Development Agency (CIDA)
3. Mr Michael Jensen, Environment Attache, Danish Cooperation for Environment and Development (DANCED)
4. Dr Rolf Suezer, Director of German Technical Cooperation (GTZ)
5. Mr Jun Shimmi, First Secretary, the Embassy of Japan
6. Mr Kenji Nozaki, First Secretary, the Embassy of Japan
7. Mr Tatsuo Arakawa, Second Secretary, the Embassy of Japan
8. Mr Itsu Adachi Adachi, Assistant Resident Representative, Japan International Cooperation Agency (JICA)
9. Ms Netnarumon Sirimonthon, Assistance Regional Representative, United Nation Development Program (UNDP)

## **Appendix B**

### **Responses from Questionnaire Survey**

## Responses from Questionnaire Survey

### I Need of TA Identified by Government Agencies

#### 1.1 Ranking of Vital Problem (s) facing Government Agencies

	1st	2nd	3rd	Others	Total
Manpower Shortage	23.10%	15.40%	6.40%	55.10%	100.00%
HRD	33.30%	28.20%	24.40%	14.10%	100.00%
Public Utility Develop	2.60%	10.30%	6.40%	80.70%	100.00%
IT Development	15.40%	11.50%	20.50%	52.60%	100.00%
Consultant	1.30%	9.00%	7.70%	82.00%	100.00%
R&D	10.30%	16.70%	19.20%	53.80%	100.00%
Security and Welfare	6.40%	3.90%	6.40%	83.30%	100.00%
Others	7.70%	1.30%	2.60%	88.40%	100.00%

#### 1.3 Ranking of TA Needed for Correcting Problem (s) in 1.1

	1st	2nd	3rd	Others	Total
Scholarship	40.70%	27.50%	15.90%	15.90%	100.00%
Grant	29.00%	23.20%	17.40%	30.40%	100.00%
Expert	17.40%	24.60%	14.50%	43.50%	100.00%
Volunteer	1.40%	1.40%	0.00%	97.20%	100.00%
Equipment	11.60%	17.40%	40.60%	30.40%	100.00%
Mission	0.00%	1.40%	0.00%	98.60%	100.00%
Others	0.00%	0.00%	0.00%	100.00%	100.00%

#### 1.4 Needs for TA Activities

Scholarship	7	MIS	22
Training	16	Privatizatio	10
Planning	12	HRD	17
Technology Development	16	Project Support	55

## II Comments on Necessary Projects to Cope with the Crisis

### 2.2 Projected Specific for Crisis Alleviation

Macroeconomic Management	3	Legal Framework Development	3
HRD	19	IT and Technology Development	3
Natural Resources and Environment	10	Agricultural Development	6
		Enhancing Competitiveness	5
Infrastructure	2	Job Creation	11
Privatization	7	Energy Conservation	1

### 2.3 TA Projects Expected to Alleviate Economic and Social Crisis (Open end)

Macroeconomic Management	2	Infrastructure	4
Financial Restructuring	2	Privatization	7
HRD	31	Legal Framework Development	5
Natural Resources and Environment	20	IT and Technology Development	11
Public Health	10	Enhancing Competitiveness	9
Agricultural Development	20	Job Creation	12

Note : Figures in Tables 2.2 and 2.3 are number of projects



#### 1.4 List of Suggested Projects in Need of TA

	Projects	Executive Agency
Project Support	1. Plant Pathology Prevention 2. Renewable Energy Development Project 3. Technology Transfer for Infectious Disease Prevention and Control Project 4. Construction of Village Roads Project 5. Educational System Development 6. Science Park Project 7. Unemployed Insurance Project	Department of Agriculture Department of Energy Development and Promotion Department of Communicable Diseases Control The Office of Accelerated Rural Development Department of General Education National Science and Technology Development Agency Social Security Office
HRD	Domestic and International Study Tour Project Graduate Scholarship in Needed Area Manpower Development and Training Project Study Tour in Production Technology of Agricultural Products and Packing	Department of Business Economics National Institute of Development Administration Silpakorn University The Cooperative Promotion Department
Organization Planning	Management of Educational Graduate Level Manpower expansion Upgrading International Trade Training Institute Organization Master Plan	King Mongkuts Institute of Technology (North Bangkok) Office of Agricultural Research and Development Region 2 Department of Export Promotion Organization of Water Treatment
Technology Development	Computer and Network System for Jurisdiction Development of Engineering Design of the Production Process Technology Development for Pollution Reduction	Ministry of Justice Thailand Institute of Scientific and Technology Research Pollution Control Department

