

The Vicissitudes of Eastern Seaboard Development Plan of Thailand and Their Significance

-The ownership and effective use of aid in developing countries-

Yasutami Shimomura

Professor

Saitama University

National Graduate Institute for Policy Studies (GRIPS)

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I. Introduction - Objective and Analytical Framework

The objective of this paper is to consider “ownership” and “institutional capability” in developing countries, which are required for Official Development Assistance (ODA) to attain the expected results, through the examination of the case of the Eastern Seaboard Development Plan (ESDP) of Thailand¹.

As is often pointed out, fund and technology transfer alone is not enough for ODA to play an effective role in supporting developing countries’ efforts in raising living standards and easing poverty. In addition, certain conditions are required for both developing countries and donor countries. Many studies indicate that, for developing countries, “ownership” and “institutional capability” are important conditions other than sound policies. Even when a project design is excellent, ODA may not attain the expected results unless the significance of the project is fully recognized, volition to implementation is high, and institutional capability is well developed in the countries assisted. The relationship between ownership and institutional capability and effective results of ODA has not yet been thoroughly clarified, however. As a matter of fact, most arguments are normative/abstract and donors’ lecture to developing countries. To overcome such a situation, a mechanism, in which ownership and institutional capability leads to the effective use of ODA, should be analyzed through specific case studies.

The case of ESDP in Thailand presents a lot of precious information to this kind of work. For this plan, the World Bank and the Japanese Government (both are the most important donors for Thailand) were involved from the initial stage, but there was a difference in opinions about the plan between these donors and the Thai government. Inside the Thai government, there were also heated arguments about the plan. As a result, the plan was reviewed various times. When viewed generally in retrospect, however, the Thai government’s judgment and decision-making are basically considered appropriate. The Thai government’s performance can be highly appreciated, since the management of such a huge, complicated plan as ESDP², which concerns the country’s strategic needs for changes in industrial, export and regional economic structures, is a very difficult work for a developing country.

What factors enabled the Thai government’s appropriate management? Answering this question is the theme of this paper. It will provide us with suggestions and lessons to secure effectiveness of ODA. It may also clarify the factors, especially in the political-economy aspect that enabled the Thai economy to continue a stable, high growth. In what follows, this paper first elaborates the outline and characteristic of ESDP. Second, it reviews the disputes in various stages of planning and implementation as well as the changes in the plan as a result of these disputes. Finally, based on these, the result of the Thai government’s choice is evaluated.

¹ The author wishes to express his thanks to the staff of JBIC he received in completing this paper. He is grateful to Mr. Hiromichi Ariga and Mr. Kenichi Ariga for their providing information and valuable suggestion.

² According to the master plan of the Eastern Seaboard Development Plan released from the Thai government in July 1982 (“Eastern Seaboard Study: Interim Report” prepared by Coopers & Lybrand Associates under the financial support of the World Bank and the British government), the necessary amount of fund was estimated to be approx. \$4.5 billion (1981 price). Also, in the Fifth Five-Year Plan (1982-86) 6.5% of the public investment was to be used for the Eastern Seaboard Development Plan. (World Bank. *Thailand Managing Public Resources for Structural Adjustment*. 1983. Volume 1. pp.193-195) However, in the subsequent plan review process, the total amount of investment was reduced to about 60% of the initial estimate. (Yasutami Shimomura, Yutaka Ohashi, “Tobu Rinkai Kaihatsu Keikaku” (The Eastern Seaboard Development Plan) in “Tai Koku Keizai Gaikyō” (The Outline of Thai National Economy), 1986-87. the Japanese Chamber of Commerce and Industry in Thailand, pp125-126)

II. Overview and Background of Eastern Seaboard Development Plan

The Eastern Seaboard Development Plan is a comprehensive regional development covering the three provinces of Chachoengsao, Chonburi and Rayong, a coastal area located southeast of Bangkok, with the southern and eastern parts facing the Gulf of Thailand. The core of the plan are two industrial districts, Map Ta Phut and Laem Chabang, both of which have deep-sea ports. The plan originally comprised the development of heavy industry based on natural gas (Map Ta Phut district), export-oriented labor-intensive light industry (Laem Chabang district), tourism industry (Pathaya district), and infrastructures to support these industries, including ports, roads, railroads, dams and water transmission pipelines.

The plan, which the basic concept was formed in the late 1970s and the master plan was finalized in 1982, was expected to play the main part in solving the two fundamental problems which the then Thai economy faced. The first problem was transformation of industrial structure, namely a change in main industry from agriculture to manufacturing, and a change in main export product from primary products to industrial products. Actually, the industrial development was placed as the main theme in the Fifth Five-Year Plan that began in 1982. It was from the Fourth Five-Year Plan (1977-81) industrialization became an important political subject, since Thailand, a non oil-producing country, that suffered serious damage in the balance of payments by oil crises which occurred twice in the 1970s, had been troubled with a subsequent extreme deterioration of trade conditions under the stagnant international market of primary products³. Under these circumstances, the Thai government came to intend strongly to improve terms of trade by promoting export-oriented industry and utilizing domestic energy resources, and to stabilize the balance of payment by saving foreign currencies. These efforts of the Thai government attained a certain result during the Fourth Five-Year Plan, and the ratios of agriculture and industry to the GDP were reversed in the late 1970s. Also, the weight of primary products (rice, maize, tapioca, rubber, tin, etc.) which occupied two thirds of export in 1970 dropped to 50% in 1980, and to one third in 1985. It was because conversion to labor-intensive light industry, such as textile and sundry⁴. The aim of the Thai government was to further promote this transformation.

The second fundamental problem was decentralization to relieve overconcentration of economic activities in Bangkok. Concerned about regional inequalities particularly between cities and farming villages that became apparent in the process of economic development, the Thai government has put emphasis on the development of farming villages to raise the living standards there as an important policy, since the Third Five-Year Plan (1972-76). Assistance from Japan also concentrated in local areas. However, it cannot be denied that, in the progress of overconcentration of economic activities into Bangkok, Thai government had been developing without any decisive, effective measures. On the other hand, typical negative aspects of overconcentration such as traffic congestion, air pollution and water pollution of canals became serious rapidly in Bangkok.

The discovery of natural gas in the Gulf of Thailand was a trigger of the concept to construct industrial bases in the Eastern Seaboard so as to solve the two priority subjects mentioned above. Commercially feasible gas fields were found in 1973 and 1977, and the construction of an offshore pipeline (425km) was started to connect the gas fields with the Eastern Seaboard. ESDP was aimed to form a real coastal industry area and realize regional development by a combination of the heavy chemical industry based on the domestic energy resources of the Map Ta Phut district, which is the landing point of the pipeline, and

³ The Thailand's terms of trade, set for 100 in 1973, dropped to 51 in 1981. (Warr P. and Bhanupong N., *Thailand's Macroeconomic Miracle Stable Adjustment and Sustained growth*. Kuala Lumpur. Oxford University Press. 1996 p43)

⁴ Yasutami Shimomura, "Tai no Makuro Keizai" (Thai Macroeconomy) in ASEAN4 no Kinyuu to Zaisei no Ayumi – Keizai Hatten to Tsuka Kiki" (Progress in ASEAN4's Fiance - Economic Development and Currency Crisis,) 1998, edited by Institute of Fiscal and Monetary Policy, Ministry of Finance, p378

the export-oriented industry of the Laem Chabang district.

III. The Vicissitudes of the Plan (up to October, 1985)

1. Formation of Basic Plan

In December 1980, the Thai government started to establish the scheme for the industrialization of the Eastern Seaboard and installed the CDBIS (Committee to Develop Basic Industries on the Eastern Seaboard) headed by Prime Minister Prem (Prem Tinsulanonda, who had just took office on previous March). In March 1981, the heavy industrialization strategy (Anat Arbhabhira Report) of the region was completed. Anat was the director of the TDRI (Thailand Development Research Institute). In June 1981, the CDBIS was reformed to the ESDC (Eastern Seaboard Development Committee); Prime Minister Prem continued to act as a chairman. In October 1981, ESDP was adopted for the Fifth Five-Year Plan.

Before this, various movements were seen with regard to the development of the Eastern Seaboard. The first movement was the natural gas development mentioned above. The second was the movement around the ASEAN Industrialization Project proposed by Prime Minister Takeo Fukuda who visited ASEAN in August 1978. In Thailand, the "Soda Ash Project" was adopted and located in the Laem Chabang district (1980). A feasibility study was conducted by the JICA, but it was difficult to implement because of the furious anti-pollution campaign lead by residents of the Pathaya district. After all, in November 1982, the Thai government gave up the location in the Laem Chabang district and decided to cancel the project in April, 1985.

The third movement was a recommendation by NEDECO, a Dutch port consultant, which led to the core concept of the future Eastern Seaboard Development Plan. In 1978, NEDECO recommended Laem Chabang as an alternative port judging that the capacity of the Port of Klong Toey (Bangkok), an estuary port, would reach the limit sooner or later. The Thai government made a request to the World Bank for financial assistance. But instead of accepting the request, the World Bank judged it an over-investment and recommended an extension of the Port of Sattahip, and Australian company Mouchel & Partners Ltd. started a feasibility study. Conflicting opinions between the Thai government and the World Bank already began at that time. The Port of Sattahip is a natural good harbor positioned at a part of the Eastern Seaboard protruding into the Gulf of Thailand. In terms of route, it is halfway between Laem Chabang and Map Ta Phut. Originally it was a port of the Thai Navy, and together with a railroad extending toward the Northeastern Thailand, it played an important role in supplying munitions of the US armed forces during the Vietnamese War.

In 1981, the Japanese government's attitude to support ESDP became concrete. In January, Prime Minister Zenko Suzuki expressed the intention for cooperation during his visit. In May, the Japanese government mission (Ohkita Mission), headed by Saburo Ohkita, was sent and practical talks about funds and technical cooperation was begun. The intention for cooperation was confirmed again during Prime Minister Prem's visit to Japan in November. From that time Japanese experts about the deep-port were sent in succession, and their activities were focused on the confirmation of technical feasibility of the Port of Map Ta Phut. In May 1982, JICA began study of ESDP, focused on the Port of Map Ta Phut. In the beginning, opinions were inclined to a view that it would be difficult to construct a deep-sea port in Map Ta Phut due to the following reasons: (a) a fear of the port being buried by drift sand, (b) a difficulty of excavating seabed rocks, and (c) influences of strong winds and waves due to the location facing the open sea. The survey made by Japanese experts however, reached a conclusion that problems could be overcome. Based on this advice, the Thai government decided the construction of both ports of Laem Chabang and Map Ta Phut in November 1982.

On the other hand, with financial assistance from the World Bank and the British government, the Thai government asked Coopers & Lybrand Association for the preparation of the master plan for ESDP in

1981, and the interim report was published by the NESDB in July 1982. The amount of total investment was estimated to be US\$4.5 billion. The master plan would form the framework of the future ESDP; however, by that time the World Bank became cautious toward the plan from the view point of macroeconomic management of Thailand, and similar opinions were gaining influence in Thailand, too.

2. Deterioration of Thai Economy and Rise of Opponents of ESDP

ESDP seemed to be smoothly in progress during the period between 1983 and Autumn of 1985. Following the completion of the natural gas pipeline in September 1981, the natural gas separation plant was constructed in the Map Ta Phut district by the special ODA loan, of which Loan Agreement (L/A) was signed in July 1982, and a trial test was made in December 1984. Following this, the development plan of petrochemical plants utilizing natural gas was furthered. With regard to the fertilizer plant using methane gas, the NFC (National Fertilizer Corporation), a semi-public joint venture was established in November 1982, held the international competitive bidding, and the Marubeni-Chiyoda Chemical Engineering group and the C. Itoh-Mitsui Shipbuilding group won the Letters of Intent in July 1984⁵.

Whereas, the Thai economy suffered macroeconomic imbalance under an unfavorable international economic environment during the Fifth Five-Year Plan period. It caused an evident drop in momentum to promote ESDP, compared with the time when the Fifth Five-Year Plan was started. Under these circumstances, critical opinions rapidly rose in the Autumn of 1985, and ESDP became the theme of dispute that divided the public opinion of Thailand. To understand what triggered such an opposition, the general picture of Thai economy could be overviewed as follows.

