

Country Assistance Program (Thailand)

<1> POLITICAL, ECONOMIC AND SOCIAL CONDITIONS

(1) Political Conditions

Since the 1932 constitutional revolution, apart from the brief period of civilian government during the 1970s, Thailand had mainly been ruled by military governments that came to power by means of coup d'etat. In 1988, after 12 years of military rule, a civilian government was again established, but collapsed after a coup d'etat by the army in February 1991. In May 1992, bloody clashes occurred between the army and the people opposed to the restoration of military power, and ex-army's prime minister was forced to step down.

From this point onwards, the political influence of the army in Thailand has rapidly declined and democracy has steadily developed. Since the Democratic Party won the general election of September 1992 and its leader Chuan Leekpai formed a cabinet as Prime Minister, changes of government in Thailand have occurred in line with the principles of parliamentary democracy. The current Chuan administration, a coalition government formed from a group of five parties and one function of a political party during the economic crisis, has appointed competent economic ministers and has been making efforts toward economic recovery through consultation with the International Monetary Fund (IMF).

(2) Economic Conditions

By means of a development strategy driven by an export industry based on direct investment from Japan and other overseas countries, Thailand achieved economic growth exceeding 8% from 1987 to 1995. This enabled Thailand to take off from a traditional agricultural producer and develop into one of the centers of economic growth in East Asia. On the other hand, this rapid economic growth brought about imbalances, such as urban over-development, increasing disparities between urban and rural incomes, and environmental destruction.

In 1996, exports slowed as a result of Thailand's loss of international competitiveness due to the overvaluation of the dollar-linked baht and its slowness in establishing a sophisticated industrial structure. Furthermore, when the bubble collapsed, economic stability began to be undermined as bad debts, centering on the real estate sector, came to the fore. These problems were compounded by the substantial current account deficit and concern about the financial system. With the

considerable outflow of foreign capital following the change in the currency exchange system in July 1997, the baht plunged, bringing about an economic crisis. In response to this crisis, the Thai government has been implementing a reform program agreed upon with the IMF since August 1997. As a result of stabilization of the macroeconomy through fiscal and monetary policies based on this economic adjustment program, the macroeconomic indexes have shown consistent improvement, such as an improved current account balance and stable exchange rate. However, owing to the cooling-off of domestic demand accompanying tight fiscal policies, a slowdown in exports and also insufficient liquidity, real economic growth, which had fallen to minus 1.8% in 1997, dropped even further to nearly minus 10% in 1998. Thanks partly to fiscal stimulation measures, there were signs at the end of 1998 that the downward phase had bottomed out, and from the beginning of 1999 there were signs of recovery, particularly in the manufacturing industries. The Thai government, which had initially forecast economic growth of 1% in 1999, accordingly revised its estimate upwards to 4.1%. Nevertheless, since non-performing loans problem remains serious and the balance on bank loans has not begun to increase, the risk of another economic downturn has not been eliminated. In order to restore a strong financial system, it is essential for the government to continue its efforts to rapidly solve the non-performing loans problems of banks and private companies. Regarding exports, which have supported Thailand's moves towards economic recovery, the key factors are recovery of the economies of Japan and the ASEAN countries and the continuing buoyancy of the U.S. economy.

(3) Social Conditions

Following the downturn in the economy, the unemployment rate rose from 2.2% in February 1997 to 4.6% in February 1998. Although unemployment increased further to 5.2% in February 1999, in view of the absorption of employment in the agricultural and commercial/services sectors and the possibility that increased production in manufacturing industries will bring an end to the downward trend, the tempo of this increase is thought to have slackened. Attention needs to be paid to the impact on the poor and other socially disadvantaged groups due to factors such as the renewed widening of income disparities, which had been steadily narrowing during the period of high economic growth. To deal with this problem, the Thai government allocated an additional 0.5% of GDP in the 1998 budget to enhance the "social safety net."¹ In addition, the government decided in March 1999 to spend 53 billion baht (approx. ¥160 billion: 1% of GDP) on measures aimed at creating

employment and supporting the socially disadvantaged. It is hoped that Thailand will continue to take measures that take into account the impact of the economic crisis on the socially vulnerable.

<2> CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Thailand's Economic Plans

In its 8th National Economic and Social Development Five-Year Plan (for the five years from October 1996 to September 2001), the Thai government set its economic growth target at 8% and made "human-centered development" its basic principle, placing emphasis on improving the quality of people's lives. The 8th Five-Year Plan also laid down the underlying concepts of regional cooperation among the six Mekong Basin countries (Thailand, Laos, Vietnam, Cambodia, Myanmar, and China) and the development of the eastern, southern, and western coastal regions of Thailand.

