

**Lessons from the World Bank's Experience of Structural
Adjustment Loans (SALs): A Case Study of Thailand**

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LESSONS FROM THE WORLD BANK'S EXPERIENCE
OF STRUCTURAL ADJUSTMENT LOANS (SALs):
A CASE STUDY OF THAILAND



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PREFACE

Professor Paul Mosley of University of Manchester and Professor John Tove of Sussex University have been awarded a grant by the UK Overseas Development Administration for research into World Bank policy-based lending with particular reference to Structural Adjustment Lending. The research involves case study work in nine countries of which Thailand is one.

Professor Paul Mosley, on the recommendation of Mr. Nibhat Bhukkanasut of the Fiscal Policy Office in the Ministry of Finance, has sub-contracted the Macroeconomic Policy Program, Thailand Development Research Institute (TDRI), to undertake a case study of Thailand. The research team comprises Dr. Chaipat Sahasakul as the project leader, Dr. Nattapong Thongpakde as a researcher of the modelling approach and Keokam Kraisoraphong as a research assistant to Dr. Chaipat.

Virabongsa Ramangkura
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ABSTRACT

This paper reviews the chronology of the structural adjustments in Thailand in the early 1980s with the focus on the World Bank's first and second structural adjustment loans (SAL I and SAL II). It also presents the findings from (1) interviewing key government officials and businessmen to see what factors affected the degree of success or failure of implementing SAL measures and (2) regression analysis to measure the impact on the Thai economy of the SAL measures that were implemented. Our main finding is that the success of the implementation of SAL measures depends on the strong commitment of the Thai government to restructure the economy when facing the downturn of the world economy. However, an evaluation of the impacts of the SAL measures, that were implemented, on the economy were difficult to quantify. The regression and simulation results indicate that (1) the measures of import and export tariff reductions increase both exports and imports of goods and services but their net impact is a reduction in the current account deficit and (2) the measure of raising the overall average tax rate has a trivial impact on real gross domestic products.

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CHAPTER I
INTRODUCTION

1.1 Objective of the Project

The main objective of this project is to evaluate the World Bank's first and second structural adjustment loans (SALs) made to Thailand in 1982 and 1983 respectively. To meet this objective, at least two key questions have to be answered. First, why were some measures attached to SALs to Thailand implemented? Why were some not? Second, what were the impact on the Thai economy of those measures that were implemented?

To answer the first question, we hypothesize that the likelihood of implementing the measures depends on (1) whether the measures or their elements were new or had been tried in previous years, (2) whether those measures would have been implemented with or without SALs, (3) what contribution the World Bank made to the structural adjustment in Thailand, and (4) other political and economic factors.

The second question focuses on the impact of broadly defined SALs measures on the Thailand's aggregate economic variables such as real gross domestic products, export and import values, current account deficits, and government deficits.

A previous study, International Bank for Reconstruction and Development (1986), has a similar objective. Although it has been used internally at the World Bank, its findings are cited in this paper when appropriate as the permission to do so has been obtained by our sponsor. This permission also applies to other studies published by the International Bank for Reconstruction and Development (the World Bank).

1.2 Organization of the Paper

This paper is divided into five chapters. This chapter or Chapter I gives an introduction and an overview of macroeconomic performance (see Section 1.3 below). Chapter II presents a historical summary of structural adjustment loans in Thailand starting from policy recommendations made by the World Bank in 1980 to selected SAL issues. Chapter III is devoted to presenting details of findings from the interview method. Chapter IV details the modelling method and its empirical results with some simulations. Actually, Chapters III and IV are loosely dependent and, therefore, they can be read in any order without loss of continuity. The paper ends with a summary and gives lessons from the SAL experience in Chapter V. Appendix A supplements Chapter II by giving a summary review of recommendations, measures and implementation related to structural adjustment loans. Appendices B, C and D supplement Chapter III by describing in detail the interview methodology, summarizing interviews' responses, and presenting data on petroleum product prices and utility charges respectively. Appendix E supplements Chapter IV by presenting data used in the regression analysis. Appendix F provides some background and functions of the National Economic and Social Development Board (NESDB) and the Board of Investment (BOI) and, finally, Appendix G documents selected conditions in the structural adjustment loan agreements. We report Appendices F and G here for the reader who is not familiar with both government organizations and conditions in SALs.

1.3 An Overview of Macroeconomic Performance

This section describes the Thai macroeconomic environment before, during and after the implementation of SALs measures so that the reader can understand needs for structural adjustments and their aftermath. Table 1.1 reports selected macroeconomic variables for 1970 to 1987. Table 1.2 presents growth rates and shares of exports classified by selected sector for 1979 to 1987 and Table 1.3

gives growth rates of selected items of principal exports for 1970 to 1987.

1970-1978: A Period of Strong Economy

The Thai economy was relatively strong for 1970-1978 despite experiencing adverse effects resulting from the first oil shock in 1973 and 1974. Its current account deficit, international reserves, external debt and central government budget deficit were in the manageable and acceptable range.

The growth rate of real gross national products (GNP) for 1970-1978 averaged 7.1% per year, well above the annual average of 6.2% for 1970-1987. The first oil shock in 1973-1974 had some adverse effects on the economy as it directly raised energy costs of industrial sector and import bills of the nation. The inflation rate measured by GNP deflator rose from an average of 2.9% per year for 1970-1972 to an average of 14.3% for 1973-1975 and, consequently, the inter-bank lending rate, a measure of the short-term interest rate, also rose from an average of 8.8% per year for 1970-1972 to an average of 10.4% for 1973-1975. The growth rate of imports of goods and services for 1973-1975 averaged 30.3% per year, a substantial jump from an average of 7.0% per year for 1970-1972. See Table 1.1.

Fortunately, prices of farm products, major Thai exports, in the world market also rose sharply in 1973 and 1974. As shown in Table 1.3, an average growth rate of principal exports of farm products -- rice, rubber, maize, tapioca products, and sugar -- ranged from 38% to 89% per year. This results in (1) a relatively high growth rate of 23.9% per year of exports of goods and services for 1973-1975, (2) a low 1.7% of current account deficit to GNP ratio, and (3) comfortable international reserves covering more than six times of an average monthly import bill for 1973-1975. Consequently, an average ratio to GNP of

outstanding public external debt, that includes government obligations of guaranteeing state enterprises' loans, was trivially 3.9% per year with a low debt service ratio, a ratio of principal repayment plus interest payments to export earnings, of 11.2% for 1973-1975.

With respect to the fiscal conditions, a ratio of central government budget deficits to GNP averaged 3.9% per year for 1970-1978, a relatively high ratio when compared to an average of 3.5% per year for 1970-1987. However, the central government outstanding debt to GNP ratio was relatively low at 19.3% for the same period.

1979-1981: A Period of Weak Economy

Unlike the first oil shock, the world farm prices during the second oil shock in 1979-1980 were unfavorable, which results in an average growth rate for 1979-1981 of real GNP of 5.3% per year. This growth rate is relatively low when comparing to the average of 6.2% per year for 1970-1987. See Table 1.1. The major adverse effect of the second oil shock is a high current account deficit and low international reserves. The ratio of current account deficit to GNP rose from an average of 4.2% for 1976-1978 to an average of 7.1% for 1979-1981 when the growth rate of imports was higher than that of exports. As the current account deficit rose, international reserves dropped from the coverage of an average of 5.3 months of imports for 1976-1978 to 3.8 months for 1979-1981.

The second oil shock also raised the inflation rate from an average of 6.7% per year for 1976-1978 to an average of 9.7% per year for 1979-1981 and raised the inter-bank lending rate from an average of 9.7% per year to 15.2% per year for the same period.

With a slower than average growth rate of real GNP and a rise in international interest rates, public external debt

and government debt deteriorated. The public external debt to GNP ratio more than doubled from an average of 6.0% for 1976-1978 to an average of 12.5% for 1979-1981 with a higher debt service ratio rising from 12.7% to 14.7% for the same period. The central government debt to GNP ratio rose from an average of 18.2% for 1976-1978 to an average of 21.5% for 1979-1981. This rising government debt to GNP ratio is the result of government expenditures, on average, growing faster than government revenue since 1975.

Given the above adverse effects especially those of rising current account deficits, falling international reserves, and increasing government debt, there was an increasing pressure on the Thai government to restructure the economy. Consequently, the government formulated a structural adjustment program and contacted the World Bank for the structural adjustment loans.

1982-1984: A Period of Worldwide Recessions and Structural Adjustment

Worldwide recessions and high interest rates since 1981 caused by the second oil shock substantially slowed down the growth rate of Thailand's exports and imports but raised the real interest rate. The structural adjustment program, supplemented by the World Bank's structural adjustment loans, hardly had a significant effect on the economy in the short run since it aimed at medium and long-term adjustments. In fact, many of programs such as tax deductions could further deteriorate the budget deficit situation in the short run.

Since the world economy was relatively weak, the average growth rate of exports was substantially low at 6.4% per year for 1982-1984; its comparable growth rate was 18.4% per year for 1970-1987. Similarly, the growth rate of imports averaged 4.9% per year for 1982-1984, compared with the average growth rate of 17.0% per year for 1970-1987.

The factor that complicated a low growth rate of export earnings comes from the fact that the Bank of Thailand practically fixed the baht against the US dollar. As the US dollar appreciated, when evaluated against other major currencies, in 1983, so did the baht. Consequently, Thailand's competitiveness in the world market deteriorated and this also contributed to a low growth rate of export earnings. The Bank of Thailand, instead of devaluing the baht against the US dollar, chose to limit the domestic credit at 18% per year in order to slow down imports whilst the baht devaluation was speculated. The credit limit measure had a widely adverse effect on the whole economy beyond the import sector as many businesses went bankrupt. In November, 1984, the Bank of Thailand eventually devalued the baht by 14.8% against the US dollar and then pegged it to a basket of major trading partners' currencies instead of the US dollar. The devaluation has consequently restored the Thailand's competitiveness in the world market. It should be noted that the baht devaluation measure was not part of the conditions in the structural adjustment loans although the International Monetary Fund (IMF) played an important role on encouraging the Bank of Thailand to devalue its currency against the US dollar. See related discussion in Sections 2.2 and 2.7 of Chapter II below.

The 1982-1984 period was also the period of high real interest rates as the average inflation rate was kept as low as 2.4% per year but the average nominal interest rate, influenced by high interest rates in the world market, was at 12.6% per year. This resulted in the real interest rate averaging 10.2% per year, compared to an average of 4.4% per year for 1970-1987. The high real interest rate obviously deterred private investment and raised interest costs for the government financing through debt issuing.

Given the low growth rate of exports and imports, the average ratio of current account deficit to GNP was still

high at 5.0% for 1982-1984 with an alarming deduction in international reserves which could approximately cover only three times of monthly imports of goods and services. The structural adjustment loans I and II totalling US\$325.5 million (US\$150 million for SAL I and US\$175.5 million for SAL II) were also used to raise international reserves. The SALs amount was approximately 12.4% of the average annual international reserves for 1982-1984.

Similarly, the central government's budget deficit worsened as its ratio to GNP widened to an average of 3.7% per year for 1982-1984 from an average of 3.1% per year for 1979-1981. A worldwide recession in 1982-1984, which slowed down Thai exports and, consequently, imports, also slowed down the government revenue. Couple SAL measures were designed to cope with this budget deficit. For example, a ceiling of annual public borrowing was imposed. However, other SAL measures such as a tax-rate cut or tax structure improvement might further reduce government revenue in the short-run and, therefore, complicated the budget deficit problem. To this end, the world Bank's structural adjustment loans helped to relieve the short-term budget tension as they provided short-term liquidity for structural adjustments. See Chapter II for more details on SAL measures.

1985-1987: A Period of Slow Recovery

A recovery of the world economy for 1985-1987 coupled with a baht devaluation against US dollar in late 1984 helped boost the Thai exports to an average growth rate of 18.0% per year. However, the growth rate of its imports kept low at an average of 12.0% per year. These growth rates substantially improved the current account situation as its deficit ratio to GNP dropped to 1.6% per year for 1985-1987. Consequently, international reserves, measured in terms of number of months they covered imports, rose to 4.2 months.

A recovery of the world economy was followed by a decline in real prices of crude oil in the world market and nominal interest rates. These declines reduced energy costs and interest costs of financing government debt. In addition, the central government also imposed a cap on the growth rate of the number of its personnel, which substantially lowered the growth rate of its expenditure to an average of 5.3% per year for 1985-1987 and resulted in an average of 2.6% ratio of budget deficit to GNP.

One of the World Bank's major concerns with respect to SAL measures was to boost exports. Various instruments such as step-by-step reductions in export duties for rice and rubber, major Thai exports, were part of SAL measures. Unfortunately, the world market for agricultural products for the period of SAL launch of 1982-1984 and its aftermath of 1985-1987 was unfavorable, therefore, the average growth rate of agricultural exports was only 3.0% per year for 1982-1984 and 2.3% per year for 1985-1987 (see Table 1.2). The average growth rate of rice export was even worse as it grew at an average rate of 1.2% per year for 1982-1984 but shrank with an average negative growth rate of 3.7% per year for 1985-1987 (see Table 1.3). Unlike the agricultural exports, the manufacturing exports were exceptional as they grew at an average rate of 35.5% per year for 1985-1987, compared to an average rate of 12.2% per year for the SAL period of 1982-1984 (see Table 1.2). However, this outstanding growth rate of manufacturing exports was probably the outcome of worldwide economic recovery, the baht devaluation in late 1984, and the SAL measures. The leading export items of manufacturing products were textile, integrated circuits and precious stones with their corresponding growth rates of 37.0%, 28.7% and 24.6% per year for 1985-1987 (see Table 1.3).

Finally, tourism has become the leading foreign

exchange earner for Thailand since 1982 (see Table 1.2). In fact, the worldwide recovery and the baht devaluation helped raise the growth rate of tourism export from an average of 8.4% per year for 1982-1984 to an average of 22.6% per year for 1985-1987 with an exceptional year in 1987 (a high growth rate of 34%) when 1987 was designated as the Visit Thailand Year.

The turnaround of the external balance and government budget situation for 1985-1987 was the results of worldwide recovery, the SAL measures (see Chapter II for details) and other government policies (such as the baht devaluation and IMF standby agreement). Therefore, it is relatively difficult to evaluate the success or failure of the SAL measures. In any case, attempts have been made in this study using the interview and econometric approaches whose findings are presented respectively in Chapters III and IV.

Table 1.1
Selected Macroeconomic Variables
1970-1987

Date	1970-87 Average	1970-1972 Average	1973-1975 Average	1976-1978 Average	1979-1981 Average	1982-1984 Average	1985-1987 Average	1987
Important Events			1st oil shock		2nd oil shock	SAL I SAL II		
Gross National Products (GNP)								
1. Growth Rate of Real GNP (in %)	6.2	4.2	6.5	9.6	5.3	6.3	4.8	7.0
GDP Share at current Factor								
Cost (in %)								
2. Agriculture	25.4	27.9	30.4	28.2	25.7	21.5	18.6	18.1
3. Manufacturing	18.2	14.9	16.8	17.8	19.3	19.6	20.8	21.3
4. Services	13.2	12.6	11.6	11.9	13.1	14.4	15.3	15.3
Inflation and Interest Rate (%)								
5. Inflation Rate (GNP Deflator)	6.6	2.9	14.3	6.7	9.7	2.4	3.5	6.5
6. Inter-Bank Lending Rate	11.0	8.8	10.4	9.7	15.2	12.6	9.3	6.5
7. Real Interest Rate (=line 6-line 5)	4.4	5.9	-3.9	3.0	5.5	10.2	5.8	0.0
International Transactions								
8. Current Account/GNP (in %)	-3.6	-2.1	-1.7	-4.2	-7.1	-5.0	-1.6	-1.4
9. Growth Rate of Exports of Goods and Services (in %)	18.4	18.5	23.9	20.4	23.4	6.4	18.0	22.4
10. Growth Rate Imports of Goods and Service (in %)	17.0	7.0	30.3	19.3	25.3	4.9	12.0	32.5
11. Ratio of International Reserves to Imports of Goods and Services (in number of months)	5.2	7.9	6.7	5.3	3.8	3.1	4.2	4.6
Exchange Rates								
12. Baht/US\$	22.02	20.91	20.45	20.38	20.86	23.14	26.36	25.74
13. Baht/100 Yens	9.22	6.24	7.20	8.00	9.32	9.69	14.88	17.71

Table 1.1 (continued)
Selected Macroeconomic Variables
1970-1987

Date	1970-87 Average	1970-1972 Average	1973-1975 Average	1976-1978 Average	1979-1981 Average	1982-1984 Average	1985-1987 Average	1987
Important Events			1st oil shock		2nd oil shock	SAL I SAL II		
External Debt								
14. Public External Debt/GNP (in %)	12.0	4.5	3.9	6.0	12.5	18.6	26.6	27.7
15. Debt Service Ratio (in %)	15.2	14.4	11.2	12.7	14.7	18.6	19.7	16.9
Central Government (in %)								
16. Budget Deficits (-)/GNP	-3.5	-4.3	-3.8	-3.5	-3.1	-3.7	-2.6	-0.7
17. Debt/GNP	24.0	21.7	17.9	18.2	21.5	27.8	37.1	37.6
18. Growth Rate of Revenue	15.5	7.0	23.1	18.7	19.8	10.2	11.1	19.2
19. Growth Rate of Expenditures	13.9	9.0	16.9	19.6	20.0	10.9	5.3	3.6

Notes: Data on inter-bank lending rate (line 6), international reserves (line 11), exchange rates (lines 12 and 13), public external debt that includes government obligations (line 14), and central government variables (lines 16-19) are from Bank of Thailand, Monthly Bulletin, various issues. Data on debt service ratio were directly obtained from Bank of Thailand. Data on (ex-post) real interest rate are from inter-bank lending rate (line 6) minus inflation rate (line 5). The rest of the data were constructed from data in National Economic and Social Development Board, National Income of Thailand, New Series 1970-1987.

Table 1.2
Exports Classified by Selected Sector
1979-1987

(in percent)

Date	1979-1987 Average	1979-1981 Average	1982-1984 Average	1985-1987 Average	1987
Important Events		2nd oil shock	SAL I SAL II		
Growth Rate					
All Exports of Goods and Services	15.9	23.4	6.4	18.0	22.4
Agriculture	8.9	21.4	3.0	2.3	4.9
Manufacturing	26.0	30.4	12.2	35.5	48.0
Tourism	22.0	35.1	8.4	22.6	34.0
Share					
Agriculture	34.6	40.2	36.7	26.9	23.5
Manufacturing	35.6	28.0	33.7	45.2	53.0
Tourism	12.2	10.6	12.8	13.3	14.1

Notes: Data on all exports of goods and services are from Table 1.1.
Data on other variables were calculated from data in Bank of Thailand,
Monthly Bulletin, various issues.

Table 1.3
Growth Rates of Selected Items of Principal Exports
1970-1987

(in percent)

Date	1970-87 Average	1970-1972 Average	1973-1975 Average	1976-1978 Average	1979-1981 Average	1982-1984 Average	1985-1987 Average	1987
Important Events			1st oil shock		2nd oil shock	SAL I SAL II		
Rice	21.4	34.1	37.6	26.8	36.6	1.2	-3.7	11.8
Rubber	19	-8.5	41.6	33.0	13.9	7.4	17.2	35.9
Maize	10	3.7	47.0	-4.6	25.2	7.1	-20.5	-57.6
Tapioca Products	20.7	13.1	45.0	35.8	17.3	2.0	8.6	8.3
Prawns	25.7	24	53.1	22.1	16.6	10.9	27.2	30.9
Tin	9.5	1.5	15.7	48.1	10.2	-15.5	-5.9	-24.3
Sugar	59.5	268.6	89.0	-5.9	68.2	-11.2	18.0	17.9
Precious Stones	32.3	70.8	30.1	31.3	38.1	11.9	24.6	41.7
*Integrated circuits	**28.2				49.1	6.7	28.7	18.4
*Textile Products	**25.2				22.7	15.8	37.0	55.3

Notes: * Not classified by Bank of Thailand as one of principal exports until 1977.

** Average of 1979-1987.

Data were computed from data in Bank of Thailand, Monthly Bulletin, various issues. Items that were classified by Bank of Thailand as principal exports before 1977 but excluded afterwards are jute&kenaf, tobacco leaves, mung beans, fluorite, sorghum, cement and teak.

CHAPTER II
BACKGROUND OF STRUCTURAL ADJUSTMENT LOANS
IN THAILAND

2.1 Objective and Organization of the Chapter

This chapter was written for the reader who is not familiar with the historical aspects and details of structural adjustments in Thailand. The players in structural adjustment besides the Thai government were the International Monetary Fund (IMF) and the World Bank. Let us begin with a discussion on roles of IMF in Thailand in the early 1980s in Section 2.2.

Section 2.3 of this chapter provides some background of the World Bank mission in Thailand in 1980, which resulted in a study recommending various policies for structural adjustments. Based on these recommendations and the Fifth National Economic and Social Development Plan, the Thai government took various measures towards the structural adjustments. These measures discussed in Section 2.4 were considered by the World Bank as the down payment for applying for the loans. The proposed measures in SAL I and SAL II are discussed in Sections 2.5 and 2.6 respectively.

When one discusses about structural adjustments in Thailand in the early 1980s, he/she cannot leave out the discussion on a cooperation of the World Bank and IMF in SALs, which is contained in Section 2.7. The chapter continues with the World Bank's assessment and an investigation of the current status of the implementation of SAL measures in Section 2.8. The chapter finally ends with selected SAL issues. Information in Appendix A supplement arguments in this chapter.

2.2 Roles of International Monetary Fund in Thailand in the Early 1980s

After being affected by adverse external shocks in

1979-1980, Thailand experienced rapidly increasing current account deficits as discussed in Section 1.3 of Chapter I. Besides the structural adjustment loans from the World Bank, Thailand also initiated discussions with IMF on an appropriate policy response.

The IMF's involvement during 1981-1983 included (1) purchases under the Compensatory Financing Facility of SDR 186 million, (2) the buffer stock financing facility of SDR 58 million and, most importantly, (3) a two-year standby arrangement of SDR 814.5 million. See International Bank for Reconstruction and Development (1986, p. 90).

The two-year standby arrangement was approved in June 1981 with the general objectives of restructuring demand, reducing the public savings-investment gap, and limiting the growth of foreign indebtedness. The arrangement included undertakings on monetary and credit policy, fiscal policy, and external debt. However, as discussed in the International Bank for Reconstruction and Development (1983, p. 31), the central government revenue shortfall in FY82 led to an increase in the budgetary deficit, which, in turn, caused a nonobservance of the subceiling on net credit to the government of Thailand. In the circumstances, the initial two-year standby arrangement was replaced in November 1982 by a new 14-month standby in an amount of SDR 272 million (at that point 100% of quota) which subsequently increased to SDR 386.6 million under the 1983 general review.

The programs of the two-year standby arrangement included performance criteria relating to credit expansion (including credit to the government), external borrowing, and customary practices in the exchange and payments system. Particular attention was paid to interest and exchange rate policies. Other technical assistances were in the Revenue, Customs and Excise departments of the Ministry of Finance

and an assistance to the Bank of Thailand was in improving financial statistics and computer services.

2.3 The World Bank's Policy Recommendations in 1980

A mission from the World Bank visited Thailand in February/March 1980. The mission's objectives were to review the economic situation in Thailand with government agencies and to discuss the policies and programs that would be necessary to alleviate emerging economic problems and to improve Thailand's longer term prospects for sustaining high rates of growth and reducing poverty. The mission was greatly assisted in their analysis and data gathering by the staffs of the Bank of Thailand, Ministry of Finance, and National Economic and Social Development Board (NESDB) and by many other officials of the Thai Government. Meanwhile, the Thai government was reviewing Thailand's emerging economic problems in detail as part of the process of preparing the Fifth National Economic and Social Development Plan.

The mission resulted in a report, International Bank for Reconstruction and Development (1980A). This report's analysis of the emerging economic imbalances in Thailand also incorporated results of International Bank for Reconstruction and Development (1980B, 1980C, 1980D, 1978).

A review of economic situation in the 1960s and 1970s and policy recommendations made by the World Bank presented below in this section are from International Bank for Reconstruction and Development (1980A). However, this does not mean that the review and policy recommendations were entirely those of the World Bank since, as discussed above, the mission preparing this report had exchanged data, information and ideas with the Thai counterpart.

High aggregate growth rates, price stability and major strides in reducing the incidence of poverty in the 1960s

and early 1970s in Thailand were accomplished by expanding land under cultivation, by providing economic infrastructure, by encouraging the private sector to expand production without introducing severe price distortions and controls, and by opening the economy to external trade without heavy dependence on foreign capital. In the latter half of the 1970s dominated by declining land availability and adverse external factors such as the second oil shock and declining terms of trade, Thailand still maintained high growth rates; however, growth was accompanied by accelerating inflation, growing dependence on foreign borrowing, large budgetary deficits, and probably less success in furthering poverty alleviation.

Besides the adverse external factors, the high deficits in the current account and government budget were also the result of internal problems within the economy, including failure to fully adjust energy prices, price distortions, and excessive liquidity creation. The Thai government initiated some corrective measures but the deficits seemed continue growing into the 1980s since the outlook for the world economy, based on the World Bank's analysis, did not offer prospects for sustained improvement in the 1980s and the initiated measures were not significant enough to reduce deficits. Therefore, the Thai economy had to make fundamental adjustments to accommodate itself to this changed environment, to rectify the domestic imbalances that had developed over 1976-1980, and to restore the balanced growth pattern that had led to the impressive rate of poverty alleviation of the 1960s and 1970s.

The report continues on page v to say that "if the (Thai) Government were to commit itself to a comprehensive adjustment program to be implemented over a period of, say, five years and if this program were perceived to be sufficient to effect the adjustment, then it should be possible to mobilize the necessary foreign resources to

finance the deficits that would occur during the adjustment period. The (World) Bank would certainly be able to support Thailand in seeking that additional financing (i.e. structural adjustment loans). In these circumstances, a reasonable rate of growth could be maintained and the deficit reduced gradually for the rest of the decade." Words in the brackets were added by the authors.

The report, then, discusses five areas of crucial importance where policy measures should be implemented as part of a comprehensive program to minimize the risk that the growth process would be seriously disrupted. These five areas are:

(1) Resource mobilization, particularly in the public sectors,

(2) Monetary policy, including measures to maintain high rates of private saving and to manage external debt and the capital account,

(3) Energy policy and conservation, with particular attention to pricing,

(4) Industrial policy and measures to promote industrial exports, and

(5) Agricultural policy and measures to maintain high rates of growth of agricultural production and exports.

Specific policy recommendations in each area are presented in Table A.1 of Appendix A. It will be seen in the next two sections that these policy recommendations except those on monetary policy were partly used as a basis to form specific measures of the first and second structural adjustment loans.

2.4 The Down Payment or Actions Taken

As discussed in Section 1.3 of Chapter I, the Thai economy for 1979-1981 was severely affected by the second oil shock, which resulted in the average ratio of current

account deficit to GNP jumping from 1.7% during the first oil shock in 1973-1975 to 7.1% during the second oil shock in 1979-1981 (see Table 1.1). This high ratio of current account deficit, based on the Thai government's calculations as well as those of the World Bank, could not be sustained in the long run and, without specific actions to cope with it, the Thai economy could have ended up with being one of the highest ratio of external debt to GNP and, then, suffered its consequences.

In order to avoid the scenario as mentioned above, the Thai government decided in the Fall of 1980 to opt for a course of action which sought to improve Thailand's external balance largely through medium-term structural adjustments to the economy (see Letter of Development Policy, dated February 4, 1982^{1/} and Wibulswasdi (1987)). Some actions had already taken place in that direction (see below). Others was taken, based on a policy framework outlined in the Thailand's Fifth National Economic and Social Development Plan for fiscal years (FY) 1982-1986^{2/} and the World Bank's policy recommendations as summarized in the previous section. As discussed in the first LDP, many measures, proposed by the Thai government for the first structural adjustment loan, cited the Fifth Plan and the World Bank's Policy recommendations as their guidelines.

It should be clear that the Thai government in 1980 had a strong intention to restructure its economy even before submitting its first LDP for the first structural adjustment loan. Two obvious evidences are (1) the policy framework of structural adjustments outlined in the Fifth Plan and (2) actions taken in the direction of structural adjustments

^{1/} The first LDP, henceforth.

^{2/} The fiscal year for Thailand starts in October and ends in September of the following calendar year. For example FY 1982 covers October 1981 - September 1982.

even before submitting the first LDP. Firstly, the Fifth Plan drafted before 1982 had its primary objective of poverty alleviation but also gave substantial attention to the reduction in existing fiscal and financial imbalances and to improvements in the operation of the economy through (1) increased efficiency in the allocation and use of resources and (2) rationalization of the incentive structure. It is extremely crucial for the working of the Thai government that any policy, that involves cooperations among various government agencies or departments like structural adjustment policies, will have a better chance of being implemented if it is written as part of the National Economic and Social Development Plan.

Secondly, many actions had been taken towards structural adjustments before the Thai government submitted its first LDP of February 4, 1982. Those actions were cited in the first LDP and also tabulated in Table A.2 of Appendix A of this paper. The actions ranged from those in specific sectors of agriculture, industry, and energy to those in the fiscal policy and institutional development areas. Several actions involved study preparations or initiations; such as the land use study, public seminars on industrial development, industrial subsector study on the electrical goods, and a study on the Board of Investment's system of investment incentives and its functions. Many actions involved committee establishment and legislation; such as a permanent high-level interdepartmental committee on industrial development, a new export tax drawback act, an establishment of the Export Development Fund, and a permanent high-level National Economic Policy Steering Committee. The other actions involved tax changes and baht devaluation. Selected details are discussed below.