The Thai economy was highly evaluated in that it had maintained both high growth and price stability for a long period since the 1960s. In the middle of the 1980s, however, the Thai economy was fully covered with pessimistic views about the possibility of economic development. At this point, both the Thai government and the World Bank had basically the same opinion. To know the atmosphere of that time, the beginning of the "Country Economic Report" of the World Bank published in June 1986 is cited below. At the beginning of the report the condition of the Thai economy at that time is summarized as follows:

The Thai economy continues to be characterized by the serious internal and external imbalances brought about largely by the unhelpful external conditions. Failure to address the short-term stabilization of the economy needs could possibly lead to a lending cut-off and debt servicing. This would be accompanied by declining real incomes, increase poverty and external dependency, as has occurred in some other countries. The government has stated its commitment to take the needed political measures to avert such an outcome.⁶

Changes in macroeconomic indices of Thailand after entering the 1980s are shown in Table 1. Although the economic growth rate, that was maintained around 5% per year, was relatively good among developing countries, the problem was the emerging macroeconomic imbalance. With the

⁵ The major facilities of the NFC Fertilizer Plant were formed with three lines, an ammonium production plant (ammonium 900 t/d, urea 1,000 t/d, etc.), a sulfuric acid production plant (sulfuric acid 2,180 t/d, phosphoric acid 720 t.d, etc.) and utility (generators, water treatment systems, etc.), of which the Marubeni group won the Letter of Intent for the ammonium plant and utility and C. Itoh group the sulfuric acid plant.

⁶ World Bank(1986),*Thailand: Growth with Stability A Challenge for the Sixth Plan Period A Country Economic Report*, Washington D.C., The World Bank, Volume I,p.iii

investment-savings gap nearly reached 5%, the hovering savings rate was particularly a negative factor to limit the recovery of investment, which undermines potential growth power. Corresponding to this, the ratio of current account deficit to GDP stayed at around 5%, without showing a sign of improvement, and it resulted in a continuous deterioration in debt indicators. The debt service ratio which stayed at 17.3% in 1980 increased to 26.1% in 1985, within as short a period as five years. Exceeding 20% which is a warning level and approaching 30% which is a critical level, caused a great shock in the country of Thailand with a recognition that Thailand would follow the case of the Philippines which was defaulted in 1983. Partly affected by the devaluation that happened twice, growth of export (in US\$) also hovered (the J-curve effect), and thus the sense of blockage added its influence over the entire economic society. As shown in the report cited above, according to the diagnosis made by the World Bank at that time, depression of the Thai economy was basically due to deterioration of the international environment. Just as many of the other non-oil producing countries, the Thai economy, particularly the balance of payment, was adversely affected by the boosted crude oil price that occurred twice during the 1970s, the worldwide stagflation that followed, the rise in international interest, and the drop in international price of primary products. Furthermore, like many other developing countries, the Thai government received SAL (Structural Adjustment Lending) of the World Bank twice, in May 1982 (1st) and in June 1983 (2nd), to tide over the external shock on the balance of payment⁷. While receiving SAL, the Thai government took a tight fiscal and monetary policy, and devaluated baht in 1981 and 1984⁸. In particular, the devaluation in 1984, which was implemented despite the strong opposition of Army Commander Arthit Kamlang-ek who hated the exchange loss concerned with the purchase of arms, was an event that clearly impressed the independence of the Central Bank internationally. The World Bank praised Thailand as one of five top performers⁹ in its review of SAL drew up in the 1990s, but such an evaluation was not seen yet in the middle of the 1980s, and rather pessimistic views were influential in the Thai economy.

In the Country Economic Report of 1986, the World Bank, which maintained its cautious attitude about the future prospect of the international environment influencing the Thai economy, suggested that the future prospect made by the Thai people was too pessimistic, saying "While the outlook is not encouraging and does not appear to be conducive to a return to the high growth rates of the 1970s, the situation is probably not as gloomy as many in Thailand seem to believe."¹⁰ The spread of the pessimism exerted a great effect upon discussions related to ESDP, too. Additionally, the positive meaning for the Thai economy of "Plaza Accord" in September 1985, in which five advanced countries agreed on cooperative intervention to correct the strong dollar was not recognized at all at that time. No particular mentions of the Plaza Accord and the sign of increasing direct investments, were seen in the World Bank's report of 1986.

Under these circumstances, the Thai government decided to compress the limit of external borrowing drastically from US\$1.6 billion of 1984 to US\$1.0 billion.

⁷ In addition, the Thai government received the IMF's Stand-by Credit three times, June 1981, November 1982 and June 1985. World Bank(1990), *Adjustment lending policies for Sustainable Growth*, Washington D.C.,The World Bank, pp.76-77

⁸ Approx. 10% in 1981 and 14.7% in 1984; thereafter no devaluation was done in Thailand till 1997. Doner R. and Anek L.(1994),"Thailand:Economic and Political Gradualism",in Haggard S. and S. Webb(eds.),*Voting for Reform Democracy,Political Liberalization, and Economic Adjustment*,New York,Oxford University Press, p.423

⁹ Countries given as another performance of SAL were South Korea, Mauritius, Chile and Ghana. World Bank(1990) op cit p.20

¹⁰ World Bank(1986), op cit p.4

IV. The Vicissitudes of the Plan (Since November 1985)

1. Review of the Plan by the "Three-Minister Committee"

On November 13, 1985, the Thai government announced that all large-scale projects, especially the works related to ESDP would be suspended for 45 days and in the mean time an exhaustive, general review would be made on their priority¹¹. For this task a committee formed by three cabinet members was installed. Minister to Prime Minister's Office Suli Mahasandana was nominated for a chairman, and Minister to Prime Minister's Office Meechai Ruchupan and Vice-Minister of Finance Suthee Singhasaneh were nominated for members. As mentioned later, Suli was the most trustworthy aide of Prime Minister Prem, Meechai was a legal expert, and Suthee was an economic technocrat who had been the Director of Budget Bureau of Prime Minister's Office for a long time. Information from a "reliable source" also reported that "the Eastern Seaboard Development Plan is likely to suspended for three years".¹²

This movement called as a "coup d'etat by the advocates of tight budget policy" surprised many people, the reason is that L/A were signed with Japan Bank for International Cooperation (JBIC) concerning the core projects of the Eastern Seaboard Development Plan such as "Laem Chabang Industrial Estate Project," "Nong Kho-Laem Chabang Water Pipeline Project," "Map Ta Phut Industrial Port Project," "Map Ta Phut Industrial Complex Project," and were just approved by the Cabinet on October 31. NESDB Secretary General, Snoh Unakl sent a memorandum to Prime Minister Prem for the installation of a neutral team "to review the ESB projects and other schemes requiring foreign loans" on November 1, the following day of the Cabinet's approval¹³. Snoh was said to have had a strong anxiety and sent the memorandum to the Prime Minister¹⁴ because the October 28 report submitted to the Council of Economic Ministers by the Ministry of Finance showed a critical prospect about external debts. The report, however, did not respond to a question why Snoh didn't oppose to the Cabinet approval. On the other hand, there was also a view that the movement was as expected, because Prime Minister Prem announced the "curtailment of large-scale projects" on TV¹⁵. Perhaps the entangled relationship of these facts suggests there was a close under-the-surface conflicts between the advocates of the expansive budget who were technocrats in charge of development policy and those of the tight budget who were technocrats in charge of macroeconomic policy.

If anything, nomination of Suli for the chairman of the ministers' committee gave an impression of an unusual situation. For smart and cool Suli was known as the most trustworthy aide of Prime Minister Prem and was in charge of difficult trouble-shooting. To understand the close relationship of Suli and Prem, we have to know the story of about 50 years ago from that time.

Prem was born in August 1920 in Songkhla, an old port in southern Thailand. His father was a prison officer. Going to high school was too luxurious for Prem who was one of the eight children of a lower class public officer. But a primary school teacher who valued his outstanding intelligence, persuaded his parents. After all, Prem went to high school while working, living in the house of acquaintance in Bangkok. This story is similar to those of early nation builders in prewar Japan. In Bangkok, Prem successfully passed the examination and entered a high level public school. The school was founded by King Churaronkon to offer special education for the gifted children of lower class public officers. A classmate in this two-year high school and his lifelong friend was Suli from Bangkok. They were 15

¹¹ *The Nation*, November 14,1985

¹² *Bangkok Post*, November 20,1985

¹³ *The Nation*, November 21,1985

¹⁴ *The Nation*, November 22,1985

¹⁵ *The Nation*, November 21,1985

years old when they first met¹⁶. Nomination of Suli indicated that handling of ESDP became a highly delicate political subject.

2. Proposal of the World Bank

While examined by the Three-Minister Committee, the situation changed, because intervention of the World Bank was disclosed. A local English paper of November 28 reported that Chief of the Bangkok Resident Mission of the World Bank, Quill Hermans who quitted the World Bank just after the case was settled and became the Governor of Botswana Central Bank, sent a letter to Secretary-General Snoh of NESDB on November 6. It reported that he suggested that "the proposed construction of Map Ta Phut and Laem Chabang ports on the Eastern Seaboard should be dropped from the 1986-1990 plan."¹⁷ Obviously the article was written based on the leak by Secretariat of CDBIS with an aim to bring the unpractical proposal made by the World Bank into relief. This means that the advocates began to rally.

The main point of the World Bank's proposal was roughly as follows: Since it is not possible to expect the planned traffic volume and economic performance for both ports of Laem Chabang and Map Ta Phut, the construction plan of these ports should be excluded from the objective of the 1986-90 investments, and instead the capacity of the existing ports of Sattahip and Klong Toei (Bangkok) should be expanded.¹⁸

The World Bank did not bring forward any special problem about the NFC Fertilizer Plant. The Bank also commented on ESDP as the plan is economically not feasible because the estimated profit rate of the entire plan is 9.7% only, below the cutoff rate, the expected cost of the capital, of 12%. Expected effects, such as decentralization and creation of employment opportunities, cannot be expected so much. Since the capital demand is huge and the necessity of capital burden at home and external loans is high, the plan will further deteriorate the savings-investment gap the Thai government is facing at the moment.¹⁹

Contents of the reported Hermans' letter were in many points common to a part of Chapter 6 of the World Bank's "Country Economic Report" (June, 1986)²⁰. It may be appropriate to take it that a draft report was presented to the Thai government in the form of Hermans' letter. Major descriptions related to the review of the plan referred to the World Bank's report mentioned above are as follows²¹. The World Bank's skeptic attitude toward the effects of an entire ESDP was the same as the view described in the report of 1983²².

- a) The total investment of infrastructures (excluding petrochemical facilities, such as fertilizer plants) of the Eastern Seaboard Development Plan for the 1986-90 period is approximately US\$500 million, of which costs of both ports Map Ta Phut and Laem Chabang are US\$150 million each, totaling US\$3 00 million.

¹⁶ Warren W.(1997), *Prem Tinsulanonda Soldier & Statesman*, Bangkok, M.L. Tridosyuth Devakul, pp.25-38

¹⁷ *The Nation*, November 28, 1985. After the situation was settled, the JBIC Bangkok Office confirmed from Hermans that the newspaper report about the World Bank's proposal was correct. (Talks between two resident mission chiefs, Hermans, the World Bank and Shimomura, JBCI at Regent Hotel on February 4, 1986)

¹⁸ *The Nation*, November 28, 1985: The period the World Bank referred here to was 1986-90, and it should be noted there is a gap of one year between the 1987-91 period of the "Sixth Five-Year Plan.

¹⁹ *The Nation*, December 2, 1985

²⁰ World Bank(1986) op cit pp.132-138

²¹ World Bank(1986) op cit p.137

²² World Bank(1983), *Thailand Managing Public Resources for Structural Adjustment*, Volume I, pp.192-199

- b) The Port of Map Ta Phut was originally planned for heavy industries and the downstream light industries, but except for the NFC Fertilizer Plant, the prospect of needs is quite unclear. Since the downstream industries can use the Port of Sattahip, which is 25km apart, it means the Port of Map Ta Phut is needed by the NFC Fertilizer Plant only. If so, it cannot be expected that there will be a sufficient profit to justify the construction of the Port of Map Ta Phut by the NFC alone. Instead, it is enough to construct offshore bulk conveyer facilities for importing phosphate rock.
- c) Originally the Port of Laem Chabang was planned not for an industrial park but for easing congestion of the Port of Bangkok and traffic congestion around Bangkok. However, it is doubtful whether or not there will be a sizable vessel traffic to justify the port construction in the near future. It is hard to consider there will be a full-scale container transportation in the Gulf of Thailand. If so, instead of construction of the Port of Laem Chabang, minor investments, such as to enhance container facilities, in the existing Port of Bangkok, will be enough. If it is not enough, the Port of Sattahip may also be used.