After the economic crisis of 1997, the 8th Five-Year Plan, while adhering to its basic principle of "human-centered development," shifted its priorities to the stabilization of the macroeconomy, industrial structural reform, reduction of the impact of the economic crisis on people's lives, and promotion of administrative reform. In consultation with the IMF, Thailand made considerable downward revisions of economic indicators such as the growth rate and placed the highest priority on economic recovery.

The 8th Five-Year Plan has been formulated in accordance with the direction of the DAC's Development Partnership Strategy,*2 setting concrete development targets such as reduction of the poverty rate to 10% or below (11.5% in 1995) and extension of compulsory education from 6 to 9 years and preparations for extending it further to 12 years.

(2) Primary Challenges in Development

Firstly, in order to deal with the problem of unemployment and the impact on the socially vulnerable during the process of economic recovery, it is necessary to pay particular attention to measures to assist these weaker members of society, such as employment creation and elimination of income inequalities and regional disparities. The task, particularly in the northern and northeastern regions, where those who have lost their jobs in the cities are returning to their villages but may not find employment, is to promote agriculture and advance rural development in order to absorb this labor force.

Secondly, since the slowness of the transition of the industrial structure has been identified as one of the factors underlying the economic crisis, there is an urgent need to integrate the development of economic infrastructure with the fostering of administrators responsible for policy formulation, technical experts, and skilled workers who can respond to the sophistication of the industrial structure and creation of new industries. In order to extend the base of the industrial structure, it is also necessary to foster small and medium-sized enterprises, including supporting industries, and to develop human resources such as skilled workers. In addition, assistance will be required for reform of the financial sector including the disposal of non-performing loans, the promotion of privatization, and employment creation measures such as development of the labor market.

Thirdly, based on agreement with the IMF, large-scale public works projects are being reviewed through substantial cuts in government expenditure, which is having a considerable impact on the development of economic and social infrastructure. In view of the continuing shortage of basic infrastructure such as means of mass transportation and urban sewerage facilities, it will be necessary to continue with infrastructure development.

Fourthly, although there has been a tendency to neglect environmental problems in the process of recovery from the economic crisis, the solution of these problems is already an urgent task. Attention must be given to improving the urban environment through anti-pollution measures, such as air pollution prevention and water quality maintenance, and the alleviation of traffic congestion, as well as conservation of the natural environment.

(3) Relationships with International Development Aid Institutions, Other Donors and NGOs

(A) Relationships with international development aid institutions

After the currency crisis in 1997, the IMF announced its decision to provide Thailand with standby credit of about four billion dollars. IMF's condition for the provision of standby credit was the implementation of fiscal and monetary measures and structural reforms based on the economic adjustment program agreed between Thailand and the IMF.

From the second half of the 1980s, the World Bank considerably reduced the amount of its loans in accordance with Thailand's wishes. After the currency crisis, however, the World Bank announced its decision to provide 1.5 billion dollars in aid

within the international framework centering around the IMF. The priority areas stipulated for this assistance were :

(1) poverty alleviation and economic management; (2) human resources development; (3) sustainable development of the environment and society; and (4) development of financial and economic infrastructure.

The Asian Development Bank (ADB) has committed \$1.2 billion of assistance as part of the above-mentioned IMF emergency package. The stipulated priority areas for this aid include development of financial and capital markets etc., reform of the social sector, and agricultural structural reforms.

The United Nations Development Programme (UNDP) holds a meeting of donor countries and places priority on assistance to the social sector and local communities.

(B) Other Donors

The scale of support from aid donor countries apart from Japan is small and has mainly taken the form of grant aid (including technical cooperation). Germany, the donor country providing the second highest net amount of ODA assistance to Thailand from 1993 to 1997 (4.2% of all ODA for Thailand), has put priority on support for education and vocational training, the environment, and measures against HIV/AIDS and drug abuse.

(C) NGOs

From the 1970s, against the background of the Vietnam War and Cambodian conflict, the activities of NGOs in Thailand, particularly those of international NGOs, have expanded, focusing mainly on aid for refugees in cooperation with the United Nations High Commissioner for Refugees. More than 10,000 NGOs are said to be active in Thailand in diverse areas including human rights, environmental issues, culture, regional development, women in development (WID), aid for children, health and hygiene, and poverty alleviation.