Substantial progress had been made in the agricultural sector as the government lowered or eliminated export taxes or restrictions on Thailand's major agricultural exports

(rice, rubber, maize, cassava and sugar) and started the land certification and reclassification programs. In industrial sector, most of the actions were committee establishment and study initiation. However, an important measure to promote the Thai export was a devaluation of the baht by approximately 10% against the US dollar in 1981, given the large appreciation of the US dollar against other major currencies.

Substantial progress had also been made in the energy sector when the government substantially raised power tariffs and petroleum prices by April 1981 to remove all subsidies. Also see Appendix D. In addition, natural gas in the Gulf of Thailand available since September 1981 helped reduce the dependence on imported oil.

Finally, most actions taken in the areas of fiscal policy and institutional development were committee establishment, study initiation, and general descriptions of the plan with no specific measures. Two exceptions were that (1) the Thai government had the Standby Agreement with IMF for the short-term fiscal stabilization measures over a two-year period starting in May 1981 (see details in Section 2.2 above) and (2) the Revenue Department had set up five Area Tax Offices in Bangkok to improve the tax administration.

The above actions taken before the Thai government's submission of its first LDP were considered by the World Bank as a down payment for applying for the first structural adjustment loan and, as discussed in the International Bank for Reconstruction and Development (1986), one of the key factors making Thailand one of the success story in structural adjustments. The discussions in Chapter III also confirm this point.

2.5 Proposed Measures in SAL I

The major concern of the Thai government when requesting the World Bank to extend the first structural adjustment loan (SAL I) as discussed in the first LDP of February 4, 1982 was rising current account deficits. The policy packages, proposed in the first LDP, aimed at gradually reducing the current account deficit as a percentage of gross domestic product (GDP), specifically to approximately 2.5% of GDP in 1986, through improved incentives, increased efficiency, and reduced fiscal imbalances. The measures or actions planned for SAL I were discussed in the first LDP and also tabulated in Table A.3 of Appendix A of this paper. Not so surprisingly, the planned actions for SAL I were a continuation of the above measures or actions taken in the sectors of agriculture, industry and energy and the policy areas of fiscal policy and institutional development.

Two more measures in the agricultural sector were added to the actions already taken, i.e., the deregulation of livestock marketing and the fertilizer marketing study. Many measures in the industrial sector were new since most measures in this area that were already taken were committee establishment and study initiation. These new measures were broad-based improvements in the organization and operations of the Customs Department, establishment of export processing zones and more bonded warehouses, general tariff reform, ad hoc arrangements for large scale project evaluation, and new studies. Unlike measures in the above two sectors, those in the energy sector focussed on studies and plans which were then drawn upon findings in those studies.

Although many measures in the area of institutional development and development of a medium-term fiscal strategy as proposed in the first LDP were not specific, those in the tax policy were specific, for example, measures of

restructuring of personal and corporate income taxes.

It is interesting to see that, as the structural adjustments in Thailand developed over time, the detailed measures had shifted from the sectors of agriculture and energy before submitting the first LDP (see Table A.2 of Appendix A) and, then, had expanded to the sector of industry and the area of tax policy when submitting the first LDP. As will be seen in the Section 2.6, the focus finally moved to public sector management when submitting the second Letter of Development Policy (the second LDP, henceforth).

One final remark regarding the first LDP is that, since the proposed measures in SAL I involved many governmental departments, a good coordination among them was extremely crucial. Therefore, the Thai government, ensuring systematic implementation of the proposed measures, instituted a high-level Economic Structural Adjustment Committee, one of whose functions was to undertake regular reviews of progress achieved in cooperation with the World Bank.

2.6 Proposed Measures in SAL II

Originally, the Thai government had hoped to rely on exports to alleviate the external deficits and to provide the main driving force in the manufacturing and agricultural sectors as well as to create employment as one can see from the objective and measures proposed in the first LDP. However, in late 1982, the Thai government saw that the hope seemed subsided as the world economy worsened and protectionist tendencies increased with an expectation of only a moderate recovery in 1983. Therefore, the Thai government shifted its focus from relying on exports to relying more on the use of prudent fiscal and monetary policies and structural adjustment measures in order to keep the external deficit at a sustainable level without

seriously hurting growth in income and employment. This policy shift was obviously shown in the measures proposed in the second LDP of March 7, 1983, which put more emphasis on public sector management.

It is generally believed that huge government budget deficit can cause substantial current account deficit as the former deficit partly bring in more capital inflow from abroad, which results in the surplus of the capital account and the deficit in the current account. Therefore, any measure, that can reduce government expenditures or raise government revenue and eventually bring down government deficit, can also reduce the current account deficit.

The shift in the focus to the public sector management in SAL II also shared the above belief. As one can see from the measures proposed in the second LDP and, in this paper, tabulated in Table A.4 of Appendix A, those on public sector management ranging from fiscal strategy, medium-term fiscal reform, tax administration, state enterprises and foreign debt were far more detailed than measures in other areas or sectors in SAL II and the fiscal policy area itself in SAL I. The most striking and, probably, most effective measure in bringing down budget and current account deficits was the reduction in the ceiling of annual public borrowing from abroad by approximately 14% -- from US\$2,400 million to US\$2,060 million. This "public" borrowing included the borrowing by not only the central government, local governments, but also state enterprises. In the past, the investment program proposed by any public unit was subject to only provided sectoral ceilings but, with this aggregate ceiling, all investment programs combined had to be subject to the overall ceiling. In practice, the NESDB, government agencies and public enterprises, with assistance from the World Bank, performed a major investment program review. In fact, this public borrowing ceiling is similar in spirit to the US Balanced Budget and Emergency Deficit Control Act of

1985, known commonly as Gramm-Rudman-Hollings (see the Economic Report of the President (1986)).

The majority of measures in other policy areas or sectors (see Table A.4 of Appendix A) were a continuation of the measures proposed in SAL I. Some new measures proposed in SAL II were an initiation of studies in various areas. New SAL II measures worth mentioning were a measure to explore the feasibility of export credit and guarantee schemes in the industrial sector; a reduction in fuel price differential, energy conservation measures and an establishment of the Energy Conservation Center of Thailand (ECCT) in the energy sector; and the land bank study and water resource development and management in the agricultural sector.

The adversely affected environments in the world economy in the early 1980s not only shifted the focus of the Thai government's structural adjustment effort towards public sector management but also changed two measures proposed in SAL I. First, the target for FY 1986 of central government revenue/GDP ratio was dropped from 18% to 16% and, second, for FY 1983, the Thai government imposed a one-year import duty surcharge of 10% of existing duties and the Ministry of Finance was authorized to temporarily increase export duties. However, the second changed measure in FY 1983, as discussed in the second LDP, was perceived as a temporary intervention to raise government revenue and reduce external deficits.

2.7 The World Bank/IMF Cooperation in SALs

The World Bank and the IMF staff have generally coordinated their activities closely through frequent consultations on matters of joint interest. In the context of SALs, as discussed in International Bank for Reconstruction and Development (1983, p. 31), the World Bank did not cover any of the areas in which the IMF was

active, except for fiscal strategy and policy.

The division of work in fiscal policy area followed the comparative advantage of the two institutions: the IMF handled short-term macro management and budgetary issues and strengthened the administrative arrangements for resource mobilization and the World Bank concentrated on medium-term and structural issues, including efficient utilization of public revenues and incorporation of an appropriate fiscal strategy in the planning framework of the country.

This close collaboration helped achieve complementarity between SALs and standby programs, even on specific targets. For instance, as discussed in International Bank for Reconstruction and Development (1986, p. 31), the November 1984 devaluation of the Baht against the US dollar in which IMF was instrumental. This devaluation has turned out to be a helping hand to SAL measures in promoting exports.

2.8 World Bank's Assessment and Current Status of Implementation of SAL Measures

Sections 2.5 and 2.6 summarize proposed measures in SALs I and II respectively. Some measures were implemented as a down payment before the Thai Government and the World Bank reached a formal loan agreement SAL I in 1982, some were implemented in 1982, some in 1983 when SAL II was finalized. The World Bank's mission was sent to Thailand in 1984 to prepare for the program completion report: Thailand - first and second structural adjustment loan. The report summarizes the status of implementation of SAL measures as of July 1984, which is tabulated in Annex 2 on pp. 97-103 of International Bank of Reconstruction and Development (1986) and also reproduced in this paper in Table A.5 of Appendix A.

The objective of this section is to give an overall picture of the proposed measures, the World Bank's

assessment of their implementation as of July 1984 and their current status (as of February 1989). Table 2.1 contains a summary of the above overall picture where the first column lists the originally proposed SAL conditions in the first LDP of February 4, 1982 and the second LDP of March 7, 1983 (their detailed conditions are also reproduced in Tables A.3 and A.4 of Appendix A). The second column presents a brief summary of the World Bank's assessment as of July 1984. The third column provides our additional comments based on information in the interviews (see Chapter III) and documents and the last column presents new developments of the implementation of SAL measures up to February 1989. New developments are from the interviews and Sahasakul (1987). Below are the highlights of Table 2.1.

A land use policy and a reduction and/or an elimination of export restrictions on major farm products are two key measures of the agricultural sector. The World Bank's assessment as of July 1984 was that substantial progress had been made in land certification and classification, export duties for rice and rubber had been lowered and other restrictions on the export of maize, rice, and partly, sugar had been lifted. However, we comment that the progress on land certification and reclassification have been slow when the SAL counterpart funds used for these purposes ran out. The new development in this area is that the land bank study was completed and the government has been considering an establishment of a land bank in the Bank for Agriculture and Agricultural Cooperatives (which is a state enterprise). The progress on the reduction/elimination of export restrictions on farm products has continued after SAL II as duties and premiums on rice exports have dropped to zero percent and a reserve requirement for rice exports has been abolished. Consequently, total export duties dropped from 2,619 million baht in 1983 to 806 million baht in 1986.^{3/}

^{3/} Data are from Bank of Thailand, Monthly Bulletin, various issues.

In the industrial sector, two key policies were an export promotion and a reform of the protective structure on which the World Bank's assessment as of July 1984 were successful. In our view, we agreed with the World Bank that the export promotion policy has been considered successful with a result that an average growth rate of manufacturing exports soared to 35.5% per year for 1985-1987 from 12.2% per year for 1982-1984 although part of this impressive result comes from the baht devaluation in November 1984 and a recovery of the world economy. Unlike the export promotion policy, we judge that a reform of the protective structure is far from being a success. The SAL condition on this reform is to modify the import tariff rates so that the rates ranged from 5 to 60% with few exceptions but, in our opinion, the import tariff rates have failed to meet the proposed range. Various recommendations, from subsector studies, on selected industries have been hardly implemented with an exception on electrical goods.

A reduction of the large price differential between gasoline and diesel fuel and energy conservation were the main measures in the energy sector. The World Bank's judgement as of July 1984 was that they had been in progress, moving along the SAL measures. In fact, the prices on gasoline and diesel fuel had not been changed from December 1, 1983 to February 21, 1986, about two years and three months apart. During this period, the world price of crude oil dropped substantially. The prices of gasoline and diesel fuel have been adjusted downward couple times since February 21, 1986 and, on November 25, 1988 when the most recent change of the prices at the time of this writing (April 1989) took place, the price differential between gasoline and diesel fuel was narrowed. A price ratio of premium gasoline to high-speed diesel dropped from 1.82 on December 2, 1981 to 1.75 on December 1, 1983, to 1.52 on February 21, 1986 and, finally, to 1.39 on November 25, 1988 (see Table D.1 of Appendix D). Unlike the price

differential adjustments, the progress of the energy conservation measures since the World Bank's assessment in 1984 has been negligible mainly because a substantial decline in the world crude oil prices since 1983 has relieved the pressure on energy conservation.

Public sector management was the major policy area in SALs especially SAL II. It involved many measures in the sub-areas of consolidated public sector finances, tax/revenue policy, tax administration, expenditure policy, state enterprises (SEs) financing and management, extra-budgetary funds, and external debt management. All these measures aimed at reducing government expenditure, raising government revenue and reducing government budget deficits and external borrowing. The World Bank's judgement on the progress of these measures was generally favorable except for the measures on SEs financing and management in which the government had failed to raise tariff for most SEs during the SAL period of 1982-1984. We generally agreed with the above judgement although we would like to add that (1) the tariff increases for many SEs were eventually implemented after the time of the World Bank assessment in 1984 when the political obstacles subsided and the Thai economy improved; for example, tariff on water supply and bus fare were substantially raised in 1985 (see more details in Chapter III) and (2) the measure of setting the target of the 1986 central government revenue/GDP ratio at 18% in SAL I and then dropped to 16% in SAL II was not reached in 1986 but it has eventually been reached since 1987 (see Table 2.2 and Section 2.9). In our view, the most successful measure in keeping the government finance in control was the ceiling on public external borrowing as discussed in some detail in Section 2.6 above.

Finally, the measures in the policy area of institutional development targeted at the co-ordination among core government units and an establishment of the

Table 2.1
A Summary of Implementation
of SAL Conditions

Original SAL Conditions	Level of Implementation as Assessed by World Bank as of July 1984	Comments	New Developments up to February 1989
AGRICULTURE			
Land use policy : land certification and reclassification in forest reserve areas; land bank study.	Land certificates had already been issued to one-third of a million farm families; surveys for the purpose of land reclassification had been completed or were under way in almost two million ha of pre-reserved forest but procedures for approval of classification recommendations were proving too cumbersome; the feasibility study of a land bank was due for completion in November 1984.	Land certification and reclassification have been slow since the SAL counterpart funds used for these purposes ran out.	From 1983-1985, land certificates were issued to 379,900 farm families; the government has been considering an establishment of a land bank in the bank for Agriculture and Agricultural Cooperatives.
Marketing and Pricing policy : reduction and/or elimination of export restrictions on major farm products; improvement in the rice price support program; deregulation of livestock marketing; fertilizer marketing study.	Export duties for rice and rubber had been lowered and other restrictions on the export of maize, rice, and, partly, sugar had been lifted; the costly and ineffective rice price support program was substantially eliminated; authorization of private slaughter houses for beef and hogs, primarily for export purposes; a fertilizer marketing study nearing completion.	Total export duties dropped from 2,619 million baht in 1983 to 806 million baht in 1986 (or 2.2% of total taxes of central government in 1983 to 0.6% in 1986)	Duties and premiums on rice exports have dropped to zero percent since September 25, 1985 and January 31, 1986 respectively; a reserve requirement for rice exports was abolished on May 12, 1982; there was a consideration of establishing the National Fertilizer Corporation.
Water resource development and management : studies, staff and institutional support	Cabinet established the National Water Resource Board to oversee the management and development of water resources.		
INDUSTRY			
Export promotion : broad based improvements in organization of the Customs Department and in procedures for implementing the import tax drawback Act; establishment of export processing zones and adding five bonded warehouses; decision on the financing and operations of the Export Development Fund; a feasibility study to set up the export credit and guarantee schemes.	The export rebate and duty drawback systems were overhauled; an attempt was made to move towards duty-free status for export production in a few selected areas; an Export Development Fund was established in 1982, followed in 1983 by the creation of an Export Development Committee; number of bonded warehouses was expanded and the Export Service Centers were upgraded; a feasibility study of an export credit guarantee was completed in 1984.	Average growth rate of manufacturing exports was 12.2% per year for 1982-1984 but rose to 35.5% per year for 1985-1987 partly because of the export promotion policy but partly because of the baht devaluation and recovery of the world economy.	
Reform of the Protective Structure : tariff rates would be modified so that all imports would be subject to the ratio ranging from 5% to 40% with few exceptions; subsector studies; implementation of appropriate non-tariff reform policies in the subsectors under review.	The general tariff reform undertaken in the SAL context was successful; a somewhat scaled-down program of subsector studies has been under way since 1982 (electrical goods study finalized in 1982, automotive industry study completed and reviewed in 1983, chemicals and plastics study was nearing completion).	The 1984 import tariff rates ranged from zero% to 300%; recommendation of reducing import tariff rates on electrical goods was implemented but recommendation of reducing local content and protection on automotive industry was not; recommendations of other studies were not considered.	Subsector studies on electrical goods, automotive industry, chemicals, plastic products, ceramics, iron and steel products, machinery and other equipment and textile have been completed.
Investment incentives : plan for the reform of the Board of Investment's activities; a study of the economic and fiscal consequences of the present and proposed incentives.	In early 1983 the Government issued policy guidelines for investment promotion and for tax privileges as an explicit framework for Board of Investment's activities; a study of the fiscal implication of investment incentives was scheduled for completion within 1984.		There has been an attempt to revise various investment incentives as part of a tax reform package; the study on the fiscal implication of investment incentives and promotion efficiency was completed in 1984.
Large scale projects : ad hoc arrangements would be made for reviewing whether large scale projects met the criterion of economic viability.	A study on the evaluation of large-scale projects was completed in mid-1984 and a series of seminars have been held to review it.		A committee has been set up to evaluate large-scale projects. However, there was only one meeting held since then.

Table 2.1 (Continued)

Original SAL Conditions	Level of Implementation as Assessed by World Bank as of July 1984	Comments	New Developments up to February 1989
ENERGY			
Pricing : a study of the relative price structure of petroleum products; appropriate steps to gradually moderate the large price differential between gasoline and diesel fuel.	The range of retail prices for the various petroleum fuels has been narrowed and the Oil Fund has had a surplus since late 1983; a comprehensive energy pricing study was completed in late 1983.	Since late 1983, the petroleum product prices had been hardly changed until February 21, 1988 when the range of retail prices for gasoline and diesel was narrowed. Also note that there has been a substantial decline in the world crude oil prices since 1983.	The range of retail prices for gasoline and diesel has been subsequently narrowed. For example, a price ratio of premium gasoline to high-speed diesel dropped from 1.82 on December 2, 1981 to 1.38 on November 25, 1988 with several downward adjustments in price differential in between.
Conservation : a study on energy conservation; formulation of policies and implementing measures on reduction in energy consumption; establishment of the Energy Conservation Center of Thailand (ECCCT); transport energy conservation studies.	A study of incentives for energy conservation in industry was getting under way; the ECCCT was formally established by Cabinet in mid-1984; an action plan for energy conservation in the transport sector was approved in principle by Cabinet in 1983.	A substantial decline in the world crude oil prices since 1983 has relieved the pressure on energy conservation. As a consequence, the ECCCT has not been so active as originally planned.	
Strategy formulation ; studies on the energy master plan, gas utilization, domestic nonconventional energy, and energy conservation; formulation and implementation of the energy strategy based on findings in the studies; strengthening of the National Energy Authority (NEA)'s ability in medium-term energy strategy.	Two separate studies have been completed.		Establishment of the National Energy policy Office, responsible for energy policy planning, in the Office of the Prime Minister.
PUBLIC SECTOR MANAGEMENT			
Consolidated public sector finances : medium-term projection for the financial operations of public enterprises, extra-budgetary funds and local government would be integrated into an overall financial strategy for the entire public sector; broadening and intensifying the role of the Fiscal Policy Office (FPO) of the Ministry Finance as a central fiscal planning unit.	An integrated fiscal plan was first prepared in 1982/83 and MESDB has updated development expenditure program and financing plan since then on a routine basis; proposal incorporated all major elements of fiscal planning for the entire public sector with FPO as a central role in leading coordination effort.		
Tax/revenue policy : the target of FY1986 central government revenue/GDP ratio was 18% in SAL I but dropped to 16% in SAL II; restructuring of personnel and corporate income taxes; simplification of business taxes and excise duties; enactment of selected revisions of the revenue code, customs laws and the new consolidated excise tax law; a feasibility study of introducing value-added tax; development of an action program to strengthen local finances.	Robust revenue projection model developed for multi-year revenue planning and annual budgeting purposes; annual tax packages introduced in 1981, 1982 and 1983 increased the central government revenue/GDP ratio from 13% in FY81 to 15% in FY84; a change to ad valorem rates for various excise taxes; an adjustment in tax rates on business tax to reduce cascading effects; extensive adjustments in export and import duties; numerous studies and measures carried out to strengthen local government revenue.	The target ratio of the central government revenue to GDP of 16% was not reached in FY1986.	The target ratio of the central government revenue to GDP of 16% has been reached since 1987. There has been a plan to implement a value-added tax in 1990 which will replace most of the existing business tax; local property tax has been implemented, i.e. a land transfer through inheritance is exempted from being taxed but the transfer is taxed once the land is sold.
Tax administration : set up of area tax offices in Bangkok; decentralization of operational functions of the Revenue Department's head quarters to the area tax office; reorganization of the Revenue, Customs and Excise Departments; rationalization of import/export forms and documents; creation of a tax training institute; establishment of a tax rulings committee.	Establishment of District tax offices in Bangkok and reorganization of the Revenue Department headquarters' functions; various operational reform of Revenue, Customs and Excise Departments including effective separation of Customs Department headquarters' functions from customs administration at port of Bangkok; study to assess need for centralized tax training with a conclusion that decentralized training functions developed by the three MOP departments provided an adequate initial response to training needs of MOP staff.	There has been no separation of the function of the Chief Customs Office at the port of Bangkok from the function of the Director General of the Customs Department, however, this separation will soon be possible when more new ports outside Bangkok are commercially used; an establishment of the tax training institute is still far from a reality.	
Expenditure policy : improvement of the methods to project central government outlays.	Central government expenditure growth for items other than debt service was significantly reduced; two studies were carried out to provide guidance for further improvements of comprehensive public expenditure programming.		

Table 2.1 (Continued)

Original SAL Conditions	Level of Implementation as Assessed by World Bank as of July 1984	Comments	New Developments up to February 1989
State enterprises (SEs) financing and management : a classification of the SEs into commercially-oriented, public utilities, loss incurring and other SEs with appropriate policies attached to each classification (the policies aimed at reducing subsidy from the central government).	A program of tariff increases for most SEs was not implemented for 1981-August 1984 because of political obstacles; some small manufacturing SEs were liquidated or put up for sale to the private sector; private bus operators were licensed to compete with loss-making public bus company; corporate planning was introduced for all SEs; financial revitalization programs for major loss-making SEs were being prepared; Bangkok oil refinery reorganization planned.	The SAL counterpart funds were partly used to finance SE deficits, which might have partly relieved pressure to raise tariffs.	Tariff on water supply and bus fare were substantially raised in 1983; tariff on electricity was substantially reduced in 1987 after the world oil price has substantially declined since late 1983.
Extra-budgetary funds : a study reviewing the operations and effectiveness of the extra-budgetary funds.	Study concluded that no major importance needs were attributed to reform of extra-budgetary funds at this point.	The study was not completed yet by the time of the World Bank assessment in July 1984. See Thanapornpun (1988, p.64)	The study was completed and the on-going funds that were no longer necessary have been abolished.
External debt management : formulation of a three-year rolling plan for planning, evaluation and monitoring of the government's external borrowing program; improvement of data usage and analysis; improvement of coordinating mechanism for external resources mobilization; reduction of the ceiling on public external borrowing from US\$ 2.4 billion to US\$ 2.05 billion per year.	Comprehensive three-year rolling program for public foreign borrowing was introduced; FPO acquired computer facility for improved public debt analysis and monitoring but lacked analytical capability to utilize them effectively; the original annual public borrowing ceiling was reduced in 1983 from US\$2.6 billion to US\$2.04 billion.		The annual borrowing ceiling was then reduced to US\$ 1 billion and recently in 1989 was raised to US\$1.2 billion.
INSTITUTIONAL DEVELOPMENT			
Policy analysis and coordination : strengthening the in-house capabilities of the core agencies (primarily National Economic and Social Development Board (NESDB), Ministry of Finance (MOF) and Budget Bureau) responsible for economic and fiscal policy analysis and advice; creation of an autonomous economic and social policy research institute to provide research support and consulting services to NESDB and other government agencies.	The mechanisms for policy supervision and implementation of the SALs programs were significantly improved with a committee structure and a joint NESDB-MOF secretariat, which became effective in September 1983; Thailand Development Research Institute (TDRI) was set up in early 1984 as a private foundation.		Coordination among key planning agencies in terms of management information system has now improved substantially.
Program formulation, evaluation and implementation : consultants would assist the NESDB to design, test and introduce new planning and programming systems (investment programming system, project preparation and investment appraisal system, program monitoring and evaluation system).	A project appraisal/investment planning system has been developed in NESDB; consultants failed to produce an appropriate blueprint for the development of a monitoring and evaluation system; FY1984 was the first year of implementation of government-wide program budgeting; consultants' recommendations on provincial accounting system of the government were largely found to be unimplementable at this point; establishment of new performance auditing division in the Office of the Auditor General.		
Personnel management : studies of the organization, management and compensation of the civil service; a formulation of staff training programs in all of the central management functions in 1983.	Two studies of the organization/management and compensation of the civil service were scheduled for completion in February 1985; A planned study of the staffing needs for planning agencies besides NESDB were not undertaken; a staff development/training program was under way.		

Notes: Information in the first column is extracted from the letters of development policy of February 4, 1982 and March 7, 1983 whose proposed measures are also reproduced in Tables A.3 and A.4 of Appendix A of this paper. Information in the second column is extracted from International Bank for Reconstruction and Development (1988, pp. 97-103) which is reproduced in Table A.5 of Appendix A of this paper. Comments in the third column and new developments in the last column are from interviews, Sahasakul (1987) and other documents as cited in the table and text.

independent research institute but more emphasis was on various studies concerning program formulation, evaluation, implementation and personnel management. The World Bank's assessment in this area policy as of July 1984 was that, with respect to studies, the consultants either failed to produce an appropriate system or recommended impractical solutions. We believe that an institutional development is in fact a difficult, if not the most difficult, task for structural adjustment. The proposed measures in SAL I and SAL II were mostly studies but, if there were SAL III, an institutional development would continue.

2.9 Selected SAL Issues

There remain many issues concerning SALs in Thailand but we would like to consider three important ones here, i.e. (1) the tranching issue, (2) the consistency issue between various tax measures at the micro level and the target of the central government revenue/GDP ratio at the macro level, and (3) the bargaining relationship in SAL negotiation between the World Bank and the Thai government.

Tranching Issue

It is interesting to note that there was no tranching of both SAL I and SAL II and this is a special feature of the SAL approach in Thailand. As discussed in International Bank for Reconstruction and Development (1986, p. 83), the reasons for the absence of tranching were, on one hand, the Government's reluctance to accept a tranching SAL, in the belief that tranching would be seen in Thailand as an unacceptable degree of external intervention and would thus endanger the entire process of SAL operations by undermining the political consensus surrounding the SAL dialogue. On the other hand, the absence of a tranching provision was acceptable to the Bank in this case since Thai government had in the past been willing and able to honor commitments of the kind that would be embodied in the SAL and, especially, since it was thought that leverage in support of

the structural adjustment program would be more effectively applied through a series of relatively small and frequent SALs than through larger and tranching ones. In addition, with a significant "down payment" element implicit in a succession of SALs, tranching was in any case an almost redundant mechanism.

Consistency Issue of Various Tax Measures

One of the SAL measures in the policy area of public sector management is to set the target of central government revenue/GDP ratio at 16% in FY 1986 as stated in SAL II which was dropped from 18% in SAL I. Besides this target at the macro level, SAL conditions also imposed other tax measures at the micro level. It is interesting to see how far these tax measures contributed to the macro objective of raising the revenue yield to 16% of GDP. However, before we investigate the contribution of these tax measures, a close look at the time series of the actual ratio of central government revenue to GDP may give some clues to what measures did contribute.

Table 2.2 presents time series ratios of central government revenue to GDP for 1981-1988. As shown in the table, the government revenue/GDP ratio for 1981-1986 was below 16%, the target in SAL II. The ratio in 1987 was above 16% but still below 18% which is the target in SAL I. However, in 1988, the ratio rose, for the first time, to 18.4%.

To see how the ratio changed over time, let us consider the ratio (R) whose numerator is the central government revenue (REV) and whose denominator is the gross domestic product (GDP),

$$R = \frac{REV}{GDP} \quad (1)$$

TABLE 2.2

Ratio of Central Government Revenue to GDP
1981-1988

Date	Ratio of Central Government Revenue to GDP (in %)	Annual Growth Rate of Central Government Revenue	Annual Growth Rate of Nominal GDP
1981	14.7	-	-
1982	14.1	3.7	7.9
1983	15.8	23.7	11.0
1984	15.2	3.4	7.0
1985	15.8	8.4	4.2
1986	15.5	5.8	7.9
1987	16.6	18.9	11.5
1988	18.4	27.8	14.7

Notes: Data on central government revenue are from Bank of Thailand, Monthly Bulletin, various issues. Those on nominal GDP are from National Economic and Social Development Board, National Income of Thailand, New Series 1970-1987. Data on nominal GDP in 1988 was calculated by assuming that the annual growth rate of nominal GDP in 1988 was 15%.

Now, let us take a logarithm of equation (1) and then take total derivatives, we obtain

$$\frac{dR}{R} = \frac{d(REV)}{REV} - \frac{d(GDP)}{GDP} . \quad (2)$$

According to eq.(2), if the revenue changes in the same proportion as the change of GDP, then the revenue yield to GDP will not change. To raise the revenue yield to GDP to 16% from 14.7% in 1981 (see Table 2.2), the percentage increase in the revenue must be greater than the percentage increase in the GDP. Therefore, in case of SALs, we wonder whether the tax measures at the micro level helped raise the growth of government revenue at the rate which is faster than that of GDP. To answer this question, an in-depth analysis of the tax revenue is necessary.

Theoretically, tax revenue (T) can be simplified as the multiplication of a proportional tax rate (p) and a tax base (y) or

$$T = p * y . \quad (3)$$

Again, we take a logarithm of eq.(3) and then take total derivatives, we obtain

$$\frac{dT}{T} = \frac{dp}{p} + \frac{dy}{y} . \quad (4)$$

According to eq.(4), a percentage increase in tax revenue comes from either a percentage increase in tax rate or a percentage increase in tax base.