As described later, the view mentioned above had several points that were based on rather forced assumptions and was criticized already at the end of 1985²³. The World Bank's report also pointed out that, since the period of 1986-88, Thailand's financial position became very tight, it was effective to adjust the implementation schedule of ESDP²⁴.

The key points of the World Bank's proposal is as follows. First, instead of constructing the ports of Laem Chabang and Map Ta Phut, demands should be met by enhancing the existing ports of Bangkok and Sattahip (at least from the mid-term viewpoint). Second, for the period of 1986-88, investments on the plan should be postponed, as possible. The report of 1986 of the World Bank mentioned above calculated the economic rate of return of the NFC Fertilizer Plant as 14%, following the result of examination by the International Finance Corporation (IFC), and judged it feasible²⁵.

The relationship between such movement of the World Bank and the review of ESDP is not clear. Although Hermans' letter was dated after the memorandum sent from Secretary-General Snoh of NESDB to Prime Minister Prem, it may be realistic to consider that the World Bank's view had already been reported to the Thai technocrats via different routes before that.

3. Decision of the Thai Government

On December 24, 1985, the draft of review policy submitted by three cabinet members, including Suli, was approved by the Cabinet meeting. The Cabinet resolution (translated into English by the JBIC Bangkok Office) is outlined as follows:

- a) NFC Fertilizer Plant - The implementation was approved, without any particular incidental conditions.
- b) Port of Map Ta Phut - The implementation was approved. However, commitment of the ODA loan (presumably effectuation - note by the author) was on the signing of the Letter of Intent of ODA loan related to the NFC Fertilizer Plant project.
- c) Map Ta Phut Industrial Complex, Port of Laem Chabang, Laem Chabang Industrial Complex and Nonko-Laem Chabang Water Supply Pipe - The implementation was approved. However, the commitment and use of ODA loan was postponed, because projects of which implementation was improper at that time were included.

²³ *The Nation*, November 28, December 2, December 11, 1985

²⁴ World Bank(1986) op cit p.139

²⁵ World Bank(1986) op cit p.136

What was made clear by the resolution was that the alternative proposal made by the World Bank (to postpone the construction of the ports of Laem Chabang and Map Ta Phut for a long period and to meet needs by enhancing the capacity of the ports of Bangkok and Sattahip) was not adopted. In other words, to execute ESDP maintaining the original framework was confirmed. In this sense a go-signal was turned on for the Eastern Seaboard. However, the examination of Cabinet resolutions shows that the decision was aimed at a substantial, long-term postponement at the same time.

At that time those who were concerned about ESDP in Bangkok agreed that the most problematic part in the entire plan was the NFC Fertilizer Plant²⁶. Although the implementation of NFC Fertilizer Plant was approved without any incidental conditions, it may be reasonable to assume that, there was a prospect that the implementation of NFC would inevitably be retarded by various hindrances. From this viewpoint, the linkage between the Port of Map Ta Phut and the NFC, meant to stop the execution of the project of the Map Ta Phut district. A specific intention of the Thai government was indicated in the fact that the projects in the Laem Chabang district was postponed without any specific reason. It was difficult to point out big problems of the projects in the Laem Chabang district, and there was quite a possibility that it would proceeded smoothly by nature. The postponement of projects in the Laem Chabang suggested the postponement was necessary. From these points we can see that the Thai government's intention was to "put forward the time of execution as much as possible, while maintaining the original form of the Eastern Seaboard Development Plan."²⁷.

Table 1 Macroeconomic Indices of Thailand during the 1st Half of the 1980s

	1980	1981	1982	1983	1984	1985
Economic growth rate (%)	5.8	6.3	4.1	5.8	6.2	4.0
Agriculture (%)	1.9	6.8	1.0	3.8	5.5	2.3
Manufacturing (%)	4.8	6.4	4.4	7.3	6.6	2.3
Coarse investment/GDP (%)	27.2	24.7	21.0	23.0	23.9	22.7
Coarse savings/GDP* (%)	23.0	20.6	18.9	18.0	18.1	17.9
Savings-investment gap (%)	- 4.2	- 4.1	- 2.1	- 5.0	- 5.8	- 4.8
Fiscal deficit/GDP (%)	-	3.2	5.8	4.1	3.8	5.1
Increase in export (%)	23.2	7.0	- 1.0	- 7.7	16.3	- 4.4
Ordinary revenue deficit/GDP (%)	6.2	7.1	2.7	7.2	5.0	4.0
Trade condition	100	87	79	85	74	77
External debt (US\$100MM)	81	101	113	132	145	161
Debt service ratio (%)	17.3	17.4	18.9	22.9	24.8	26.1
Increase in consumer price (%)	19.7	12.7	5.2	3.8	0.9	3.3

(Source) World Bank(1986),Thailand:Growth with Stability A Challenge for the Sixth Plan Period A Country Economic Report,Washington D.C.,The World Bank, Vol.II & III

(Note) For 1985, figures are provisional. The increase in consumer price (%) covers the Jan-Sep period.

²⁶ Paisal S.(1986),"On the eastern front Thailand decides on a controversial development plan",*The Far Eastern Economic Review*. January 9,1986 p.43

²⁷ At that time, the Far Eastern Economic Review commented that the real intention of the Thai government was a substantial cancellation of the Eastern Seaboard Development Plan, but as there was an anxiety of political confusion in Thailand and with a fear of causing difficult diplomatic issues with the Japanese government, it took a route of "implementation in principle and drastic postponement in actuality." This view is biased to information from the opponents of ESDP, but it still can be said that this article accurately reports the atmosphere among the then Thai people involved. Paisal S.(1986b),"Full steam sideways Thailand's Eastern Seaboard scheme is still in doubt",*Far Eastern Economic Review*,February 20,1986 pp.53-54

4. Further Development

Movement around ESDP can be said to have made progress basically within the framework of the Thai government's resolution made on December 24, 1985, thereafter. The further changes of Laem Chabang Commercial Port/Industrial Estate, Map Ta Phut Industrial Port/Industrial Complex, and the NFC Fertilizer Plan, which are the three major components of the Plan, are reviewed as follows.

(1) Laem Chabang Commercial Port/Industrial Estate

In September 1986, when the implementation of ESDP was suspended, the Japanese government mission, headed by ex-Foreign Minister Saburo Ohkita, visited Thailand. Secretary-General of the NESDB Snoh showed a prospect that project would be implemented soon, saying that the Port of Laem Chabang /Industrial Estate relates to the export-oriented small and medium-scaled companies and has not special problems, and there are good needs as an object of direct investment from the countries with revaluated currencies, such as Japan.²⁸ This indicated a favorable turn of the surrounding environment of ESDP. As Snoh predicted, the CDBIS (Committee to Develop Basic Industries on the Eastern Seaboard) gave the go-signal to the implementation of the project of Laem Chabang Commercial Port on October 15, 1986²⁹. Thus finally the projects of the Laem Chabang district made steady headway. There was no bigger difficulties in the way thereafter.

The biggest factor that urged the Thai side to change was increasing direct investments from Japan according to the prominent effect of yen appreciation of the Plaza Accord. However, it took some time until the increase of direct investment backed by the appreciation of yen was recognized. The report of the JETRO Bangkok Office in April 1986 expected that the recession of the Thai economy would continue during 1986 and did not mention the sign of a rapid increase of direct investment³⁰.

A change came out in the latter half of 1986, about a year after of the Plaza Accord³¹. In October 1986, the Thai Board of Investment (BOI) announced "A large-scale investment project was applied from Japan in July. As a result, the amount of investment application from Japan during the January-July 1986 period showed a rapid increase of 47% from the year before." In the business trends survey of Japanese enterprises conducted by the Japanese Chamber of Commerce and Industry in Bangkok in September, companies considering new investments reached 57%, rising from the 48% by the survey on February³². The Thai economy turned upward around that time, and technocrats' concern also turned to worries about the shortage of infrastructure for receiving direct investments.

(2) Map Ta Phut Industrial Port/Industrial Complex

Unlike the case of Laem Chabang, the environment surrounding Map Ta Phut did not change easily. When Ohkita Mission visited, Snoh explained a view that since projects other than the NFC Fertilizer Plant can do without the Port of Map Ta Phut, whether or not the construction of the Port of Map Ta Phut is necessary depends on the realization or not of the NFC Fertilizer Plant.³³ That is, the Port of Map Ta Phut was seen by quite a narrow scope as a port for the NFC Fertilizer Plant, not considering the

²⁸ *The Nation*. September 19, 1986.

²⁹ *The Nation*. October 16, 1986.

³⁰ *Tsusho Kouhou (Trade Journal)*, April 19, 1986.

³¹ *Tsusho Kouhou (Trade Journal)*, February 7, 1989.

³² *Tsusho Kouhou (Trade Journal)*, October 28, 1986.

³³ *The Nation*. September 19, 1986

possibility for development of heavy industries in this area. Such an attitude of (some) technocrats as to take the port of Map Ta Phut in a narrow sense was also seen in the World Bank at that time³⁴. Such a view was a big obstacle to the execution of the project of the Map Ta Phut district.

In February 1987, the CDBIS decided to instruct the IEAT (the Industrial Estate Authority of Thailand) to carry out the international competitive bid of the construction of the Map Ta Phut Industrial Complex³⁵. Concerning the background of this policy change, Director of Office of Eastern Seaboard Development Committee (OESB) Savit (now Minister to Prime Minister's Office), who acted as the key person for the promotion of the plan at that time, responded to the interview of a local English paper. He said that the plant construction of the NPC (National Petrochemical Corporation)³⁶, which was located in the Map Ta Phut Industrial Complex and had been constructed smoothly, had a good influence on the decision³⁷. Thus the large-scale projects that were to be located in the industrial complex began to work smoothly, and direct investment to Thailand increased. These movements gradually divert the stream of the discussions on the Port of Map Ta Phut. In August 1987, Savit informed the JBIC Bangkok Office that the CDBIS decided on July 27 to step forward from the policy to defer the construction of the port of Map Ta Phut till the problem of the NFC Fertilizer Plant being solved and will examine the port of Map Ta Phut and the NFC separately³⁸. This became the first important step toward change of the policy of the Thai government.

In January 1988, the Thai government officially lift the suspension of the execution of the port of Map Ta Phut project, and construction started after a year, in January 1989. More than three years had already passed since the review by the Three-Minister Committee.

(3) NFC Fertilizer Plant

The background that made this project the most difficult one in ESDP were complicated, but two major factors are the most important. The first factor was that the private sector of Thailand was not favorable to the NFC and it was not possible to obtain sufficient cooperation to the project. As mentioned later, it is said that the vested interests of Bangkok Bank, one of the largest enterprise group in Thailand, were related. The second factor was the unclear profitability of the project. Especially, the appreciation of yen after the Plaza Accord led to a cost increase and became as a heavy burden. The appreciation of yen contributed very much to restarting the projects in the Laem Chabang and Map Ta Phut districts through rapid increase in direct investment and reactivation of Thai economy, but on the contrary it gave serious negative effects on the NFC.

a) The relationship of the NFC and the private sector is as follows. When the Exchange of Notes (E/N) of ODA loan concerning the NFC Fertilizer Plant was signed in July 1984, the Thai government planned to change the NFC from a private enterprise by public-private joint venture (46% shared by government and 54% shared by private sector) to a state-owned enterprise by holding a share more than 70%. However, the result of an international bid, proved just before the signing of E/N, was about half the price estimated by Foster Wheeler Corporation, a consultant. It was criticized for not being suitable as a state-owned enterprise because the profitability is high and was decided to leave it as a private enterprise

³⁴ World Bank (1986). Op cit p.137

³⁵ *The Nation*. February 27, 1987.