<3> JAPANESE AID POLICIES FOR THAILAND

1. Objectives of Aid to Thailand

(A) Japan and Thailand have a history of traditionally friendly ties that reaches back for over 600 years and includes exchanges between the Japanese Imperial Family and

the Thai Royal Family. Since the establishment of diplomatic ties between the two countries upon the signing of the Declaration of Amity and Commerce between Japan and Siam on September 26, 1887, a close cooperative relationship has developed in the spheres of politics, economics, and culture. There were about 22,000 Japanese living in Thailand as of 1999 and 23,000 Thais living in Japan as of 1998, and over 1 million Japanese tourists visit Thailand annually.

(B) In the context of sharp political and economic changes in Southeast Asia, Thailand is contributing to the political and economic stability of the entire region.. Thailand is also aiming at strengthened regional cooperation among members of the Association of Southeast Asian Nations (ASEAN). Thailand's political initiatives in the region include its call in 1992 for the establishment of the ASEAN Free Trade Area (AFTA), its hosting of the 1st ASEAN Regional Forum (ARF), and the realization of the Japan-ASEAN Summit held during the 10th UNCTAD General Assembly the country hosted in 2000. Thailand is thus playing a pivotal role in ASEAN, and, as it has one of the most advanced democracies in the region and can be seen to be cooperating with Japan in areas such as the achievement of peace in Cambodia, Thailand is an important partner in Japan's Southeast Asian diplomacy.

(C) Japan and Thailand have a close relationship of interdependence in terms of trade and investment. In 1999, exports to Japan accounted for 14.1% of Thailand's total exports, second only to exports to the United States (21.6%). Japan accounted for 24.3% of Thailand's imports, the largest source of imports. Japan's total investments in Thailand up to 1997 account for about 34% of all of Japan's overseas investments (approved basis), a higher percentage than any other country. In 1998, Japan's direct investment into Thailand amounted to 54.1 billion baht (approved basis). As well as playing a vital role in promoting Thailand's economic growth, this investment helps to ensure its economic stability, which is also important for the Japanese economy. Thailand is a key market for Japanese corporations; there are more than 1,000 Japanese-affiliated enterprises in Bangkok alone. Even in the wake of the Asian economic crisis, there was no large-scale withdrawal of Japanese companies from Thailand. Indeed, as a result of the deregulation of overseas investment from the second half of 1997, we are now seeing a trend towards increased investment by Japanese companies that have already entered the Thai market.

Although the Thai government has been required to implement very stringent

economic and social measures in response to the economic crisis, there is no major problem with the fundamentals of the economy and it is assumed that Thailand will resume its progress towards becoming a middle-income country. From the medium- and long-term perspective, Japan expects to take Thailand as a model for its aid to developing countries in the process of becoming middle-income countries. Japan should therefore support promoting sound social development and thus encourage Thailand's elevation into an aid giving country by providing support aimed at eliminating the impediments to economic recovery and growth and correcting the imbalances that accompany growth.

2. Relationship with ODA Charter principles*3

Since the inauguration of the first Chuan Cabinet following the restoration of order after the bloody clashes between the army and civilians in May 1992, the democratic process has gradually begun to take root in Thailand, which is a desirable development from the viewpoint of the principles of the ODA Charter. Since fiscal 1997, the national defense budget has been decreased considerably, reflecting the decline of the army's political influence and the cuts in the national budget in response to the economic crisis.

3. Orientation for Japanese aid

(A) Aid to date

As of fiscal 1998, Japan has contributed to the economic development of Thailand by providing a total of 1665.4 billion yen in ODA loans, 161.4 billion yen in grant aid, and 161.8 billion yen for technical cooperation, focusing mainly on development of economic infrastructure and the establishment and improvement of educational and medical facilities. The development of economic infrastructure in sectors such as electric power, transportation, and water supply has been implemented through ODA loans.*4 Grant aid has been provided in various areas, including the construction or improvement of major universities and hospitals and assistance for environmental projects. Because Thailand's per capita GDP stabilized at more than 2,000 dollars in 1993, the country graduated from a group of countries eligible for Japanese grant aid in 1994, except in the case of Cultural Geand Aid, Grant Assistance for Grassroots projects, and Emergency Grant Aid. As far as technical cooperation is concerned, active cooperation has been extended to promote economic growth through human resources development and technology transfer by means of more than 80 project-type technical cooperations and 180 development studies.

In addition, in response to the economic crisis, Japan has provided economic cooperation (approx. 185.6 billion yen as of the end of fiscal 1998) for measures to assist the socially vulnerable such as employment creation and rural development, support for small and medium-sized enterprises, and assistance for students studying in Japan. In terms of technical cooperation, through the promotion of the Japan-ASEAN Comprehensive Human Resources Development Program, assistance has been provided for human resources development so that Thailand can well recover from the economic crisis.