	Projects	Executive Agency
	Post-harvest Technology Development	Department of Agriculture
	HRD in Information Technology Sector	Department of Public Welfare
IT Development	Industrial Statistics Information Development	The Office of Industrial Economics
	IT Development	Office of the Civil Service Commission
	Agricultural Information Tehnology Development	Office of Agricultural Economics
Privatization	Organization Restructuring in Air Transport	The Department of Aviation
	Improvement of Working Efficiency	The Customs Department

Note : Similar answers are grouped together

### 2.3 Suggested TA Projects to Alleviate Economic and Social Crisis (Open end)

	Project
Macroeconomic Management	Restructuring for Sustainable Thai Economy Pertinent Monetary and Fiscal Policy Management Budget Optimum Budget Allocation
Financial Restructuring	Development of Management in Financial Sector
HRD	Skill Development Project Development of Local People to be Self-sufficient Moral Improvement of Government Officials Human Resource Development in Information Technology
Natural Resources and Environment	Pollution Management Development of Renewable Energy in Rural Areas Promotion of Forest Plantation in Northeastern Region
Public Health	Infectious Disease Prevention and Control Drugs Abuse Prevention Non-toxic Vegetable Production and Dissemination
Agricultural Development	Agricultural Development The New Theory of Agriculture Development Development of Major Exported Agricultural Products
Infrastructure	Construction of Village Roads Project Establishment of Laboratory for R&D and Fire Engineering
Privatization	Government Sector Reform Privatization Program Performance Based Indicators for Public Enterprise
Legal Framework Development	Constructing Laws Reform
IT and Technology Development	IT Development Projects Training on Technology Utilization
Enhancing Competitiveness	Development of SMEs Entrepreneur Competitiveness Development of Skills and Standard of Labour R&D to Improve Product Standard
Job Creation	Job and Income Creation of Rural Migrations Self-employment Program Job Creation for Students Unemployed Insurance Project

Note : Similar answers are grouped together

## **Appendix C**

### **The Prioritization of Technical Assistance Programs and Activities: Response from the Survey**

# The Prioritization of Technical Assistance Programs and Activities

## Questionnaire Responses in the Seminar on September 29, 1998

### ① Complement activities

Order of Program Importance (1 is the most importance)	Sectors/Program	Urgency of Activities	Activities
1 <sup>st</sup> order 42.9% 2 <sup>nd</sup> order 28.6% 3 <sup>rd</sup> order 21.4% 4 <sup>th</sup> order 7.1%	Social sector program and social investment program	Urgent 61.8% Other 38.2%  Urgent 61.8% Other 38.2%	<ul style="list-style-type: none"> <li>• Capability building in project management for executing government agencies (assistance in setting up framework for project implementation and monitoring, provide necessary resources, train officers involving in project implementation of the program.</li> <li>• Capability building in community projects (assistance in identifying, appraising, implementing and monitoring projects depend on their needs).</li> </ul>
1 <sup>st</sup> order 28.6% 2 <sup>nd</sup> order 14.3% 3 <sup>rd</sup> order 7.1% 4 <sup>th</sup> order 14.3% 5 <sup>th</sup> order 7.1% 6 <sup>th</sup> order 7.1% 7 <sup>th</sup> order 14.3% None of the above 7.1%	Government sector reform	Urgent 79.4% Other 20.6%	<ul style="list-style-type: none"> <li>• Assisting government agencies to prepare for the reform and cope with dynamism of technology, economic and social changes. Emphasis should be put on setting up performance-based indicators that can evaluate performance of organization and government officials.</li> </ul>
1 <sup>st</sup> order 7.1% 2 <sup>nd</sup> order 28.6%	Agricultural sector restructuring	Urgent 41.2% Other 58.8%	<ul style="list-style-type: none"> <li>• Setting up research fund and a research council to coordinate research and development programs.</li> </ul>