³⁶ Produced ethylene (315,000 ton/year) and propylene (105,000 ton/year) using the ethane and propane produced by the gas separation plant. The stock was held 49% by the PAT (the Petroleum Authority of Thailand), 2% by the Crown Property Bureau, and 9% by the IFC of the World Bank group.

³⁷ *The Nation*. February 27, 1987

³⁸ Memo by the chief representative of the JBIC Bangkok Office (August 13, 1987)

along the privatization policy³⁹.

As the NFC became a private enterprise, several technical problems occurred. First, since a private enterprise cannot be a borrower of an ODA loan and therefore the ODA loan to the NFC became impossible, it was arranged that, the IFCT (the Industrial Finance Corporation of Thailand) borrowed the loan and re-lend it to the NFC.



This brought about the second problem. According to the IFCT's bylaw, to disperse loan risks, the amount of loan to an enterprise shall not exceed 25% of the IFCT's equity capital (approximately 600 million baht at that time). However, the amount of re-lending from IFCT to NFC was about five times as large as the ceiling, and a guarantee of repayment from a third party is necessary. Guarantee by the Thai government was most preferable, but it was difficult to clear the legal problem. Thus, guarantee by a syndicate of local commercial banks was sought instead, but negotiations made slow progress. Thus, finally Minister of Finance Sommai Hoontrakool negotiated repeatedly with banks' top officials and obtained guarantee from eight commercial banks⁴⁰.

The most difficult problem was how to secure a capital necessary for executing the project. The amount of capital which was 200 million baht originally was increased to 2,250 million baht, of which, according to a plan, the Thai government was to hold 33.3%, Thai financial institutions, the fertilizer distribution industry and the IFC 37%, and foreign investors 30%. However, due to the negative attitude of Thai financial institutions, particularly Bangkok Bank which is the largest commercial bank, the increase of capital could not be expected easily. Although the uncertain profitability was important background, it was pointed out in Bangkok at that time that there might be effects of the Metro Group, the largest trading company closely related to Bangkok Bank which governed the import and distribution of fertilizer in Thailand⁴¹. Undoubtedly, the progress in domestic production of fertilizer would threaten trade rights of the Metro Group. A view that this fact made Bangkok Bank and other financial agencies take the negative attitude to the NFC project was influential.

On February 1986, the Thai government was worried about the situation and tried to tide over the crisis by nominating Chairman Kasame Chatikavanij of Thai Oil (former Minister of Industry and Governor of Electricity Generating Authority of Thailand) as the chairman of NFC. Previously, Director-General of the Ministry of Finance Chatumongol (Deputy-Minister of Finance at time of currency crisis in 1997, afterward Governor of Bank of Thailand) was concurrently the chairman of NFC. The nomination of Kasame, an operator who has the remarkable ability nicknamed "Super K," indicated the willingness and a sense of crisis of advocates of the ESDP. To support Chairman Kasame, Director-General of Fiscal Policy Office, Ministry of Finance, Manas Leevirapan who was a faithful subordinate of Finance Minister Sommai, became a director of IFCT on behalf of the Ministry of Finance.

b) At that time, a new difficult problem occurred about the NFC's profitability which had been already disputed. It was an increase of cost due to the appreciation of yen. As described above, the World Bank had consistently taken an attitude that the NFC is a feasible project based on the result of the F/S prepared by the IFC (International Finance Cooperation). It also recognized however that the projects had several uncertain factors that could not be neglected. The IFC's report submitted to the board in June 1986 placed importance particularly on the instability of international price of fertilizer.

³⁹ Shimomura and Ohashi (1986), aforementioned document, pp109-110

⁴⁰ Shimomura and Ohashi (1986), aforementioned document, p111

⁴¹ Nihon Keizai Shimbun, September 8, 1987. Incidentally, former Director Ammar Siamwalla of the TDRI suggested the same point during the interview made on November 10, 1998.

The international market of fertilizer had shown unstable movements due to frequent variations in supply-demand balance. Especially during 1986 when the market condition was at the bottom, for example, the price of urea fertilizer had dropped to US\$75 per ton from the level of US\$140 per ton (FOB, Eastern Europe), about a year before. The IFC's view about the relationship of fertilizer price and profitability of the project is summed up in Table 2⁴².

Table 2

	Urea	DAP (Diammonium Phosphate)
As of Spring 1986	\$75/MT	\$200/MT
Forecast (1989)*	163	215
Lowest limit price to maintain cash flow	100	160

* The plant operation period is supposed to be 1989.

Examining its profitability independently, JBIC also reached a basically similar conclusion to that of the IFC. For the prospect of fertilizer price, like the IFC, it employed the forecast prepared by the commodity market department of the World Bank as IFC did⁴³.

When Chairman Kasame took office, a change occurred in an important external condition which so far had not been expected. It was the strong appreciation of yen after the Plaza Accord. As shown in Table 3, the exchange rate which was \$1.00 = ¥249 at the end of July 1985 changed as \$1.00 = ¥180 at the end of March 1986, and \$1.00 = ¥154 at the end of September of the same year. Since the Thai baht was substantially pegged to US\$ (formally linked to the basket of major currencies) and was not appreciated so much, baht depreciated nearly 50% against yen in about two years. As the contract was concluded in yen, the appreciation of yen led to an increase in production cost through an increase in the construction cost of the plant which was nominated in yen. As a result, it had a negative effect on profitability. Furthermore, as the repayment of ODA loan was also made in yen, a pessimistic view about the future burden of repayment spread on the Thai side.

Table 3 Change in Exchange Rate after the Plaza Accord : US\$, Yen, Baht

	Yen (/ \$1.00)	Baht (/ \$1.00)	Yen (/ 1 baht)
1985			
End of March	252.5	27.55	9.17
End of June	249.0	27.42	9.08
End of September	217.0	26.30	8.25
End of December	200.5	26.65	7.52
1986			
End of March	179.6	26.47	6.79
End of June	165.0	26.30	6.27
End of September	153.6	26.07	5.89
End of December	159.1	26.13	6.09
1987			
End of March	145.8	25.87	5.64
End of June	147.0	25.84	5.69
End of September	146.4	25.83	5.67
End of December	123.5	25.07	4.93

(Source) IMF. *International Financial Statistics*. Various issues.

⁴² IFC(1986), *Report to the Board of Directors on a Proposed Investment in National Fertilizer Corporation Limited Thailand*, June 16, 1986 pp.11-12

⁴³ JBIC material

At the beginning of the year 1986, it was reported continuously that the NFC project was confronted with difficulties,⁴⁴ and in April the advocates and the opponents did brainstorming⁴⁵. On the other hand, Minister of Finance Sommai and Chairman Kasame were working hard to prepare an implementation scheme, while aggressively working on the people concerned. However, the situation developed rapidly in May. On May 1, an internal trouble broke out in the Social Action Party (largest among the coalition parties of the Prem government). The anti-mainstream faction rejected the bills presented by the administration together with opposition parties. The prime minister dissolved the Diet to hold a general election at the end of July. As a result, the Prem administration changed to a caretaker government. Thus, a view became dominant that, the propelling power to solve the situation would be lost for the NFC as well. Reflecting such an air, it was reported that the IFCT would give up the ODA loan⁴⁶.

On the other hand, the IFC Board approved the investment and loan to the NFC project⁴⁷. Minister of Finance Sommai, who probably had already made up his mind to resign, obtained guarantee to the NFC by a top meeting with leaders of eight commercial banks, in the style of displaying his remarkable ability⁴⁸, made the banks accept the ODA loan, and visited Japan in July to sign the L/A with JBIC.

Criticism against the NFC, however, did not seem to cease even after the establishment of the Fifth Prem Cabinet on August 1986. On October 15, the CDBIS made a conclusion that as the NFC is a private enterprise, decision making related to the execution of the fertilizer plant is off the administration's hands and should be left to the NFC itself, while holding down the opposition of Minister of Industry, Chirayu. According to the expression of a local English paper, the Thai government "washes hands of the fertilizer project."⁴⁹ One of the important factors that changed the attitude of government negatively was the transition of the attitude of the Ministry of Finance. It was due to the resignation of Minister of Finance Sommai and succession by Deputy Minister of Finance Suthee (member of the Three-Minister Committee at the end of 1985). Director-General, Mansas of Fiscal Policy Office, was transferred as part of a series of personnel changes⁵⁰. Following the decision, Chairman Kasame also resigned⁵¹, and thereby the driving force of NFC was lost almost completely.

Thereafter, discussions were continued between the Japanese and Thai governments toward the realization of the NFC, and the Japanese Ambassador to Thailand, Akitane Kiuchi, also repeatedly expressed the intention of support to ESDP, particularly the NFC Fertilizer Plant project⁵². Due to many difficult problems, however, time passed without reaching any solution, and after all the NFC Fertilizer Plant failed to be realized⁵³.

⁴⁴ *Bangkok Post*, January 13, 1986, *Nation*, February 17, 1986, *Far Eastern Economic Review*, February 20, 1986, etc.

⁴⁵ *The Nation*, April 10, 1986: The leading figure of advocates was Minister of Industry Chirayu (Chirayu Isarangkun Na Ayuthaya; economist of the royal family, later Director of Crown Property Bureau), and the representative of opponents was Prime Minister's Economic Advisor Virabongsa Ramangkura (later Minister of Finance (for a short period after the currency crisis) and then Deputy-Minister).

⁴⁶ *Bangkok Post*, May 2, 1986

⁴⁷ *The Nation*, June 28, 1986

⁴⁸ *The Nation*, June 17, 1986

⁴⁹ *The Nation*, October 16, 1986

⁵⁰ Interview with former Director Manas (November 10, 1998)

⁵¹ *The Nation*, October 15, 1986

⁵² *Bangkok Post*, October 17, 1986. *The Nation*, November 25, 1986

⁵³ Thereafter, a totally different enterprise established a fertilizer manufacturer under the same trade name (NFC) and is doing fertilizer production on the same plant site (start of commercial production: February, 1998). However, since the Thai economy had been hit by the financial crisis when the real production began, the performance is not as

V. Distribution of the Advocates and the Opponents

In the review of disputes about ESDP, words "the advocates" and "the opponents" were used a little vaguely so far. Specifically, what kinds of people were they and what positions did they take?

Arguments about ESDP can be said technocratic affairs basically. It does not mean there were no utterances by politicians and generals who are the strongest groups in Thailand at that time; however, so far as this issue was concerned, their involvement was restrained and there were no such utterances as to indicate their strong interests. Most of the people who worked for and against ESDP were bureaucrats, including officers of state enterprises, and private economists, including bankers. Their opinions were not necessarily attributed to the organizations they belonged, but to their individual character. Typical examples are the internal conflicts of the Ministry of Finance and the NESDB which were the core of the technocracy.

It should be noted that there were not a single but several correlated axes that separated the opposing two positions concerning ESDP. Perhaps the most basic axis was the difference in opinions of the degree to which government expenditure was curtailed and external borrowing was restrained under the harsh economic conditions. In other words, it was the matter of priority between macroeconomic balance and long-term development of the country. From the times of Kingdom of Siam, Thailand had been strictly maintaining a conservative fiscal and monetary policies, quite exceptional for a developing country. Technocrats traditionally regard the stability of exchange rate and prices or maintenance of macroeconomic balance as more important than growth or industry promotion⁵⁴. With the experience of policy package of the World Bank's Structural Adjustment Lending in addition to the tradition, the return to the tight fiscal policy became an important stream under the economic stagnation in the first half of the 1980s, and how to harmonize it with the long-term vision of economic development became the point in dispute.

The other axis relates to the point mentioned above. The axis concerns how to evaluate "large-scale development projects" as a long-term development strategy of the country. The Thai economy had been developing continuously since the second half of the 1950s. Its history was unrelated to any grand design of regional development or the construction of large-scale industrial complex. In this sense, ESDP was a very unique attempt for Thailand. This could be the reason why there was a big disagreement about ESDP. At that time and even today, there is a view to see the disputes about ESDP as those between "economists and engineers"⁵⁵. This view reveals the sense of incongruity of the economists, who had reigned as orthodox technocrats, against the concept of a large-scale regional development plan as ESDP.