(B) Japan's contribution to overall aid for Thailand

Bilateral aid from DAC countries accounts for 95.1% of all ODA provided to Thailand (total expenditure basis, 1993-97). Of this aid, 72.1% has come from Japan, a considerably higher contribution than that of any other country. As well as reflecting the close relationship that has developed between Japan and Thailand, this can be ascribed to the high proportion of large ODA loans in the total aid provided by Japan. (In terms of grant aid, including technical cooperation, Japan's contribution accounts for 43.9% of the total provided by DAC countries in 1993-97.) In the future, taking into account the Japan's fiscal situation, Japan will be required to provide effective and efficient support from the limited resources at its disposal in accordance with the real situation in Thailand.

(C) Orientation for aid over the next five years

(i) Assistance to promote self-reliant development

Now that Thailand is on the road to recovery from the economic crisis, it is necessary to determine the priority areas for assistance for medium- and long-term economic recovery. However, considering that Thailand had already reached the stage of economic take-off before the economic crisis occurred in 1997, future assistance will be provided from the viewpoint of promoting self-reliant development on the assumption that Thailand will resume its course of stable economic growth. Specifically, priority will be placed on assisting Thailand's own efforts to eliminate the imbalances accompanying development and the impediments to development, and projects will be jointly conceived and formulated accordingly. In view of the importance of the role of the private sector at the stage of achieving self-reliant development, communication between the Japanese Embassy, Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), and

private-sector corporations in Thailand will be enhanced in order to encourage the exchange of views and make it possible for private flows (PF: approx. 500 billion yen on an approved basis in 1997) and other official flows (OOF: e.g. approx. 25 billion yen provided by JEXIM in 1996) to be utilized efficiently.

(ii) Assistance for medium- and long-term recovery from the Asian economic crisis

Assistance will be considered from the viewpoint of promoting the sustainable growth of the Thai economy. In concrete terms, this will take the form of human resources development in the financial and other sectors. Bearing in mind cooperation with institutions such as the IMF and the World Bank, as well as the New Miyazawa Initiative*5 and special yen loans,*6 the need for assistance will be studied from the perspectives of providing support for employment creation and the socially vulnerable.

(iii) Future assistance in the five priority areas

In the medium- and long-terms, it is considered appropriate to continue to give priority to assistance in the five areas specified by the High-Level Mission on Economic and Technical Cooperation dispatched to Thailand in 1996, namely: (1) Support for the social sector; (2) Environmental protection; (3) Rural and regional development; (4) Improvement of economic infrastructure; and (5) Regional cooperation. Regarding the specific means of assistance, since Thailand is no longer eligible for grant aid, this will take the form of ODA loans and technical cooperation.

(iv) Strengthening human resources development

Human resources development is important in all the areas mentioned above. A particularly important task is the improvement of the administrative capacities of economic and social institutions and the fostering of businessmen, technical experts and skilled workers in small businesses, including supporting industry that can respond to an increasingly sophisticated industrial structure. In order to promote the more effective and efficient utilization of Japan's loan aid, it will also be essential in the future to coordinate this form of assistance with the dispatch of specialists and acceptance of trainees. The acceptance of Thai students will be promoted not only from the perspective of its contribution to human resources development but also to fostering mutual understanding with Japan and promoting global dissemination of Japan's expertise. Japan will also consider the introduction of distance learning as method of human resources development.

4. Aid Guidelines for Priority Areas and Challenges

(A) Support for the social sector (with an emphasis on education and the HIV/AIDS issue)

(i) Assistance for the socially vulnerable

Thailand is on the road to recovery from the economic crisis, but emphasis will still be placed on assistance for the socially vulnerable such as low-income groups in order to promote stable economic growth. When determining measures to help the urban poor, consideration will be given to assistance in coordination with NGOs. Assistance will also be promoted bearing in mind the need to take measures to support the socially vulnerable not only in Thailand but throughout the whole Southeast Asian region. Social welfare measures will be meticulously and continuously implemented as a medium- and long-term agenda.

(ii) Assistance in the fields of health and hygiene

In order to enhance health and hygiene services in Thailand, Japan has so far provided economic cooperation for the establishment and improvement of hospital facilities and procurement of medical equipment, promoted human resources development through technical cooperation, and implemented HIV/AIDS prevention measures through project-type technical cooperation.*7 However, as the development of a system for health and hygiene services in local areas is still lagging behind, continued assistance will be required in this area, with an eye to linkage with international institutions. Since Thailand has been designated as a priority country with respect to the Global Issues Initiative on Population/AIDS (G11),*8 particular emphasis will be placed on assistance for HIV/AIDS prevention.