Order of Program Importance (1 is the most importance)	Sectors/Program	Urgency of Activities	Activities
3 <sup>rd</sup> order 21.4% 4 <sup>th</sup> order 21.4% 5 <sup>th</sup> order 7.1% 6 <sup>th</sup> order 7.1% None of the above 7.1%		Urgent 58.8% Other 41.2%	<ul style="list-style-type: none"> <li>Strengthening role of government financial institutes in providing agriculture credit.</li> </ul>
1 <sup>st</sup> order 7.1% 2 <sup>nd</sup> order 7.1% 3 <sup>rd</sup> order 21.4% 4 <sup>th</sup> order 21.4% 5 <sup>th</sup> order 21.4% 6 <sup>th</sup> order 7.1% 7 <sup>th</sup> order 7.1% None of the above 7.1%	Manufacturing and service sectors restructuring	Urgent 47.1% Other 52.9%  Urgent 47.1% Other 52.9%  Urgent 44.1% Other 55.9%	<ul style="list-style-type: none"> <li>Setting up and building up capability for special research institutes promoting R&amp;D. Assistance may include expert assistance, equipments, studies on other countries' experience to identify critical success factors.</li> <li>Training entrepreneurs and labor especially for SMEs to be able cope with dynamism of economic and social changes. (risk management, labor relation and technology management)</li> <li>Providing information, training, expert assistance for entrepreneurs and government agencies to promote Brand Creation in regional markets.</li> </ul>
1 <sup>st</sup> order 7.1% 2 <sup>nd</sup> order 7.1% 3 <sup>rd</sup> order 14.3% 4 <sup>th</sup> order 21.4% 5 <sup>th</sup> order 28.6% 6 <sup>th</sup> order 7.1% 7 <sup>th</sup> order 7.1%	Macroeconomic management	Urgent 50% Other 50%  Urgent 64.7% Other 35.3%	<ul style="list-style-type: none"> <li>Establishing and strengthening MIS for economic management within agency and coordination among responsible agencies.</li> <li>Strengthening analytical capability of government agencies in economic management; for examples, forecasting, data collection, analytical technique of economic changes and policy impacts.</li> </ul>

Order of Program Importance (1 is the most importance)	Sectors/Program	Urgency of Activities	Activities
None of the above 7.1%			
2 <sup>nd</sup> order 7.1% 3 <sup>rd</sup> order 7.1% 5 <sup>th</sup> order 14.3% 6 <sup>th</sup> order 35.7% 8 <sup>th</sup> order 21.4% None of the above 14.3%	Privatization	Urgent 50% Other 50%	<ul style="list-style-type: none"> <li>Setting up framework and capability building for regulatory bodies to ensure fair market competition and consumer protection.</li> </ul>
1 <sup>st</sup> order 7.1% 3 <sup>rd</sup> order 7.1% 4 <sup>th</sup> order 7.1% 5 <sup>th</sup> order 7.1% 6 <sup>th</sup> order 14.3% 7 <sup>th</sup> order 42.9% 8 <sup>th</sup> order 7.1% None of the above 7.1%	Financial restructuring program	Urgent 50% Other 50%	<ul style="list-style-type: none"> <li>Expert and training assistance in the area of capability building for bank officers and management; the topics may include loan restructuring, loan appraisal, risk management, modern banking practices. (The private sector should be responsible for cost of training programs)</li> </ul>
2 <sup>nd</sup> order 7.1% 6 <sup>th</sup> order 7.1% 7 <sup>th</sup> order 14.3% 8 <sup>th</sup> order 57.1% None of the above 14.3%	Liquidity enhancement	Urgent 38.2% Other 61.8%	<ul style="list-style-type: none"> <li>Monitoring and evaluating this program.</li> </ul>

*②Activities for emerging issues not directly in crisis-solving programs but important for development*

