

THAILAND

The Vicissitudes of Eastern Seaboard Development Plan and Their Significance

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

Yasutami Shimomura

Professor, National Graduate Institute of Policy Studies

1. Introduction

The mechanism by which ownership and institutional capability in developing countries enables the effective use of aid is considered in this report by presenting Thai Eastern Seaboard Development Plan as a case study.

Specifically, this report examines how it became possible for the Thai government to manage the implementation of a large-scale, complex plan such as Eastern Seaboard Development Plan, while accommodating the views of the major donors.

2. Overview and Background of Eastern Seaboard Development Plan

Eastern Seaboard Development Plan is a comprehensive regional development plan covering the three provinces of Chachoengsao, Chonburi and Rayong, which are situated to the southeast of Bangkok on the coast of the Gulf of Siam. The program comprised heavy industry based on natural gas in the Map Ta Phut area, labor-intensive export-oriented industries in the Laem Chabang area and tourism in the Pattaya area, together with infrastructure groups to support them, such as ports, roads, railways, dams and service pipelines.

The discovery in 1973 and 1977 of the natural gas fields which form the commercial base of the Gulf of Siam prompted the formation of the basic concept for the plan in the late '70s, and it was developed into a master plan in 1982. The plan was designed to tackle two major tasks facing the Thai economy:

- Advancing industrial structures (the change of the dominant industry from agriculture to manufacturing, and the shift in the main exported goods from primary products to industrial goods).
- Alleviation of the concentration of economic activity in Bangkok.

3. The Vicissitudes of the Program

(1) Up to October 1985

From 1980, the Thai government started working in earnest on Eastern Seaboard Development Plan, and in October 1981 the plan was adopted as part of the Fifth Five-Year Plan. From 1981, the Japanese government stepped up its aid to Eastern Seaboard Development Plan, and the interim report on the Master Plan was published in 1982 with financial aid from the World Bank and the British government.

However, until the mid '80s Thailand was suffering from macroeconomic imbalances such as a current account deficit and an expanding foreign debt under the circumstances of disadvantageous international economic environment. In 1982 and 1983 the country received structural adjustment facilities from the World Bank and adopted fiscal austerity policies, as well as devaluing the Baht twice. Thailand's economic future was regarded with almost universal pessimism.

As a result, the fiscal austerity faction (the technocrats in charge of macroeconomics), who took a cautious attitude to large-scale economic development plans, increased their criticism of the progressive fiscal faction (technocrats in charge of development). This tendency led to a polarized debate in the Thai government in the fall of 1985. In November 1985 the Thai government froze all projects connected with Eastern Seaboard Development Plan for a 45-day period, and a three member committee of cabinet members was established to review the Plan. At the same time as the review, the World Bank declared that investment in

the ports at Map Ta Phut and Laem Chabang were uneconomical, and proposed that both projects should be substantially postponed and replaced by the expansion of Bangkok Port and greater use of Sattahip Port. (On the other hand, the World Bank judged that the NFC fertilizer factory, which was the focus of the debate, was economical).

(2) Progress since November 1985

The review policy draft produced by the three cabinet ministers was passed by the cabinet in December 1985. As a result, the World Bank proposal was not adopted, and the continuation of the framework of Eastern Seaboard Development Plan, including the ports of Map Ta Phut and Laem Chabang, was approved. However, the decision was taken to delay the implementation of the Plan by a substantial period.

After that, the Yen strengthened following the 1985 Plaza Agreement, and direct investment from Japan increased. The situation concerning Laem Chabang Port Development Plan improved, and the implementation of projects in the Laem Chabang area was approved in October 1986. In the Map Ta Phut area, the construction of a plant for the NPC (National Petrochemical Company) in the industrial complex area got under way, leading to approval of the construction of the industrial complex in February 1987. Approval for the implementation of the Map Ta Phut Port Project followed in January 1988. The fertilizer factory has never been built due to pessimism in the Thai private sector, the rise of the Yen and fluctuations in the international fertilizer market, which reduced the economic viability of the project.

4. Evaluation on the Thai Government's Choices

Increased direct investment and the recovery of the economy after 1986 highlighted the lack of infrastructure, particularly the undercapacity of Bangkok Port. Even if the economic recovery and the investment boom fueled by the strong Yen had not happened, the construction of Laem Chabang Port would have been made inevitable by structural problems of Bangkok Port which is located on a river. The major development of the heavy chemical industry in the Map Ta Phut area, which took place later, would not have been possible without Map Ta Phut Port. Thus it can be judged that the Thai government made the right choice in proceeding with the port projects rather than following the World Bank's proposal of shelving them indefinitely.