(iii) Assistance in the field of education (particularly higher education)

Now that the enrollment rate in elementary education in Thailand has exceeded 90%, priority in assistance in the educational field has been placed on higher education, particularly the fostering of technicians in the fields of science and technology, by providing technical cooperation for vocational training and loans for overseas students.*9 Since the shortage of human resources, especially in science and technology, is seen as one of the causes behind the economic crisis, it will be necessary to provide cooperation for the reinforcement of higher education focusing on these fields and for improved vocational training and research activities so as to respond to the needs of an increasingly sophisticated industrial structure.

(iv) Assistance with drug countermeasures

In addition to heroin, which has long been prevalent, the use of stimulant drugs in Thailand is rapidly increasing. Japan has previously implemented measures such as the dispatch of drug identification experts and the holding of seminars, and assistance will continue to be important for the improvement of drug identification and control capabilities. Meanwhile, in the promotion of crop substitution programs and other measures aimed at the elimination of the cultivation of poppies, etc. in mountainous areas, it will be important to simultaneously address the poverty that stands in the background. Continued assistance will also be needed for the region that centers on Thailand, including Laos and Myanmar.

Since many Japanese NGOs are active in Thailand, it is important to promote coordination with them and local NGOs when providing assistance in the social sector.

(B) Environmental conservation

Thailand's rapid economic growth from the second half of the 1980s led to the intensification of environmental problems not just in the capital Bangkok but throughout the country, particularly in the second largest city of Chiang Mai and in the eastern coastal region. Some of the most conspicuous problems are water pollution, air pollution, environmental contamination and other forms of pollution stemming from improper waste disposal, and the diminution of forests.

In response to these problems, Japan is promoting human resources development and the improvement of skills of researchers and administrators in a wide range of environmental fields, including the technical cooperation provided through the Environmental Research and Training Center. It is also providing assistance focusing on areas such as the improvement of the living environment and prevention of industrial pollution.*10 Financial and technical cooperation has been provided for the construction of a subway system to address the deterioration of the urban environment in Bangkok, and Japan will consider continued assistance with urban transport problems aimed at improving the urban environment. To promote development for sustainable growth, it is vital to reduce the burden on the environment brought about by development and take measures to protect the environment. Since Thailand might not be expected to take sufficient care of the environment because of its current tight fiscal situation, it is necessary to encourage the Thai government to positively tackle environmental problems and to continue providing various kinds of support, including the development of human resources. In

development of basic economic infrastructure and the like, it is essential to consider the environment from the planning stages. Also, in implementation, there is a need to consider environmental issues in close coordination with the appropriate environment-related institutions on the Thai side.

(C) Rural and regional development

Since Thailand is still to a large extent a rural country with over 50% of the working population engaged in agriculture, the promotion of agriculture and rural development are very important from the standpoint of balanced development. Japan has been providing many development studies related to the formulation of the Regional Integrated Development Plan and the Regional and Rural Agricultural Infrastructure Improvement Plan and the other types of technical cooperation for the training of human resources and the technology transfer needed for rural development.

As far as ODA loans are concerned, in addition to focusing on regional development through the improvement of transportation and electric power infrastructure, loans have been provided almost every year to promote agriculture by means of Two Step Loans (TSL)*11 through the Bank for Agriculture and Agricultural Cooperatives (BAAC), resulting in significant achievements such as small-scale irrigation projects.

However, with economic activities still excessively concentrated in Bangkok, regional disparities remain conspicuous. (In 1996, the per capita GDP in the Bangkok metropolitan area was 8.5 times that of northeast Thailand.) It is possible that this unbalanced economic growth will considerably undermine economic and social stability in Thailand in the medium and long terms. In particular, there are fears that the problem of income imbalances amid the current severe economic situation will lead to social instability. It is therefore necessary to place priority on assistance for agricultural promotion and rural development focusing on regions whose development is lagging behind (east and northeast Thailand). Particularly from the perspective of poverty reduction, it will be essential to emphasize support to increase the incomes of low-income small farmers and strengthen systems for promoting agricultural cooperatives and rural financing.

To eliminate regional disparities, the development of nationwide "network-oriented" economic and social infrastructure will be promoted through the construction of telecommunication networks, inter-city expressway networks, and water route transport networks. At the same time, it will be important to provide assistance for the creation of employment through human resources development and fostering of local industry in order to raise the capacity of local cities to strengthen

regional administration and local industries so that they can absorb some of the working population currently concentrated in the metropolitan area.