In case of Thailand, tax revenue contributed approximately 80-86% of central government revenue for 1981-1988.^{4/} Other categories of government revenue include, for

^{4/} Calculated from data in Bank of Thailand, Monthly Bulletin, various issues.

example, sales and charges, contribution from government enterprises, and dividends. Therefore, changes in the tax rate (p) and tax base (y) have a substantial impact (approximately 80%) on government revenue.

Various tax measures in SALs, on theoretical grounds, tend to give an ambiguously combined result on tax revenue. For example, a reduction in export duties for rice and rubber ($dp/p < 0$ in eq.(4)), which was part of SAL measures in the agricultural sector, tended to lower tax revenue^{5/} and, consequently, government revenue. However, the general tariff reform, part of SAL measures in the industrial sector, tended to give an ambiguous effect on tax revenue since tariff rates on some imported items were raised but those on other items were lowered. Other measures especially changes in tax administration such as an establishment of District tax offices in Bangkok and reorganization of the Revenue, Customs, and Excise Departments tended to increase the efficiency of tax collection and, therefore, raise the tax base ($dy/y > 0$ in eq.(4)).

In reality, it is difficult to pinpoint the revenue effect of each tax measure at the micro level on the macro target of central government/GDP ratio. The most difficult one, in our opinion, would be the empirical test of the revenue effect of tax administrative changes and this subject can be a separate study of its own. However, it is easier to conjecture the revenue effect of changes in tax rates as discussed below.

A growth rate of central government revenue of 3.7% in

^{5/} This result generally holds for a low tax rate which, in our judgement, is the general case of Thailand. However, for a high tax rate, a reduction in the tax rate may result in an increase in tax revenue. This relationship between tax revenue and a tax rate is often called a Laffer curve. See details in, for example, Barro (1987, pp. 366-369).

1982 as shown in Table 2.2 was lower than that of nominal GDP of 7.9%, which, therefore, lowered the revenue/GDP ratio from 14.7% in 1981 to 14.1% in 1982. The Thai government for revenue reasons imposed in 1983 a one-year import duty surcharge of 10% of the 1982 duties. This action sharply raised import taxes by 38.8% in 1983 and contributed to part of the 23.7% increase in central government revenue, which resulted in the revenue/GDP ratio of 15.8% in 1983. See Table 2.2. Other item that contributed to a higher revenue/GDP ratio in 1983 was a sharp increase of miscellaneous government revenue and income of 59.7%.

When the import duty surcharge was removed in 1984, the revenue growth rate dropped to 3.4% and the revenue/GDP ratio declined to 15.2%. In 1985, the growth rate of government revenue was 8.4% which just doubled the growth rate of nominal GDP and brought the revenue/GDP ratio back to 15.8%. However, approximately 60% of the total growth rate of government revenue came from an increase in the contribution of state enterprises and dividends.

The rapid growth of the Thai economy (GDP) in 1987 and 1988 of 11.5% and 14.7% respectively (see Table 2.2) has substantially raised the size of the tax base ($dy/y > 0$ in eq.(4)) bringing in more tax filers who did not have to pay taxes or evaded paying taxes during the slow economy. Examples are taxpayers of the corporate income, business, excise and import taxes. Moreover, in case of progressive tax rates like the personal income tax and export duty on rubber, an increase in the tax base will push the taxpayers to be subject to a higher tax bracket ($dp/p > 0$ in eq.(4)) and, therefore, it will bring in more tax revenue. In 1987, the annual growth rates of corporate income, business, excise, import and export taxes, which were considered high, were 13.3%, 23.4%, 23.4%, 28.6% and 61.4% respectively. In 1988, the annual growth rates of personal income, corporate

income, business and import taxes, which were considered high, were 27.6%, 55.5%, 49.2% and 46.7% respectively.

Bargaining Relationship in SAL Negotiation

The last issue that we would like to address is the bargaining relationship in SAL negotiation between the World Bank and the Thai government.

Since 1981, the World Bank was in a good bargaining position in its negotiation in SAL I and SAL II with its counterpart -- the Thai government -- because, as discussed in Section 1.3, the Thai economy had been suffering from the second oil shock in 1979 with the result of current account deficit to GNP ratio soaring sharply and international reserves falling at an alarming rate. The Thai government in the early 1980s was not in a good position in the international credit market, therefore, the structural adjustment loans from the World Bank and other similar loans such as the standby agreement with the IMF were desperately needed for Thailand.

The good bargaining position of the World Bank continued into 1985 when the proposed third structural adjustment operation was partially appraised since the Thai economy was still in bad sharp. The growth rate of real GNP was only 3%, the current account deficit/GDP was 4% and the size of the international reserves averaged 3.6 months of import value in 1985. Their corresponding average figures for 1980-1987 were 6.2%, 3.6% and 5.2 months respectively.

Since the implementation of SAL II slipped more than that of SAL I, the World Bank, when negotiating SAL III, insisted on the continuation of the conditions that failed in SAL II such as a launch in new initiatives in state enterprise finances. Some of these proposed conditions in SAL III were still political unpopular and, therefore, the negotiation could not reach an agreement. However, the Thai

economy has turned favorable since 1986 as the growth rate of real GNP grew at the annual rate of 4.3% in 1986 and 7.0% in 1987; the current account turned surplus, for the first time since 1970, in 1986 and the international reserves averaged 4.5 months of import value in 1986. This improvement of the Thai economy had substantially raised the bargaining position of the Thai government in the negotiation with the World Bank so that, from the Thai government's point of view, the third structural adjustment loan was no longer necessary for Thailand.

Another factor that also helps raise the bargaining position of the Thai government is a substantial improvement in the credit standing of Thailand in the international community rated by respectful international credit rating agencies. For example, the country risk score for Thailand rated by the Euromoney rose from 56.0 in 1982 to 69.1 in 1983, 70.3 in 1984, 70.6 in 1985, 62.0 in 1986, 75.0 in 1987 and 77.0 in 1988^{6/} (where a higher score indicates a better risk), a 37.5% increase in score from 1982 to 1988. As a result, the Thai government at present can easily assess to the international credit market at favorable interest costs.

^{6/} Data on score are from Euromoney, September 1982, pp. 71-72, October 1983, p. 338, October 1984, p. 305, October 1985, pp. 327 and 329, September 1986, pp. 364-365, September 1987, p. 353, and September 1988, p. 233.

CHAPTER III
FINDINGS FROM INTERVIEWS

3.1 Objective and Organization of the Chapter

The previous chapter gives a broad background of SALs in Thailand since 1980. However, it may leave out some important details and insights which will be revealed once one talks to government officials involved in SAL negotiation and implementation and to key persons in affected private business. This project has done such a talk and its findings from the interviews are presented in this chapter. The interviews aimed at answering the following four key questions:

- (1) Were the SAL measures new or had been tried in previous years?
- (2) Would the measures have been implemented with or without SALs?
- (3) What contribution did the World Bank make to the structural adjustment in Thailand? and
- (4) What political and economic factors affected the implementation decision?

The chapter will start with a brief discussion on the interview methodology in Section 3.2 whose details are in Appendix B. Section 3.3 reports the main findings from interviews by focussing on answering the above four questions. Appendix C gives detailed responses of individual interviewee to each of the above four questions. However, in order to keep our interviewees' views apart from their identities, we rename our interviewees starting from a letter A to a letter N. Actually, the interviews were conducted in Thai. We have tried our best to maintain the meaning when we translated and edited them to English.

3.2 Brief Discussion on the Methodology

We chose twelve organizations to be included in our

sample size, nine of them are public organizations and the other three are private organizations. The total number of our interviewees are thirty-seven, many of them came in a group when we interviewed them. Our interviewees can be regrouped into 14 groups/individuals. Before any interview, we also informed our interviewee that each individual would not be cited as source of information. Consequently, as mentioned above, we rename each individual/group of individuals in Appendix C.

3.3 Findings from Interviews

We strongly believe that our methodology of the interview approach sketched in Section 3.2 and Appendix C, especially the policy of keeping interviewees' identities and their views apart, results in a non-distorted opinion. The findings below are those of policymakers, technocrats, and businessmen. However, many findings are also supported by additional data and information. The findings are grouped according to the above, four questions as follows.

3.3.1 Whether the SAL measures were new or had been tried in previous years

Thirteen out of fourteen groups or individuals of our interviewees responded that some or most SAL measures were not new. The other mentioned specific SAL measure that was new but did not say whether other SAL measures were or were not. See Table C.1 of Appendix C for details of their responses to this question. The varying responses of our interviewees are discussed below.

Many SALs measures were not new. Some were ongoing projects or programs. Others were part of an implementation plan waiting for government's financial support. However, a few SAL measures were new. The fact that many SAL measures were not new is an important answer to the question of why SALs in Thailand were (generally perceived to be) successful.

When Thailand experienced a low growth rate of its economy and a high inflation rate since the second oil shock in 1979, Thai policymakers had been discussing an idea to restructure the economy. Many measures discussed were designed and included in the Fifth Economic and Social Development Plan (FY 1982-1986). However, not all of them were implemented since the government budget was suffering a serious budget deficit. The situation improved when Thailand signed an agreement with the World Bank on structural adjustment lending as the loans were also used to supplement the government budget (in addition to supplementing Thailand's international reserves).

One of our interviewees estimated that more than 50% of the measures were initiated by the Thai side and were not new. Those measures were ongoing projects or programs or measures designed to counteract adverse effects from external shocks. For example, Thailand's agricultural production had diversified to various products besides its traditional ones (rice, rubber, and maize) before SALs came into the scene. These diversified crops, as reported in the Bank of Thailand's Monthly Bulletin, are other major crops: tapioca roots, sugar cane, mung beans, ground nuts, soybeans, sesame, coconut, castor seeds, cotton, jute and kenaf, kapok and Bambax fiber, and tobacco leaves. Similarly, Thailand's industrial policy was geared towards export promotion and away from import substitution even before SALs implementation. As shown in Table 3.1, there are four manufacturing items that are included in the top twenty of Thai export earners in 1981, i.e. textile products, integrated circuits, canned pine apple, and canned fish. Textile products are an ideal example of a used-to-be import substitution item but now an export item.

Some of our interviewees viewed that many SAL measures were taken from those in the Fifth Economic and Social

Table 3.1

Top Twenty Export Items in 1981

Rank	Item	Amount (in millions of baht)	Share of total exports (in percent)
1.	Rice	26366	13.1
2.	Tourism	21456	10.6
3.	Tapioca Products	16446	8.2
4.	Textile Products	12570	6.2
5.	Rubber	10841	5.4
6.	Sugar	9572	4.8
7.	Tin	9091	4.5
8.	Maize	8349	4.1
9.	Integrated Circuits	6193	3.1
10.	Precious Stones	4486	2.2
11.	Prawns	2136	1.1
12.	Canned Pineapple	2039	1.01
13.	Tobacco Leaves	1739	0.86
14.	Mung Beans	1693	0.84
15.	Wood Products	1367	0.68
16.	Fresh Cuttlefish	1336	0.66
17.	Jute Products	1245	0.62
18.	Frozen Fowl	1187	0.59
19.	Canned Fish	1109	0.55
20.	Fish Meal	1014	0.50

Note: Raw data are from Bank of Thailand, Monthly Bulletin, January 1984 issue, Table III 12, p. 68.

Development Plan. One estimate is that approximately 30-40% of SAL measures came from the measures in the Fifth Plan.

Other examples of ongoing measures are land certification and reclassification, tax privileges promoting export industries, and changes in excise tax rates. Details of each measure are discussed below.

The land certification measure was initiated by the cabinet's ruling on 28 August, B.E. 2522 (or A.D. 1979). This measure gave the "right to farm" certificates to farmer families who illegally occupied reserved forests. It was estimated that the number of those families came to one million. The land certification started in 1982 and its finance was from the government budget. When the SAL negotiation began, it was included as one of the SALs measures with, later on, a larger budget share.

The land reclassification can be traced back to 1961 as it was one of the measures in the First National Economic and Social Development Plan. Though the export promotion policy cannot be traced back as far as 1961, it was initiated before SALs negotiation. The Thailand's Board of Investment has given tax privileges to producers who manufacture goods for export since an enactment of the Investment Promotion Act in 1977.

The last example of ongoing measures before SALs is the excise taxes. In the past, they were levied on commodities at specific rates but since 1981 the Excise Department has added ad valorem rates to the excise tax rate schedule. The applicable rate depends on whichever tax rate generates the higher tax revenue.

The above examples are some evidence revealing that many SAL measures were not new. However, some can be cited as new measures. A restructuring of petroleum product

pricing was a new measure with an aim of making their prices relatively consistent to their production cost structure. Another new idea that came up during the SAL negotiation was a close cooperation between public and private sectors in managing the economy. This idea however was never included in the SAL measures but it has been developed to the now well-known "Joint Public-Private Consultative Committee." This committee was formally set up and chaired by the Prime Minister with the National Economic and Social Development Board as its secretariat.

Although many SAL measures themselves were not new, some interviewees pointed out some new aspects of the SALs. One said that the way of packaging and managing SAL measures was new. Another said that the new macroeconomic management technique was generated by SALs. This new technique involved a good co-ordination of various government agencies and required a common target, a similar methodology and a check and balance system. Furthermore, it was also the first time in the history of Thailand that academics played an important role in influencing government policies through studies, seminars and conferences.

Another interesting point made by one of our interviewees is that both SAL measures and the Fifth National Economic and Social Development Board shared the same principle of using market mechanism since both were based on the studies of the World Bank. However, the recommendations in those studies were not totally ideas of the World Bank staff since they always talked to and consulted Thai officials. His estimate was that both the World Bank and Thai government probably contributed evenly in terms of designing the structural adjustment framework.

3.3.2 Whether the SAL measures would have been implemented without SALs

As discussed earlier that many SAL measures were not

new, it is natural that a majority of those measures would have been implemented even without SALs. Eight groups or individuals (interviewees) responded to this question and all of them confirmed that, even without SALs, many measures would have been implemented. However, their responses somewhat varied in terms of what would have happened to the measures if without SALs. (See Table C.2 of Appendix C for details.) Some said that the coverage of measures would have been less. Others said some measures would have been delayed due to lack of an international commitment and funding. One of them said that the implemented measures would have been piecemeal if without SALs. Details of their comments are discussed below.

Imagine a situation in which SALs were not available for Thailand in the early 1980s while it experienced various internal and external imbalances. Thai policymakers would have introduced measures similar to those of SALs to cope with these twin imbalances. However, SALs helped in many respects. First, SALs created an international commitment among Thai Official and politicians. Many sensible measures in SALs that unfortunately were unpopular among politicians were implemented because of this international commitment. For example, the measure of raising retail prices of petroleum products was generally objected by the public and mass media especially newspaper. Therefore, this measure was unpopular among politicians as the government often had to resign after implementing such a unpopular measure.

Second, SALs created a liquidity when the Thai government experienced a shortfall in government revenue. In the early 1980s, the government debt accumulated with no clear tendency to diminish. This increasing debt coupled with a shortfall in government revenue delayed some sensible measures that helped to restructure the economy in the long run but might worsen the government revenue in the short run. The structural adjustment loans relieved this tight

situation by providing liquidity to the government during this transition period. Some may argue that Thailand, if the revenue shortfall was the problem, could have borrowed more from the international credit market. This is true but a borrowing from the international credit market was viewed as an inferior to SALs as at least one of our interviewees argued that the interest rate charged by the international credit market would have been higher than that charged by the World Bank. This argument was true in 1982 if we use the London interbank offer rate (LIBOR) on one-year maturity of US dollar deposit as a guideline for the interest rate charged by the international credit market. The LIBOR averaged 13.69% per year^{1/} in 1982 which is clearly higher than the interest rate on SAL I of 11.60% per year.^{2/} In fact, Thailand probably had to pay at least 1-1.5% premium per year on LIBOR if borrowing from the international credit market at that time. Given this premium in mind, the above argument was also true in 1983 as the borrowing cost from the international credit market would have been close to 11.18-11.68% per year (LIBOR averaged 10.18% per year for one-year maturity of US dollar deposit^{1/} plus the premium of 1-1.5% per year) but the floating interest rate charged by the World Bank in 1983 was 10.72% per year.^{3/}

The same interviewee argued further that, more importantly, the international credit market when lending did not impose conditions or measures similar to those of SALs which benefited the Thai economy. The SALs from the World Bank later on helped to raise Thailand's creditability in the international credit market because its borrowing from the World Bank with conditions/measures and its success

^{1/} Data on LIBOR are from International Monetary Fund (1987).

^{2/} See Loan Agreement no. 2097 TH.

^{3/} Data are from the World Bank.

in implementing those conditions/measures are an evidence of prudently responsible government.

Third, the SALs helped in reordering the priority of the projects. For example, the tax policy reform and the establishment of district tax offices in Bangkok became ones of the top priority under SALs.

Forth, the SALs helped to expand the ongoing programs. For example, the scale of operations of the land certification and reclassification would have been much smaller due to lack of government funding. It was estimated that if without SALs only 40,000 farm families per year would have received land certificates. This estimated figure is in contrast to actual figures during SALs implementation -- that is, 99,000 families in 1983, 116,000 in 1984 and 164,900 in 1985.

Finally, the SALs helped to systematize, organize, and speed the processes of designing, coordinating, and monitoring the measures within the same framework. Without SALs, the implemented measure would have been piecemeal. Some interviewees believed that the broad co-ordination across various agencies within the government be first initiated when Thailand signed the SAL I agreement. The Ministry of Finance and the National Economic and Social Development Board took a leading role in this broad co-ordination which made sure that the seemingly unrelated components of SALs shared the same objective of reducing current account deficits and government budget deficits, made sure that there was a central unit monitoring the implementation process, and made sure that there was an evaluation of the implementation. It is also believed that, if without SALs, each government agency still would have implemented some of the measures without a clear overall direction and a broad co-ordination.

Nevertheless, some of our interviewees raised an interesting dilemma about SALs. On one hand, the SALs aimed at restructuring the economy with an emphasis on using market forces. On the other hand, many SAL measures did not use funding from SALs as they were part of the ongoing projects or programs; a majority of the loans were then used to finance state enterprises so that they were not under the pressure of raising their service charges. As we know, this delay of raising the service charges denied the basic idea of using market forces which is part of the SAL philosophy.

3.3.3 What contribution the World Bank made to the structural adjustment in Thailand

The direct and indirect contribution the World Bank made to the structural adjustment in Thailand was substantial. The responses of our interviewees as shown in Table C.3 of Appendix C ranged from the loans being used as international reserves and government budget supplement, the expertise of the World Bank team, an indirect influence on Thai politicians, a formulation of SAL measures, to technical assistance. Some details are presented below.

As discussed in Chapter I, the Thai economy experienced deficits in both current account and government budget in 1982 and thereafter. A deficit in government budget was mainly a reflection of a saving and investment gap in the economy as public investment exceeded net saving. The same gap also caused a current account deficit which, in turn, reduced the nation's international reserves. As the World Bank's SAL disbursements were not necessarily associated with the measures, Thailand used the loans to supplement its international reserves and to finance government deficits.

One of our interviewees added that the World Bank team responsible for the SALs in Thailand comprised professionals with high calibre and experience. Therefore, a negotiation

between Thailand and the World Bank got smoother than otherwise.

The World Bank's involvement introduced an international commitment among Thai politicians and, as discussed earlier, this commitment helped to formulate unpopular but useful measures.

Although many groundworks on SALs were conducted by Thai official, the World Bank also substantially helped formulate the SAL measures. Two of our interviewees gave a rough estimate that approximately one half of the SAL measures were a direct contribution from the World Bank. Another said the contribution was less than one half. Examples of the World Bank suggested measures were the Energy Conservation Center, a downward adjustment of the target ratio of government revenue to GDP from 18% to 16% and a fiscal discipline whose emphasis is on realistic forecast of government revenue, government expenditure control and government deficit reduction.

Finally, the World Bank has contributed technical assistance to Thailand since the Forth National Economic and Social Development Plan especially the assistance in the area of macroeconomic analysis. With respect to the SAL measures, its technical assistance was moderate since many studies were commissioned to various domestic researchers.

3.3.4 What political and economic factors affected the implementation decision

Our interviewees cited various political and economic factors affecting the implementation decision. Table C.4 of Appendix C details their responses. Selected points are discussed below.

Many SAL measures in Thailand especially those under SAL I were implemented. However some measures especially

those under SAL II slipped. One of our interviewees estimated that the accomplishment of SAL measures was approximately 60% of the proposed measures. Various reasons explaining the implementation decision include (1) whether the measures were implemented without SALs, (2) whether there was a leading organization on the Thai side, (3) whether there was an international commitment, (4) whether the measure was politically popular, (5) whether there was a liquidity constraint in the government budget, and (6) whether an economic environment changed.

Thailand had launched more than one half of SAL measures before it signed an agreement with the World Bank. The World Bank call this action, a down payment. Those measures were designed to cope with adverse effects of external factors. Therefore, as discussed earlier, even without SALs, those measures would have been implemented. This action of launching many SAL measures before the agreement was reached increased the probability that Thailand would comply with the World Bank's conditions and made the negotiation between Thailand and the World Bank easier. [See related discussions on modelling bargaining process in Mosley (1986, pp. 12-20).] As a consequence, Thailand was the only country that tranching of the loans did not apply.

Structural adjustment tasks could be classified into two types : the tasks that Thailand had full knowledge and understanding and those that it had not. For the first type of tasks, Thailand initiated its own measures and could implement them without spending time on studying the subjects. These measures were usually viewed as successful ones. One example was the Ministry of Agriculture and Cooperatives' S.T.K. (or right to farm certificates). An important factor contributing to their success in SAL I was that there was a leading organization taking part in organizing, screening, reviewing and monitoring measures

scattering over various implementing agencies. In the Thai case, the leading organization was the Ministry of Finance. Some of our interviewees also counted the National Economic and Social Development Board as a leading organization in SAL planning. Unlike SAL I, there was no such a leading organization under SAL II and this might explain why SAL II measures slipped more.

For the second type of tasks, Thailand began with a research study. Unfortunately, those studies were not monitored closely and not synthesized within a single framework. The Ministry of Finance, a leading organization in SAL, did not have time to follow up these studies. Examples of the second type of tasks were the energy policy and some tax issues. As a consequence, results or findings from the studies under SAL I were either incomplete or inappropriate for the new environment under SAL II. For example, the energy studies were initiated in 1982 when the world oil price was relatively high but, by the time the studies were completed, the world oil price had dropped substantially. Therefore, recommendations in those studies, being for the rising oil prices, obviously are inappropriate for the period of declining oil prices.

Another factor that helps an implementation of SALs was an international commitment that Thai politicians had. As discussed earlier, this commitment was made when Thailand signed an agreement with the World Bank and it was an indirect force to overcome political obstacles.

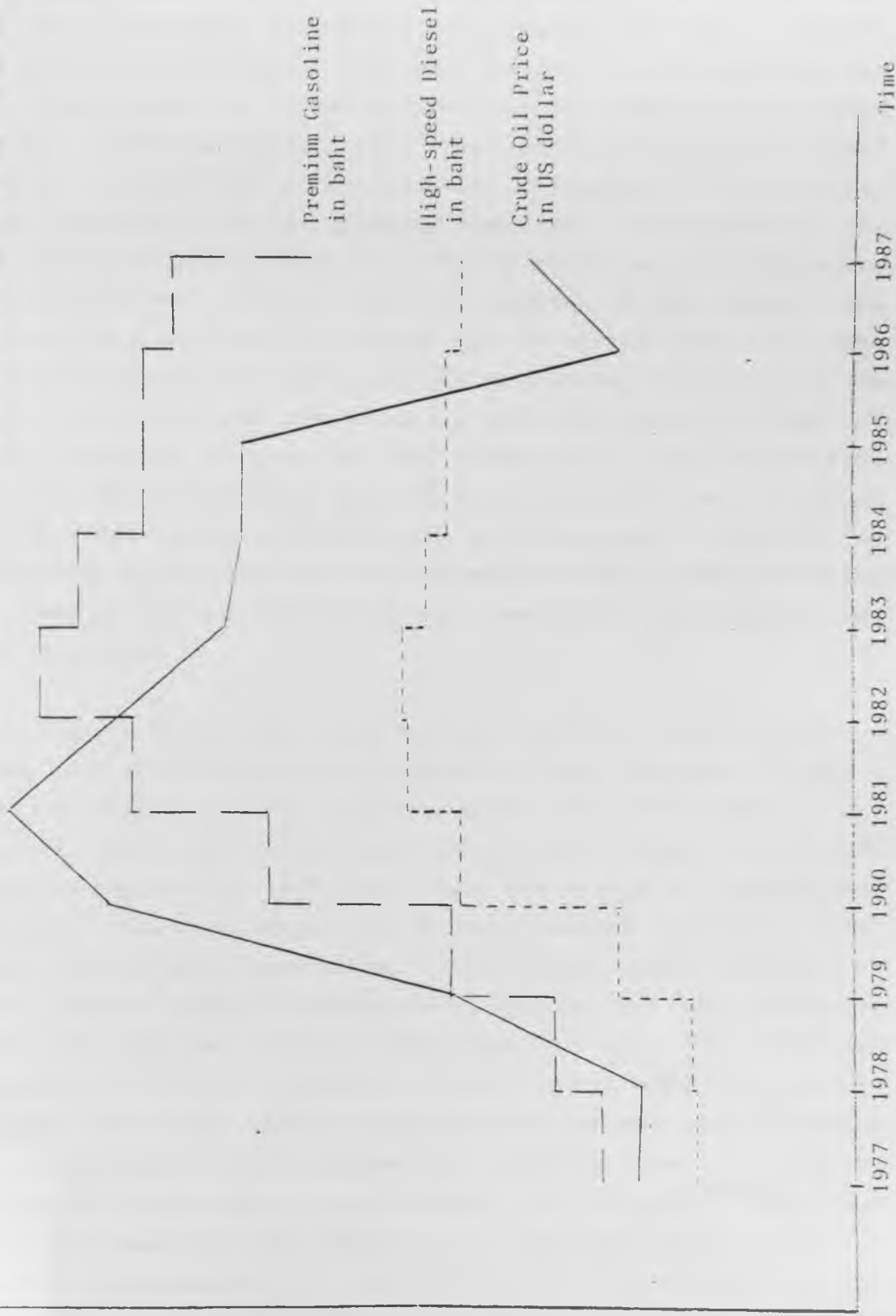
Some measures especially those under SAL II slipped because of their politically unpopular nature among political party members. Examples of these measures were pricing policies on the petroleum products, bus fares, and user charges for electricity and water supply. Raising prices of these products and services is generally objected by the public and newspapers and, in some cases, those

objections may eventually instabilize or even dissolve the government. As a result, prices of these products and services in some period were kept substantially lower than their actual costs. The World Bank would like to change these pricing policy towards efficiency -- that is, pricing should reflect real costs of resources. Thai officials also agreed in principle. Although the pricing policy on these goods and services were hardly changed during the SAL implementation years in 1982-1984, it has been changed later on.

With respect to the pricing of petroleum products, the Thai government has set up a new organization responsible for their pricing policy. This new organization was "The National Energy Policy Office" in the Office of the Prime Minister. With respect to the pricing of utility and bus fares, their prices have been raised when the Thai economy experienced a recovery which raised the purchasing power of the general public so that they could afford higher prices. Details of the changes in pricing of these products and services for 1970s and 1980s are presented in Appendix D. However, some highlights are discussed below.