Order of Project Importance (1 is the most importance)	Sectors	Urgent Activities	Activities
1 <sup>st</sup> order 64.3% 2 <sup>nd</sup> order 21.4% 3 <sup>rd</sup> order 7.1% None of the above 7.1%	Human resources development	Urgent 35.3% Other 64.7%  Urgent 41.2% Other 58.8%  Urgent 55.9% Other 44.1%	<ul style="list-style-type: none"> <li>Scholarships for graduate studies.</li> <li>Assistance in capability building for government officials.</li> <li>Improving universities' competent in education and research with the target to be autonomous in 2002 ( training, scholarship, expert, program coordinating)</li> </ul>
1 <sup>st</sup> order 21.4% 2 <sup>nd</sup> order 50% 4 <sup>th</sup> order 14.3% 5 <sup>th</sup> order 7.1% 6 <sup>th</sup> order 7.1%	Labor market and skilled-labor unemployment	Urgent 44.1% Other 55.9%  Urgent 20.6 Other 79.4%  Urgent 32.4% Other 67.6%  Urgent 47.1% Other 52.9%	<ul style="list-style-type: none"> <li>Alleviating problems of urban and skilled-labor unemployment. The areas may include high-level training programs, hiring skilled-labor unemployed for temporary jobs, facilitating those who want to get higher or continuing education.</li> <li>Labor market study to understand how markets adjust to new environment. The study must include informal labor, agricultural labor, as well as manufacturing sectors.</li> <li>Assistance in setting up unemployment insurance scheme.</li> <li>Formulating programs to create self-employed jobs and exporting opportunities for SMEs which cannot produce in large scale but still possible to find appropriate market niche.</li> </ul>
2 <sup>nd</sup> order 7.1% 3 <sup>rd</sup> order 21.4%	Drug abuse prevention (focusing on amphetamine)	Urgent 41.2% Other 58.8%	<ul style="list-style-type: none"> <li>Raising people awareness of the problem.</li> </ul>



Order of Project Importance (1 is the most importance)	Sectors	Urgent Activities	Activities
4 <sup>th</sup> order 14.3% 5 <sup>th</sup> order 28.6% 6 <sup>th</sup> order 7.1% 7 <sup>th</sup> order 14.3% None of the above 7.1%		Urgent 50% Other 50%	<ul style="list-style-type: none"> <li>• In-depth study on effective measures to prevent amphetamine uses.</li> </ul>
1 <sup>st</sup> order 14.3% 2 <sup>nd</sup> order 14.3% 3 <sup>rd</sup> order 28.6% 4 <sup>th</sup> order 14.3% 5 <sup>th</sup> order 7.1% 6 <sup>th</sup> order 14.3% 7 <sup>th</sup> order 7.1%	Good governance	Urgent 47.1% Other 52.9%  Urgent 67.6% Other 32.4%  Urgent 17.6% Other 82.4%  Urgent 47.1% Other 52.9%  Urgent 17.6% Other 82.4%  Urgent 11.8% Other 88.2%	<ul style="list-style-type: none"> <li>• Campaigning for public recognition of the significance of good governance in economic and social development.</li> <li>• Strengthening auditing system both for private and public sectors.</li> <li>• Study other countries experiences on good governance and the way to impose transparency and accountability in the system through international agreements.</li> <li>• Review laws, regulations and business practices in Thailand, and set up mechanisms to reform laws and practices to reach good corporate governance objectives.</li> <li>• Assistance in setting up data base and mechanisms for concerned citizen to have access to information on politicians' conduct and their voting decision, evolution of laws and regulations, and status of proposed laws under consideration by government or juridical agencies.</li> <li>• Study an effective mechanism for government agencies providing information to concerned citizens who entitle to get the access under the</li> </ul>