However, as a result of a cabinet resolution of December 1985, the delay in the start of construction work on the ports at Laem Chabang and Map Ta Phut was extended from 16 months to 43 months. The supposed merits of postponing the project were that fiscal expenditures and foreign borrowing would be reduced, but as the projects were mainly to be covered by ODA loans on soft terms, and the Thai economy recovered in the second half of the '80s, the postponement did not have any great financial effect. On the other hand, it had a severe economic impact as the cost of the project postponement that the economic activities had to be actualized and the sharp increase of direct investments had to be dealt with while the concentration on Bangkok went uncorrected. If the development of the Laem Chabang area had gone ahead as scheduled, the worsening infrastructure bottleneck would have been relieved to some extent, and thus the postponement lost a good opportunity. Comparing the costs and benefits of the project postponement, the positive effects on government finances and debt handling were small, and costs such as aggravated infrastructure bottlenecks emerged later. Consequently it is hard to say that the Thai government made a proper decision. At the time, most observers held pessimistic views on Thailand's economic outlook, and there was great uncertainty over the economy's future. Therefore it is inappropriate to criticize the decision to postpone with the benefit of hindsight by viewing later results. (Refer to the table below).

Table Choices Faced by Thai Government at the End of 1985

	Continued economic slump (Probability?)	Return to previous economic growth track (Probability?)
Implementation of Eastern Seaboard Development Plan as scheduled (option one)	Increased fiscal burden and foreign debt (2 nd Philippines)	Creation of an internationally competitive coastal industrial belt Increased direct investment and the modernization of economic structures (export structures).
Postponement of Eastern Seaboard Development Plan (option two)	Decreased fiscal burden and foreign debt	Aggravated infrastructure bottlenecks, worsening living and environmental conditions in the Bangkok capital regions and worsening investment environment.

*"Economic slump" means dual deficits of around 5%, declining exports, worsening trade conditions, worsening debts indices etc.

As for the NFC fertilizer factory, a harsh business outlook was foreseen due to the increased investment cost caused by the rise of the Yen, and the decline of the international market in fertilizers. Therefore the Thai government made an appropriate decision

in abandoning the project.

5. Conclusions and Lessons Learned

There were differences of opinion over Eastern Seaboard Development Plan between the Thai government and the main donors, that were World Bank and the Japanese government, but the decisions made by the Thai government were basically appropriate. But how was the Thai government able to reach appropriate decisions? Are there any lessons for other developing countries and donors to learn from this example?

(1) The Nature of the Thai Government's Success

There appear to be four factors that allowed the Thai government to reach appropriate decisions:

- (i) The technocrats concerned had a certain level of ability and were effectively isolated from political pressure, which meant that the debate over Eastern Seaboard Development Plan revolved around economic rationality, rather than political vested interests, and reached sound conclusions.
- (ii) The military, the splinter parties, the technocrats, the conglomerates, the mass media and other groups continued to restrain each other in a unique web of checks and balances, and accordingly no single group was able to wield excessive power.
- (iii) The Prame government, which was in power at the time, set economic development as the top priority of its administration, and it followed a development-oriented system in which a large degree of authority over economic management was ceded to technocrats.
- (iv) The mass media reported frequently on the debate within the government over Eastern Seaboard Development Plan, enabling an open and transparent policy debate to be carried on. This led to a higher standard of debate that reached a prudent conclusion.

The lesson that can be derived as the central lesson of Thailand's experience in the mid-'80s is that for a developing country to make independent and appropriate decisions it needs more than a developed administrative system and able technocrats. A framework of checks and balances which make use of the country's unique social and cultural characteristics, coupled with free elections and a free press, were extremely effective in this case. The situation illustrates the importance of a democratic, development-oriented system, such as that possessed by the Prame administration.

(2) Lessons Learned for Donors

Experts on the Japanese side proposed a vision of building up a coastal industrial belt through the combination of deep-water ports and industrial complexes. In contrast, the World Bank's experts proposed a "catch-up" form of passive, short-term public investment, which would try to follow behind demand for infrastructure. The World Bank's position was based on its analysis of the Thai economy that was biased towards financial policy, without an adequate awareness of the shifts in industrial and export structures. In short, the experts did not know enough of the changes that were happening on the ground. If they were paying closer attention to the important structural changes that were going on in the substance of the Thai economy, the debate over Eastern Seaboard Development Plan would have followed a very different course.

Thai people who were concerned with the Program at the time evaluated highly the technical content of Japan's advice. However, Japan's view concerning the program concentrated on saying "this is feasible as a project". It did not go on to enter into close discussions with the government on how to adjust the plan in light of the major macroeconomic changes going on and the Thai government's financial reserves. The results made the importance of adequate linkage between macroeconomic trends and the feasibility of individual projects painfully clear.