Figure 3.1 gives time series of the world price of crude oil in US dollar and domestic retail prices in baht of premium gasoline and high-speed diesel for 1977-1987. As the world price of crude oil rose sharply in 1979-1980 and peaked in 1981, the Thai government also raised domestic retail prices of various types of petroleum products. However, an increase in the domestic prices was slower than the rise in the world oil price for 1979-1981 as shown by, when compared with the slope of the world oil price line, the flatter slope of two long and short dash lines representing retail prices of premium gasoline and high-speed diesel in Figure 3.1. During the SAL implementation years of 1982-1984, the retail price of premium gasoline was adjusted upward but that of high-speed diesel tended to

Figure 3.1
 Crude Oil Price and Retail Prices of
 Premium Gasoline and High-speed Diesel

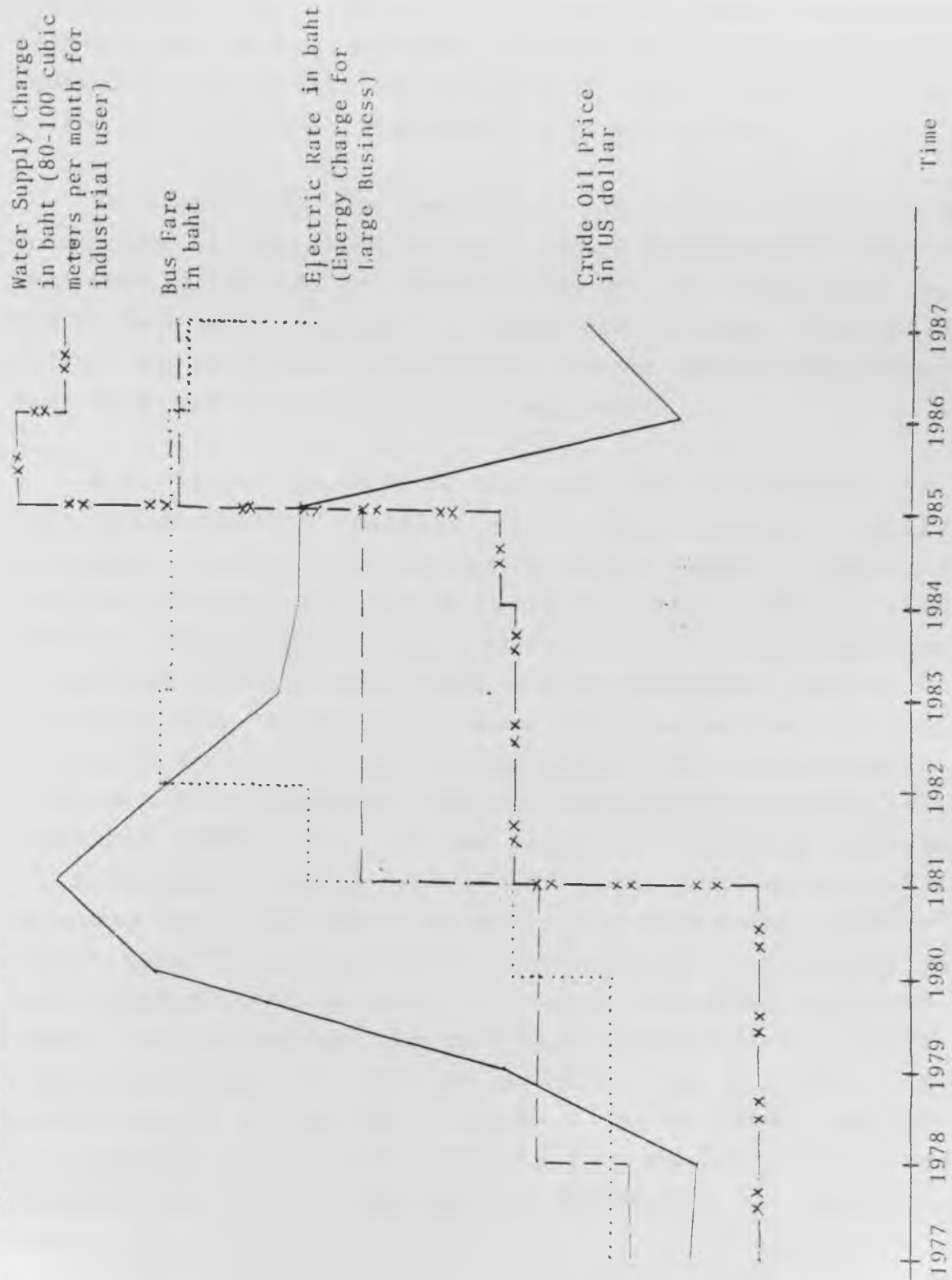


Notes: Data on crude oil price are from International Monetary Fund, International financial Statistics, various issues. Those on premium gasoline and high-speed diesel are from Table D.1 in Appendix D.

stabilize while the world oil price dropped. It seemed that the Thai government tended to use premium gasoline to absorb the high cost of energy with the result of a big gap between the retail price of premium gasoline and that of high-speed diesel. Interestingly, when the world oil price dropped further in 1985-1987, the downward adjustment in the retail price was mostly on the premium gasoline. Consequently, the gap of the retail prices of premium gasoline and high-speed diesel narrowed. One of the SAL measure in the energy area pressed hard by the World Bank was to narrow down the range of retail prices for the various petroleum products but the World Bank did not specifically set the retail prices of these products as part of SAL conditions. The World Bank let the Thai government set the retail prices freely as long as the fuel price differential was narrowed. However, as discussed above, the Thai government failed to do so during the SAL period of 1982-1984 but eventually succeeded to do so after 1984.

Figure 3.2 plots time series of the world price of crude oil in US dollar and domestic user charges of public utility and bus services in baht for 1977-1987. The electric rate, bus fare, and water supply charge were slowly adjusted upward in 1979-1980 when the world oil price rose sharply. However, their rates were raised sharply in 1981 right before SAL I agreement. Since then, both bus fare and water supply charge hardly moved during the SAL period of 1982-1984 but the electric rate rose further. The condition imposed by the World Bank, in relation to the public utility, was that public utility enterprises were supposed to raise their tariff rates so that the nominal rate of return on total asset was at least 8% per year. Note that the World Bank did not specifically set the tariff rates for the Thai government. It just gave a broad guideline on the above minimum rate of return on asset. It seemed that the bus rate and water supply charge were still below their costs up to 1984 because both rates were raised sharply even

Figure 3.2
Crude Oil Price, Electric Rate,
Water Supply Charge and Bus Fare



Notes: Data on crude oil price are from International Monetary Fund, International Financial Statistics, various issues. Those on electric rate, water supply charge and bus fare are from Tables D.2, D.3 and D.4 in Appendix D.

after the SAL period and even the world oil price was heading downwards. Similar to the case of petroleum product prices, the Thai government failed to comply with the conditions for public utility tariff rates during the SAL period but eventually succeeded to do so in 1985.

The fact that the compliance was least on the above conditions (a reduction in fuel price differential and an increase in tariffs of public utility) explained why the World Bank most imposed on these conditions. In other words, the conditions which were pressed hard by the World Bank were those with the least compliance.

Now, let us go back to the next factor affecting the SAL implementation decision, i.e. the liquidity in the government budget. The funding from SALs created liquidity that was needed when the government budget was in high deficit. This created liquidity facilitated an introduction of various policies that might reduce government revenue in the short run. Examples of those policies were a reduction in export duty rates on rice and rubber and an elimination of export duty on maize. For more discussions on taxes, see Sahasakul (1987). For the same reason of liquidity in terms of government revenue shortfall, some implemented SAL measures were reversed. In 1982, the government reduced import tariff rate differentials across commodities with an aim to reducing distortion. The result was that an average import tariff rate and the government revenue fell in 1982. Some argued that the revenue shortfall was due to a slow growth period of the Thai economy. In any case, the Thai government was alarmed by this revenue shortfall and reversed the measures by imposing surcharges on imports in 1983.

Finally, changes in domestic and international economic environment also affected the implementation decision. A slow growth of the Thai economy in 1982 coupled with the

revenue shortfall are two reasons that changed the government decision on the target of government revenue to GDP ratio as it lowered the target from 18% under SAL I to 16% under SAL II. Another example is the Energy Conservation Center that was first established for finding alternatives to conserving energy. However, when the world oil prices have declined, the energy conserving objective is no longer a top priority and the Center is now less active than before.

There remain other factors specific to the measures that are worth mentioning. The ceiling of external borrowing was a successful measure because the government set the ceiling realistically. When there were many ongoing government projects that required substantial financing, the ceiling was set above US\$1,000 million. However, when some of the ongoing projects were completed, the government tried not to create new projects and then the ceiling could be lowered to US\$1,000 million.

The Export Development Fund was not so successful in promoting exports because the fund of 300 million baht (raised by imposing 0.5% surcharge on imports) was insufficient for seriously promoting exports. The total value of exports for 1982-1984 averaged 198,168 millions of baht per year. Therefore, the fund of 300 million baht would be trivially 0.15% of the average annual export value for 1982-1984. Similarly, the Export Development Committee was unsuccessful because it did not have an authority over other implementing agencies -- i.e., the Minister of Commerce was initially the chairman of the committee. To correct the problem of lack of authority, the chairman has been replaced by the Prime Minister.

The measure to reduce protections on domestic industries especially a restructuring of import tariff rates slipped for most cases. However, the slippage did not come

from the industrialists' lobby against the restructuring. The slippage came partly from the conflict of interest among domestic producers at different stages of production in the same industries (see details on selected sectors below) but mostly came from the fact that, after the general election in 1983, the then Minister of Industry did not give an industrial restructuring (outlined in SALs) a top priority. Details are discussed below.

The general tariff reform proposed in SAL I was that, during the fiscal year of 1982, tariff rates would be modified so that all imports would be subject to the ratio ranging from 5% to 60%. Furthermore, the National Economic and Social Development Board (NESDB) had commissioned a consultant team to carry out an industrial restructuring study (see Industrial Management Co., Ltd. (1985) as an example) whose objective was to provide policy guidelines and recommendations for the NESDB in preparing action plans for the implementation of the industrial restructuring programs as set out in the Fifth National Economic and Social Development Plan. Part of the study concerning the distortion created by import tariffs and protection of domestic producers proposed three alternative sets of reforms which were expected to reduce effective protection rates for all and across sectors. The study proposed a strategy that initially put into effect the first set of tariff reforms (see Table 3.2) because it involved only small changes from the existing rates. The effects of this first step were then ascertained to determine whether sets two and three were efficacious and feasible. It should be noted that moving from the first set to the third one leads to a greater uniformity of tariff rates which was part of the SAL II proposal in the industrial area.

Initially, the industrial restructuring got a good start and gained momentum especially the stage of carrying out the industrial restructuring study (financed by SAL

Table 3.2

Proposal of General Tariff Reform

(in percent)

Category of Imported Item	Set 1	Set 2	Set 3
Final Products	50	40	35
Intermediate Products	40	30	30
Machinery	20	25	25
Raw Materials	10	15	20

Source: Industrial Management Co., Ltd. (1985), p. 7.

counterpart funds) and other sub-sector studies (financed by UNIDO/UNDP) because the then Minister of Industry had assigned one of Deputy Ministers of Industry to oversee the industrial restructuring under SALs. In order to minimize any opposition from the domestic producers whose interests might be adversely affected by the restructuring and to compromise any conflict of interest among domestic producers in the same sector or across sectors, the Thai government always consulted the matters with the private sector in the Joint Public-Private Consultative Committee on Economic Development Policy. This committee then submitted the matters for consultation to the vested interest groups. In case of the industrial restructuring, it submitted the matters to the, then, Thai Industries Association (now, the Federation of Thai Industries) which was also a member of the Joint Committee. The Thai Industries Association was composed of various associations of more specific sectors such as textile, electrical goods and so on. Any general tariff reform, for example, would affect various sectors differently and, even for the same sector, it would have different impacts on various domestic producers at different stages of production. See more details in the discussion on sub sectors below. At that point, most industrialists generally agreed with the government that an industrial reform at the macro level was necessary but, once it came down to personal interests at the micro level, arguments on how to reform each industry seemed endless.

The more important factor that put the industrial restructuring under SAL proposals into a stand-still was a change in the Minister of Industry after the general election in 1983. The then coming Minister of Industry put aside measures and recommendations under SALs but gave priority to the sugar industry and other matters. Therefore, the mechanism to translate technical work in the studies into actual plans for implementation came to a halt.

As a result of conflict of interest among industrialists and a political change in 1983, the general tariff reform slipped. It was not until April 1984 when the Ministry of Finance could partially adjust the tariff rates but, since then, it has not done substantial adjustments.

It is also interesting to see the development of trade liberalization for specific sector. One of the SAL measures was to conduct sub-sector studies whose recommendations would be considered by the government and private sector for implementation. Those sub-sectors were electrical goods, automotive, chemical, plastic products, ceramics, iron and steel products, machinery and other equipment, and textile. Details of developments for each sector are the following.

(1) Electrical goods sector

The intention of restructuring the electrical goods sector was to reduce distortion created by differential import tariff rates on imported final products and parts and components. A move to a more uniform tariff rate benefited and cost domestic producers differently. For example, a reduction in tariff rate on imported parts and components would benefit those domestic firms which imported parts and components for their assembly lines but would reduce the competitive position of those domestic firms whose production lines were more complete and relied little on imported parts and components. The first group of domestic firms would favor the measure but the second group would oppose it as their competitors' costs were lowered. However, if it was a reduction of tariff rates on imported final products, all domestic firms would oppose. There had been many meetings between the public and private sectors but they finally reached a solution of tariff reductions although the reduced rates were not as uniform as initially planned. The reason that domestic producers agreed with these reductions was that these tariff reductions would lower an incentive to smuggle electrical goods from abroad,

which then increased the sale of domestic firms.

(2) Automotive industry

The finding of a consultant team was that Thailand did not have a comparative advantage in producing automobiles. The team recommended that the protection should eventually be phased out by, first, freezing the existing tariff rates and required local content in assembled automobiles and, then, slowly lowering the tariff rates and required content over a certain period. Unfortunately, after the general election in 1983, the then Minister of Industry proposed just an opposite -- that is, an increase in the required local content up to 100% and an increase in imported tariff rates. These opposing options were discussed many times in the meeting of economic ministers (i.e. industry, finance, transport and communications, etc.) with a compromised solution that all existing required local content and tariffs would be unchanged.

(3) Textile industry

Similar to the conflict of interest in the electrical goods sector, domestic producers such as spinners, weavers and garment producers in the textile industry at different stages of product line were affected differently from the tariff reform. There were many meetings among domestic producers and between private and public sectors.

After some progress in the electrical goods sector, a compromised solution in the automotive industry and many meetings between the domestic textile producers and the government, the Thai economy started to pick up in 1986, which has turned the focus from the protection issue to the issue of investment for exports. Consequently, recommendations in studies of the other sub-sectors were not seriously considered. However, many used-to-be import-substitution industries have become export industries since 1986. The examples are textile and garment, footwear,

furniture, iron structure such as pipe, bicycle, electrical appliances and carpet.

CHAPTER IV
THE MODELLING APPROACH

4.1 Objective and Organization of the Chapter

This chapter presents the methodology and findings of the modelling approach whose objective is to investigate the impact of broadly defined SAL measures on Thailand's aggregate economic variables. It basically makes use of findings in Thongpakde (1989).

The organization of this chapter is the following. Section 4.2 presents previous empirical results of the modelling approach done by the World Bank. It also provides data on aggregate economic variables of other countries in comparison with those of Thailand. Section 4.3 discusses the methodology and conceptual framework underlying the model. Section 4.4 explains methods of estimation; Section 4.5, data sources; and Section 4.6, empirical results with insight interpretation. Finally, Section 4.7 presents some policy simulation results. Appendix E provides data used in regressions.

4.2 World Bank's Projection Results and International Comparison

The World Bank (1984) has projected Thailand's macroeconomic performance under alternative circumstance -- that is, with and without structural adjustment -- using the World Bank's SIAM I model. Its selected results are presented in Table 4.1, items b, c, g and h.

The World Bank's simulation revealed that average annual growth rates of real GDP, exports and imports with structural adjustment grew faster than the case without adjustment. However, the growth of investment without the structural adjustment for 1982-1986 was projected to be higher than that with adjustment measures. When comparing actual figures with the projected ones for 1982-1986, one

finds that actual growth rates of GDP, exports and imports were higher than the projected ones but the actual growth of investment was lower than that projected.

The World Bank also projected that the structural adjustment would improve the current account deficit in 1986 and 1990, i.e. the ratio of current account deficit to GDP would decline. Surprisingly, the actual current account in 1986 instead of being deficit turned surplus.

Table 4.1 also provided international data for comparison. See items d, e, i and j. For the first half of 1980s, Thai economy outperformed those of middle-income and highly indebted developing countries.

Table 4.1

World Bank (1984)'s Projection Results
and International Comparison

	Average of Annual Real Growth Rate (%)			
	GDP	Export	Import	Investment
<u>Thailand</u>				
a) 1976-1981: actual ⁽¹⁾	7.1	11.0	9.1	10.0
b) 1982-1986 (SAL I in 1982 and SAL II in 1983)				
- Projection with structural adjustment ⁽²⁾	5.2	6.9	6.2	6.4
- Projection without structural adjustment ⁽²⁾	5.0	4.8	5.6	6.9
- Actual ⁽³⁾	5.7	9.1	7.7	3.3
c) 1986-1990				
- Projection with structural adjustment ⁽²⁾	5.5	6.8	5.7	6.0
- Projection without structural adjustment ⁽²⁾	4.5	4.9	4.9	6.0
- Actual (1986-87) ⁽³⁾	7.1	14.5	24.4	9.3
<u>International comparison</u>				
1982-1986				
d) All middle-income developing countries	2.2 ⁽⁴⁾	6.6 ⁽⁴⁾	-2.4 ⁽⁵⁾	-2.3 ⁽⁶⁾
e) All highly indebted developing countries	1.9 ⁽⁴⁾	2.9 ⁽⁴⁾	-7.2 ⁽⁵⁾	-6.3 ⁽⁶⁾

Table 4.1 (Continued)

	Ratio to GDP (%)		
	Investment	Current account deficit	Foreign capital inflow
Thailand			
f) 1981 actual	24.7 ⁽¹⁾	7.0 ⁽¹⁾	6.2 ⁽³⁾
g) 1986			
- Projection with structural adjustment ⁽²⁾	26.2	2.5	-
- Projection without structural adjustment ⁽²⁾	26.8	4.7	-
- Actual ⁽³⁾	19.7	(2.1) ⁽⁷⁾	1.6
h) 1990			
- Projection with structural adjustment ⁽²⁾	26.9	1.8	-
- Projection without structural adjustment ⁽²⁾	28.6	6.0	-
International comparison			
i) All middle-income developing countries			
1980	26.8	4.6	-
1986	21.3	0.3	-
j) All highly indebted developing countries			
1980	25.2	4.8	-
1986	19.0	1.4	-

- Notes:** (1) From International Bank for Reconstruction and Development (1984), Table 3.1, p. 47.
- (2) From International Bank for Reconstruction and Development (1984), Table 3.3, p. 53.
- (3) Data on GDP, investment, import and export of goods and services are from National Income of Thailand, New Series 1970-1987, Account 6, Tables 7 and 9. Data on foreign capital inflow and import and export unit values are from Bank of Thailand, Monthly Bulletin. Current account deficit was computed as the difference between export and import of goods and services. Data on real export and import growth were constructed by deflating import and export values by their corresponding unit values.
- (4) From Paul Mosley.
- (5) From International Bank for Reconstruction and Development (1988), Table 1. Imports include only those of merchandise trade and the average growth was for 1980-1986.
- (6) From International Bank for Reconstruction and Development (1988). Data on investment are from Tables 4 and A.7. Those on current account deficit are from Table 1.5 and on GDP are from Table A.3.
- (7) Thailand experienced current account surplus in 1986.

4.3 Methodology and Conceptual Framework

To quantify impacts of broadly defined SAL measures on some aggregate economic variables, this study constructs a simplified macroeconomic model and statistically estimates it. Basically there are two ways of modelling---a reduced-form or single-equation approach and a structural model approach. The former is less complex since it relates aggregate economic variables to policy variables and other relevant variables without an explicit specification of a transmission mechanism. In contrast, the latter postulates policy variables and other relevant variables through a transmission mechanism into a structural model.

Since we are not strongly interested in the transmission mechanism which can be captured by a structural model. This study employs a reduced-form or single-equation approach because of its simplicity. Besides, an estimation of a structural model will also face serious problems if the model is not specified correctly.

A regression analysis was used to estimate the impacts of the SAL measures on aggregate economic variables. However, the nature of a regression analysis rules out any possibility of examining impacts of detailed SAL measures such as the impact of a tariff reduction in electrical appliance imports. It also rules out the possibility of examining the impacts of unquantifiable SAL measures such as the impact of tax administration changes and reforms. Consequently, the broadly defined SAL measures considered in the study are limited to an overall average tax rate of the government and export and import tariff rates.

As mentioned above in Chapter I, economic variables of interest are real gross domestic products, export and import quantities, current account deficits, and government deficits. Since they are the focus of this study, it is appropriate to consider factors determining each of these

variables in detail.

Real Gross Domestic Products

Many macroeconomic textbooks identify fiscal and monetary policies as key determinants of real gross domestic products (GDP) in the short run. In addition, for a country like Thailand whose economy is largely open to the world economy, terms of trade and real income of trading partners surely have a significant impact on real GDP of Thailand. But, in the long run, the growth of an economy depends on the existing capital stocks and technological progress. Details of their theoretical impacts are discussed below.

An increase in government purchases, raising the domestic demand for output, tends to raise real GDP but an increase in tax rates, which can be viewed as forced saving, reduces incentives to save, to work, and to invest and, consequently, tends to reduce real GDP. In case the government purchases are financed by taxes, the net effect on real GDP is theoretically ambiguous and turns out to be an empirical issue.

Like the government purchases, the monetary policy can have an expansionary effect. An increase in the growth rate of money supply creates an excess supply in money market, resulting in a drop in the market interest rates. This drop in turn reduces interest costs and, therefore, increases incentives to invest.

When considering external effects, one finds that an increase in the terms of trade, defined as the ratio of export prices to import prices, means that a country's real income or real GDP rises. As terms of trade rises, producers can sell their products to the world market at high prices when compared to the costs (or prices) of importing other products from the world market. Producers then have more incentives to produce for exports.

Similarly, an increase in real income of Thailand's trading partners, when keeping the terms of trade constant, tends to raise the demand for Thai exports and, consequently, real GDP.

In the long run, higher existing capital stocks and technical progress tend to give a higher growth rate of real GDP.

Based on the above theoretical framework, a reduced form of a real GDP equation can be formalized as follows:

$$\begin{aligned}
 \text{Real GDP} = F & \left[\begin{array}{ll} \text{government purchases,} & \text{tax rates,} \\ (+) & (-) \end{array} \right. \\
 & \left. \begin{array}{ll} \text{growth rate of money supply,} & \text{terms of trade,} \\ (+) & (+) \end{array} \right. \\
 & \left. \begin{array}{ll} \text{world real GDP,} & \text{time trend,} \\ (+) & (+) \end{array} \right. \\
 & \left. \begin{array}{ll} \text{first lagged values of real GDP,} & \end{array} \right] \quad (5) \\
 & (+)
 \end{aligned}$$

where F is a mathematical function and a positive or negative sign under each variable indicates a directional impact of that variable on real GDP. Time trend and first lagged values of real GDP are used to proxy technological progress and existing capital stocks, and world real GDP represents real income of trading partners.

The fiscal policy measures included in the equation are government purchases and tax rates. The SAL measure affecting real GDP in this case is the tax rate of the central government.

Export Quantity

An export of goods and services demanded by the rest of the world is one type of a demand function. That is, a rise in a relative price of Thai export lowers export quantity from Thailand as foreigners can switch to exports from other

competitors. In case an export tariff is also imposed before goods are exported. The relative price faced by foreigners is that after taking into account an export tariff rate. Changes in exchange rates also have similar effects on export demand as tariffs since they change relative prices faced by foreigners. A baht devaluation lowers the relative prices of Thai exports and a baht revaluation raises them.

An income variable such as world real GDP (representing real income of Thailand's trading partners) has a positive income effect on Thai exports if they are normal goods and services. In summary, we have a demand function of Thai exports as follows:

$$\begin{aligned} \text{Export quantity} = F & \left[\begin{array}{l} \text{relative price of export}(1 + \text{export tariff rate}), \\ (-) \\ \text{exchange rate in baht per foreign currency}, \\ (+) \\ \text{world real GDP} \end{array} \right]. \qquad (6) \\ & (+) \end{aligned}$$

The fiscal policy measure affecting export quantity in this case is the export tariff rate.

Import Quantity

Like an export demand function in equation (6), an import demand function takes the form of

$$\begin{aligned} \text{Import quantity} = F & \left[\begin{array}{l} \text{relative price of import}(1 + \text{import tariff rates}), \\ (-) \\ \text{exchange rate in baht per foreign currency}, \\ (-) \\ \text{real income of Thailand} \end{array} \right]. \qquad (7) \\ & (+) \end{aligned}$$

Unlike the export demand function, a baht devaluation raises a relative price of import faced by Thai residents and,

therefore, lowers import quantity. Furthermore, an income variable in the import quantity function is the real income of Thailand as it is the demander for imports. Similar to the export quantity equation, the import tariff rate is the policy measure of interest in the import quantity equation.

Current Account Deficits

By definition, a current account deficit is defined as the difference between export and import values. As we know prices and quantities of exports and imports of goods and services, we can calculate a current account deficit as follows:

$$\text{Current account deficit} = [\text{export value of goods and services} \\ - \text{import value of goods and services}] . \quad (8)$$

Government Deficits

When government expenditures exceed government revenue, the government usually finances this gap by borrowing. This amount of borrowing is a government deficit. Therefore,

$$\text{Government deficit} = [\text{government expenditures} \\ - \text{government revenue}] . \quad (9)$$

Government expenditures, according to the national-income account classification, comprise purchases, transfer payments and interest payments while the government revenue is composed of tax revenue and other revenue. The SAL measure enters the scene through the tax-revenue variable which is the result of a tax rate multiplied by a tax base. In our case, the SAL measure is the tax rate of the central government and the tax base is real GDP as specified in equation (5).

4.4 Methods of Estimation

The previous section outlines theoretically factors, including fiscal policy measures, that determine aggregate economic variables as shown in equations (5) to (9). However, the first three equations of real GDP, export

quantity and import quantity require an estimation since they are either in a reduced form or a structural form. The last two equations of current account and government deficits are basically definitions.

The estimation of equations (5) to (7) used the ordinary least squares (OLS) method available in the Micro TSP version 4.0. This method seems appropriate since the real GDP equation is a reduced form and, therefore, the simultaneity problem does not arise. As for the export demand equation, the OLS method also seems appropriate because Thailand has been a small open-economy. Finally, the OLS method is also appropriate for the import demand function because the supply of imports from the point of view of Thai residents is approximately perfectly elastic which is a characteristic of a small country.

4.5 Data

The estimation employed annual time-series data covering the period 1970-1987. Major sources of data are various issues of (1) Bank of Thailand, Monthly Bulletin, (2) National Accounts Division, Office of the National Economic and Social Development Board, National Accounts of Thailand, New Series 1970-1987, and (3) International Monetary Fund, International Financial Statistics. Data used in regressions are contained in Appendix E.

4.6 Empirical Results, Their Interpretation and Forecasting Ability

Empirical results for estimated equations of real GDP, export quantity and import quantity in log-linear form are as follows:

Period: 1971-1987

$$\log(\text{GDP}_t) = 0.285 - 0.08 \log(\text{TAX}_t) + 0.73^* \log(\text{WGDP}_t) + 0.70^* \log(\text{GDP}_{t-1}), \quad (10)$$

(0.965) (0.16) (0.25) (0.13)

Adjusted $R^2 = 0.997$ S.E. of regression = 0.017
 Durbin-Watson Stat = 1.80 F - statistic = 1822.54 ,

Period: 1970-1987

$$\begin{aligned} \log(\text{XGS}_t) = & -3.80^* - 0.47^* \log[\text{PX}_t(1+\text{TX}_t)] \\ & (0.56) \quad (0.068) \\ & +2.42^* \log(\text{WGDP}_t) , \quad (11) \\ & (0.126) \end{aligned}$$

Adjusted $R^2 = 0.987$ S.E. of regression = 0.06
 Durbin-Watson Stat = 1.80 F - statistic = 629.71 ,

Period 1970-1987

$$\begin{aligned} \log(\text{MGS}_t) = & -4.47^* - 0.77^* \log [\text{PM}_t(1+\text{TM}_t)] \\ & (0.65) \quad (0.20) \\ & -0.79^* \log(\text{EX}_t) + 1.38^* \log(\text{GDP}_t) , \quad (12) \\ & (0.25) \quad (0.13) \end{aligned}$$

Adjusted $R^2 = 0.960$ S.E. of regression = 0.06
 Durbin-Watson Stat = 2.42 F - statistic = 135.56 ,

where log is a logarithm form, a subscript t indicates that the subscripted variable is in period t, figures in parentheses below estimated parameters are their standard errors, adjusted R^2 is a coefficient of correlation adjusted for degree of freedom, Durbin-Watson stat is a Durbin-Watson statistic, and S.E. is standard errors of regression. Definitions of variables are as follows:

- GDP = real gross domestic products (1972 prices),
- TAX = an average tax rate, i.e. the ratio of tax revenue to GDP,
- WGDP = real gross domestic products of the world (1980 prices),
- XGS = real export value of goods and services,

- PX = relative price of exports, i.e. an export unit value deflated by a world wholesale price index,
- TX = an average export tariff rate,
- TREND = time trend (1970=1, 1971=2,....., and so on),
- MGS = real import value of goods and services,
- EX = an exchange rate between baht and US dollar,
- PM = relative price of imports, i.e. an import unit value deflated by a domestic wholesale price index,
- TM = an average import tariff rate, and
- * = statistically significant difference from zero at 1% level.

Empirical results in equations (10)-(12) are generally satisfactory. The coefficients of correlation adjusted for degree of freedom, adjusted R^2 , are relatively high -- over 0.96 -- for all equations. This high correlation is mostly explained by the first lagged value of the dependent variable in the real GDP equation or by the income variable in the export and import quantity equations. The high F-statistic in each equation rejects the null hypothesis that all estimated parameters except for the constant term are indifferent from zero. The Durbin-Watson statistic reveals no autocorrelation problem in GDP and export equations, and it falls into a inconclusive region for the import equation.

The results reported in equations (10)-(12) are those after many alternatives of the right-hand-side variables have been tried. For example, the variables of government purchases, a growth rate of money supply, terms of trade and a time trend were also included as the right-hand-side variables, one at a time or in various combinations, in the real GDP equation. It turns out that their estimated parameters were not statistically significantly different from zero at the 5% critical level and, therefore, they were dropped from the equation of real GDP. The interpretation of the results is as follows.

Looking at the real GDP equation, one can see that all estimated parameters have expected signs. Unfortunately, the estimated coefficient of average tax rate variable is not statistically significant. It seems that changes in the average tax rate have a small overall impact on real GDP. A one percentage point increase in the world real GDP raises the Thai real GDP by 0.73 percentage points, and a one percentage point increase in last year's real GDP of Thailand raises this year's Thai real GDP by 0.70 percentage points.

The export quantity equation are examined next. A one percentage point increase in the relative price of export including an export tariff rate [$PX(1+TX)$] reduces the Thai real export of goods and services by 0.47 percentage points. The condition of the world economy strongly affects Thailand's export demand. The elasticity of this demand with respect to the world GDP is 2.42. We also tried a variable of an exchange rate but it was not statistically significantly different from zero at the 5% critical level and therefore was dropped from the equation.

Finally, let us consider the import quantity equation. A one percentage point increase in the exchange rate (EX) or baht depreciation lowers the real import to Thailand by 0.79 percentage points. A one percentage point increase in the relative price of imports including an import tariff rate [$PM(1+TM)$] reduces the real imports by 0.77 percentage points. Holding other variables constant, the imports to Thailand grew by 1.38 percentage points with a one percentage point increase in Thailand's real GDP.