Order of Project Importance (1 is the most importance)	Sectors	Urgent Activities	Activities
			new constitution, Examples of relevant issues are types of information accessibility, process and method to provide information, cost setting and sharing.
3 <sup>rd</sup> order 14.3% 4 <sup>th</sup> order 35.7% 5 <sup>th</sup> order 14.3% 6 <sup>th</sup> order 28.6% None of the above 7.1%	Environment	Urgent 50% Other 50%  Urgent 38.2% Other 61.8%	<ul style="list-style-type: none"> <li>Assisting in construction, management and financing of provincial and community waste treatments and other facilities for environment protection.</li> <li>Strengthening capacity for project analysis, to take into account of environment impacts.</li> </ul>
2 <sup>nd</sup> order 7.1% 3 <sup>rd</sup> order 14.3% 4 <sup>th</sup> order 21.4% 5 <sup>th</sup> order 28.6% 6 <sup>th</sup> order 14.3% 7 <sup>th</sup> order 7.1% None of the above 7.1%	Government agency development	Urgent 47.1% Other 52.9%  Urgent 41.2% Other 58.8%  Urgent 38.2% Other 61.8%	<ul style="list-style-type: none"> <li>Developing information system.</li> <li>Formulating agency plans for capability building and coping with changes.</li> <li>Improving technological capability( computer system, hardware, software and humanware)</li> </ul>
3 <sup>rd</sup> order 7.1% 5 <sup>th</sup> order 14.3% 6 <sup>th</sup> order 7.1% 7 <sup>th</sup> order 50% 8 <sup>th</sup> order 14.3% None of the above 7.1%	Fiscal management	Urgent 44.1% Other 55.9%  Urgent 2.9% Other 97.1%	<ul style="list-style-type: none"> <li>Develop an appropriate framework for forecasting government revenue and monitoring fiscal cash management.</li> <li>Tax reform(broader tax bases, decentralization, tax refund, tariff structure).</li> </ul>

Order of Project Importance (1 is the most importance)	Sectors	Urgent Activities	Activities
		Urgent 5.9% Other 94.1%	<ul style="list-style-type: none"> <li>Building up capacity of local government through administrative and financial training.</li> </ul>
3 <sup>rd</sup> order 7.1% 7 <sup>th</sup> order 7.1% 8 <sup>th</sup> order 7.1% None of the above 71.4%	Infrastructure development for stimulating domestic demand	Urgent 14.7% Other 85.3%	<ul style="list-style-type: none"> <li>Financial, expert and equipment assistance to develop infrastructure needed.</li> </ul>

## **Appendix D**

# **Government Agencies' Projects for Solving the Crisis: the Propose to Prosperity Decentralization Policy Committee for Fiscal Year 2000**

# Government Agencies' Projects for Solving the Crisis: the Propose to Prosperity Decentralization Policy Committee for Fiscal Year 2000

Responsible Agencies	Projects
Ministry of Agriculture and Cooperatives	19
Ministry of Education	5
Ministry of Interior	16
Ministry of Public Health	10
Ministry of Industry	6
Ministry of Commerce	6
Ministry of Labour and Social Welfare	9
Ministry of Defense	9
Sports Authority of Thailand	1
Office of the Attorney-General	2
Total	80

Source : Rural Development Co-ordination Division, Office of the National Economic and Social Development Board, 1998.

## Projects under the PDPC by responsible agencies

### Infrastructure Development

- |   |                                      |
|---|--------------------------------------|
| 1. Labor-based Construction Cum Rural   | Public Works Department              |
| 2. Rural Waterworks Development Project   | Public Works Department              |
| 3. Family Development Project   | The Community Development Department |
| 4. Rural Economic Development Project   | The Community Development Department |
| 5. Community Development in Target Areas  | The Community Development Department |
| 6. Development for Water Sources Utilizing Promotion Project                    | The Community Development Department |
| 7. Strengthening Tambon (County) Council and Tambon Administration Organization | Department of Local Administration   |
| 8. Development of Provincial Administration Organization                        | Department of Local Administration   |
| 9. Land Title Deeds Issuance  | Department of Lands                  |
| 10. Land Management for helping farmers   | Department of Lands                  |
| 11. Governmental Land Regulatory  | Department of Lands                  |
| 12. Water Resource in Field Project   | Land Development Department          |
| 13. Small Scale Irrigation Project  | The Royal Irrigation Department      |
| 14. Infrastructure Development Project  | Agricultural Land Reform Office      |
| 15. Drinking Water Provision  | Supreme Command Headquarters         |