A delicate position of the World Bank at that time is also a factor which should not be overlooked, though a little minor compared with the former two points. The World Bank had a great influence as a financier and a policy advisor since the second half of the 1950s, when Thailand began its modern economic growth under Prime Minister Sarit Thanarat, who held office between 1958 and 63. In the early 1980s,

expected at the moment. (Interview with the president of NFC on November 2 1998, and plant inspection on November 5 of the same year)

⁵⁴ Christensen S.,D.Dollar,Ammar S.,Pakorn V.(1993),*The lessons of East Asia Thailand The Institutional and Political Underpinnings of Growth*,Washington D.C., The World Bank, p.22 Yukio Ikemoto (1994), "Conservative Economic Policy in Rama IV Period", "Study of Southeast Asia," Vol.31, No.4, pp.319-322

⁵⁵ For example: Utterance of former Director Bunyaraks of NESDB Overall Planning Division (Bunyaraks Ninsananda, now Executive Vice-President of Bangkok Bank) at the interview on November 3, 1998

its status became further firm by the two Structural Adjustment Lendings; however, the weight of the World Bank in Thailand's external borrowing rapidly decreased due to the strict loan conditions (US\$700 million in 1982, US\$120 million in 1984) thereafter. Table 4 shows that the position of top donor of Thailand shifted from the World Bank to Japan during the Fifth and Sixth Five-Year Plans. The weight of the World Bank halved, and instead the ODA of Japan doubled. In 1985, the Thai government greatly curtailed the limit of external borrowing from the US\$160 million to US\$100 million. As a result, as far as the support of JBIC ESDP continued, maintaining the World Bank's activities were very difficult. ESDP came to cloud out the World Bank. A local English paper of that time took the World Bank's intervention via the Hermans' letter of autumn 1985 as a movement to break through such a hardship⁵⁶.

Table 4 Composition of Thailand's External Borrowing

	Fifth Five-year Plan (82-86)		Sixth Five-year Plan (87-91)	
World Bank	US\$1,392 million	21.6%	US\$587 million	10.3%
Japan's ODA	1,225 million	19.0%	2,386 million	41.7%
Total external borrowing	6,452 million	100.0%	5,721 million	100.0%

Source: Thai government

For many technocrats who were closely related to the World Bank, especially for those involved in macroeconomic policy, it seems that the situation could not be overlooked. Turns and twists of ESDP presents an aspect of a zero-sum game between donors of the reducing quota of external borrowing.

The straight-forward speaker of advocates of ESDP was Director of the Office of the Eastern Seaboard Development Committee (OESB), Savit, currently the Minister to Prime Minister's Office. Born in 1945 and still 40 years old at that time, Savit was the second son of an air force general. He was a development technocrat originated in engineering who obtained Ph.D in city engineering at Harvard University, and stood out as a secretary of Minister of Industry, Kasame (later, NFC Chairman) in the late 1970s⁵⁷. As for the NFC issue, Minister of Industry, Chirayu acted as a spokesman of the advocates. Coming from the Royal Family and having a father who became a Privy Councilor from a diplomat, Chirayu obtained Doctor of Economics at Australian National University after studying at London University. Thereafter, he taught development economics at the National Institute of Development Administration (NIDA) in Thailand. Then, he was appointed to Deputy-Minister of Industry by Prime Minister Prem and then further promoted to Minister of Industry. As shown by his career, Chirayu is an economist, but does not belong to the neoclassical school predominant among Thai economic technocrats.

One who made the most efforts toward the realization of ESDP after 1985 can be said to be Minister of Finance, Sommai. Interviews of the people concerned do not depict an image that Sommai himself had a special attachment to ESDP. Rather, he seemed to have placed importance on the "agreement between Thai and Japanese governments," and have thought efforts should be made to realize the agreement. This was the basic attitude of the Japanese government, but it was the minor opinion in the Thai government. Born in 1918 and two years older than Prem, Sommai was one of those who were selected from Asia to study in Japan, under the slogan of "the Greater East Asia Co-Prosperity Sphere."

⁵⁶ *The Nation*. December 5, 1985

⁵⁷ Careers of the Thai people introduced in this paper were prepared mainly based on the "Taitou suru Keizai Tekunokurato no Gunzo – Tai" (Images of Rising Economic Technocrats - Thailand,) JETRO (1986), and information from various materials, including newspapers and magazines, both domestic and overseas.

He earned a Master's degree from the Faculty of Economics, Keio University. After serving in the Bank of Thailand for a long time, he successively held top posts at governmental financial institutions and commercial banks, and worked as Minister of Finance in the Prem Cabinet from 1982 to the summer of 1986. He was an experienced administrator recognizing the reality of actual business. In the Eastern Seaboard issue, Director-General of Fiscal Policy Office, Mansas, worked hard succeeding the intention of the old Minister of Finance.

Among people related to NESDB, Vice-Chairman of the Board of Investment (BOI), Staporn (later, Chairman of BOI), who turned from the NESDB, took a clear stand of the advocates. Also, Deputy Secretary-General, Phisit (Phisit Pakkasem, later NSDB Secretary-General, currently senior advisor of CP group, a leading conglomerate), who held back utterance at that time, made a straight forward comment about the opponents in an interview held in November 1998.

It is generally admitted that the main speaker of the opponents was Prime Minister's Economic Advisor, Virabongsa. Virabongsa who earned Ph.D in economics in the United States had a gentle atmosphere of a scholar. However, he did not yield his view placing importance on the market principle, and was the mainstream of the Thai technocrats. Later he worked as Minister of Finance, and when he was nominated as Deputy-Prime Minister for Fiscal and Monetary Policy, in the Chavalit (Chavalit Yongchaiyudh) Cabinet focusing the market in August of 1997, immediately after the outbreak of the currency crisis.

In the practical aspect, Suthee, who was promoted to the Minister of Finance of the Fifth Prem Cabinet in August 1986 as a successor of Sommai, played an important role. As mentioned above, he served as a member of the Three-Minister Committee aimed at the review of ESDP when he was the Deputy-Minister of Finance. After taking office as the Minister of Finance, he detained the NFC project that just started to move, for example, by shifting the Sommai-clique Director-General of Fiscal Policy Office, Mansas. Suthee, who earned Ph.D of management at Illinois University, was a steady, business-oriented technocrat. He worked as the Director of Budget Bureau of Prime Minister's Office, which was a leading post, for seven years before he became the Deputy-Minister of Finance.

Concerning the NFC issue, both President Sukri (Sukri Kaucharern) and Senior Executive Vice President Aswin (Aswin Kongsiri) of the IFCT put up the slogan "Sound Banking" and resisted tenaciously against the intention of the Ministry of Finance about the acceptance of ODA loan and re-lending to the NFC. Sukri was Suthee's junior at Thammasat University and Illinois University, indicating personal connection. Aswin, who had strong influence on the policy making of IFCT as Senior Executive Vice-President in charge of finance and planning, was an economist born in 1945. He received an education in Great Britain from the childhood consistently, and graduated from Oxford University. Before joining the IFCT, he worked for the World Bank for five years. He can be said a typical Western-style elite who had little living experience in Thailand.

In the NESDB, Deputy Secretary-General Kosit (Kosit Punpeimras, later Minister of Finance and Executive Chairman of Bangkok Bank) was taking critical position to ESDP. Many economists in the NESDB sympathized with him⁵⁸.

What was the view of Secretary-General Snoh of NESDB, the elder of technocrats? As mentioned above, ESDP was positioned as the key project in the Fifth Five-Year Plan. Since the five-year plan was formulated by the NESDB, Snoh's position as the chief executive should be the advocates, at the time of planning; however, it seems that he consistently acted as "a prudent brake" while emphasizing a neutral position after the review of the Plan in the Autumn of 1985. It was interesting that in a series of interviews held in November 1998, opinions of his true intention were split among the technocrats and

⁵⁸ Utterance of a NESDB member at an interview held in Bangkok in November, 1998, and *The Nation*, December 11, 1985

journalists who knew Snoh well. Some said he was the advocate, another said he was neutral, and the others said that his attitude was unclear.

It can be said that Snoh, who was a very prudent economist, shifted the weight to give priority to the maintenance of macroeconomy. There was a positive evaluation that he gave ear to each of opposing opinions with a fair attitude and sought for a best solution"⁵⁹. On the other hand, another evaluated that he has the temperament of a scholar not suitable for decision making in an emergency case, referring to his performance as Governor of Bank of Thailand (1975-80), which makes his position complicated.

Born in 1931, Snoh was an economist who earned Ph.D in economics at Columbia University, joined the NESDB just after its foundation, and devoted himself earnestly to the NESDB.

Finally, Prime Minister Prem's position was considered as follows. Prem hardly expressed himself about ESDP. There is an opinion that Prem's real intention was positive about the plan⁶⁰, to which the author agrees, but Prem's voice was never reported, in a creditable way about his policy in the midst of delayed economic recovery. However, the author is of the opinion that his policy was specified in a different form; that is, the decision of the Thai government made in December 1985, which is the report of the Three-Minister Committee, arranged under Minister to Prime Minister's Office Suli and approved by the Cabinet meeting.

The position of the committee was said to be "neutral;" however, considering the quite close relationship between Prem and Suli, it may be natural to assume that there should be careful discussion about the direction of the report between the two. The conclusion of the Three-Minister Committee, therefore, should be understood to have reflected Prem's decision about the direction of ESDP. His decision is evaluated in Chapter V.

VI. Evaluation on Thai Government's Choices

ESDP may be said to have been highly appreciated in general both in Thailand and Japan. The results of evaluations of individual projects by JBIC and as the results of interviews of Thai intellectuals held in November 1998 confirm it. In order to verify the autonomy and institutional ability of the Thai side, the appropriateness of the three major decision-makings done by the Thai government in the transition of ESDP after November 1985 are examined in this chapter. The three major decision-makings are as follows.

- i) Decision to construct both ports of Laem Chabang and Map Ta Phut, maintaining the scope of the original plan without adopting the World Bank's proposal (to meet the freight demands by enhancing the capacity of both existing ports of Bangkok and Sattahip without constructing ports of Laem Chabang and Map Ta Phut)
- ii) Decision to delay the start of construction of both ports substantially
- iii) Decision to adopt the policy "to leave the NFC Fertilizer Plant to the judgment of the private sector" and actually led to the freezing and abolition of the project

What should be noticed in analyzing ESDP is that the rapid increase in direct investment as a result of the Plaza Accord powerfully raised impacts and effects of the Plan. As there is an opinion that the acceleration of Thai economic development from the second half of the 1980s is a consequence of the unexpected uprise in the wave of direct investment (which is rather misleading as mentioned later), a claim that explains successful results of ESDP by the same reason can be well expected. Thus, this

⁵⁹ Utterance of former Director of Overall Planning Division, NESDB Bunyaraks on November 3, 1998

⁶⁰ Interview with Paisal Sricharatchanya, former journalist of Far Eastern Economic Review, later Chief Editor of Bangkok Post, currently Anchorman of "Channel 7"

paper also examines a hypothetical case that there was no appreciation of yen by the Plaza Accord.

1. World Bank's Proposal vs Thai Government's Decision

First, to evaluate the decision of the Thai government on port construction, World Bank's proposal and the Thai government's decision are compared.

(1) Port of Laem Chabang

In 1987, the Thai economy recorded a growth rate of 9.5% and appealed a real recovery, and in 1988, the growth further accelerated to mark a high rate of 13.3%. However, activation of economy made the infrastructure bottleneck of the Bangkok metropolitan area more serious, and it further increased dissatisfaction and anxiety among investors.

According to the report of July 1988 of the JETRO Bangkok Office, as criticism against the capacity shortage and congestion of the Port of Klong Toey (Bangkok) grew, Prime Minister Prem himself inspected the field in mid June and gave instructions for prompt enhancement of cranes and construction of a container yard, and at the same time he also visited Laem Chabang and checked the progress of the project. Before this, the Cabinet issued an urgent order to ministries concerned so as to examine the improvement of infrastructure and personnel training to cope with the increase in investment and the extension of economy. NESDB also started the "reassessment" of infrastructure investment under the initiative of Deputy Secretary-General Phisit⁶¹.