To test the predictive performance of the model, an historical simulation from 1970-1987, is performed so that one can examine how closely each endogeneous variable tracks its corresponding historical data series. Then, two well-

known statistically criteria whose formulas are shown below, are employed to analyze the forecasting ability of the model.

(1) Root-mean-square simulation error

$$\text{RMS} = \sqrt{\frac{1}{T} \sum_{t=1}^T (P_t - A_t)^2}$$

(2) Theil's Inequality coefficient

$$U = \frac{\sqrt{\frac{1}{T} \sum_{t=1}^T (P_t - A_t)^2}}{\sqrt{\frac{1}{T} \sum_{t=1}^T P_t^2} + \sqrt{\frac{1}{T} \sum_{t=1}^T A_t^2}}$$

where: P_t = a simulated value of a relevant endogenous variable,
 A_t = an actual value of a relevant endogenous variable, and
 T = number of period in the simulation.

If the simulated values match the actual value well, simulation errors will be small, so will the RMS. The scaling of Theil's inequality coefficient will always fall between 0 and 1. If U is equal to zero there is a perfect fit. On the contrary, if U is equal to one, the predictive performance of the model is the worst it can be. Usually, a value of the coefficient which is less than 0.3 is considered satisfactory.

Values of RMS of the GDP equation, export equation and import equation are 0.015, 0.051 and 0.054 respectively. The corresponding values of U are 0.001, 0.003 and 0.003. Values of RMS are small and values of theil's coefficient are close to zero, which indicates that the estimated

FIGURE 4.1

FITTED & ACTUAL VALUES: GDP EQUATION

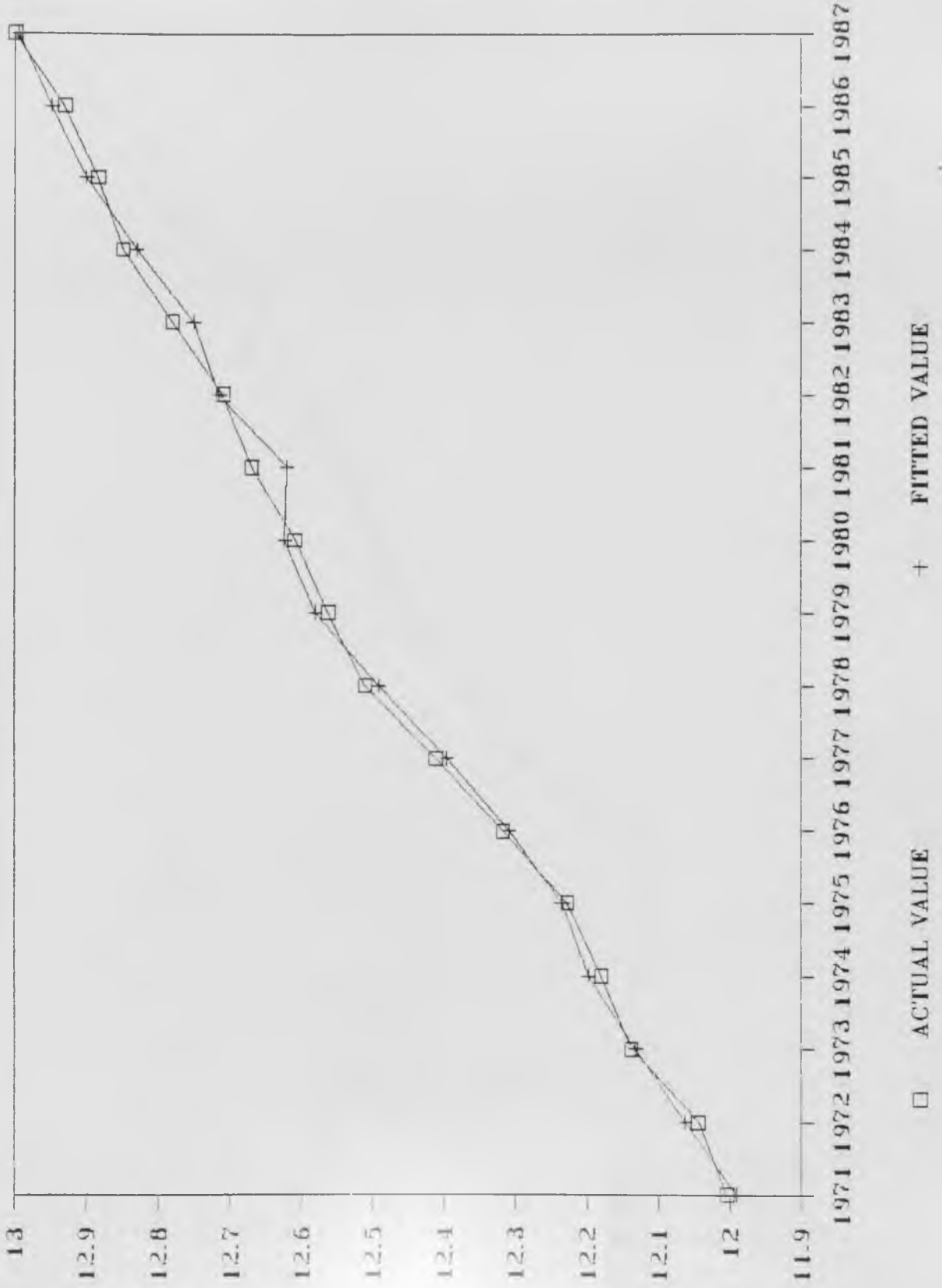


FIGURE 4.2

FITTED & ACTUAL VALUES: EXPORT EQUATION

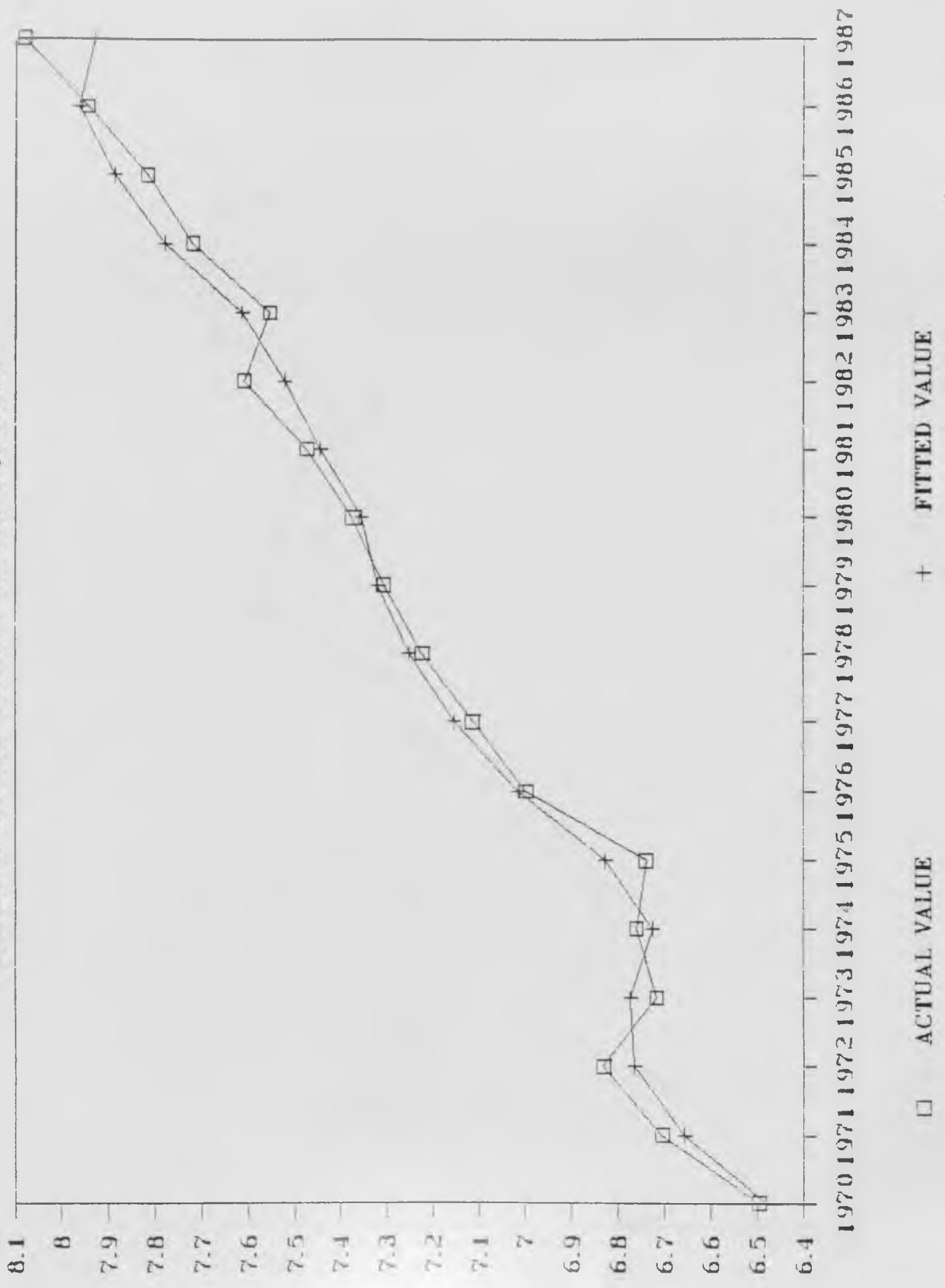
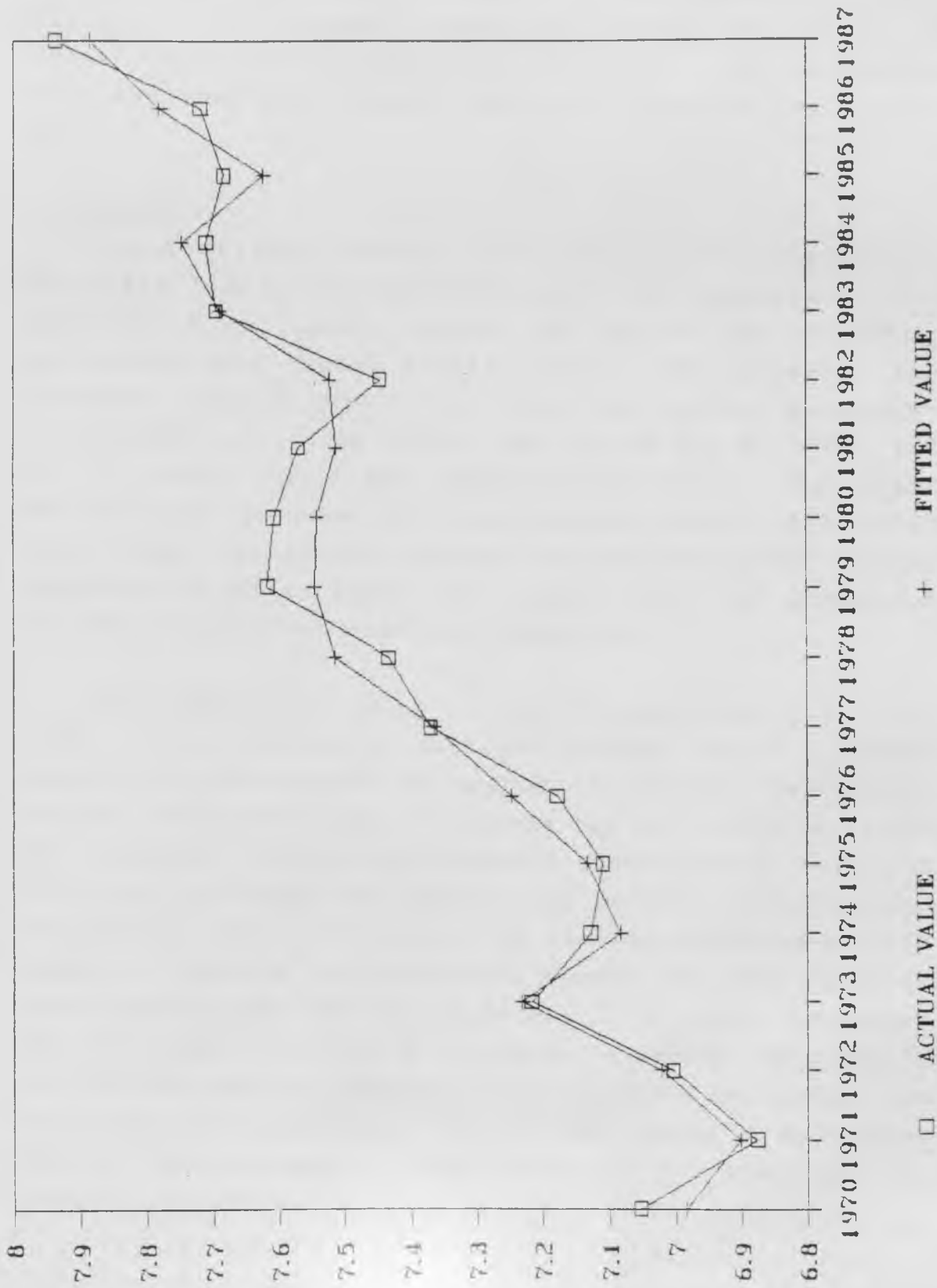


FIGURE 4.3

FITTED & ACTUAL VALUES: IMPORT EQUATION



equations perform well in respect to the predictive power. Figures 4.1-4.3 present comparison between the fitted and actual values of our endogeneous variables. One can observe that the predicted values trace the historical ones quite well.

4.7 Simulation

As mentioned before, the nature of a regression analysis limits an examination of the impacts of SAL measures of an overall average tax rate of the government and export and import tariff rates. The relevant SAL proposed measures were (1) to raise the central government revenue/GDP ratio from 13% in 1981 to 18% for FY 1986^{1/} and (2) to reduce import and export tariff rates. The former measure aimed at reducing the government deficit which could also reduce the current account deficit while the latter measures wanted to reduce the overall level of protection and the bias against exporting industries.

The simulation using estimated equations (10)-(12) under two situations -- with and without SALs -- reveals impacts of SAL measures on aggregate economic variables. However, the coefficient of average tax rate variable in the GDP equation is not statistically significantly different from zero, although the equation can predict the historical values very well. Therefore, the simulation to quantify an impact of raising the government average tax rate based on this equation may not be accurate. It is only suggestive that the overall effect of a change in average tax rate on real GDP be small. Apparently, an increase in average tax rate may raise government revenue and reduce a government deficit (see discussions below equation (9)) since the tax base or real GDP does not change.

^{1/} Later, the target was reduced to 16%.

The export and import equations were, then, employed to simulate the impact of tariff changes according to SAL proposals. We hypothesize that, without SALs, the import and export tariff rates since 1982 would be equal to the average of the tariff rates from 1975 to 1981. This is considered as the status quo scenario. The average import tariff rate from 1975 to 1981 was 12.4% and that of export was 2.6%. The import and export quantity based on the hypothetical tariff rates were calculated from estimated equations (11) and (12) for 1982-1987. The simulated quantity was, then, multiplied by the relevant actual unit values to obtain export and import values. A current account deficit is the difference between export and import values as shown in equation (8).

The simulated values of these macro variable were then compared with the actual ones which represent the with-SAL scenario. Tables 4.2 and 4.3 respectively show the difference between actual and simulated values of selected variables and their percentage difference.

The results indicate that SAL measures helped to boost Thailand's exports with the average value of 1,956 million Baht per annum for 1982-1987. This amount is quite impressive although it is quite low when compared with total export value, i.e. it is less than one percent.

A reduction in import tariff rates results in a decrease in import prices, therefore, it encourages import demand. SAL measures increased values of imports in 1982, 1983 and 1987. In 1985 and 1986, actual import tariff rates were higher than the average rate for 1975-1981, so the actual values of import for 1985-1986 were lower than the simulated values. However, for every year in consideration, the percentage of the difference is very small. For the period after SALs were introduced, the simulation indicates

that import values, if without SALs, were lower than actual ones.

As discussed above, the reduction in export and import tariff rates has an opposite directional impact on the current account. In other words, one improves a current account by reducing an export tariff rate but deteriorates it by decreasing an import tariff rate. Our simulation results show that the net impact of considered SAL measures is an improvement of the current account. From 1983-1987, actual current account deficits were smaller than those in the hypothetical case. The exception was in 1982. The average amount of a reduction in current account deficits was approximately 1,643 million Baht per year.

Table 4.2

Difference between Actual Values and
Simulated Values of Selected Macroeconomic Variables

Year	Export	Import	Current A/C Deficit
1982	1,095.65	2,872.11	1,776.46
1983	614.19	460.35	-153.84*
1984	1,489.94	-5.25	-1,495.19
1985	2,311.10	-237.11	-2,548.21
1986	2,880.02	-1,539.28	-4,419.30
1987	3,351.07	330.19	-3,020.88

Unit : Millions of Baht

* Minus signs indicate smaller values of current account deficits.

Table 4.3

Percentage Difference between Actual Values and
Simulated Values of Selected Macroeconomic Variables

Year	Export	Import	Current A/C Deficit
1982	0.57	1.39	12.33
1983	0.33	0.18	-0.23*
1984	0.69	0.00	-3.55
1985	0.94	-0.09	-8.84
1986	0.99	-0.58	-19.20
1987	0.94	0.09	-275.13

Unit : Percent

* Minus signs indicate smaller values of current account deficits.

CHAPTER V
A SUMMARY AND LESSONS

This project has an objective of searching answers to two key questions regarding the World Bank's first and second structural adjustment loans (SAL I & SAL II) made to Thailand in 1982 and 1983 respectively. These two key questions are (1) why were some measures attached to SALs to Thailand implemented? and (2) what were the impact on the Thai economy of those measures that were implemented?

The project utilized three approaches to answer the above two key questions. First, it utilized information and data from various documents published in Thailand and by the World Bank. Second, it utilized information from interviewing government officials (involved in SAL negotiation, design, and implementation) and affected businessmen. Finally, it utilized a mathematical model and regression analysis. The interview approach is the core of this project to answer the first key question of why some SAL measures were implemented. However, data and information from various documents substantially help form the justification of interviewees' arguments and the overall picture of the structural adjustment process in Thailand.

The motive of having structural adjustments in Thailand came from the fact that Thailand, after being adversely affected by the second oil shock in 1979-1980, experienced rapidly rising current account and government budget deficits in the early 1980s. The world economy at that time was also in a bad shape dominated by world wide recessions, high real interest rates and high inflation. Therefore, a solution to revive the Thai economy from the above twin deficits by depending on a recovery of the world economy, at that time, seemed hopeless. The remaining solution left would be a structural adjustment of the Thai economy.

The SAL measures made to Thailand were only part of an overall program for structural adjustments in Thailand. The Thai government itself had formulated broad policies in various areas into the Fifth National Economic and Social Development Plan for Fiscal Year 1982-1986. In addition, the Thai government also took other measures which were not included in the SAL agreement. An important one was a devaluation of the baht against US dollar in 1981 and again in 1984. The Thai government was not alone in launching these structural adjustment measures. Various international institutions had lent Thailand a hand. Two of them playing a very important role are IMF with its standby arrangement and, of course, the World Bank with its structural adjustment loans. Although the amount of both SAL I and SAL II combined was not substantial, slightly above US\$325 million, the proposed measures covered a wide range of areas and policies namely, agriculture, industry, energy, fiscal policy and institutional development.

To answer the question of why some SAL measures were implemented and why some were not, we hypothesize that the likelihood of implementing the measures depends on (1) whether the measures or their elements were new or had been tried in previous years, (2) whether those measures would have been implemented with or without SALs, (3) what contribution the World Bank made to the structural adjustment in Thailand, and (4) political and economic factors. We tested our hypotheses by interviewing more than 35 people in eleven organizations. The findings are quite encouraging since the responses from our interviewees were generally in the same direction. The main findings are as follows. First, many SAL measures were not new. Some were ongoing programs or projects. Some were implemented before Thailand signed the SAL agreement and were considered by the World Bank as the down payment. Finally, some were part of the Fifth National Economic and Social Development Plan.

Second, the SAL measure would have been implemented without SALs. However, the coverage and the speed would have been less and slow respectively. Third, the World Bank had substantial contributions ranging from the obvious loan amount used to supplement Thailand's international reserves and government budget, indirect influence on the Thai policy makers, to technical assistance. Finally, the changing economic environment is an important factor affecting the degree of success or failure of the implementation of SAL measures. As important is the views of the general public and newspapers towards the measures. Once they did not support any measure, the politicians whose popularity depends on the approval of the public and newspapers tended to hesitate or avoid to implement that measure.

To answer the second key question of what were the impact on the Thai economy of the SAL measures that were implemented, we have set up a simplified macroeconomic model. A regression analysis was then employed to estimate coefficients of equations of real GDP, export and import. The broadly defined SAL measures are limited by the nature of regression analysis to an average tax rate of the government and export and import tariff rates.

The estimated equations can predict the historical values of dependent variables very well. However, the coefficient of the average tax rate variable in the real GDP equation is not statistically significantly different from zero. A change in the average tax rate seems to have no impact on real GDP. In contrast, the relative prices net of tariff rates in the export and import equations are significant in statistical sense. A one percentage point increase in the relative price of exports reduces the export demand by 0.47 percentage points. For the import demand equation, a one percent point increase in the relative price of imports reduces the import quantity by 0.77 percentage

points.

The export and import equations were, then, employed to simulate the impact of tariff changes under alternative environments -- that is, with and without SALs. The simulated results reveal that, if without SALs, the growth rate of Thai exports and imports would have been lower and the current account deficit would have deteriorated.

The main lesson regarding the "generally perceived" success of the SALs in Thailand, in our views, is that the success came mainly from a true commitment of the Thai government to restructure the economy as evidenced from (1) the down payment of various actions taken before signing the SAL agreement, (2) a vigorous implementation of SAL measures during the SAL period of 1982-1984, and (3) a continuation of the implementation of the measures even after the SAL period.

APPENDIX A

A SUMMARY REVIEW OF RECOMMENDATIONS, MEASURES AND IMPLEMENTATION
RELATED TO STRUCTURAL ADJUSTMENT LOANS

Table A.1	Policy Recommendations Made by the World Bank in 1980
Table A.2	Actions Taken for Structural Adjustment before Submitting the Letter of Development Policy for the First World Bank Structural Adjustment Loan (SAL I)
Table A.3	Specific Actions Planned for SAL I
Table A.4	Specific Actions Planned for SAL II
Table A.5	Summary Review of SAL I & II Program Components

Table A.1

Policy Recommendations Made by the World Bank in 1980

FISCAL POLICY AND PUBLIC RESOURCE MOBILIZATION

- budget*
- (a) reviewing government current and capital expenditures to eliminate wasteful or unnecessary expenditures and assure that the remaining ones conform to the government's priorities for development and adjustment. A comprehensive analysis and review of the public investment program and adequate economic evaluation of public and public enterprise investments should be a regular part of the planning and budgeting exercise;
- tax*
- (b) exerting even more vigorous efforts to increase collections of existing taxes through improvements in tax administration for both direct and indirect taxes, building on the success of initial programs in this area;
- (c) introducing procedures for more prompt collection of tax liabilities and advance payments of some taxes;
- (d) discontinuing the present system of treating any corporation as a personal entity for income tax purposes if one of the shareholders owns more than half of the capital;
- (e) expanding the personal income tax base to include all income from property, capital gains, and eventually gifts and transfers;
- (f) simplifying the rate structure of the business tax into three broad categories with a standard basic rate, reduced rate on essential goods and a higher rate on nonessentials. The basic rate level should be kept high enough to increase revenues significantly, and rates should be applied uniformly to domestic goods and imports. Consideration should also be given to reforming the business tax into a single point tax (probably at the wholesale level) with the possibility of eventually moving to a value added tax;
- (g) implementing proposed reforms of the excise tax structure to consolidate nine separate excise codes into a single one, to integrate excises with business taxes on selected commodities, to widen the excise tax base to include luxury commodities such as electrical appliances, electronic devices, automobiles, watches, cosmetics, etc., and to convert all remaining specific excise taxes to ad valorem;

- (h) increasing collections on the existing property tax, which are low because of widespread exemptions, concessional rates, low assessments, and poor administration. Introducing a new property tax should also be considered in the longer term;
- (i) reducing the "standard deductions" for professional incomes or replacing them with direct accounting of expenses;
- (j) introducing frequent and automatic tariff adjustments for public enterprises based on their operating costs and investment requirements so that they can cover a larger portion of their investment programs; and
- (k) issuing government bonds that offer positive real rates of interest to the public to reduce reliance on deficit financing from the banking system. Public enterprises should also be encouraged to issue bonds to the public.

MONETARY POLICY, EXTERNAL BALANCES AND FINANCIAL SECTOR DEVELOPMENT

- (a) establish and adhere to guidelines for rates of monetary expansion consistent with expected real growth plus exogenously generated price increases. Interest rates should be allowed to adjust as necessary (further increases in interest ceilings may be required);
- (b) assure that the Bank of Thailand maintains the interest rates that it regulates positive in real terms, and that other regulated rates move consistently with the overall rate structure.
- (c) adjust interest-rate, reserve, and other financial policies to assure necessary capital account balances consistent with domestic objectives of growth and financial stability;
- (d) fully implement existing requirements for reporting to the Bank of Thailand all actual and intended foreign borrowing by all agents, public and private, and to develop debt management policies to coordinate public sector borrowing and provide guidelines for private borrowing;
- (e) improve financial intermediation by measures to increase credit availability for agriculture and small-scale industry through changes in institutional structures and/or regulations; and
- (f) encourage longer-term lending by commercial banks and the creation of specific institutions with long-term intermediation objectives, such as insurance companies and pension funds.

ENERGY POLICY

- (a) announcing and implementing a program of regular and automatic adjustments of petroleum and other energy prices and power tariffs in response to changes in external energy costs;
- (b) raising excise, business and import taxes on energy products to at least their real pre-1973 level and higher if necessary to reflect the scarcity of energy resources and of the foreign exchange used to import energy;
- (c) using substitution or opportunity cost pricing of domestic energy resources to reflect the alternate costs of imports, to discourage investment in uneconomic energy-intensive projects and equipment, and to encourage further development of domestic energy resources;
- (d) enforcing a pattern of refinery expansion that assures an appropriate balance of petroleum product supply and demand;
- (e) developing adequate conservation measures for both commercial/ industrial and residential/individual uses, including more energy-efficient machinery, retrofitting to reduce energy losses, and improved energy design in the future; and
- (f) improving the capacity of energy sector institutions to influence the development of the energy supply structure, to manage demand and purchasing policies of petroleum and product supplies, to develop nonconventional sources, and to allocate scarce energy resources if necessary.

INDUSTRIAL DEVELOPMENT POLICY

- (a) implementing measures currently under review to reduce biases against manufactured exports by full and prompt rebate of all taxes and tariffs paid on intermediate imports used directly and indirectly in the production of exports;
- (b) reducing or eliminating export taxes and other export controls such as export licenses and minimum prices, except where foreign market limitations (e.g., quotas, inelastic demand) require management of Thai exports. Where licenses allocate foreign quotas, they should be easily transferrable among exporters and available to bona fide new exporters;

- (c) improving the export credit and guarantee schemes, simplifying their administration, and extending the facilities to cover pre-export and export investment credit requirements;
- (d) expanding institutional promotion measures and making export promotion incentives available to all trading firms;
- (e) replacing all nontariff restrictions on imports with ad valorem tariffs and moving toward a more homogenous tariff structure by initially reducing tariffs above 50% to 50% and raising tariffs below 10% to 10% as a first step toward a uniform tariff. Infant industries could be allowed an additional 15% for limited periods of time, and an additional 20% could be imposed on luxury imports;
- (f) eliminating domestic price controls;
- (g) establishing an authority for economic evaluation of all large projects requiring major public support in the form of equity, credit guarantees, protection, special incentives, or major specific infrastructure construction;
- (h) granting investment incentives on an automatic basis to all firms which meet certain stated objective development criteria except for specifically excluded industries;
- (i) implementing more effective measures to promote appropriate development of industry outside of Bangkok; and
- (j) developing effective ways to encourage higher employment generation per unit of industrial investment.

AGRICULTURAL POLICY

- (a) design a national land use and development policy and then implement an extensive program to reclassify land based on a national land suitability classification, to expand and coordinate land settlement and reform in areas reclassified as being suitable for agriculture, to improve credit availability for purchasing and improving land, and to improve accessibility to full land rights;

- (b) increase forest protection, accelerate reforestation in areas suitable only for forestry, and expand land conservation and improvement programs, especially in areas with low cropping intensities;
- (c) make better use of available water resources by further development of major water control and irrigation schemes, by improving existing schemes of on-farm development, by development of viable medium and small water resource projects, especially in the Northeast, by improving the Royal Irrigation Department's planning, monitoring and evaluation capacities, and by introducing comprehensive water management systems, including the levying of water charges;
- (d) coordinate research and extension activities providing applied technology for rainfed agriculture and to encourage changes in cropping patterns to achieve improvements in yields and farm incomes;
- (e) expand programs of government assistance for specialized crop development (particularly tree crops), livestock raising, and fish farming as supplementary sources of income for low-income farmers;
- (f) provide adequate institutional credit to farmers through better coordination of the government development agencies with the banking system and more systematic use of the Bank for Agriculture and Agricultural Cooperatives to complement the activities of the commercial banking and informal credit systems;
- (g) improve the efficiency and stability of the agricultural marketing and pricing system in order to increase returns to farmers, by examining the possibility of phasing out the present premia, taxes and reserve requirements for rice exports, reducing wholesale price fluctuations of major crops, and removing restrictions that introduce inefficiencies in private market development, such as limitation on livestock movement;
- (h) develop adequate mechanisms for grading and quality control for seeds and fertilizers; and
- (i) develop programs which respond to the specific problems and needs of different areas of the country, especially those which have been left behind in the development process.

Source: International Bank for Reconstruction and Development (1980A), pp. 53-54, 58, 64-65, 68-69 and 72-73.