16. Rural Way Construction
17. SCH Development Work

Supreme Command Headquarters  
Supreme Command Headquarters

### Economic Development

1. The Promotion of Rice Production
2. The Promotion of Crop Production
3. Field Management Promotion
4. Agricultural Production and Restructuring Project
5. Agricultural Training Project
6. Tambon Agricultural Product Central Market
7. Agricultural Cooperatives
8. Buffalo and Cow Production Promotion
9. Pig and Poultry Production Promotion
10. Village Fisheries Project
11. Forest Protection Project
12. Sericultural Production Promotion
13. Horticultural Production Promotion
14. Highland Agriculture Development Project
15. Provincial Commerce
16. Agricultural Product Price Stabilization
17. Measurement Control
18. Trade Information and Data
19. Export Promotion and Development
20. Insurance Project
21. Rural Waterworks System Expansion Project
22. Household Industrial and Thai Handicraft Developing Promotion
23. Household Industrial Training
24. Industrial Village Project Phase II
25. Rural Industrial Promotion Project
26. Rural Industrial Development Project

Department of Agriculture Extension  
Department of Agriculture Extension  
Department of Agriculture Extension  
Department of Agriculture Extension  
  
Department of Agriculture Extension  
The Cooperative Promotion Department  
  
The Cooperative Promotion Department  
Department of Livestock Development  
Department of Livestock Development  
Department of Fisheries  
Royal Forest Department  
Department of Agriculture Extension  
Department of Agriculture Extension  
Department of Public Welfare  
  
Office of the Permanent Secretary for Commerce  
Department of Internal Trade  
Department of Commercial Registration  
Department of Business Economics  
Department of Export Promotion  
Department of Insurance  
Department of Mineral Resources  
  
Department of Industrial Promotion  
  
Department of Industrial Promotion  
Department of Industrial Promotion  
Department of Industrial Promotion  
Office of the Permanent Secretary for Industry

### Social Development

1. Tambon Public Health Service
2. Clean Water Development
3. Food Sanitation
4. Mother and Child Health Promotion
5. Youth Health Promotion
6. Environment Sanitation
7. Basic Public Health System and Structure Development
8. Technology System Development and Research in Health Behavior

Office of the Permanent Secretary for Public Health  
Department of Health  
Department of Health  
Department of Health  
Department of Health  
Department of Health  
Office of the Permanent Secretary for Public Health  
Office of the Permanent Secretary for Public Health

9. Administration of Herbal and Other Medicines	Department of Medical Services
10. Community Against Habit-forming Drugs	Department of Medical Services
11. Child Development	The Community Development Department
12. Women Occupation Promoting Development	The Community Development Department
13. Youth Development	The Community Development Department
14. Rural Developing Volunteer Project	The Community Development Department
15. Habit-forming Drugs Addiction Prevention	The Community Development Department
16. Sports Promotion	Department of Physical Education
17. Non-formal Education	Department of Non-formal Education
18. Agricultural Service	Department of Vocational Education
19. Agricultural Education	Rajamangala Institute of Technology
20. Industrial Worker Education	Rajamangala Institute of Technology
21. Social Work for Family and Community Welfare	Department of Public Welfare
22. Community Development in Self-made Communities	Department of Public Welfare
23. Skill Development	Department of Skill Development
24. Labor Standard	Department of Skill Development
25. Establishment of Skill Development Center Project	Department of Skill Development
26. Administration of Local Employment Service	Department of Employment
27. Social Work for Women	Department of Public Welfare
28. Hill Tribe Development	Department of Public Welfare
29. Sport Development	Sports Authority of Thailand

#### Development of Community Organization

1. Borderland Self Protected Villages Project	Office Of Internal Security
2. Self-Sufficient Development and Self Protection	Office Of Internal Security
3. Reserves for National Security Project	Office Of Internal Security
4. Legal Information Assistance for Rural Habitants	Office of the Attorney-General
5. Villages Dispute Settlement Project	Office of the Attorney-General
6. Agricultural Occupation Group	Department of Agriculture Extension
7. Enhancing Productivity and Quality of Agricultural Production of Agricultural Institute	The Cooperative Promotion Department
8. Land-settlement Cooperatives	The Cooperative Promotion Department

Source : Rural Development Co-ordination Division, Office of the National Economic and Social Development Board, 1998.




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