Container cargo that occupied 70% of the handling of the Port of Klong Toey rapidly increased at the rate of exceeding 20% per year since 1986. In 1988, the container handling reached 790,000TEU⁶² and exceeded the capacity of the port (720,000TEU). April 1988, the berth occupancy ratio and space waiting ratio were over 80% and 60%, respectively (Table 5), far above the normal level of 64% and 12%, indicating the tight condition of the Port of Klong Toey⁶³.

The proposal of the World Bank "One alternative to the proposed port investment at Laem Chabang would therefore be to continue using Bangkok Port, with relatively minor investments designed to upgrade especially its container-handling capacity"⁶⁴ was discarded by the actual development.

Table 5 Berth Occupancy Ratio and Space Waiting Ratio at East Berth, Port of Klong Toey

	1987			1988		
	11	12	1	2	3	4
Berth occupancy ratio	72	62	79	74	76	81
Space waiting ratio	13	11	27	22	45	64
Average space waiting time (hr)	9	6	11	12	20	25

(Source) Yasutami Shimomura, Koji Tsunokawa, Yoshiharu Takahashi, Ken Odajima (1990), Thai Macroeconomic Survey Report - What Changes have the Rapid Increase in Overseas Direct Investments made?, OECF, p.36

⁶¹ Tsusho Kouhou (Trade Journal), July 23, 1988

⁶² TEU (twenty-foot equivalent units): Unit of container handling that calculates an ISO 20-footer as 1 and 40-footer as 2

⁶³ Yasutami Shimomura, Koji Tsunokawa, Yoshiharu Takahashi, Ken Odajima (1990), "Tai Makuro Keizai Chousa Houkokusho – Kaigai karano Chokusetsu Toushi no Kyuzou wa Donoyouna Hennka wo Hiki Okoshitaka? (Thai Macroeconomic Survey Report - What Changes have the Rapid Increase in Overseas Direct Investments made?), OECF, pp.35-36

⁶⁴ World Bank (1986). Op cit p.137

Were it not for the investment boom and economic recovery due to the appreciation of yen, was it possible to avoid such a severe condition? It can be judged that ridding of the ocean transportation system centered around the Port of Klong Toey was not possible for at least two reasons. First is the structural problem of the Port of Klong Toey. Klong Toey is an estuary port along the Chao Phraya River running into the Gulf of Thailand. As watercourse is meander and the depth of water is shallow due to the earth carried from the upper stream, and with restrictions on the scale of calling vessels, 12,000DWT or 650TEU, it was left behind the stream of worldwide containerization⁶⁵. Secondly, on the other hand container transportation continued to increase and the increase rate rose from 16% per year in the first half of the 1980s to 17.4% in 1985 despite the economic stagnation mentioned above. The Bangkok Ship Owners Association estimated that, even increasing at a mild rate of 12% per year, Klong Toey's container capacity would reach the limit in 1988⁶⁶, but it should be noted that the estimate was of the year 1985 when the economic prospect was most pessimistic.

Since the construction of the Port of Laem Chabang as an alternative port was a pressing need, even without effects of the Plaza Accord and direct investments, the decision of the Thai government can be judged appropriate.

(2) Port of Map Ta Phut

A basic difference in opinion between the Thai government and the World Bank was whether or not the Port of Sattahip can substitute the Port of Map Ta Phut for at least several years, but the use of the Sattahip was restricted by several technical problems. In addition to a basic problem that the Sattahip port and Map Ta Phut industrial complex were 25km apart and it would reduce the merit as a seaboard industrial base, there were problems derived from its characteristic as a naval port such that calling/leaving ships were subject to severe checks; the background area was limited; and the access road, several kilometers apart from the trunk road, was single-laned and was surrounded on both sides with land possessed by the navy, without leaving much space to cope with an increase in traffic volume. Apart from the use in an urgent need, the idea to use the Port of Sattahip permanently as a commercial port could not be said realistic. This recognition was common to people who knew the site⁶⁷.

Behind the World Bank's proposal was a recognition that "Map Ta Phut is a port for the NFC Fertilizer Plant" (Chapter IV, Section 2), and as the utterance of Secretary-General of NESDB Snoh indicated, this premise was shared among some Thai technocrats (Chapter IV, Section 4). The idea "Plants other than the NFC are supposed to use the Port of Sattahip" is judged inappropriate, however, since the NPC, and plants of downstream industry, such as a low-density polyethylene plant (TPE - Thai Petrochemical Industry, already constructed), a high-density polyethylene plant and a polypropylene plant, were planned⁶⁸.

Actually due to the accelerated growth of the Thai economy and rapid increase of direct investment, all the industrial site of 5,030 rai (approximately 800ha, 1 rai = 0.16ha) of the Map Ta Phut Industrial Complex was contracted, and the number of operating enterprises has also increased smoothly from 14

⁶⁵ Shimomura, Tsunokawa, Takahashi, Odajima (1990), above-mentioned literature, p.36

⁶⁶ Paisal S.(1986c),"At last beginning, Bangkok finally commits to ESP projects",*Far Eastern Economic Review*,October 30,1986

⁶⁷ Paisal S. (1986), op cit p.44 and utterance of Paisal, former journalist of Far Eastern Economic Review, at an interview held on November 4, 1998

⁶⁸ Shimomura, Ohashi (1986), above-mentioned literature, pp.105-108

companies of 1991 to 24 in 1993, 34 in 1995 and 48 in 1998⁶⁹. These are mostly petrochemical plants, with some steel product plants. Further, in neighboring private industrial complexes, tenancing has been favorable. In the case of the Hemaraj Land and Development, for example, most of 2,472 rai (approximately 400ha) are contracted with 25 companies (as of End September, 1998), and tenants are mostly petrochemical and steel product manufacturers⁷⁰. It is evident that the development of heavy chemical industry in the Map Ta Phut district could not be realized without existence of port facilities, and viewed from the scale of the catalytic function played by the Port of Map Ta Phut, the decision of the Thai government can be said appropriate.

2. Balance Sheet of Postponed Construction

As a result of the Cabinet resolution in December 1985, a delay of --- months at shortest and 50 months at longest was caused to the starting of construction for projects in both Laem Chabang and Map Ta Phut districts. Profits and losses of this decision are examined on a balance sheet.

Items that were named as the major merits of postponed construction were compression of financial expenditure and external borrowings, but effects were not so large in scale. For convenience the World Bank's 1986 Report is used as a basis. For these two districts, a total of 15.1 million baht was required to be budgeted for fiscal 1987 and 1988⁷¹, and the World Bank, considering that it was equivalent to 7-8% of public investment and 20% of external loan, placed importance on the postponement effect; however, since it was covered mostly by the ODA loan, actual budget burden of the Thai government for these fiscal years should have been relatively small and limited to budgeting and interest payment (if any) of portions not covered by the ODA loan. Since a standard condition of ODA loan for ESDP was for a repayment period of 30 years (with a grace period of 10 years), the time when the effect of external borrowing became apparent, with regard to the ODA loan, was 10 years later, except for the interest payment of about 3% per year (including slight differences due to each L/A), the immediate payment of external borrowings was limited to debts other than the ODA loan. Discussions about external borrowings of that time was not well based on these points, and as a result, they tended to overestimate negative effects. In actuality, as the Thai economy was markedly activated in the second half of the 1980s, the fiscal balance of Thailand turned into the black in 1988 (Table 6) with a drastic drop in debt service ratio, the postponement of ESDP was not necessary, at least consequently.

Table 6 Changes in Thailand's Fiscal Balance and Debt Index

	Fiscal expenditure/GDP	Debt payment/Export
1986	- 4.2%	25.4%
1987	- 2.2	17.1
1988	0.7	13.7
1989	2.9	12.4
1990	4.6	9.8

(Source) Economic Planning Agency, Asian Economy 1998, Warr P. and Bhanupong N. (1996) op cit

On the other hand, the postponement of project execution cost much. The effect of response made inevitably to the activation of economic activities and the increase in direct investment, with concentration

⁶⁹ JBIC (1998), Map Ta Phut Industrial Port, Map Ta Phut Industrial Complex Construction Project - Post-Evaluation Report

⁷⁰ Material prepared by Hamaraj Land and Development, and field survey held on November 7, 1998

⁷¹ World Bank (1986). Op cit p.135

to Bangkok left uncorrected, spread over various aspects. Especially, the extended bottleneck of infrastructure might have been eased to some extent if the development of the Laem Chabang district proceeded as planned. In the Port of Laem Chabang, container handling began from the end of 1991, but it was to start operation in 1990 according to the schedule at the time of JBIC appraisal conducted before the decision of postponement. In addition to confusion in the Port of Klong Toey due to the tight capacity, the further deterioration of congested road conditions and boosted land and office prices in the Bangkok metropolitan area had an aspect of being accelerated by the delay in the decentralization of economic activities. For details about the bottleneck of infrastructure, refer to the results of JBIC's surveys held twice early in the 1990s⁷².

Viewed from a general standpoint, the positive effects which the substantial postponement of ESDP gave to debt management was small, and on the other hand the costs brought about by the postponed construction of the Port of Laem Chabang and Industrial Complex became apparent. Therefore, the decision the Thai government made cannot be said appropriate.

However, the discussion mentioned above is a retrospect from the present. The situation of the Thai government faced at that time may be summarized as follows (Figure 1). That is, there were two cases in the economic prospect, optimistic and pessimistic, and two alternative choices in furthering ESDP, positive and negative. Results that are brought by combination of these can be summarized as the matrix of Figure 1.

Figure 1 Choices the Thai Government Faced End 1985

	Continued economic stagnation* (Probability ?)	Return to previous growth track (Probability ?)
Execute ESDP as planned (Choice 1)	Increase in fiscal burden and external borrowings (the second Philippines)	Realization of internationally competitive seaboard industrial area Increase in direct investment Modernization of economic structure (export structure)
Postpone the implementation of ESDP (Choice 2)	Palliation of fiscal burden and external borrowings	Extension of bottleneck of infrastructure Deterioration of living, environmental conditions of Bangkok metropolitan area Deterioration of investment environment

* Economic stagnation refers to twin deficits of about 5%, dull export, deterioration of trade conditions, deterioration of debt indices, etc. (Table 1)

The problem was that it was not possible to forecast the future of the Thai economy, in other words the probability of two cases, optimistic and pessimistic, was unknown. Under these circumstances, the decision maker (Prime Minister Prem in this case) tried to assume probability from available information. Since information available to Prem at that time was perhaps mainly the "prudent" economic prospect presented by the World Bank and Prime Minister's Economic Advisor Virabongsa, naturally the probability of pessimistic case was estimated high. Also, considering that the Thailand's traditional macroeconomic management principle was "conservative" (Chapter V) and that the characteristic of decision-making, described in Chapters IV and V, was politically quite delicate, adoption of the "Minimax Regret Criteria (to minimize the worst damage)" can be understood well.

Accordingly, under the situation where plausible evidence of immediate recovery of the economy could

⁷² Shimomura, Tsunokawa, Takahashi, Odajima (1990), Chapters I, III and IV of above-mentioned literature; Koji Tsunokawa, Yoshiki Onoi (1991), "Infura no Botorunekku" (Infrastructure Bottleneck), JBIC Survey Quarterly No.70, 1991/4, pp.27-68

not be obtained, it is not appropriate to criticize the Thai government's decision to postpone the implementation based on the results that are only revealed later.

3. Evaluation of NFC Handling

The basic character of questions about the NFC Fertilizer Plant is that the profitability or feasibility of the project were governed by two external variables (foreign exchange rate and international fertilizer market conditions) conclusively. Although the unstable condition of the international fertilizer market was recognized in the preparation stage, the problem became difficult due to unpredicted drastic fluctuation in exchange rates to US\$, baht and yen. (When the Letter of Intent (L/I) was issued, the exchange rate was \$1.00 = 229 yen.⁷³).

It was October 1986 when the ESDC gave up the NFC and Chairman Kasame resigned (see the Chronology). Changes in US\$/yen exchange rate and international urea fertilizer price during the following 10 years are shown in Table 7; there the progress of appreciation of yen and unstable condition of the fertilizer market are indicated. As described in Chapter IV, 4(4), the World Bank estimated the international price of urea fertilizer US\$163 per ton for the year 1989, but actually the market price dropped nearly to 50% of the estimation. From these figures we can see that fertilizer production involves great risk.