Table A.2

Actions Taken for Structural Adjustment
before submitting the Letter of Development Policy
for the First World Bank Structural Adjustment Loan (SAL I)

Sector or Policy Area	Actions Taken
<u>AGRICULTURE</u>	
1. <u>Land Use Policy</u>	
(a) Land use study	The government had prepared, for the Fifth National Economic and Social Development Plan, a study on land use and development policy and the magnitude and regional distribution of the problem had been identified.
(b) Land certification	The decision was made to issue "right to farm" certificates (or "S.T.K.") to farmers who were cultivating soils suitable for agriculture.
(c) Land reclassification	The government had begun the process of land reclassification with the 1982 fiscal year budget of baht 73 million and had prepared a broad program for land reclassification aimed at covering the majority of the problem area during the Fifth Plan period.
2. <u>Marketing and Pricing Policy</u>	
(a) Export restriction on cassava, maize, and sugar	Export quota system for cassava had been eliminated and that for maize had been made more flexible. Ban on sugar exports had been lifted.
(b) Export tax for rubber	Reduced from 25% to 11%
(c) Rice programs on price, distribution, and reserve requirement	The efficiency and effectiveness of the rice price support program had been improved; paddy prices to the the farmers increased by about 20-25% over 1981.
	The effectiveness of the cheap rice distribution program meeting the needs of poverty groups had been improved by limiting quantity and eligibility for purchases and by increasing the proportion of cheap rice marketed outside Bangkok from 40% in 1980 to 65% in the first half of 1981.
	In December 1981, rice reserve

Table A.2 (Cont 'd)

Actions Taken for Structural Adjustment
before submitting the Letter of Development Policy
for the First World Bank Structural Adjustment Loan (SAL I)

Sector or Policy Area	Actions Taken
	<p>requirement was halved, resulting in a reduction of its effective burden on rice exports from an estimated 20% down to 10%.</p>
<u>INDUSTRY</u>	
1. <u>Discussions and Seminars</u>	<p>Broad ranging discussions on industrial development policies had begun between officials of the agencies concerned, industrialists, private bankers and manufacturers.</p>
	<p>Public seminars were held on (1) rationalization of industrial protection policies, (2) productivity improvement, (3) export promotion, and (4) energy conservation.</p>
2. <u>Committee establishment</u>	<p>Setting up a permanent high level interdepartmental committee to coordinate, implement and monitor industrial development.</p>
3. <u>Export Promotion</u>	<p>The dollar value of the baht was reduced in 1981 by about 10%.</p>
	<p>A new export tax drawback Act was approved by Parliament.</p>
	<p>Legislation had been passed to establish an Export Development Fund to provide technical and promotional support for exports.</p>
4. <u>Reform of the Protective Structure</u> (a) Subsector study	<p>Arrangements had been made for the World Bank to assist with the study on the electrical goods sector.</p>
5. <u>Investment Incentives</u> (a) A study	<p>Under the UNDP/IBRD technical assistance arrangement to the Board of Investment (BOI), a comprehensive study had been completed on the system of</p>

Table A.2 (Cont 'd)

Actions Taken for Structural Adjustment
before submitting the Letter of Development Policy
for the First World Bank Structural Adjustment Loan (SAL I)

Sector or Policy Area	Actions Taken
(b) Committee establishment	investment incentives and on the functions and procedures of BOI. A high level committee had been set up to review the existing system of investment incentives, based on the policy recommendation of the above study.
<u>ENERGY</u>	
1. <u>Pricing and tariffs</u>	By April 1981, average power tariffs and petroleum prices had been raised by about 120% over the average level in March 1979 to reduce underpricing of energy.
2. <u>Supply side</u>	Availability of natural gas in the Gulf of Thailand since September 1981 had reduced the dependence on imported oil.
<u>FISCAL POLICY</u>	
1. <u>Measures to reduce budget deficits</u>	In fiscal year 1981 and in the budget for fiscal year 1982, the government had started (1) to increase discipline over public spending and (2) to impose selected tax measures and substantially increase public enterprise tariffs.
2. <u>Short-term fiscal stabilization measures</u>	The government had the Standby Agreement with the International Monetary Fund (IMF). Its amount was SDR 814.5 million over a two-year period which started in May 1981.
3. <u>Tax policy</u> (a) Tax administration	As of January 1982, the Revenue Department had set up five Area Tax Offices in Bangkok. The IMF had provided extensive technical support in the area of tax administration.

Table A.2 (Cont 'd)

Actions Taken for Structural Adjustment
before submitting the Letter of Development Policy
for the First World Bank Structural Adjustment Loan (SAL I)

Sector or Policy Area	Actions Taken
(b) Tax Policy Board	The Board had recently been set up. Its functions were to identify an appropriate long-term tax structure and develop a program of phased movement towards it.
<u>INSTITUTIONAL DEVELOPMENT</u>	
1. <u>Policy analysis and coordination</u>	A permanent high-level National Economic Policy Steering Committee was formed in November 1980 under the Chairmanship of the Prime Minister and with the NESDB functioning as its secretariat.
2. <u>Program formulation, evaluation and implementation</u>	Since March 1980 a consultant firm had been working with the Budget Bureau to improve the national budget system. The first phase of this undertaking was completed in September 1981. The second phase of this project was initiated at the end of 1981 for the conversion of the entire government to full program budgeting.

Note: Extracted from the Letter of Development Policy No. MF.0304/4460, dated February 4, 1982, from Mr. Sommai Hoontrakul, Minister of Finance, to Mr. Clausen, President of the World Bank; Re: Thailand-Structural Adjustment Loan.

Table A.3

Specific Actions Planned for SAL I

Sector or Policy Area	Planned Actions
<u>AGRICULTURE</u>	Actions aimed at increasing productivity through the improvement of incentives to farmers.
1. <u>Land Use Policy</u>	Work on land certification and reclassification was continued. By March 1982, the Ministry of Finance would prepare a more detailed work program for land reclassification.
2. <u>Marketing and Pricing Policy</u>	Further improvements in the procurement and distribution.
(a) Rice programs	Further reductions in the overall burden of rice taxation.
(b) Deregulation of livestock marketing	Permitting the establishment of private slaughterhouse facilities for export by April 1982.
(c) Fertilizer marketing study	Reviewing the public sector program for supplying fertilizer to farmers, paying particular attention to pricing issues and distribution mechanisms and objectives.
<u>INDUSTRY</u>	Action aimed at inducing efficient growth.
1. <u>Export Promotion</u>	Broad based improvements, implemented in 1982, in organization of the Customs Department and in procedures for implementing the import tax refund scheme and the new export tax drawback Act.
(a) Customs Department	Customs stations would be created at industrial estate locations and in major regional cities.
(b) Bonded warehouses and export processing zones	Five additional bonded warehouses would be created in 1982.
	Export processing zones would be set up in Bangkok and Sattahip early in the Fifth Plan period (1982-1986).

Table A.3 (Cont'd)

Specific Actions Planned for SAL I

Sector or Policy Area	Planned Actions
(c) Export Development Fund	Details concerning the financing and operations of the Fund would be decided by June 1982.
2. <u>Reform of the Protective Structure</u>	
(a) General tariff Reform	During the fiscal year of 1982, tariff rates would be modified so that all imports would be subject to the ratio ranging from 5% to 60%. Exceptions would only be granted in special cases. By mid-1982, further appropriate changes in both tariff and nontariff restrictions.
(b) Subsector studies	Plan for automotive in 1982; chemical, plastic products, and ceramics in 1983; iron and steel products, machinery and other equipment in 1984.
3. <u>Investment Incentives</u>	
(a) Board of Investment	By March 1982, the government would formulate a more detailed program and phasing for the reform of the investment incentives.
(b) A study	By mid-1982, the Ministry of Finance in cooperation with the BOI, would initiate a study of the economic and fiscal consequences of the present and proposed incentives.
4. <u>Large Scale Projects</u>	Ad hoc arrangements would be made for reviewing whether large scale projects met the criterion of economic viability as long as the National Economic and Social Development Board (NESDB) and BOI were not yet in a position to fulfill their functions for all large projects.
<u>ENERGY</u>	Actions aimed at reducing the demand for largely imported energy and eliminating underpricing of energy.
1. <u>Pricing</u>	
(a) A study	A study of the relative price structure of petroleum products.

Table A.3 (Cont'd)

Specific Actions Planned for SAL I

Sector or Policy Area	Planned Actions
(b) Pricing changes	Plan to initiate appropriate changes in the price structure in 1982.
2. <u>Energy Strategy formulation</u>	
(a) Energy studies	Studies on the energy master plan, gas utilization, domestic nonconventional energy, and energy conservation.
(b) Strategy formulation	Based on the findings in the above studies, the National Energy Authority (NEA) in consultation with other concerned agencies would formulate and implement the energy strategy.
<u>FISCAL POLICY</u>	
1. <u>Tax policy</u>	
(a) Tax measures	Restructuring of personal and corporate income taxes, and a progressive income tax on sales of property.
	Selective increases in import duties on goods now exempted or taxed at low rates.
	Increases in excise taxes on certain sumptuary items and the change in the excise tax on cement from a specific to an ad valorem base.
(b) Tax administration	By March 1983, the Revenue Department would have set up the total of eight Area Tax offices in Bangkok.
	By mid-1982, regulatory action required for the Revenue Department to implement a separation of headquarters from operational functions and to organize its headquarter along functional lines would be completed.
2. <u>Development of a medium-term Fiscal strategy</u>	
(a) Integrated fiscal planning	Preparing phased implementation program for attainment of the expenditure and revenue targets and of the broad fiscal policies identified in the Fifth Five-Year Plan for the entire public sector. Specifically, central government

Table A.3 (Cont'd)

Specific Actions Planned for SAL I

Sector or Policy Area	Planned Actions
(b) Public enterprises	<p>revenues would be raised from 14% to 18% of GDP over the Plan period.</p> <p>Establishing realistic financial targets for all major public enterprises and a phased program for the achievement of these targets. Operational losses in these major public enterprise would be eliminated.</p>
(c) A study	<p>Reviewing the operations and effectiveness of the extra-budgetary funds with the objective of establishing clear performance criteria and a central monitoring system and considering whether they should continue to operate as separate entities.</p>

INSTITUTIONAL DEVELOPMENT

1. Policy analysis and coordination

(a) In-house capabilities

Strengthening the in-house capabilities of the core agencies (primarily NESDB, Ministry of Finance and Budget Bureau) responsible for economic and fiscal policy analysis and advice.

(b) Outside capabilities

With effect from fiscal year 1983, provision of regular budget resources to permit the greater utilization of analytical capabilities outside the core agencies in the conduct of key policy studies.

The creation of an autonomous economic and social policy research institute early in 1982 to provide research support and consulting services to NESDB and other government agencies.

2. Program formulation, evaluation and implementation

Consultants would assist the NESDB to design, test and introduce new planning and programming systems which comprised a three-year rolling investment programming system, a uniform project preparation and investment appraisal

Table A.3 (Cont'd)

Specific Actions Planned for SAL I

Sector or Policy Area	Planned Actions
3. <u>Personnel management</u> (a) Studies	system, and a comprehensive program monitoring and evaluation system.
	The Prime Minister's office would initiate studies of the organization, management and compensation of the civil service during 1982.

Note: Extracted from the Letter of Development Policy No. MF.0304/4460, dated February 4, 1982, from Mr. Sommai Hoontrakul, Minister of Finance, to Mr. Clausen, President of the World Bank; Re: Thailand-Structural Adjustment Loan.

Table A.4

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
<u>PUBLIC SECTOR MANAGEMENT</u>	
1. <u>Fiscal strategy</u>	
(a) The revenue side	Strengthening of the link between the new revenue targets and the tax policy and tax administration changes. The target of central government revenue/GDP ratio was dropped from 18% as stated in SAL I to 16% in FY 1986.
(b) The expenditure side	Improvement of the methods to project central government outlays.
(c) Public enterprises, extra-budgetary funds, and local government	Medium-term projections would be made for the financial operations of public enterprises. These projections and those for extra-budgetary funds and for local government would then be integrated into an overall financial strategy for the entire public sector.
(d) Role of the Fiscal Policy Office (FPO)	With IMF assistance, a program for broadening and intensifying the role of the FPO of the Ministry of Finance as a central fiscal planning unit.
2. <u>Medium-term fiscal Reform</u>	
(a) Tax measures	<p>The implementation of a phased program for simplification of business taxes and excise duties.</p> <p>The enactment of selected revisions of the revenue code and customs laws to enhance their scope and impact.</p> <p>The enactment of the new consolidated excise tax law.</p>
(b) A study	The initiation of a study on the feasibility of introducing value-added taxation on selected items.
(c) Local finances	The development of an action program to strengthen local finances by bringing up-to-date land housing assessment values, local fines and fee structures, and improve coordination between the Interior and Finance Ministries on

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
(d) Extra-budgetary funds	<p>Local taxes.</p> <p>An analysis of the operation and effectiveness of the various extra-budgetary funds, and the implementation of appropriate recommendations.</p>
3. <u>Tax administration</u>	
(a) The Revenue Department	<p>Computerizing its operations and further decentralization on the basis of evaluation of experience gained from area offices already established.</p>
(b) The Customs Department	<p>Rationalizing import/export forms and documents to eliminate unnecessary papers.</p> <p>Decentralizing and reorganizing this Department to facilitate trade flows.</p>
(c) The Excise Department	<p>To be reorganized during 1983, based on IMF proposals and following the enactment of the new excise laws, to eliminate overlaps in several departments and enhance efficiency.</p>
(d) Tax Training Institute	<p>Its creation for tax, excise and customs specialists.</p>
(e) Tax Rulings Committee	<p>In October 1982, a high level Committee for Tax Rulings was established to help solve assessment and tax liability problems and to formulate a tax arrears policy. Its establishment aimed towards a fairer tax system.</p>
4. <u>State enterprises</u> (SEs)	
(a) Commercially-oriented SEs	<p>No new SEs competing with the private sector would be set up in the future.</p> <p>Existing SEs would have to stand on their own feet or be liquidated. In 1983, the government would formulate an action program to implement this policy.</p>
(b) Public utilities SEs	<p>In 1983, the government would determine which SEs it would be willing to assist</p>

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
	financially, and to what extent.
(c) Other SEs	Would have to earn appropriate returns on assets by the end of the Fifth Plan.
(d) SEs incurring considerable losses	The government would assess and project forward the overall magnitude of the losses.
	The government would develop, with the World Bank assistance, a firm medium-term plan to reduce these losses gradually over 1983-1986 through rate increases and efficiency improvements. With respect to the latter, the new policy directions were (i) each major SE would be subjected to a comprehensive program of efficiency-enhancing measures, (ii) salary structures would be reviewed to attract capable managers, (iii) technical efficiency would be improved by better maintenance, modernization of accounting and billing systems, and (iv) operations would be decentralized and management by objectives (including program budgeting) would be introduced.
(e) A study	To introduce the new policy directions, regarding the efficiency improvements, on a more systematic and permanent basis, particularly in the major enterprises.
5. <u>Foreign debt</u>	
(a) Three-year rolling plan	The formulation of a three-year rolling plan for planning, evaluation and monitoring of the government's external borrowing program, in conjunction with the formulation of the three-year (1984-1986) fiscal strategy discussed under (1) above.
(b) Data base and analysis	An improvement in the external debt data base and analysis.
(c) Coordination	Improvement in the coordinating mechanism for external resources

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
	mobilization which had been put into operation by the Committee on External Debt Policy in June 1982.
(d) Reduction in the ceiling on public external borrowing	From US\$2,400 million to US\$2,060 million per year, a reduction of approximately 14%.
<u>INSTITUTIONAL DEVELOPMENT</u>	
1. <u>Continuation of SAL I</u>	
(a) Assistance of a consultant team	The design and implementation of new project proposal and rolling investment systems.
	Monitoring and evaluation systems to meet the needs of central core and line agencies.
(b) A program budget system	Had been designed and would be implemented in FY 1984. This system would be linked with the planning systems.
(c) A report on accounting system	A comprehensive report on necessary changes in the governmental accounting system would be completed in 1983.
(d) Improvement in systems for provincial financial reporting	Based on recommendations, it was implemented.
(e) Auditing	New procedures and standards for performance auditing had been designed by the office of the Auditor General.
	A study on the introduction of comprehensive auditing would be undertaken.
(f) Staff training programs	Would be formulated during 1983 in all of the central management functions.
2. <u>New actions</u>	
(a) Studies	A broad study on the organization, compensation and personnel administration of the civil service. The study would also identify

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
(b) Policy analysis and formulation	<p>weaknesses of the governmental machinery in departmental reorganization procedures and processes.</p> <p>A reorganization study for a realignment of several of the NESDB functions.</p> <p>A study of the staffing needs and arrangements for NESDB and of selected ministerial planning units.</p> <p>Encountering difficulties in establishing an independent research/development institute, the government enhanced the NESDB's capacity to coordinate and manage the conduct of the policy research.</p>
<u>INDUSTRY</u>	
1. <u>Continuation of SAL I</u> (a) Export promotion	<p>Reduction of the bias against exporting vis-a-vis import substitution.</p> <p>Establishment of export processing zones in industrial estates.</p>
(b) Reform of the protective structure	<p>Overall reduction and greater uniformity of effective protection through general and/or subsectoral actions.</p> <p>Arrangements with UNIDO to implement a program of restructuring feasibility studies, per subsector.</p> <p>A study on textile industry was added.</p> <p>Expanding the scope of subsector studies to include the nature and extent of incentives to be granted by the BOI.</p> <p>Implementation of appropriate non-tariff reform policies in the subsectors under review.</p>

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
(c) Investment incentives	Plan for the reform of BOI activities started to implement.
	A study on the fiscal and investment consequences of the revised investment promotion structure was initiated.
(d) Large scale projects	Ad hoc arrangements had been put in place to undertake comprehensive economic and technical evaluations.
	The NESDB short-listed a number of consulting firms and invited proposals for in-depth technical and economic reviews of the remaining large industrial projects.
2. <u>New actions</u>	
(a) <u>Export credit and guarantee schemes</u>	Exploring its feasibility in order to provide the financial needs of new exporters especially of non-traditional manufactured items.
(b) A study	Recommendations on the ways in which NESDB's capacity to undertake preliminary evaluations of proposed major investments could be strengthened.
<u>ENERGY</u>	
1. <u>Continuation of SAL I</u>	
(a) Studies	On energy pricing, conservation and strategy formulation became available around September 1983.
(b) Implementation	Based on findings in the above studies.
2. <u>New actions</u>	
(a) Reduction in fuel price differential	Appropriate steps to gradually moderate the large price differential between gasoline and diesel fuel prices.
(b) Reduction in energy consumption	Formulating policies and implementing measures.

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
(c) Strengthening NEA's ability	To prepare, maintain and update the medium-term energy strategy.
(d) Establishment of the Energy Conservation Center of Thailand (ECCT)	Having been providing limited technical and technology assistance to industries for energy conservation.
(c) Transport energy conservation studies	Two studies on energy policies and on road user taxation had been completed. An action program would, then, be prepared to implement appropriate recommendation on transport energy conservation.

AGRICULTURE

1. Continuation of SAL I

(a) Land use policy

Issuance of "right-to-farm" (STK) certificates in forest reserve areas. The certificates were legally limited to 15 rai per family but landholdings of up to 50 rai would be recognized. However, land rights for areas in excess of 50 rai per family occupying forest reserves would not be recognized.

During implementation of the land reclassification program in each forest reserve area, the government would ascertain (1) the extent and location of excess land in holding over 50 rai and (2) encroachment in areas determined to be unsuitable for sustained yield agriculture.

(b) Marketing and pricing policy

No increase in the taxation of agricultural exports beyond the levels in March 1983.

The Rice Policy Committee would conduct an evaluation of the 1982/1983 rice price support program and propose measures to improve it.

A new committee had been established to

Table A.4 (Cont'd)

Specific Actions Planned for SAL II

Sector or Policy Area	Planned Actions
	review the whole marketing infrastructure and to develop an agricultural trade information system.
2. <u>New actions</u>	
(a) Land bank study	Aimed at the feasibility and desirability of establishing a Land Bank. The study would be carried out under the supervision of the National Rural Development Committee's Land Policy Subcommittee. The Land Bank would enable transfer of land covered by STKs and leases and thereby improve access to credit by STK certificate holders. It would also function as the financial arm of the government's land tenure and land reform policies.
(b) Water resource development and management	
(i) Studies	On organizational, legal, development potential and information needs would be initiated.
(ii) Staff and institutional support	Would be strengthened.

Note: Extracted from the Letter of Development Policy, dated March 7, 1983, from Mr. Sommai Hoontrakul, Minister of Finance, to Mr. Clausen, President of the World Bank; Re: Second Structural Adjustment Loan.

Table A.5

Summary Review of SAL I & II Program Components

Sector/policy area	Status of implementation
I. <u>Agriculture</u>	
1. <u>Land Use Policy</u>	
(a) Land certification	In 1982 the Cabinet issued a comprehensive set of guidelines on land use and land rights policy aimed at bringing land use and classification better in line with land suitability.
(b) Land reclassification	Surveys have been completed or are under way in almost two million ha of pre-reserved forests in order to determine what the more appropriate classification would be, prior to proceeding with land certification/titling. Procedures for approval of classification recommendations are proving too cumbersome and the Land Reclassification Committee, as a result, has become a bottleneck.
(c) Socio-economic survey	Two rounds of surveys have been carried out and their results are shedding new light on the socio-economic characteristics of the farmers in the forest.
(d) Land Bank study	This study of the feasibility of a land bank is due for completion in November 1984.
2. <u>Marketing and Pricing Policy</u>	
(a) Export duties	The Government's commitment to deregulation of agricultural exports has manifested itself in liberalization measures across the board.
(b) Export quotas and licensing	Step-by-step reductions in export duties for rice have lowered the burden on rice exports from over 30% (in early 1981) to the current 5% of FOB prices, eliminating the burdensome reserve requirement in the process. The tax on rubber exports was also reduced from 25% to 11% (of September 1981 FOB prices), and further reduced in 1984.
(c) Domestic intervention	Restrictions on the export of maize, rice, and partly, sugar have been lifted since 1982.
	After several modifications, the costly and ineffective rice price support program was substantially eliminated with effect in the 1983/84 season.
	A start towards deregulation of livestock and meat marketing was made in 1982 with the authorization of private slaughterhouses for beef and hogs, primarily for export purposes.
(d) Marketing study	A major study to identify improvements in agricultural marketing information and infrastructure was completed in mid-1984 and an action plan is now being prepared on the basis of its findings.
(e) Fertilizer study	A study of the fertilizer marketing system (involving a large scale survey of distributors) is nearing completion. Due to delays in its initiation its findings may turn out to have been overtaken by development of the National Fertilizer Corp.

Sector/policy area

Status of implementation

3. Water Resources

Cabinet established, in 1983, the National Water Resources Board (chaired by a Deputy Prime Minister) to oversee the management and development of water resources. Problems in setting up a permanently staffed secretariat have delayed initiation of the related program of studies.

II. Industry

1. Protective Structure

(a) General Tariff Reform

The general tariff reform undertaken in the SAL context was successful in terms of (i) substantially reducing overall levels of protection; (ii) decreasing the bias of the protective structure against exporting industries; and (iii) narrowing down the range of rates of protection. Most of the progress across the board was made in 1982 with reform continuing more selectively and at a slower pace in 1983 and 1984 and in 1985 was slightly reversed for revenue reasons.

(b) Subsector Studies

A somewhat scaled-down program of subsector studies has been under way since 1982. The electrical goods study, finalized in 1982, has already resulted in tariff reforms. The automotive industry study was completed and reviewed in 1983 and some of its recommendations have already been implemented (e.g., a freeze on the domestic content requirements progression). The chemicals and plastics study is nearing completion. And, in the textile subsector, the Government is proposing to establish an "intelligence unit" to prepare a reform program.

2. Investment Incentives

(a) Board of Investment

In early 1983 the Government issued policy guidelines for investment promotion and for tax privileges as an explicit framework for Board of Investments (BOI) activities. Even though the guidelines were largely restating existing policies, disseminating them served a useful purpose and it was followed by the approval of an action plan for BOI which included an effort to design specific subsectoral and product group promotional packages and which will also involve changes in incentive administration to be reflected in a revision of BOI's Act.

(b) Fiscal Impact

A study of the fiscal implications of investment incentives is now under way (and scheduled for completion within 1984), after being repeatedly delayed by disagreements on its scope between BOI and the Ministry of Finance.

3. Export Promotion

The export rebate and duty drawback systems were overhauled and procedural changes made so that the schemes are now working well - though their reach needs to be expanded. In addition, through tariff reforms, an attempt was made to move towards duty-free status for export production in a few selected areas (e.g., electronics and footwear). An Export Development Fund was established in 1982, followed in 1983 by the creation of an Export Development Committee. During the same period the number of bonded warehouses was expanded and the Export Service Centers were upgraded as well. Finally, a study of the feasibility of an export credit guarantee was completed in 1984 and the Government is reviewing its recommendations.

4. Large-Scale Projects

A study on the evaluation of large-scale projects was completed in mid-1984 and a series of seminars have been held to review it.

Sector/policy area

Status of implementation

III. Energy

1. Pricing and Taxation

As a result of the introduction of a number of modifications in the petroleum price structure, the range of retail prices for the various petroleum fuels has been narrowed and the Oil Fund has had a surplus since late 1983. A comprehensive energy pricing study was completed in late 1983, as well, and is now under review by the steering committee - which will prepare recommendations for the appropriate policy making bodies (including the Cabinet) by the end of 1984.

2. Conservation

(a) In Industry

A study of incentives for energy conservation in industry is now getting under way, after having been delayed to ensure coordination with ADB-sponsored energy audits which were carried out during 1983.

(b) In Transport

An action plan for energy conservation in the transport sector was approved in principle by Cabinet in 1983 and considerable progress was made subsequently in designing programs for specific policy action, including a new structure of road user charges.

(c) National Center

The National Energy Conservation Center was formally established by Cabinet in mid-1984, under the auspices of the Association of Thai Industries, with initial supervision from the National Energy Administration (NEA), and with Government (SAL) funding.

3. Strategy Formulation

Two separate studies have been completed. An energy assessment has been completed as a collaborative task supported by UNDP/World Bank/NESDB/CIDA and is expected to be an important input into the Sixth Plan. A strategy formulation study has been completed for the NEA, after substantial delays, and is now being reviewed.

IV. Fiscal Policy

1. Consolidated Public Sector Finances

(a) Integrated Fiscal Planning

An integrated fiscal plan was first prepared in 1982/83 jointly by the National Economic and Social Development Board (NESDB), the Bureau of the Budget (BOB) and the Ministry of Finance (MOF) in collaboration with World Bank, for the Fifth Plan period. NESDB has updated development expenditure program and financing plan since then on a routine basis. New comprehensive expenditure program being prepared for Sixth Plan. As a result of revenue and expenditure measures undertaken, total public sector deficit as a proportion of GDP fell from 7.9% in FY80 to an estimated 5.9% in FY84.

(b) Role of Fiscal Policy Office

Stronger capacity developed for central government revenue projections. Proposal prepared for fiscal planning committee structure incorporates all major elements of fiscal planning for the entire public sector and all core agencies as committee participants, following recommendations of Bank Report No. 4366-TH. FPO is to have central role in leading coordination effort. Implementation of proposal currently under review; may be incorporated in future SAL program.

Sector/policy area

Status of implementation

2. Tax Policy

(a) Revenue Projections

Robust revenue projection model developed for multi-year revenue planning and annual budgeting purposes, replacing purely ad hoc annual extrapolation previously used. The need for discretionary tax measures can thus now be clearly defined in advance, to ensure gradual achievement of revenue target.

(b) Tax Measures

Annual tax packages introduced in 1981, 1982 and 1983 increased the central government revenue/GDP ratio from 13% in FY81 to 15% in FY84. This is the first significant increase in Thailand's revenue/GDP ratio in 15 years and represents substantial progress towards achieving the government's target of a 16% ratio for 1986. (The revenue target ratio was reduced from 18% originally postulated under SAL I to 16% under SAL II, on the ground that the latter provided a more realistic goal, given a less buoyant outlook for the Thai economy).

(c) Tax Structure Improvements

Change to ad valorem rates for various excise taxes;

Adjustment in tax rates on business tax to reduce cascading effects;

Extensive adjustments in export and import duties (see under agriculture and industry headings);

Study carried out on indirect tax reform (with IMF assistance); and

Legislation submitted to Parliament for overhauling motor vehicle taxation.

(d) Local Government Revenues

Numerous studies and measures carried out to strengthen local government revenue base (including property tax mapping, road user charges, fees, etc.).

3. Tax Administration

(a) Revenue Department

Establishment of District tax offices in Bangkok and reorganization of headquarters functions; introduction of uniform tax identification numbers, computerization of tax files, automatic mailing of tax notifications, stop filer program and increase of audit program. The program represents a far-reaching reform of Revenue Department operations, following technical assistance provided by IMF.

(b) Customs Department

Various informal changes in operations following advice of IMF experts, including effective separation of headquarters functions from customs administration at port of Bangkok.

(c) Excise Department

Enactment of bill reforming operations of Excise Department and transferring selected business taxes to Excise Department for administration. (Latter provision may not serve long-term objective of rationalizing tax structure and may lead to fragmentation of business tax domain, thus making it more difficult to transform the business tax into a broad-based sales tax).

(d) Tax Training

Study carried out to assess need for centralized tax training concluded that decentralized training functions developed by the three MOP departments provide adequate initial response to training needs of MOP staff, although selective training functions can eventually be taken over by small central MOP training unit.

4. Expenditure Policy(a) Public Expenditure Program

Comprehensive public expenditure program review carried out in 1982. As a result, the investment programs of state enterprises were progressively scaled back in 1982 and 1983. NESDB prepared for the first time a priority projects list for budget preparation, and on this basis engaged in effective discussions with BOB on reflecting Plan priorities in the annual budget. Central government expenditure growth for items other than debt service was significantly reduced compared with the 4th Plan expansion, in both nominal and real terms.