(D) Improvement of economic infrastructure

(i) Assistance for development of economic infrastructure

Thailand's rapid economic growth up to the mid-1990s was made possible by the improvement of the foundations required for the sophistication of the industrial structure, to which Japan made a significant contribution. Compared to this rapid economic growth, however, the development of economic infrastructure has lagged behind and become an impediment to the realization of sustained economic growth. In particular, in Bangkok, where about 15% of the population is concentrated, the slowness of development of basic infrastructure such as roads, railways, and air routes, as well as sewerage facilities, etc., is impairing the efficiency of economic activities. It is also important to promote the development of nationwide transportation and telecommunication networks and develop economic infrastructure in local cities, taking into account the comprehensive development of the Mekong Basin. Thailand still has high expectations for economic cooperation from Japan in these areas, and it will be essential to respond to these requirements in coordination with the private sector and other public funds.

(ii) Assistance to enhance Thailand's economic and industrial sophistication

In view of the current economic crisis, one of the most urgent tasks for the development of the industrial base is the adjustment of the industrial structure. To improve the international competitiveness of Thai industry, it is essential to accelerate the improvement of quality (compliance with international standards for industrial products, etc.) and productivity; to provide support for small and medium-sized enterprises and supporting industries in order to reform an industrial structure dependent on imports of capital goods and intermediate goods; and to promote the development of new industries and the human resources needed to support them. Assistance will also be needed in policy respects for the improvement of systems and legislation aimed at the alteration of the industrial structure. In addition, support will be required for the strengthening of functions in the financial area and for employment measures such as the development of the labor market, which will serve as the basis for these efforts noted above. Another area for consideration is the promotion of science and technology.

(iii) Assistance for small and medium-sized enterprises (SMEs)

SMEs play an important role in the Thai economy, and Japan will provide various means of SME-related assistance such as the dispatch of high-level policy experts on associated planning and legislation. In view of the social safety net aspects of labor and employment and the necessity for developing labor-intensive industries and supporting industries and strengthening their international competitiveness there are high expectations for Japanese assistance with reinvigorating and promoting SMEs. Japan will consider financial assistance, including investment, as well as support for human resources development and the establishment of required systems.

(E) Regional cooperation

Japan supports Thailand's efforts in fostering human resources in its neighboring countries through the Japan-Thailand Partnership Program.*12 As well as continuing to promote the Program's main aim of setting up 15 training courses in third-party countries*13 by 2000 based on an appropriate sharing of expenses between Japan and Thailand, it will be important for Japan to maintain and develop projects under the Partnership Program in the future. Thailand's utilization of its own resources for the development of human resources in its neighboring countries can be viewed as a very effective way of making practical use of the facilities that have been established through assistance from Japan, personnel fostered at these facilities, and Thailand's experience as a recipient country.

Regarding the future development of the Mekong Basin, in view of Thailand's location at the center of this region, it is possible that there will be an increase in the number of projects in which Thailand plays the central role. With the progress of the Second Mekong International Bridge Construction Project, a development study is to be implemented in order to formulate a integrated development plan in the region surrounding the Thailand-Laos border. It is important to continue to conceive and shape projects that transcend national borders and benefit the countries involved and to achieve concrete results from this kind of development cooperation over extensive areas.

Furthermore, Thailand is strongly expected to play a central role in the reinforcement of ASEAN regional networks, including the ASEAN higher education network plan,*14 global parasite control,*15 the Southeast Asia Fisheries Development Center (SEAFDEC), and ASEAN Information Infrastructure (AII).*16

It will be important to provide Thailand with assistance in setting up the foundations to fulfill this role.

(5) Matters to note in aid implementation

(A) Aid-receiving agencies in Thailand such as the Department of Technological and Economic Cooperation (DTEC, in charge of technical cooperation) and the Fiscal Policy Office (FPO, in charge of ODA loans) have received high praise for their great efforts in preparing domestic budgets for project implementation and setting up counterpart agencies and staff in Thailand. Based on this experience, Japan will continue to require these kind of efforts from Thailand.

(B) In order to make technical cooperation from Japan effective, the DTEC is determining the priorities among requests for assistance through consultation with the organizations involved and is preparing a list of requested projects. This kind of exercise is worthy of high praise from the viewpoint of establishing the "ownership" of the recipient country.