Table 8 shows the result of a rough calculation of the NFC's profitability made based on the actual figures of Table 7 (Major preconditions are the same as those of F/S). The investment cost increased by the appreciation of yen caused the increase in depreciation cost and interest payment and it deteriorated the profitability. The turnover varied along with fluctuations in the market. Around 1995, however, when the market was bullish, the turnover also rose, having a positive influence on the profitability. *The trial calculation suggests that, if the NFC was carried out as planned, it would have faced a considerably severe management condition under the hard international condition. Thus, it can be said that the Thai government's judgment not to insist upon the NFC was appropriate.

* According to this trial calculation, ROI (Return of Investment) is a little minus.

Table 7 Changes in US\$/Yen Rate and International Urea Fertilizer Price in 1987 on

	Yen (\$1.00) (Yearly average rate)	International urea fertilizer price (Year end, bulk, \$ per ton)
1987	144.6	100
1988	128.2	132
1989	138.0	88
1990	144.8	157.5
1991	134.7	151.5
1992	126.7	144.5
1993	111.2	115
1994	102.2	187
1995	94.1	118.5
1996	108.8	188.5
1997	121.0	105.5

(Source) Economic Planning Agency, Asian Economy 1998; ERTECON (from Mr. Hiromichi Ariga, JBIC)

* For years up to 1990: FOB Middle East, 1991 on: FOB Indonesia

Table 8 NFC Profit & Loss Estimation

⁷³ JBIC records

	Revenue	Profit before tax	Investment (book value)	(million \$)
1991	170.6	- 33.2	787.9	
1992	183.6	- 33.4	750.4	
1993	162.7	- 67.6	712.9	
1994	263.6	36.0	675.4	
1995	316.3	91.4	637.9	
1996	265.9	43.6	600.4	
1997	149.0	- 70.6	562.9	
Average		- 4.8	675.4	

$$ROI = (- 4.8/675.4) \times 100 = - 0.71\%$$

(Note) Based on an assumption the construction was begun in 1987 and commercial production was started in 1991 (in accordance with the preconditions of F/S with required adjustment of timing). Except the effects of exchange rate and international urea price, preconditions of F/S was employed. The revenue was supposed to fluctuate accordingly to the market condition of urea fertilizer.

VII. Conclusion and Policy Implication

In the middle of the 1980s, the Thai government was pressed for a difficult policy management under the economic stagnation and unstable international environment. In the case of ESDP, the biggest development project of that time (and till today), this paper has described that the Thai government made a basically appropriate choice even by opposing sometimes the intention of the World Bank and of the Japanese government, both of which were important donors for the Thai Government.

This case can be considered a valuable example showing that the independent decision-making of a developing country led to successful results of indigenous development and effective development assistance. Then, why the Thai government could make such an appropriate choice? What lessons can be drawn for other developing countries? What should the donor side reflect and what can it learn from the case of Thailand? This chapter deals with these subjects.

1. "Essential Qualities of Success" of the Thai Government

From the review of transition in ESDP, four factors that enabled the Thai government's appropriate response can be found: "Technocrats' ability at certain level and their independence from politics," "Scheme of checks and balances unique to Thailand," "Characteristic of Prem administration as a developmental state," and "Unintended clear, open political process' borne by mass-media participation." Each of these four factors is discussed in the following.

(1) Technocrats' ability at certain level and their independence from politics

It is known well the Prime Minister Sarit who took the control of administration by the 1958 Coup d'Etat activated the Thai economy by improving the bureaucratic scheme, including the introduction of several new methods. The technocratic scheme (Ministry of Finance, NESDB, Bank of Thailand (Central Bank), Budget Bureau of Prime Minister's Office, etc.) established by Sarit to achieve "development," a Sarit's

keyword⁷⁴, improved and well matured in the 1980s. It had many experienced, capable persons who were trained as technocrats from their youth and took important positions, represented by Finance Minister, Sommai and Secretary-General of NESDB, Snoh.

One of the important features of Thai technocrat scheme was that it maintained independence from political interference, quite an exception in a developing country. The feature was rapidly lost just before the 1990s, however, and the scheme changed to be "lead by political parties," where political decision making was controlled by political bosses coming from local areas who were excel in inducing profits to their districts, allowing corruption and degrading political coherence. The origin of bureaucrat's independence dates back to the times of Kingdom of Siam, and especially Sarit who grasped powerful influence made an important start by giving a wide-range authority about macroeconomic management to the group of technocrats who were educated in Western countries, including Puey Ungphakorn (Governor of Bank of Thailand)⁷⁵.

The position of technocrats in the Prem administration can be said to have been quite effectively shielded from political pressures. The case of baht devaluation in 1984, which was done despite the strong opposition of the army commander depicts the independence of the Bank of Thailand and indicates technocrats being protected under Prem's umbrella. Since disputes around ESDP was basically led by technocrats, discussions were centered on economic rationality rather than political interests. Strong technocracy may be said to have provided the base of appropriate judgments and decisions.

(2) Scheme of checks and balances unique to Thailand

In the Thai political society around 1985, a system, in which mutually linked several actors check inappropriate actions of a single actor, functioned effectively. As major actors, the military, political parties, technocrats, conglomerates and the business community and mass media may be referred. Far powerful than others, the military had former Army Commander Prem as Prime Minister, but since their rights and interests were often restricted by Prem who did not necessarily acted as their representative, hard quarrels continued between Prem and his successor Army Commander Arthit. The army's abortive coup d'etat of September 1985 can be understood by this context. After all, Prem won the race and

⁷⁴ The developmental state is a pattern of the authoritarian regime. The authoritarian regime, like totalitarian regime, another non-democratic scheme, political decision-making is occupied by a few persons and groups, but unlike the totalitarian regime, it lacks mobilizing of the general public to politics and explicit ideology. Akira Suehiro (1994), "Asia Kaihatsu Dokusairon" (Dictatorship in Asian Development), edition by Katsuji Nakakane, "Kindaika to Kouzou Hendou" (Modernization and Structural Fluctuations) ("Kouza Gendai Ajia" (Lectures - Modern Asia)) Vol.2, Tokyo University Press, p.214. Of the authoritarian regime, one that features the following is called the developmental state (or often called "development dictatorship): a) Place promotion of economic development an important policy goal and make it a target and means of national unity and a basis of the administration's basis; b) Place the private property system and market economy as bases; c) From a long-term viewpoint of attaining economic development, admit the government's market intervention; d) Often restrictions are given to parliamentary democracy; e) Authority related to execution of economic development is widely given to technocrats. Specially items a) and e) are major characteristics compared to an ordinary authoritarian regime. Yasasuke Murakami (1992), *Han Koten no Seiji Keizai Gaku*" (Anti-classical Political Economy), Chuo Koron, pp.1-6. Toshio Watanabe (1995), "Shinseiki Ajia no Kousou" (Concept of Asia in the New Century), Chikuma Shobo, pp.14-19. Suehiro, above-mentioned literature, p.223.

⁷⁵ Ammar S. (1997) , " The Thai Economy: Fifty Years of Expansion" in TDRI Collected Papers *Thailand's Boom and Bust*, Bangkok, Thailand Development Research Institute pp.6-9

Arthit retired. The government was released from the military interference to some extent, but for Prem who was no more an active general, it was necessary to constantly pay prudent attention to the military movement.

The Thai political world traditionally had many small parties, and a coalition government was usual. The Fourth Prem Cabinet around 1985 was a five-party coalition, but since it was not possible to send a Prime Minister from one party due to mutual checking between the parties, they requested Prem who did not have a seat in the parliament to take office as Prime Minister. Under these circumstances, the parties could not take the initiative to lead political stages, but since they could exercise the veto against other parties or Prem⁷⁶, the Prime Minister also needed to constantly take into account movements of leading politicians of each party.

As described above, several actors continued mutual checking while sharing influential power. Bangkok Bank and IFCT's tough resistance against the Ministry of Finance's intention about the NFC Fertilizer Plant is a good example of mutual checking. As a result of mutual checking, no powerful driving force was born, but unlike many other developing countries, there was little possibility that a handful powerful group run away to lead the economy to collapse. Under these circumstances, Prem may be said to have displayed his capability as an excellent "balancer," and as seen in ESDP, tactfully guided the scheme of mutual checking to a direction he desired.

To prevent any specific power from having its influence and to establish a system of checks and balances, many countries introduced the separation of the three powers system⁷⁷. Although Thailand did not have such a developed separation of three powers system as in Western countries, the unique scheme of checks and balances effectively functioned during the 1980s, and a fact that the scheme allowed an appropriate solution of the Eastern Seaboard issues should be emphasized.

(3) Characteristic of Prem administration as a developmental state

Born in 1920, Prem was the almost same age as Soeharto who was a year younger, Lee Kuan Yew three years younger and Mahatir five years younger. The point that they are the leaders of the developmental state was common to them. As described above, Thailand's developmental state was built up by Sarit around 1960, and Prem can be said "the person who completed the Thai-styled developmental state" who worked to finish the plan drawn by Sarit to perfection.

Prem, originated in the army, did not have a seat in the parliament. As he said in the TV speech at his retirement in August 1988, he thoroughly provided characteristics as a leader of the developmental state in that he attempted to assert the rightness of the administration by attaining economic development and not military or political/diplomatic themes, more specifically by tackling the poverty of people living in rural areas⁷⁸ and in that he tried to protect technocrat groups from political pressures by widely giving them authority of macroeconomic management. Unlike the contemporary Soeharto and Lee Kuan Yew as well as unlike his senior Sarit, however, he was a leader who had almost no charisma at all. He was not enthusiastic about making a specific, powerful political basis (as 'Gorkal' for Soeharto). His quality was an "experienced balancer" and a "faithful attendant of the King." But, this does not mean Prem's incompetence as a politician. After retiring in 1988, having enough energy left, he has maintained strong influence and popularity in the Thai political society up today such that, when the 1997 Currency Crisis

⁷⁶ Takashi Shiraishi (1998), "Ajia Tsuukakiki no Seijigaku" (Politics of Asian Currency Crisis), Institute of Fiscal and Monetary Policy, Ministry of Finance, "ASEAN4 no Kinyuu to Zaisei no Ayumi – Keizai Hatten to Tsuukakiki" (Progress in ASEAN4's Finance and Monetary Policy -Economic Development and Currency Crisis), pp.174-176

⁷⁷ LaPalombara J.(1974),*Politics within Nations*,Englewood Cliffs,Prentice-Hall,p.85

⁷⁸ Warren W. (1997). op cit pp. 18-20

broke out, the voice expecting Prem, now Privy Councilor, to cope with the situation⁷⁹. As an image of a leader of the authoritarian regime after retirement, his image is exceptionally stable; it can be said that Prem's peculiar quality of "good prospect" is displayed.

Thailand had a leader who had excellent sense of balance when disputes about ESDP became overheated and Prem patiently gave ear equally to both of the opinions from different standpoints; these had an important meaning in bringing out appropriate decision making⁸⁰.

(4) Unintended clear, open political process borne by mass-media participation

As it is evident in this paper, one characteristic of ESDP that cannot be seen in large-scale projects of many other developing countries is the existence of abundant newspaper information around disputes. In particular, leaks by the Thai government officials played a unique and yet important role at critical points. For example, reports about the letter of Hermans, Bangkok Resident Mission of the World Bank in 1985 was obviously based on leaks from inside the Thai government. Floods of newspaper reports made it clear to the public what was the point on dispute, who claimed how, and what decision was made by the Thai government.

Number of these reports also contained some reports which were not objective but rather misleading, or incorrect that were not based on the fact (of course, this is not the problem in Thailand alone); however, it cannot be denied there was a positive aspect that discussions were made in the people's attention. It made open the details of discussion about ESDP, and as a result, the quality of discussion was improved, making administrative decision makers cautious in settling any decision. Leaks to mass-media were often seen in Thailand at that time and ESDP was not the only case. Apart from leakers' intention, it cannot be overlooked that leaks brought hidden information out into the surface and it made clear, open political discussions possible.

What the experience of ESDP indicates is that, for a developing country to do an independent, exact decision-making, the scheme of checks and balances established on the social and cultural features of the country and (substantially) open brain stormings by people involved, as well as the development of administrative systems and capabilities of technocrats, were quite effective. It can be said these factors effectively functioned in Thailand of that time because there were considerably free election and mass media⁸¹. This is an important meaning that a "democratic developmental state" like the Prem administration had, a major message from Thailand in the 1980s.