(b) Expenditure Strategy

Comprehensive expenditure program developed for 5th plan period, consistent with macroeconomic targets and based on agency-specific expenditure plans. NESDB now periodically prepares development expenditure programs; BOB prepares multi-year recurrent expenditure forecasts. Two studies were carried out to provide guidance for further improvements of comprehensive public expenditure programming; their findings are currently under review.

5. State Enterprises Financing and Management(a) Program of Tariff Increases

Substantial tariff increases were carried out in a number of state enterprises in 1980 and 1981. A program of further tariff increases was developed, and accepted in principle by the Cabinet in October 1982, with implementation delegated to individual enterprises and their supervising ministries. However, the program was not implemented as of August 1984, because of political obstacles. Minor tariff increases have been implemented for the Bangkok water company (MWWA) as part of a program of small monthly increases initiated in June 1984, and small railway tariff increases were introduced. Further tariff measures in the four major loss-making enterprises are urgently needed still. Electricity tariffs were maintained roughly unchanged despite substantial reductions in costs of imported fuels.

(b) Improvements of SES Financial Management and Operations

NESDB carried out overview study of state enterprise financial management practices and problems, and identified various measures to improve SE management in principle. The recommendations received Cabinet endorsement, and were submitted to the high-level Administrative Reform Committee for review and the preparation of detailed reform proposals. Progress to date has been made in the following areas:

- (i) Some small manufacturing SEs have been liquidated or put up for sale to the private sector; private bus operators are licensed to compete with loss-making public bus company;
- (ii) Corporate planning has been introduced for all SEs, as a means to increase management accountability of state enterprises;
- (iii) Financial revitalization programs for major loss-making SEs are being prepared; in some agencies (esp. the Provincial Water Works Authority) substantial operational improvements have been made.
- (iv) Bangchak oil refinery reorganization planned, with Bank assistance, and agreed upon by all parties concerned.

Sector/policy area	Status of implementation
6. <u>Extra-budgetary Funds</u>	Study identifying all extra-budgetary funds, found that only a few are individually of any substantial size, and that all combined do not amount to a significant portion of total financial flows of the public sector. Therefore, it was concluded that no major importance needs to be attributed to reform of extra-budgetary funds at this point.
7. <u>External Debt Management</u>	
(a) Foreign Borrowing Strategy	Comprehensive three-year rolling program for public foreign borrowing introduced as a management tool for controlling total public foreign borrowing. A strategy was adopted to limit total public borrowing in line with macroeconomic and balance of payments constraints; the original annual public borrowing ceiling for the 5th Plan period was reduced in 1983 from US\$2.6 billion to US\$2.04 billion, reflecting more stringent international capital market conditions and revised outlook for Thailand's debt carrying capacity.
(b) External Debt Monitoring	FPO acquired computer facility for improved public debt analysis and monitoring. However, it still lacks analytical capability to utilize these facilities effectively.
V. <u>Institutional Development</u>	
1. <u>Systemic Changes</u>	A series of consultant studies initiated in the context of SAL I led in most cases to action plans to implement the relevant recommendations.
(a) Planning	A project appraisal/investment planning system has been developed in NESDB, but its full implementation has been awaiting approval of NESDB's reorganization by the Administrative Reform Committee. Meanwhile a related staff development/training program is under way. A planned study of the staffing needs of other planning agencies has not been undertaken.
(b) Monitoring and Evaluation	The consultants failed to produce an appropriate blueprint for the development of a monitoring and evaluation system but NESDB has come up with its own system development program, which will be stretched over four years.
(c) Budgeting	FY84 was the first year of implementation of government-wide program budgeting, and refinement/adjustments continue to be introduced. BOB's task for years to come will be to take "on board" the rest of the financial management system and to deepen the understanding of program budgeting among budget staff in line agencies. BOB developed accordingly a 3-year training program with an annual throughput of 120 of its own staff and 200 line agency staff.
(d) Provincial Finances	The consultants' recommendations on provincial accounting are being implemented, albeit at a slower pace than was anticipated. Faster progress appears to have been made in improving provincial cash management.
(e) Central Government Accounting	A set of consultant reports on the accounting system of the control government was reviewed by the Controller General's Department and its recommendations were largely found to be unimplementable at this point; in a number of cases minor modifications of the accounting procedures will be implemented. The main stumbling block is that computerization, a keystone of the consultants' proposed reform, does not appear practicable, given existing staff skills and advisory capacity in Thailand.

Sector/policy area	Status of implementation
(f) Performance Auditing	The establishment of a new performance auditing division in the Office of the Auditor General has been finally approved by the Administrative Reform Committee. Meanwhile a performance auditing manual to guide staff is being finalized.
2. <u>Institutional Infrastructure</u>	
(a) Civil Service	A study of organization, management and compensation in the civil service was planned for 1982. Opposition by some government agencies to the size of the budget proposed by the consulting groups which bid for the contract led to the study's scope being reduced and to two separate teams being hired for the compensation and organization/management components. Both studies are now scheduled for completion in February 1985.
(b) TDRI	The Thai Development Research Institute was set up in early 1984, with the legal issues that delayed its inception resolved by its being formed as a private foundation (with bilateral grants providing a trust fund) governed by a board chaired by NESDB's Secretary General.
(c) Structural Adjustment Process	The mechanisms for policy supervision and implementation of the SALs program were significantly improved with a committee structure and a joint NESDB-MOF secretariat, which became effective in September 1983.

Source: International Bank for Reconstruction and Development (1986), Annex 2, pp. 97-103.

APPENDIX B

DESCRIPTION OF THE INTERVIEW METHODOLOGY

B.1 An Introduction

This appendix describes the methodology of the interview approach. We believe that the methodology such as sample selection and the way we conduct interviews may affect the answers from our interviewees and consequently the results. Therefore, we first present in this appendix details of our methodology so that the reader can judge whether results are biased because of the methodology. Our methodology starts with sample selection, coupled with a list of interviewees, and, then, moves to some ground rules that we followed during the interview.

B.2 Sample Selection and a List of Interviewees

We first chose the public and private organizations that intuitively should involve in SALs decision and implementation. For example, the fiscal policy area under SAL agreement is obviously the area of the Ministry of Finance. As a result, twelve organizations were chosen to be included in our sample. Nine of them are public organizations and the other three are private organizations. The nine public organizations are (1) the Bank of Thailand, (2) the Board of Investment, (3) the Bureau of Budget, (4) the Royal Forestry Department of the Ministry of Agriculture and Cooperatives, (5) the Fiscal Policy Office, (6) the Revenue Department, (7) the Excise Department, (8) the Customs Department^{1/} and (9) the National Economic and Social Development Board.

The other three private organizations are (1) the Board of Trade of Thailand, (2) the Federation of Thai Industries, and (3) the Thailand Development Research Institute (TDRI). We also chose the private-sector organizations because many SALs measures affected their economic behaviors and, therefore, their views should be heard. One exception is TDRI. That is, we did not choose TDRI because it has been affected by the SALs measures. We chose it because the interviewees there were key persons when SALs were negotiated and implemented.

Letters requesting an interview with key persons who know about SALs negotiation and/or implementation were, then, delivered. In a few cases, we identified interviewees but, in many cases, we left the matter of selecting interviewees up to the decision of the organization. Out of the above twelve organizations, the Federation of Thai Industries declined to be interviewed. The others accepted.

A list of our interviewees in alphabetical order of their affiliations is shown below.

Bank of Thailand

Prangtip Busayasiri, Pisit Samahito, Yootaphol Singhaumpai and Hansa Sri-ityawit

Board of Investment

Vanee Lertdumrikarn, Preamsri Katewongse, Prani Yasasindhu, Thamrong

^{1/} Organizations nos. 5 to 8 are in the Ministry of Finance.

Mahajchariyawong, Jiraporn Chewaprecha, Wichan Kwanchadr, Nongluk Rangnoi, Tayaporn Srisung, Vanchai Mahatanangkoon, and Nalinee Luernghada

Board of Trade of Thailand

Yukta Na Thalang, Suvit Wanglee, Thapana Bunnag, Amnuay Sujarittham, and Dr. Phadej Rojanasakul

Bureau of Budget

Prachitt Kambhu, Thongchai Lumdubwong, Satri Pradipasen, and Vittaya Praisuwan

Ministry of Agriculture and Cooperatives - The Royal Forestry Department

Krishna Brikshavana and Somthep Lacharroj

Ministry of Finance

- Fiscal Policy Office

Nibhat Bhukkanasut, Sommai Phasee, Machima Kunjara-Na-Ayudhya, Dr. Charnchai Musignisarkorn, and Vichai Mittongtare

- Revenue Department

M.R. Chatumongkol Sonakul

- Excise Department

Prachaya Arreeraksa

- Customs Department

Pisit Chatvachirawong

National Economic and Social Development Board

Dr. Bunyaraks Ninsananda

Thailand Development Research Institute

Dr. Phaichitr Uathavikul, Dr. Narongchai Akrasanee, Dr. Virabongsa Ramangkura and Dr. Direk Patmasiriwat (Ex-World Bank staff in Thailand)

Though our interviewees are grouped by their affiliations, their views on the World Bank's Structural Adjustment Loans may not necessarily represent the views of their affiliations.

B.3 Some Ground Rules During the Interviews

Before conducting the interviews, we briefed our interviewees on the following subjects: (1) how TDRI obtained the research grant to evaluate SALs (see Preface of this paper), (2) TDRI has requested a permission to conduct SAL evaluation in Thailand from the Permanent Secretary of the Ministry of Finance, (3) objectives of the project (see Chapter I of this paper), and (4) our strict confidentiality policy of not citing each individual as source of information. We also asked our interviewees' permission to tape the interviews and were willing to stop taping during the course of interview as they wished. Furthermore, we promised to send copies of this paper to them and disseminate findings to the general public.

When asking questions, we focus on our four key questions listed in the section of "Objectives of the project" in Chapter I. That is, whether

the SALs measures were new or had been tried in previous years, whether those measures would have been implemented with or without SALs, what contribution the World Bank made to the structural adjustment in Thailand, and what political and economic factors affected the implementation decision.

APPENDIX C

INTERVIEWEES' RESPONSES

- Table C.1 Interviewees' Response to the Question, "Were the SAL Measures New or Had Been Tried in Previous Years?"
- Table C.2 Interviewees' Response to the Question, "Would the SAL Measures Have Been Implemented Without SAL?"
- Table C.3 Interviewees' Response to the Question, "What Contribution did the World Bank Make to the Structural Adjustment in Thailand?"
- Table C.4 Interviewees' Response to the Question, "What Political and Economic Factors Affected the Implementation Decision?"

Table C.1

Interviewees' Responses to the Question,
 "Were the SAL Measures New or Had Been Tried in Previous Years?"

Interviewee	Response
A	Not New. However, packaging and managing SAL measures were new.
B	Many SAL measures were not new as they had been discussed among Thai policy makers such as an idea to restructure the Thai economy. However, those measures could not be implemented due to lack of funding. The SAL proceeds helped provide liquidity. However, some measures were new, i.e., a restructuring of petroleum product pricing to reflect their cost structure.
C	Some SAL measures such as export promotion policy were not new as Thailand was pursuing them when negotiating SAL. Other measures were planned to implement, therefore, they were included as part of SAL measures. However, a measure suggested by the World Bank but not included in the SAL measure was a close cooperation between public and private sectors in managing the economy. This idea, nevertheless, was developed independently by the Thai government to be "the Joint Public and Private Sector Consultive Committee." Many people think that this committee has helped resolve many conflicts between public and private sectors.
D	More than one half of SAL measures initiated by the Thai officials were not new. They were the ongoing measures used to solve the existing problems in the early 1980s. For example, on the agricultural area, Thailand has diversified its farm products even before it implemented SAL measures. Similarly, on the industrial area, Thailand started to switch from the policy of import substitution to export promotion before implementing SAL measures.
E	Many SAL measures were those of the Fifth Economic and Social Development Plan. They initially could not be implemented because of lack of funding. However, the SALs provided liquidity and, therefore, were used to finance those measures.
F, G	Not all SAL measures were new. However, some new measures were initiated during the negotiation between the World Bank staff and the Thai officials.
G	Approximately 30-40% of the SAL measures came from the Fifth National Economic and Social Development Plan.
H	Some SAL measures such as land certification and reclassification were not new. They were ongoing measures. The land certification was initiated by the Cabinet Ruling on 28 August B.E. 2522 (or in 1979). The Ruling gave the "Right to

Table C.1 (Cont'd)

Interviewees' Responses to the Question,
 "Were the SAL Measures New or Had Been Tried in Previous Years?"

Interviewee	Response
	<p>Farm" certificates to farmers occupying the reserved forest areas. It was estimated that there were approximately one million families occupying the reserved forest areas. The land certification started in 1982 with limited government budget allocation. However, when SAL agreement was reached, this measure was also included as part of SAL measures and therefore it received a larger budget financing.</p> <p>Similarly, the land classification was not new since it was included in the First National Economic and Social Development Plan in 1961.</p>
I	<p>Some SAL measures such as the export promotion policy was not new. Producers in exporting industries could obtain tax privileges from the Board of Investment. This policy contained in the Investment Promotion Act in 1977.</p>
J	<p>Some SAL measures were not new. For example, in 1981, the Excise Department added ad valorem rates to the existing specific tax rate schedule where the applicable rate depends on whichever tax rate generates higher tax revenue. This action took place before the SAL implementation but it was included as part of the SAL measures.</p>
K	<p>Reduction of tariff and premium rate on rice export was new. This measure was sensible as the world price of rice had declined substantially in the early 1980s.</p>
M	<p>Some measures were new, some were not. However, SALs helped broaden the coverage of issues, sharpen the idea and speed up many measures. For example, SALs helped speed up issues of energy pricing, tariff liberalization and export oriented policies. Many studies were completed, using the SAL proceeds.</p> <p>In fact, both SAL measures and the Fifth National Economic and Social Development Board shared the same principle of using market mechanism which was based on the World Bank's studies. However, when the World Bank's staff conducted research in Thailand, they always talked to and consulted their Thai counterpart. Therefore, it was quite difficult to naildown who really originated the idea. Probably, the World Bank and the Thai government contributed evenly.</p>
N	<p>Most of the SAL measures were ongoing programs. However, the new outcome that was generated from SALs was the macroeconomic management technique of the Thai government which involved a co-</p>

Table C.1 (Cont'd)

Interviewees' Responses to the Question,
 "Were the SAL Measures New or Had Been Tried in Previous Years?"

Interviewee	Response
	<p>ordination of various government agencies. The most important impact is to raise consciousness of economic-decision making among Thai officials. This macroeconomic management technique required, from various government agencies, a similar target, a similar methodology, and a check and balance system. Furthermore, it also opened the working of the government policies to academics. Their contributions mainly came from studies and discussions in seminars and conferences.</p>

Table C.2

Interviewees' Responses to the Question,
 "Would the SAL Measures Have Been Implemented Without SALs?"

Interviewees	Response
A	<p>The SAL measures would have been implemented if without SALs. However, the measures would have been piecemeal, not systematic or organized. Furthermore, the coverage of measures would have been less because, if without SALs, Thailand would not have international commitments to introduce sensible but unpopular measures.</p>
B	<p>Some SAL measures would not have been implemented if without SALs because those measures might lower government revenue in the short run and, therefore, worsen the government deficit situation. The SALs removed this constraint as the loans provided liquidity during the revenue short fall in the short run. However, some may argue that, if Thailand at that time needed liquidity, it could borrow from the international credit market. Two disadvantages of doing so are (1) the interest rate charged by the international credit market was higher than that charged by the World Bank and (2) more importantly, the international credit market required no conditions or measures that benefited the Thai Economy. Moreover, the success in SAL implementation later on became an evidence of prudently responsible government and, therefore, raised Thailand's creditability in the international credit market once additional loans were needed.</p>
C	<p>Even without SALs, Thailand would have implemented similar measures anyway. However SALs helped speed the process of designing programs and measures, the process of coordination and the process of monitoring implementation of measures.</p> <p>There is a point regarding the counterpart funds of SALs. As few SAL measures really require additional funding besides government budget, a majority of counterpart funds were used to finance state enterprises. Therefore, there was less pressure on those state enterprises to raise their product or service prices.</p>
D	<p>Thailand had set up various projects or measures to cope with internal and external imbalances. However, if without SALs, it might not have sufficient government budget to finance all measures. SALs helped finance many measures and reorder the priority of the measures. For example, the tax policy reform and the establishment of district tax offices in Bangkok became the first priority measure in SALs. Furthermore, SALs helped keep the implementation of measures as planned.</p>

Table C.3

Interviewers' Responses to the Question,
 "What Contribution did the World Bank Make to the Structural Adjustment
 in Thailand?"

Interviewer	Response
A	<p>Many contributions: (1) the lending money; (2) the World Bank team included staff with high caliber and experience, which reduced transaction costs in negotiating the SAL terms; (3) the World Bank involvement was an international commitment among Thai politicians, which helped implement sensible but unpopular measures; (4) the World Bank involvement also helped raise cooperation among Thai government officials; (5) the World Bank helped design approximately one half of the measures; and (6) the World Bank provided some technical assistances.</p>
B	<p>Couple contributions: (1) the loans boosted Thailand's international reserves when the reserves were substantially low; (2) with the World Bank involvement, Thai government officials gave more weights to the SAL measures; (3) the World Bank lobbied for and reminded of the measures to implement, which helped speed the implementation; and (4) technical assistances provided by the World Bank have long been beneficial to Thailand especially those on macroeconomic analysis and on suggesting various measures since the drafting of the Forth National Economic and Social Development Plan.</p>
C	<p>First, the loans were used to raise international reserves. Second, the Ministry of Finance and the National Economic and Social Development Board whose aim was to make structural adjustment used the SALs to commit other governmental agencies to adopt the structural adjustment measures. Third, the World Bank helped design the measures although more than one half of the measures were designed by the Thai authority. Forth, the World Bank indirectly helped the Thai government to set the priority of measures. Finally, the World Bank helped point out which government agencies should be responsible for each measure and which structure should be changed. In fact, the Energy Conservation Center was an original idea of the World Bank.</p>
D	<p>The World Bank played many roles. First, the loans were used to raise international reserves. Second, the World Bank helped adjust some measures so that they were more practical. For example, Thailand initially set the target of government revenue to GDP ratio at 18% but, later on, the World Bank helped adjust the target down to 16%. Third, the loan proceeds created a commitment among Thai policymakers. This commitment helped speed the decision process. Finally, the World Bank and the International Monetary Fund urged the Thai government to adopt fiscal discipline that focussed on a realistic forecast on government revenue, a control on expenditure and a reduction in government deficits.</p>

Table C.3 (Cont'd)

Interviewers' Responses to the Question,
 "What Contribution did the World Bank Make to the Structural Adjustment
 in Thailand?"

Interviewer	Response
E	<p>The loans were used to supplement both international reserves and government budget. They also helped finance many projects. Furthermore, the Thai technocrats, especially those in the Ministry of Finance, National Economic and Social Development Board, Bank of Thailand and the Budget Bureau, used SALs to indirectly influence Thai policymakers. This indirect influence started with the Thai side laying down ground work of the measures. Then, they worked closely with the World Bank staff to arrive at the consensus. The World Bank staff, then, submitted the case to the World Bank executives which, in return, had influence on policymakers in Thailand. Without SALs, the Thai technocrats would have found it more difficult to influence Thai policymakers.</p>
F	<p>The loans were used to supplement government budget. Many projects would not have been supplemented if without SALs. Most of the counterpart funds were spent on studies and hiring consultants.</p>
G	<p>The loans were used to supplement government budget and international reserves. The counterpart funds were spent on studies and financing state enterprises.</p>
L	<p>The World Bank gave a general guideline but the Thai government worked out details. The loans were used to supplement government budget and international reserves. Part of the counterpart fund were used to finance state enterprises.</p>
M	<p>Many contributions: (1) providing loans, (2) speeding the implementation of the SAL measures, (3) sharpening the SAL measures such as the energy policy and educating the Thai technocrats, (4) directly discussing with Thai policymakers about the structural adjustment and their implementation, and (5) SALs were used to supplement international reserves and government budget.</p>
N	<p>The loans were used to supplement international reserves. The World Bank's contribution was approximately 50-60% of the inputs especially studies. Although the Thai officials did not have time to conduct studies, they also helped to formulate measures as the World Bank staff when doing research collated information and then discussed with Thai officials. Therefore, it is not so surprising that many measures were originated by Thai officials. In return, Thai officials used the World Bank's studies to</p>

Table C.3 (Cont'd)

Interviewers' Responses to the Question,
"What Contribution did the World Bank Make to the Structural Adjustment
in Thailand?"

Interviewer

Response

support their arguments when proposing structural adjustment measures to policymakers.

The World Bank involvement in Thailand perceived by some as a surrender of sovereignty of the nation to the World Bank.

Table C.4

Interviewees' Response to the Question,
 "What Political and Economic Factors Affected the Implementation Decision?"

Interviewee	Response
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A All SAL measures were implemented. The main reason is that Thailand really had a strong intention and commitment towards structural adjustment as shown by the fact that Thailand had launched many measures even before signing the first SAL agreement with the World Bank. Those measures launched accounted for more than one half of the SAL measures mentioned in the first Letter of Development Policy. This action raised the probability that Thailand would comply with the World Bank's conditions and eased the negotiation process. As a result, Thailand was the only country, among those countries receiving SALs, that tranching of the loans was not imposed.

Structural adjustment tasks can be classified into two types. First, those that Thailand had sufficient information and understanding and, second, those that Thailand did not have. Thailand designed its own measures for the first type of tasks and implemented them immediately with success. Examples of these tasks are a restructuring of customs tariff system that narrowed down tariff rates across commodities and the land certification or "S.T.K." The Ministry of Finance took a leading role in implementing the first type of tasks. In contrast, Thailand started with research studies for the second type of tasks it had incomplete information and understanding. Unfortunately, the Ministry of Finance did not have time to follow up/monitor the studies; therefore, results of the studies were either incomplete or unsuited for the new economic environment. Examples of studies are those on energy policy and some tax issues.

Another factor contributing to the success of SAL implementation is an international commitment made among Thai politicians.

Although SAL I could be considered a success story, SAL II was less successful. Under SAL I, many studies were conducted but, under SAL II, recommendations in those studies should have been implemented. However, they were not because (1) as mentioned above, results or findings from the studies under SAL I were either incomplete due to lack of monitoring on the Thai side or inappropriate as the world and Thai economies had changed and (2), more importantly, there was no leading organization on the Thai side to take roles in reviewing and monitoring SAL measures under SAL II especially when economic environments had changed.

B SAL I measures whose majority being studies were successful. But SAL II measures whose majority being actions slipped because of political and economic reasons. For example, the

Table C.4 (Cont'd)

Interviewees' Response to the Question,
 "What Political and Economic Factors Affected the Implementation Decision?"

Interviewee	Response
	<p>measure of raising petroleum product prices, bus fares, electricity rates and water supply user charges to reflect real cost of resources was a good measure. However, it was politically unpopular among political party members as the measure was generally opposed by the public.</p> <p>Other examples of successful and slipped measures when implemented are</p> <ol style="list-style-type: none"> (1) Success story: The Thai government could reduce export duty on rice and rubber and eliminate export duty on maize although the measure created the shortfall in government revenue and although Thailand still experienced a relatively slow growth because the SALs supplemented international reserves and provided liquidity to the government budget. (2) Slippage story: a measure to narrow down import tariff rates across commodities slipped because of changes in economic environment. In 1982, the Thai economy experienced a relatively slow growth, which created a government revenue shortfall. This shortfall surprised the Thai government which responded by temporarily imposing surcharges on imports. However, this reverse policy was acceptable by the World Bank. (3) Slippage story: another slippage story because of changes in economic environment is the SAL measure of setting the target of central government revenue to GDP ratio at 18% under SAL I. The fact that other tax system adjustment tended to reduce government revenue and the Thai economy experienced a relatively slow growth in 1982 had altered the target of revenue to GDP ratio down to 16% under SAL II. Actually up to 1986, the target was never been reached. (4) Success story: the SAL measure of setting a ceiling of external public borrowing was successful in implementation because the Thai government realistically set the ceiling by taking into consideration the ongoing projects of the government that needed funding. Initially, the ceiling was set above US\$1,000 million because there were many ongoing projects. However, when some projects were completed and new projects were not initiated. The ceiling could be lowered to US\$1,000 million.

Table C.4 (Cont'd)

Interviewees' Response to the Question,

"What Political and Economic Factors Affected the Implementation Decision?"

Interviewee

Response

(5) Slippage story: losses in some state enterprises required some forms of financing from the central government, which worsened the budget deficit. The SAL measure of raising service or product charges of those state enterprises was one solution to solve their losses. However, the implementation of this measure slipped because doing so might trigger public unrest and, consequently, instabilize the government. Interestingly, part of SAL money was used to help finance losses of some state enterprises.

C

The fact that SAL measures in Thailand were generally considered as a success story came from two factors: (1) the screening of planning agencies, the Ministry of Finance and the National Economic and Social Development Board and (2) many SAL measures were initiated by the Thai government officials. The former factor, screening of the planning agencies during the negotiation with the World Bank mission, resulted in SAL measures that, from the Thai view, had a high probability of getting through the cabinet approval. The latter factor, measures initiated by the Thai officials, resulted in flexible measures very few of which had to be changed because of changing political and economic environments.

Details of some SAL measures are as follows:

- (1) Up to now, the study on fertilizer marketing system has not been completed.
- (2) New pricing of state enterprises' services (electricity, water supply and bus) was not successful in implementation during 1982-1984 but was recently successful because a recovery of the Thai economy in recent years has raised the purchasing power of the public so that they can afford higher prices of utilities.
- (3) An establishment of the Energy Conservation Center, whose purpose is to suggest alternatives to conserving energy and reducing oil import bills, was a successful measure. However, when the world energy situation has changed as the world oil price has declined, the need to conserve energy is less important and, therefore, the Center was not fully supported as it used to be.
- (4) Thailand had adjusted its pricing on petroleum products but the adjustment was not along the line of what the World Bank would like to see. The Thai government's policy on

Table C.4 (Cont'd)

Interviewees' Response to the Question,
 "What Political and Economic Factors Affected the Implementation Decision?"

Interviewee	Response
	<p>the pricing of petroleum products was to subsidize the low income class but the World Bank's view was to move toward commercial pricing. Although the Thai government agreed with the World Bank in principle that pricing of petroleum products in the long run should not be subsidized. However, in the short run, as the low income people were subsidized in the past, a drastic change in the pricing might result in an adverse effect on inflation and costs of production which, in turn, might make Thailand less competitive in the world market.</p> <p>(5) One of the SAL measures was to set up a government organization overlooking the pricing policy of petroleum products. This measure was fully supported by the Thai government. Eventually, the Thai government has set up "The National Energy Policy Office" in the office of the Prime Minister although the set up was after the period of SAL II.</p>
D	<p>Details on implementation:</p> <p>(1) The Export Development Fund was established by imposing 0.5% surcharge on imports. The total amount of fund turned out to be 300 million baht. This amount was used to promote exports. The Export Development Fund was not so successful in promoting exports because the fund amount was limited.</p> <p>(2) The Export Development Committee was not successful because it lacked authority over other implementing agencies. Later on, there was a structural adjustment which mainly replaced the Minister of Commerce by the Prime Minister as the Chairman of the Committee.</p> <p>(3) Bonded warehouse was successful because it resolved the delay of tax rebate to exporters.</p> <p>(4) There was a delay in the implementation of the Export Credit Guarantee because initially there were arguments over forms of organization. Later on, when it was decided to form as the Export Credit Guarantee Fund, participants argued over the activities that the Fund should promote.</p> <p>(5) External debt management was successful as the Thai government reduced the debt ceiling and government expenditures.</p>

Table C.4 (Cont'd)

Interviewees' Response to the Question,
 "What Political and Economic Factors Affected the Implementation Decision?"

Interviewee	Response
(6)	The protection of domestic producers had been reduced. The rate of protection across industries has been lowered since 1982. Even the protection on products receiving the Board of Investment promotion has also been reduced. For example, the number of imported items that the Board of Investment imposed surcharges has been reduced from 30-40 items per year to less than 10 items per year. The protection rates for the protected items have been frozen or reduced. For example, the rates on chemical and plastic products have been frozen at 40% in spite of a lobby for the rate of more than 40%. Another example is textile whose protection rate has been reduced from over 40% to now almost zero percent.
(7)	Two or three years ago, automobile imports were generally banned but now imports are allowed. However, imported automobiles are taxed. The purpose of taxing imported automobiles is not to protect domestic producers but to keep the trade deficit from worsening.
(8)	Since 1982, there has been an attempt to eliminate tax burden on exporters by giving tax rebate on raw materials or intermediate products used in the production. In the past, the rebate was based on some fixed formula that did not reflect actual uses but now, it is based on the physical coefficient which is more realistic. The industries that use this new rebate method are automobile and most of canned food.
G	The effectiveness or accomplishment of SAL implementation is approximately 60% of the proposed measures.
I	In case of reducing protection on import substitution products, it is naturally that adversely affected producers have a tendency to put pressure on the government so that the measure can be reversed. However, the SAL measure of reducing protection on import substitution product was eventually implemented. Its success depends on various factors. First, the Thai government always consulted private sector such the Thai Industries Association (now, the Federation of Thai Industries) before implementing the measure. Second, the domestic producers also benefited from the export promotion policy as they switched from import-substitution products to exporting products. Finally, many used-to-be import substitution industries now become exporting industries for Thailand, for example, textile and garment, footwear, furniture,

Table C.4 (Cont'd)

Interviewees' Response to the Question,
 "What Political and Economic Factors Affected the Implementation Decision?"