As far as ODA loans are concerned, the Foreign Debt Policy Committee chaired by the Minister of Finance and consisting of the FPO, NESDB (office of National Economic and Social Development Board), the Prime Minister's Budget Office, and the Central Bank of Thailand has been improving procedural efficiency by determining the borrowing parameters and integrating the administration of external public debts. Candidate projects for ODA loans receive authorization from the Committee after being screened by the NESDB and FPO.

In addition to the improvement of screening of the requested projects and monitoring after completion, all of the agencies involved - NESDB in charge of national development planning, the Ministry of Finance in charge of fiscal policy, DTEC in charge of technical cooperation, and the Prime Minister's Budget Office in charge of budget formulation - are expected to coordinate even more closely in the future in order to promote the effective and efficient implementation of aid.

Notes

<1> POLITICAL, ECONOMIC, AND SOCIAL CONDITIONS

(3) Social Conditions

*1 Social safety net

Refers to a comprehensive policy for poverty reduction, consisting of a system of guarantees for basic needs to help the poor affected by unanticipated shocks such as deterioration of terms of trade or famine. Specific measures include food aid, official employment systems, and social security.

<2> CHALLENGES TO BE ADDRESSED IN DEVELOPMENT

(1) Thailand's economic plans

*2 The OECD/DAC Development Partnership Strategy

In May 1996, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) adopted a document titled The Development Partnership Strategy (Shaping The Twenty-first Century : The Contribution of Development Co-operation). This development strategy sets specific goals and timeframes desired to improve the living standards of all people around the globe. Goals include: 1) reduction by half of the number of people in extreme poverty by 2015, 2) universal primary education in all countries by 2015, 3) elimination of gender disparity in primary and secondary education by 2005, 4) reduction to 1/3 of the 1990 level in the infant mortality rate by 2015, 5) reduction to 1/4 of the material mortality rate during the same period, 6) spread of health and medical access through the primary health care system to reproductive health service, 7) formulation of a national strategy for sustainable development in every country by 2005 so as to reserve the current trends in the loss of environmental resources at both global and national levels by 2015. The strategy emphasizes the importance of a global partnership because it will be essential that developed and developing countries work together if goals are to be achieved.

<3> JAPANESE AID POLICIES FOR THAILAND

(2) Relationship with ODA Charter principles

*3 Japan's Official Development Assistance Charter (the ODA Charter)

This is the most basic and important document in Japanese ODA policies, defining aid guidelines in light of past achievements, experiences, and lessons from ODA. It was adopted by cabinet resolution on June 30, 1992 as a means of providing

a clear statement of Japanese ODA principles and rules. The document covers six areas: basic philosophy, principles, priorities, measures for effective implementation of ODA, measures to promote understanding and support at home and abroad, and ODA implementation systems. The basic philosophy for ODA is defined as including: 1) humanitarian considerations, 2) recognition of interdependency, 3) self-help efforts, and 4) environmental conservation. The principles instruct aid administrators to "take into account comprehensively each recipient country's request, its socioeconomic conditions, and Japan's bilateral relations with the recipient country." They are also instructed to consider the following four areas: 1) balancing environment and development, 2) avoiding use for military purposes or for aggregation of international conflicts, 3) safeguards against diversion for military expenditure, development and production of weapons of mass destruction and missiles, and imports and exports of arms, and 4) promotion of democratization, efforts to introduce the market-oriented economy, and guarantees of basic human rights and freedoms.

(3) Orientation for Japanese aid [CHECK]

*4 Examples of contributions based on yen loans to Thailand from Japan

Yen loans from Japan account for 15% of Thailand's total electric power generation capacity, 11 of Bangkok's 14 major bridges, and 32% of Bangkok's expressway system.

*5 The New Miyazawa Initiative

Announced by Minister of Finance Miyazawa, this \$30 billion package of assistance measures was directed at helping Asian countries overcome economic difficulties experienced in the wake of the currency crisis, and was grounded in the necessity to facilitate the stabilization of international financial and capital markets. Specifically, the package involved 1) medium- and long-term financial assistance for real economic recovery (yen loans, Export-Import Bank of Japan loans, etc. worth \$15 billion), and 2) short-term financial assistance to meet short-term capital needs during the process of economic reforms (\$15 billion).

*6 Special yen loans for assistance with economic structural reform

These were announced in December 1998 at ASEAN and the Japan-China-Korea Summit [CHECK]. A special framework limited to 600 billion yen over a three year period was created with the goal of assisting with infrastructure

development to contribute to economic stimulation, employment promotion, and economic structural reforms. Concessional interest rate terms for these loans were set at 1 percent initially with a repayment period of 40 years.