2. Implication to Donors

(1) World Bank

The review of ESDP clarifies two problems in the World Bank's attitude in this case. The first problem is the extreme undervaluation of the growth potential of ocean transportation in Thailand. Those who read the 1986 Country Economic Report would be surprised by the negative view of the World Bank experts on the development possibility of container transportation in the Gulf of Thailand⁸². In conjunction with this undervaluation, a problem can be seen in the basic strategy of infrastructure development. On the one hand, the Japanese experts involved in ESDP who had a long-term vision with stress on the development of seaboard industrial area which was the worldwide mainstream at that time

⁷⁹ Nikkei Shimbun, August 26 and October 8, 1997

⁸⁰ Utterance of former Director of Overall Planning Division, NESDB Bunyaraks at an interview on November 3, 1998

⁸¹ Doner R. and Anek L. (1994). op cit p. 412

⁸² World Bank (1986) op cit p.137

and advised the Thai government to make advance investment in infrastructure before private investments increase. On the other hand, the experts of the World Bank continued to recommend the "follower type" public investment after private investments increase and bottlenecks become apparent. Why had the World Bank experts maintained a negative attitude or short-term viewpoint? The second problem that had great influence on their attitude was that the World Bank's future prospect of Thai economy was biased to the fiscal and financial aspect, and thus they could not thoroughly recognize changes in industrial and export structures that were steadily in progress at that time, namely structural changes in the real sector.

As described in Chapter III, macroeconomic indices of Thailand did not show bright prospects at that time, but advancement of industrial structure already began. Also, as described in Chapter II, in addition to the reversal of ratios of agriculture and industry to the GDP, the weight of primary products, which occupied two thirds of export in 1970, dropped to one third in 1985. Items that became the main export articles, replacing the primary products, were labor intensive industrial products, including textile and sundries, and further, technology intensive products also came rise. Such changes in dynamic comparative advantage can be said to have indicated the future of changes in export-led industrial structure.

Let us analyze this point a little more in detail. Table 9 shows the products of which variation in revealed comparative advantage⁸³ was noticeable during the 1982-87 period, where shift of comparative advantage from primary products to light industrial products is clearly seen. This trend was also marked in the export statistics of 1985 when pessimism about the Thai economy was predominant⁸⁴.

If the World Bank had paid due attention to important changes occurring in the real sector a little more, its future estimation of the Thai economy and ocean transportation in the Gulf of Thailand would have made a considerable change. Then, it would cause a change in the attitude of Thai economists and discussions about ESDP would be developed in another way.

(2) Japanese Government

Since the beginning of the 1980s, the group of Japanese experts had given advice to the development of the Eastern Seaboard, and the plan they proposed was a combination of a deep-sea port and a large-scale industrial complex, a foresighted plan based on experiences in Japan and on an international experience. Still today, the insight of Saburo Ohkita and Yoshizo Takeuchi are highly evaluated among the Thai people involved of that time.

Regrettably, however, when the Thai government showed its intention to review ESDP, the discussion on the Japan side basically stuck to the point "the plan is feasible". It did not proceed further as to make consultations with the Thai side about coordination in executing the plan confirming the fiscal position of the Thai government, and considering the big changes in macro-economic condition.

What the Japanese authorities should raise was the structural change in Thai economy the Japanese economists already recognized. If so, Japan could have made unique contribution to discussions of reviewing the entire Plan. As one of those involved of that time, I feel regret. The lack of linkage

⁸³ Revealed comparative advantage =

(Export amount of commodity j of the country i)/(Total export amount of the country i)

(Export amount of commodity j of the world)/(Total export amount of the world)

⁸⁴ "Tsuusho Kouhou" (The Trade Journal), May 1 1986, reported in the retrospection about export of Thailand in 1985 that, in contrast to a drop in agricultural products, including rice, tapioca, maize, etc., light industrial products, such as apparel (biggest export item), jewelry/accessories, sports shoes, canned fruits, canned fishery products, etc., marked a considerable growth.

between a macroeconomic analysis and the feasibility of each project has been a weak point of the Japanese development assistance. I hope specific measures to overcome this weakness have been tried after that.

Table 9 Items Showing Marked Changes in Revealed Comparative Advantage (Thailand, 1982-87)

	1982	1987
(Items showing marked drop in index)		
Maize	8.49	5.09
Fresh vegetables	23.34	15.98
Tobacco (unprocessed)	5.27	2.82
Tin	30.07	17.03
(Items showing marked rise in index)		
Starch	0.00	1.98
Footwear	1.22	2.76
Toy, sports goods	0.00	1.26
Travel requisite	0.76	1.63
Knitwear	1.23	3.46
Non-textile clothing	0.85	1.69
Parts for data processing equipment	0.01	0.97

(Source) Prepared by the author

3. Future Agenda

An interview with many people who were involved in ESDP held at Bangkok in November 1998, it was impressive that the most cautious about the achievements of the Plan was that of Savit, Minister to Prime Minister's Office⁸⁵. Considering the fact that he was acting as the engine of the plan, as the responsible person at the ESDC's Secretariat, we recognize the weight of time of about 10 years.

Savit, like many others who responded to the interview, recognized the significance of results attained by ESDP. He also emphasized two problems as future agenda, however. First, an anxiety about rapid regional development menacing the traditional life patterns of local inhabitants, a problem consciousness to alleviate social influence of development, as far as possible. Second, the importance of making further efforts in environmental preservation. Others, including researchers and journalists, also spoke about this point but they shared a recognition that the situation was not serious. Despite such a difference in recognition about the current condition, the problems proposed by Savit should be placed in the center and examined among future agenda so as to further utilize the important, successful results attained by ESDP.

The most suited for tackling these two themes could be the fishing village of Laem Chabang. It is partly because the place once gathered concern as a stage of disputes around fishermen's right to live, but that is not the only reason. Fortunately, the fishing village of Laem Chabang seemed to have left the image it had around the year 1985 to a certain extent (before executing the project of ESDP). (Many Thai people, including Savit agreed on this point.) It is contrasting compared to the Map Ta Phut district where the coastal line has made a drastic change from the former condition. Located near the huge deep-sea port and its waterway through which large ships call and leave, the small fishing port in Laem Chabang village still hosts small, old jetties and many small fishing boats, leaving many of former functions. From the houses and people of communities too, we can feel a shadow of the past.

⁸⁵ From the interview made on November 9, 1998.

Maybe it is still not too late to begin a project to realize "a way of co-existence with a modern industrial port and fishermen village." If the concept is put into a practical project, ESDP will probably shift to a new stage suitable for the new century.

(Attachment) Chronology -Eastern Seaboard Development Plan of Thailand

1973	Discovery of natural gas fields suitable for commercial production in Gulf of Thailand.
1976	JICA began the study of "Pattaya Tourism Development Master Plan."
1978	NEDECO, Dutch harbor consultant, submitted to Thai government F/S and recommended construction of Port of Laem Chabang as an alternative of Port of Klong Toey (Bangkok). Thai government requested World Bank assistance for the above, but World Bank did not respond from viewpoint of over-investment. JICA began development survey of "Rock Salt Soda Ash Project" (ASEAN Joint Project).
August	Prime Minister Fukuda visited ASEAN and expressed financial assistance in ASEAN Joint Project.
1979	World Bank recommended extension of Port of Sattahip and began support to F/S (Mouchel & Partners Ltd., Australia).
1980	Thai government decided to locate Rock Salt Soda Ash Project at Laem Chabang Anti-pollution campaign broke out led by Pattaya inhabitants.
September	JICA began F/S of Rock Salt Soda Ash Project.
December	Thai government installed CDBIES (The Committee to Develop Basic Industries on the Eastern Seaboard, Chairman Prem (Prime Minister)).
1981	
January	Prime Minister Suzuki visited Thailand and expressed intention to cooperate in ESDP.
March	Completion of heavy industry development strategy of Eastern Seaboard Area (Anat Report) Completion of F/S of JICA's Rock Salt Soda Ash Project.
May	Visit of Japanese government mission (Ohkita Mission) to Thailand.
June	Reorganized CDBIES to ESDC (Eastern Seaboard Development Committee, Chairman Prem (Prime Minister)).
September	Completion of Gulf of Thailand natural gas pipeline.
October	Adoption of ESDP as Fifth Five-Year Plan.
November	Prime Minister Prem's visit to Japan.
1982	Frequent visits to Thailand by Japanese specialists on deep-sea port construction.
May	JICA began F/S of ESDP (Map Ta Phut district).
July	Publication of "Eastern Seaboard Development Master Plan" by NESDB under financial assistance of World Bank/British government (Coopers & Lybrand Associations Report). L/A signing of " Gas Separation Plant Construction." L/A signing of "East Coast Water Pipeline Project." World Bank's negative attitude on the Plan became apparent.
November	Thai government gave up location of Soda Ash Project at Laem Chabang. Thai government decided construction of Laem Chabang and Map Ta Phut ports

		based on advice of Japanese specialists. Incorporation of NFC (National Fertilizer Corporation).
1983	August	Preparation of F/S of NFC Fertilizer Plant by Foster Wheeler Corporation.
	September	JICA began F/S on development of Laem Chabang district
1984	January	Incorporation of NPC (The National Petrochemical Corporation).
	July	Bid on NFC Fertilizer Plant and opening of bids E/N signing on 11th ODA loan for NFC project.
	December	Began commissioning of gas separation plant.
1985	April	Thai government decided to stop Soda Ash Project.
	September	Repression of Army's coup d'etat. Plaza Accord, Change a trend from depreciation of yen to appreciation of yen. Prime Minister Prem suggested review of large-scale projects to improve fiscal position.
	October	L/A signing on 12th ODA loan (including Laem Chabang Estate Project, Map Ta Phut Industrial Complex Project and Map Ta Phut Industrial Port Project).
	November	Bangkok Office of the World Bank Resident Mission proposed to delete ports of Laem Chabang and Map Ta Phut from Fifth Five-Year Plan and enhance ports of Klong Toey and to improve the capacity of Sattahip port (letter to Secretary-General of NESDB, Snoh) Thai government installed "Three-Minister Committee" and began radical review of ESDP.
	December	Thai government decided to execute ESDP basically as planned, but construct Port of Map Ta Phut after signing L/A on NFC Fertilizer Plant and actually postponed construction schedule.
1986	February	NFC Chairman Chatumongol resigned, and Kasame, Governor of Electricity Generating Authority of Thailand, took office as chairman. Thai government decided capital increase of NFC (200 million baht to 2,250 million baht), a step toward execution of project.
	March	Dissolution of ASEAN Soda Ash Corporation.
	May	Prime Minister Prem dissolved Diet due to dispute in coalition parties. Discussion rose to review NFC Fertilizer Plant's profitability due to appreciation of yen.
	June	IFCT (Industrial Finance Corporation of Thailand) decided to finance NFC Fertilizer Plant via ODA loan.
	July	L/A signing on NFC Fertilizer Plant.
	August	Establishment of Fifth Prem Cabinet.
	October	ESDC decided to start construction of Laem Chabang Industrial Estate; execution of Map Ta Phut Industrial Complex became dependent on NFC Fertilizer Plant, and execution of NFC Fertilizer Plant was left to stockholders (private sector). NFC Chairman Kasame resigned, and Director-General of Ministry of Finance, Aran succeeded (an additional post).
	November	Ambassador Kiuchi to Thailand expressed Japanese government's continued support to NFC Fertilizer Plant. L/A signing on Laem Chabang Commercial Port Project.
	December	Protest demonstration by 300 fishermen of Laem Chabang district against

		relocation plan.
1987	January	Chulalongkorn professor group, that conducted feasibility survey on fertilizer plant upon request of NFC, reported negative conclusion.
	February	ESDC decided to start projects related to Port of Map Ta Phut; no particular decision on NFC Fertilizer Plant.
	October	Thai government requested Japanese government for additional financial assistance to NFC Fertilizer Plant.
	November	Commencement of Nong Kho, Laem Chabang Water Pipeline Project.
	December	Construction began in Laem Chabang and Map Ta Phut districts.
1988	March	Decided to postpone execution of Fertilizer Plant of NFC.