Interviewee	Response
	iron structure such as pipe, bicycle, electrical appliances, and carpet.
M	<p>Examples of success and slippage stories:</p> <ol style="list-style-type: none"> <li data-bbox="289 604 1308 695">(1) The implementation of raising the energy pricing and service charge of state enterprises was slow mainly because doing so was usually objected by the public. <li data-bbox="289 732 1308 953">(2) Reductions of export taxes and other structural adjustments for export promotion were slow in implementation in 1982 since the world economy was in recession which, in turn, reduced the government revenue. Reductions of export taxes and other adjustments might worsen the government budget further. Therefore, the government slowed down the implementation.
N	<p>Political conflicts are common when there is a structural change. There were couple political battles with respect to implementing SAL measures:</p> <ol style="list-style-type: none"> <li data-bbox="289 1121 1308 1472">(1) The industrial policy that dropped import substitution policy and promoted export industry involved changes in tax policy, subsidy policy, financial assistance, import quota and the Board of Investment's investment incentives. These changes of course were objected by import substitution industrialists. However, the Thai government insisted on export and gave various incentives to export such as reducing export taxes and impediments to exports. Many industries had moved from import substitution industries to exporting industries. However, in some industries such as automobile, the battle continues. <li data-bbox="289 1509 1308 1927">(2) Agriculture has been a major sector of Thailand. The majority of population depend on agriculture and they are relatively poor, therefore, when one considers the agricultural sector, he/she always takes into consideration the equity or distribution of income and, consequently, supports the policy of farm price supporting program and ignores the market force or market mechanism. The SAL measures in the agricultural sector aimed to change the traditional farm price supporting program. As Thailand has been the country of rice monoculture, the SAL measures tried to change from the rice monoculture to cash cropping and tried to diversify the crops from few major farm products to various fruits and vegetables. The objection

Table C.4 (Cont'd)

Interviewees' Response to the Question,

"What Political and Economic Factors Affected the Implementation Decision?"

Interviewee

Response

of these new SAL measures, of course, came from the farmers. However, the Thai government, like the policy for industry, insisted on export and also reduced export taxes and premium on those major farm products to promote exports and to allow the market mechanism to change the structure of the agricultural sector. However, this battle is still ongoing.

- (3) There has been a perception among politicians and newspapers that prices of petroleum products should be kept low and it is the role of the government to subsidize those products. As a result, raising petroleum product prices has been a political issue and, in the past, many Thai governments had to resign from the post after raising petroleum product prices. Up to now, this battle does not end. However, the Thai officials has tried to depoliticize the issue by imposing the maximum tax rates on petroleum products and then trying to rationalize the pricing.
- (4) It is generally perceived that services of state enterprises are public goods and, therefore, the service price should be kept low. In case of losses, the government should subsidize those state enterprises. The SAL measures with respect to state enterprises did just the opposite. That is, the measures asked for an increase in the service charge (and an improvement in management) of state enterprises so that the central government could eventually terminate its subsidy. This, of course, reduced government expenditures and deficits. At that time, the state enterprises also agreed on the measures. However, resistance came from the public. As a result, the increase in service charge of many state enterprises has been slow.
- (5) The next battle was to improve the tax system. It has two problems. First, at the policy level, both politicians and businessmen did not favor tax increase. Second, tax collectors resisted to change their routine work and learnt to work under the new system. One solution was to change the philosophy of tax collectors and taxpayers. This battle, however, continues.

It can be seen that many SAL measures affected more or less everyone and the difficult task of Thai officials was to sell their cases to the cabinet. The way they did was to use findings in the studies under SALs to support their cases. Furthermore, the SAL proceeds under the counterpart funds also

APPENDIX D

PETROLEUM PRODUCT PRICES AND UTILITY CHARGES

Table D.1	Retail Prices of Premium Gasoline and High-speed Diesel, 1971-1988
Table D.2	Monthly Electric Rate, Effective 1 August 1977 - 1 June 1987
Table D.3	Monthly User Charge Rate for Water Supply in Bangkok Metropolitan Area, Effective 1 July 1972 - January 1988
Table D.4	Bus Fare in Bangkok Metropolitan Area, Effective 1976 - 15 February 1985

Table D.1
Retail Prices of Premium Gasoline and High-speed Diesel
1971 - 1988

(Baht/Litre)

Effective Date	Premium Gasoline (1)	High-speed Diesel (2)	Ratio (3)=(1)/(2)
1 Apr 71	2.10	0.98	2.14
4 Jul 73	2.30	1.05	2.19
14 Nov 73	2.69	1.41	1.91
17 Dec 73	3.01	1.60	1.88
27 Feb 74	3.62	2.33	1.55
15 Mar 77	4.22	2.64	1.60
9 Mar 78	4.98	2.64	1.89
31 Jan 79	5.60	3.03	1.85
14 Jul 79	7.84	4.88	1.61
10 Feb 80	9.80	7.39	1.33
19 Mar 80	9.80	6.54	1.50
21 Jan 81	11.90	7.39	1.61
2 Dec 81	13.45	7.39	1.82
29 Mar 83	12.60	6.99	1.80
1 Dec 83	11.70	6.70	1.75
21 Feb 86	10.20	6.70	1.52
29 Apr 86	9.50	6.50	1.46
1 Jul 86	8.90	6.30	1.41
25 Nov 88	8.45	6.10	1.39

Note: Data are from the Energy, Infrastructure and Urban Development Program, Thailand Development Research Institute.

Table D.2
Monthly Electric Rate
Effective 1 August 1977 - 1 June 1987

(baht per kilowatt hour unless specified otherwise)

Type	Effective Date									
	1 Aug 1977	1 Feb 1980	1 Oct 1980	10 Jan 1981	1 Apr 1981	1 Aug 1981	1 Apr 1982	1 Apr 1983	1 Feb 1986	1 June 1987
Residential	(PBA/MBA)	(PBA/MBA)	(MBA)	(PBA/MBA)	(PBA/MBA)	(PBA/MBA)	(PBA/MBA)	(PBA/MBA)	(PBA/MBA)	(PBA/MBA)
First 5 kwh	5 baht	5 baht	5 baht	5 baht	5 baht	5 baht	5 baht	5 baht	5 baht	5 baht
or less	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
6-15	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
16-25	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
26-35	0.90	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17
36-60	1.17	1.3461	1.3461	1.54	1.83	1.77	1.67	1.65	1.60	1.58
61-100	1.17	1.27	1.4461	1.64	1.93	1.87	1.77	1.75	1.70	1.68
101-150	0.95	1.35	1.5261	1.72	2.01	1.95	1.85	1.83	1.78	1.76
151-300	1.35	1.40	1.5761	1.77	2.06	2.06	2.06	2.04	2.04	2.02
301-400	1.40	1.47	1.6461	1.84	2.13	2.13	2.13	2.11	2.11	2.11
401-800	1.00	1.47	1.6461	1.84	2.13	2.13	2.13	2.11	2.11	2.11
801 up	1.00	1.47	1.6461	1.84	2.13	2.13	2.13	2.11	2.11	2.43
Large Business	(MBA)	(MBA)	(MBA)	(MBA)	(MBA)	(MBA)	(MBA)	(MBA)	(MBA/PBA)	(MBA/PBA)
Demand Charge (Per Kw)										
First 50 kwh	60	98	98	98	98	98	98	98	95	
51-200	59	98	98	98	98	98	98	98	95	
201 up	58	98	98	98	98	98	98	98	95	
Energy Charge										
First 50 kwh	0.68	0.81	0.9861	1.23	1.54	1.54	1.54	1.52	1.48	
51-200	0.60	0.81	0.9861	1.23	1.54	1.54	1.54	1.52	1.48	
201-400	0.58	0.81	0.9861	1.23	1.54	1.54	1.54	1.52	1.48	
401 up	0.56	0.81	0.9861	1.23	1.54	1.54	1.54	1.52	1.48	
Below 12 kv										
Demand Charge (Per kw)										239
Energy Charge										1.28
12 kv and Over										
Demand Charge (Per kw)										229
Energy Charge										1.23

Notes: * Applicable to business, public services and state enterprises including the compound with a maximum 15 minute integrate demand of 30 kw and over for lighting and appliances through a single demand meter. This definition applies to the rates, effective 1 February 1980 but loosely applies to the rates, effective 1 August 1977.

PBA = Provincial Electricity Authority, MBA = Metropolitan Electricity Authority, kwh = kilowatt hour, kv = kilovolt-ampere, kw = kilowatt.

Data are from the Energy, Infrastructure and Urban Development Program, Thailand Development Research Institute.

Table D.3
 Monthly User Charge Rate for Water Supply in Bangkok Metropolitan Area
 Effective 1 July 1972 - January 1988
 (baht per cubic meter unless specified otherwise)

Monthly use in cubic meter	Effective Date									
	July 1972	15 Apr 1981	11 Sept 1984	11 Oct 1984	1 Oct 1985	1 Apr 1986	1 Oct 1986	20 Jan 1987	Jan 1988	
Residential										
0-6	0	Lum Sum				4.05	4.00	4.05	4.00	
6-12	0.50	20 baht	1.50		4.10	with a lum sum minimum of 20 baht	with a lum sum minimum of 20 baht	with a lum sum minimum of 20 baht	with a lum sum minimum of 20 baht	
12-20			1.50							
20-25	1.00									
25-30		1.50								
30-40	1.50		1.75		4.35	4.30	4.25	4.30	4.25	
40-50			2.00	+0.20 baht per month	4.60	4.55	4.50	4.55	4.50	
50-60			2.25		4.85	4.80	4.75	4.80	4.75	
60-70		2.50	2.50		5.10	5.05	5.00	5.05	5.00	
70-80			2.75		5.35	5.30	5.25	5.30	5.25	
80-90		3.00	3.00		6.25	6.20	6.15	6.20	6.15	
90-100	2.00		3.25		6.50	6.45	6.40	6.45	6.40	
100-120			3.50		6.75	6.70	6.65	6.70	6.65	
120-160		3.50	3.75		7.00	6.95	6.90	6.95	6.90	
160-200		4.00	4.00		7.25	7.20	7.15	7.20	7.15	
200 up	2.50	4.50	4.50		7.75	7.70	7.65	7.70	7.65	
Industrial										
0-6	0	Lum Sum	Lum Sum	Lum Sum	Lum Sum	Lum Sum	Lum Sum	Lum Sum	Lum Sum	
6-10	0.50	50 baht	50 baht	50 baht	50 baht	50 baht	50 baht	50 baht	50 baht	
10-12			3		6.25	6.20	6.15	6.20	6.20	
12-20	1.00									
20-25		3.25	3.25		6.50	6.45	6.40	6.45	6.45	
25-30										
30-40	1.50		3.50		6.75	6.70	6.65	6.70	6.70	
40-50			3.75		7.00	6.95	6.90	6.95	6.95	
50-60			4.00		7.25	7.20	7.15	7.20	7.20	
60-80		4.00	4.25		7.50	7.45	7.40	7.45	7.45	
80-100	2.00		4.50		7.75	7.70	7.65	7.70	7.70	
100-120			4.75	+0.25 baht per month	8.00	7.95	7.90	7.95	7.95	
120-160		5.00	5.00		8.25	8.20	8.15	8.20	8.20	
160-200			5.25		8.50	8.45	8.40	8.45	8.45	

Table D.3 (continued)
 Monthly User Charge Rate for Water Supply in Bangkok Metropolitan Area
 Effective 1 July 1972 - January 1988
 (baht per cubic meter unless specified otherwise)

Monthly use in cubic meter	Effective Date								
	1 July 1972	15 Apr 1981	11 Sept 1984	11 Oct 1984- 11 Sept 1985	11 Oct 1985	1 Apr 1986	11 Oct 1986	20 Jan 1987	Jan 1988
Industrial									
200-300	} 2.50	} 5.50	} 5.50	} 8.75	} 8.70	} 8.65	} 8.70	} 8.60	8.60
300-2000									8.40
2000-4000									8.00
4000-6000									7.50
6000-10000									7.00
10000-20000									6.50
20000-30000									6.00
30000-40000									5.50
40000-50000									5.00
50000 up									5.00

Notes: There was only one rate schedule effective 1 July 1972 for all types of users. The industrial users were classified in the business category since the effective date of 15 April 1981 but in the industrial category since January 1988.

* Starting from 11 Oct 1984 to 11 Sept 1985, the monthly rate increase was 0.20 baht on the top of the rate in previous month. For example, the rate for a residential user using not more than 6 cubic meters was 1.70 baht per cubic meter on 11 Oct 1984 but was 1.90 baht on 11 Sept 1984,, and so on.

Data are from Metropolitan Water Works Authority.

Table D.4
 Bus Fare in Bangkok Metropolitan Area
 Effective 1976-15 February 1985

(baht/trip)

Effective Date	Zone Rate		
	Inner Zone	Outer Zone	Between Inner and Outer Zones
1976	0.75	0.75	1.25
1 Apr 1978	1.00	1.00	1.50
	Moving Rate		
	0-10 Km	Next 10 Km	Maximum rate
1 Aug 1980	1.00	1.00	2.00
1 Mar 1981	2.00	1.00	3.00
20 Mar 1981	1.50	1.00	4.50
6 Nov 1982	2.00	1.00	no maximum
25 Nov 1982	1.50	1.00	no maximum
	Flat Rate		
15 Feb 1985		2.00*	

Notes: * Besides the flat rate of 2 baht/trip for the ordinary bus, there are other bus fares for special typed bus such as the rate for the express bus is 3 baht/trip and that for air-conditioned bus starts from 5 baht/trip to a maximum of 15 baht/trip.

Data are from the Bangkok Mass transit Organization.

APPENDIX E

DATA USED IN REGRESSIONS

Table E.1

Data Used in Regressions

Year	GDP (Millions of Baht)	Terms of Trade (1975=100)	Exchange Rate (Baht/\$)	Average Tax Rate (%)
1970	155694.0	114.35	20.928	12.49
1971	163420.0	87.22	20.928	12.46
1972	170076.0	96.25	20.928	12.38
1973	186845.0	133.62	20.652	12.04
1974	194979.0	112.46	20.375	13.59
1975	204428.0	100.00	20.379	12.94
1976	223594.0	92.22	20.40	12.54
1977	245727.0	86.80	20.40	13.62
1978	271378.0	87.50	20.336	13.61
1979	285797.0	88.37	20.419	14.43
1980	299472.0	84.85	20.476	15.05
1981	318439.0	70.06	21.82	14.71
1982	331380.0	63.50	23.00	14.53
1983	355408.0	68.24	23.00	15.72
1984	380738.0	66.63	23.639	15.61
1985	394113.0	62.91	27.159	15.48
1986	412609.0	69.66	26.299	15.37
1987	441893.0	74.84	25.72	16.20

Table E.1 (Continued)

Year	Government Purchase (Millions of Baht)	Thailand WPI (1980=100)	Import Value (Millions of Baht)	Export Value (Millions of Baht)	World WPI (1980=100)
1970	28395	35.00	28569	22140	34.00
1971	28935	35.10	28859	24527	35.40
1972	29987	37.90	32632	30940	37.30
1973	29463	46.50	44523	41317	42.50
1974	26460	60.00	66884	60277	52.20
1975	32072	62.20	69683	55695	57.00
1976	40754	64.60	78673	70115	62.70
1977	46024	69.70	102399	80532	68.80
1978	53306	74.90	117721	97082	74.10
1979	58769	83.30	163740	126150	85.00
1980	63594	100.00	201180	159736	100.00
1981	70546	109.50	229029	181325	113.00
1982	69988	110.50	207282	192870	124.90
1983	76182	112.80	251184	185222	138.90
1984	82806	109.30	258557	216411	158.00
1985	88699	109.20	274073	245251	176.40
1986	85230	108.85	267148	290169	183.40
1987	86503	115.30	354020	355118	189.80

Table E.1 (Continued)

Year	Import Unit Value	Export Unit Value	Import Tariff Rate (%)	Export Tariff Rate (%)
1970	24.68	33.43	20.01	5.74
1971	29.76	30.04	19.73	2.40
1972	29.62	33.35	18.17	1.81
1973	32.72	50.06	16.37	3.23
1974	53.68	69.86	13.06	10.04
1975	56.95	65.91	12.76	3.19
1976	60.06	64.10	13.03	2.24
1977	64.59	65.52	13.23	2.37
1978	69.65	70.80	13.48	2.34
1979	80.53	84.60	11.83	2.79
1980	100.00	100.00	10.32	2.54
1981	118.15	103.00	10.10	1.84
1982	121.12	95.71	10.27	1.12
1983	114.35	97.09	11.84	1.79
1984	116.02	96.20	12.11	1.06
1985	126.21	98.81	12.24	0.56
1986	118.80	102.90	12.89	0.35
1987	126.60	108.00	11.96	0.26

Table E.1 (Continued)

Year	World GDP (1980=100)	Money Supply
1970	70.70	19447.50
1971	73.50	21445.70
1972	77.40	24830.90
1973	81.70	29936.50
1974	82.90	33207.90
1975	83.20	34982.50
1976	87.60	41572.30
1977	91.50	45651.80
1978	95.20	54677.70
1979	98.50	63548.60
1980	100.00	71594.80
1981	101.80	73922.50
1982	101.70	79946.10
1983	103.91	83724.10
1984	108.20	93340.00
1985	111.20	90094.40
1986	114.68	103426.8
1987	117.65	132395.7

Note : Data on terms of trade, exchange rate, import unit value, export unit value, and money supply are from Bank of Thailand, Monthly Bulletin, various issues. Data on Thailand WPI, world WPI, and world GDP are from IMF, International Financial Statistics, various issues. The rest of the data are from or constructed from National Economic and Social Development Board, National Income of Thailand, New Series 1970-1987. An average tax rate is the ratio of tax revenue to GDP at current prices. An import tariff rate is the ratio of import tax revenue to import values. An export tariff rate is the ratio of export tax revenue to export values.

APPENDIX F

ABOUT NESDB AND BOI

The purpose of this appendix is to give a summary of the functions of the National Economic and Social Development Board (NESDB) and the Board of Investment (BOI).

A publication of the Official Listings Thailand 1986 gives a good summary of the development, functions and responsibilities, structure and a list of senior officers at the NESDB. A copy of the summary is attached. However, the publication lists only senior officers of the BOI whose copy is also attached.

Additional information about the functions of the BOI came from a brochure of the Board of Investment entitled, "Thailand: The Climate and Incentives for Investors."

The Board of Investment (BOI) is the government agency responsible for the implementation of Thailand's investment promotion policy. The Board possesses broad discretionary powers, the most important of which is the granting of promoted status to a company. Both foreign and Thai investors are eligible to receive promotion benefits.

The 1977 Investment Promotion Act is the legislative foundation for the BOI's current powers. It provides guarantees, tax exemptions, income tax relief and, if necessary, temporary tariff protection for companies undertaking activities which the BOI designates as eligible for promotion. Additional incentives are prescribed for export-oriented projects and those located in the country's several industrial estates.

Projects concerned with the agricultural, livestock, fisheries, mining manufacturing and service sectors are eligible for investment incentives. However, under the BOI's Guidelines for the Granting of Investment Promotion and for Providing Tax Privileges, the project characteristics which will attract the most generous incentive packages are :

- those projects which will generate a substantial increase in employment.
- those projects which are located outside Bangkok,
- those projects which have energy conservation or substitution for imported fuel as one element,
- those projects which are capable of producing foreign exchange earnings or savings, and
- those projects which are complimentary to the development of basic industries.

These guidelines were developed to harmonize with Thailand's national development plans and to help investors identify the most profitable investment opportunities, those in which Thailand offers an internationally competitive resource base.

In addition to its wide range of flexible investment incentives, the Board of Investment offers a large number of other services designed to help the foreign investor. These services are available from the BOI's headquarters in Bangkok and through four overseas offices located in Frankfurt, New York, Sydney and Tokyo.

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NESDB, Past and Present

Early attempts at development planning in Thailand started in 1950 when the National Economic Council (NEC) was established to undertake economic studies and to advise the Thai Government on general financial and economic matters. This council consisted of not more than 20 members according to the cabinet's recommendation and chaired by the Prime Minister. The Council divided work into 5 sectors: agriculture, finance, commerce, industry and communication. The NEC was responsible in appointing members for each sector under the responsibility of the Secretary General.

To correct the shortcomings resulting from lack of clear and comprehensive national objectives, the World Bank was requested by the Government to send a mission to Thailand. The mission arrived in 1957 to study the economic situation of the country and to provide recommendations in the establishment of national economic planning system. The Bank recommended the setting up of a central planning agency to make a continuing study of the nation's economy and draw up plans for its development.

The Foundation of the NESDB

Following the World Bank's recommendation the National Economic Development Board (NEDB) was established in 1959, the name was changed to National Economic and Social Development Board (NESDB) to emphasize the importance of social development in the development process. The NESDB is essentially a central planning agency which undertakes a continuing study of the Kingdom's economy and draw up plans for its development. Since its inception, the NESDB has already completed 5 Development Plans.

Functions and Responsibilities

According to the National Economic Development Act of 1959, revised in 1960, the main responsibilities of NESDB are as follows:

- Analyzing and studying economic situation for presentation to the National Development Board and for recommending economic development and stabilization policies.

Appraising and coordinating the economic

development projects of government agencies and public enterprises and setting the overall economic development policy according to the existing national resources and priorities.

- Studying the financial availability and resource potential in order to recommend to the National Development Board.
- Coordinating with other government agencies and public enterprises in the preparation of development programs and projects for the annual development budget, foreign loans and other sources of finance.
- Investigating requested expenses for the maintenance of fixed assets which are used in development and recommending adjustments if necessary.
- Considering and coordinating requests for foreign grants and loans of government agencies and public enterprises and recommending additional assistance if necessary.
- Evaluating and monitoring the implementation of economic and social development projects of government agencies and public enterprises.
- Recommending suitable economic development strategies to the National Development Board.
- Any other activities which are specified by the National Economic Development Council Act or the National Economic and Social Development Board Act.

The Structure of NESDB

The structure of NESDB is as follows:

1. National Economic and Social Development Committee: This Committee chaired by the senior and outstanding economist and comprises the governor of the Bank of Thailand, secretary general of Civil Service Commission, director of the Budget Bureau, director of Economic Finance Bureau, secretary general of NESDB and not more than 9 members appointed by the cabinet. National Economic and Social Development Committee has authority to supervise the work of the NESDB and recommending suitable economic and social development strategies to the cabinet. This committee also has the responsibility of screening and deliberating on the various plans, programs, projects and policies submitted by the NESDB office and make recommendations to the cabinet.
2. The Office of National Economic and Social Development Board: The Secretary General is the head of the office of National Economic and Social Development Board which works as the secretariat of the National Economic and Social Development Committee to supply data and National Economic and Social Development Plans for their consideration. Sometimes the cabinet assigns work directly to the Office of the National Economic and Social Development Board through the Secretary General who is invited to participate in the cabinet meeting.

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APPENDIX G

SELECTED CONDITIONS IN THE LOAN AGREEMENTS

The World Bank's first structural adjustment loan or SAL I (Loan Number 2097 TH) to Thailand was approved on March 2, signed on March 15, and fully disbursed by July 19, 1982. The second structural adjustment loan or SAL II (Loan Number 2256-TH) was approved on March 31, signed on April 27, and fully disbursed by September 22, 1983.^{1/} Table G.1 summarizes selected conditions of both loan agreements.

The loan amount for SAL I was \$150 million and that for SAL II was \$175.5 million, with a total of \$325.5 million. All goods imported into Thailand with a few exceptions were eligible for financing under the loans. Those exceptions are (1) goods which are being otherwise financed by national or international financing institutions or any other agency, (2) goods intended for military or paramilitary use, and (3) goods for luxury consumption. A list of ineligible imports is contained in Schedule 1 of both Loan Agreements.

Both SAL I and SAL II required a commitment charge paid to the World Bank at 0.75% per annum on the principal amount of the loan not withdrawn from time to time. Unlike SAL I, SAL II also required a capitalized front-end fee of \$437,656 paid to the World Bank.

The interest rate on SAL I was fixed at 11.60% per annum but that on SAL II was variable at 0.50% per annum above the World Bank's cost of borrowings. Both SALs had a grace period for their principal for five years and a 20 year term. In practice, both loans have been fully paid back to the World Bank.

The Bank of Thailand was designated to be responsible for maintaining the loan account, the collection and coordination of the relevant letters of credit and supporting documentation and for the preparation and submission of withdrawal applications. The Minister of Finance was designated as representative of Thailand.

^{1/} See International Bank for Reconstruction and Development (1986), p. i; Loan Agreement (Structural Adjustment Loan) Number 2097 TH, Dated March 15, 1982; and Loan Agreement (Second Structural Adjustment Loan) Number 2256 TH, Dated April 27, 1983.

Table G.1

Selected Conditions in the Loan Agreements

Selected Condition	Loan Number 2097 TH (SAL I)	Loan Number 2256 TH (SAL II)
Loan Amount	\$150 million	\$175.5 million
Withdrawal of proceeds	Financing imported goods with a few exceptions	Same
Fee paid to the WB ¹	None	\$437,656
Commitment charge paid to the WB	0.75% per annum on the principal amount of the loan not withdrawn from time to time.	Same
Interest rate on loan	11.60% per annum on the principal amount of the loan withdrawn and outstanding from time to time.	0.50% per annum above the WB's cost of qualified borrowings ² on the principal amount of the loan withdrawn and outstanding from time to time.
Payment interval of interest and other charges	June 1 and December 1 in each year.	Same
Payment interval of principal/each payment	Each June 1 and December 1 beginning December 1, 1987 through June 1, 2002/ \$5 million	Each June 1 and December 1 beginning December 1, 1988 through June 1, 2003/ \$5.85 million

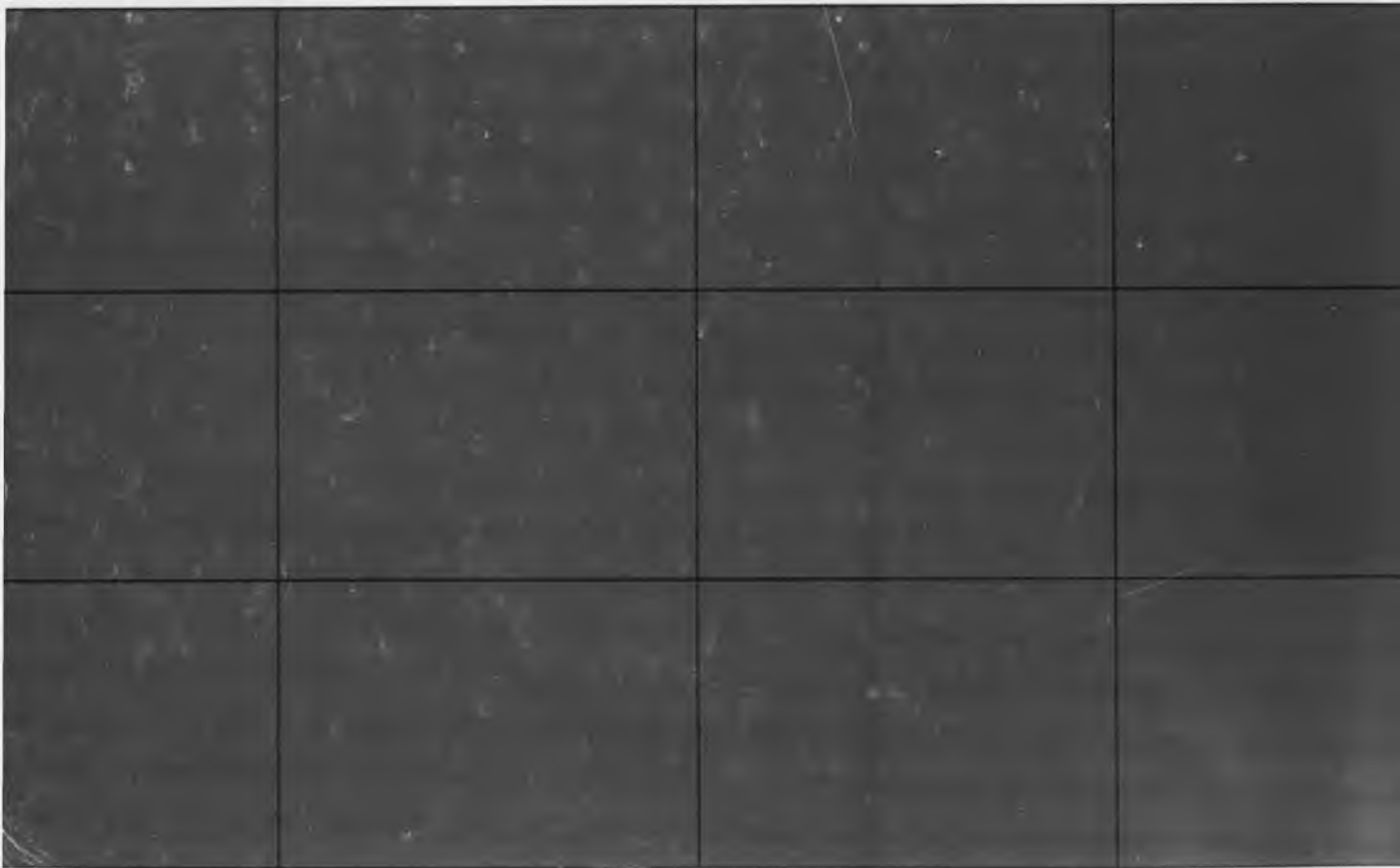
Notes:- Extracted from the Loan Agreements Number 2097 TH (Structural Adjustment Loan) and Number 2256 TH (Second Structural Adjustment Loan) between Kingdom of Thailand and International Bank for Reconstruction and Development, Dated March 15, 1982 and April 27, 1988 respectively.

¹ WB stands for the World Bank.

² See the definition of cost of qualified borrowings in the Loan Agreement Number 2256 TH cited above, pp. 3-4.

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