(4) Aid guidelines for priority areas and challenges

*7 Project-type technical cooperation

This refers to a format of technical cooperation that organically combines the three elements of the dispatch of experts, the acceptance of trainees, and the provision of equipment in a single project that is consistently carried out all the way from the original proposal through to implementation and evaluation.

*8 Global Issues Initiative on Population and Aids (GII)

Announced by Japan in February 1994 as an independent undertaking designed to furnish a total of \$3 billion over the ensuing seven years for active projects in the fields of population and aids in developing countries. A comprehensive approach has been adopted based on the perspective of reproductive health, incorporating direct assistance for family planning as well as efforts such as those aimed at improvement of primary health and medical care related to maternal and child health, primary education, and the raising of the status of women. Representative examples of cooperation include a project in Indonesia to promote the use of mother and child health handbooks, resulting in declines in perinatal women's mortality and infant/child mortality rates. GII-related projects had already exceeded the above-stated amount by the end of fiscal 1998, reaching a total of approximately \$3.7 billion.

*9 Yen loans for students studying in Japan

Yen loans are provided through developing country governments for assistance with projects involving the dispatch of students to Japan and other measures to assist with the development of human resources in developing countries.

*10. Specific examples of assistance from Japan for environmental conservation in Thailand

Yen loans have been provided to date for the development of the water supply system in Bangkok, the installation of desulfurization equipment in thermal power plants, and for the prevention of industrial pollution.

*11 Two-step loans

These loans, which are administered under the directed credit programs of borrowing countries, are provided through the financial institutions of these countries for the implementation of definite policies such as promotion of special sectors like small-scale manufacturing and agriculture, or improvement of basic human needs for the poor. Two-step loans are referred to as such because there are at least two steps leading to the transfer of funds to their final recipients. This type of loan allows the provision of funds to large numbers of private sector recipients, and the requirement for the intermediation of financial institutions facilitates strengthened capacities of local financial institutions and development of the financial sector.

***12 Japan Thailand Partnership Program (JTPP)**

From the perspective of encouraging Thailand to become an aid donor, this basic framework was decided upon in order to promote economic and social development projects for developing countries in cooperation with Japan. The main region designated for cooperation is envisioned as consisting of the three countries of Indochina, and an Record of Discussions (R/D) was signed in August 1994 by DTEC Minister Tinawut of the Thai side and Mr. Yanagisawa, Parliamentary Vice-Minister for Foreign Affairs.

***13 Third country training**

In these programs, Japan provides financial and/or technical assistance for the acceptance of trainees from developing countries in neighboring countries that have similar social or cultural environments. For example, positioning Thailand as a base for the Japanese implementation of technology transfer, trainees are invited to Thailand from countries such as Viet Nam and Laos, with Japan assisting with projects for the transfer of technology to such third countries.

***14 ASEAN Higher Education Network Plan**

In order to respond to the problem of insufficient numbers of graduates in technological fields from institutions of higher learning who meet the needs of industry, which is an issue faced in common by ASEAN countries, this plan seeks to form a network of ASEAN country universities (up to two in each country) with the goals of (i) effectively utilizing human resources in ASEAN country university engineering departments who already meet international standards, not only in their own countries but throughout the ASEAN region, and (ii) building positive competitive relationships and further raising educational and research standards

through inter-university joint research, exchange, and cooperation programs, and through knowledge of the standards of each country's foremost departments.

***15. Global parasite control**

At the Denver Summit in 1997, Japan underlined the importance of measures against parasitic infection and emphasized the need for cooperative programs to this end. At the Birmingham Summit in 1998, then-Prime Minister Ryutaro Hashimoto recommended several steps to improve the effectiveness of international countermeasures against parasitic diseases. In particular, he proposed the establishment of centers for human resources development and research in Asia and Africa, the formation of international networks, and the promotion of human resources development and information exchanges. Based on such movement, Japan is currently preparing to establish centers for personnel training and other forms of South-South cooperation in Thailand, Kenya, and Ghana by assembling concerned persons such as those from the Japanese government (the Ministry of Foreign Affairs, the Ministry of Health and Welfare, and the Ministry of Education), JICA, the Japan Society for Parasite Studies, and NGOs, while also maintaining a view to linkage with international institutions such as WHO.

***16 ASEAN Information Infrastructure (AII)**

In the Hanoi Action Plan adopted at the ASEAN Summit held in Hanoi in December 1998, ASEAN decided to build ASEAN Information Infrastructure (AII). Joint sessions with Japan have been organized for working groups operating under AII, and there is debate concerning Japanese cooperation for the building of AII.