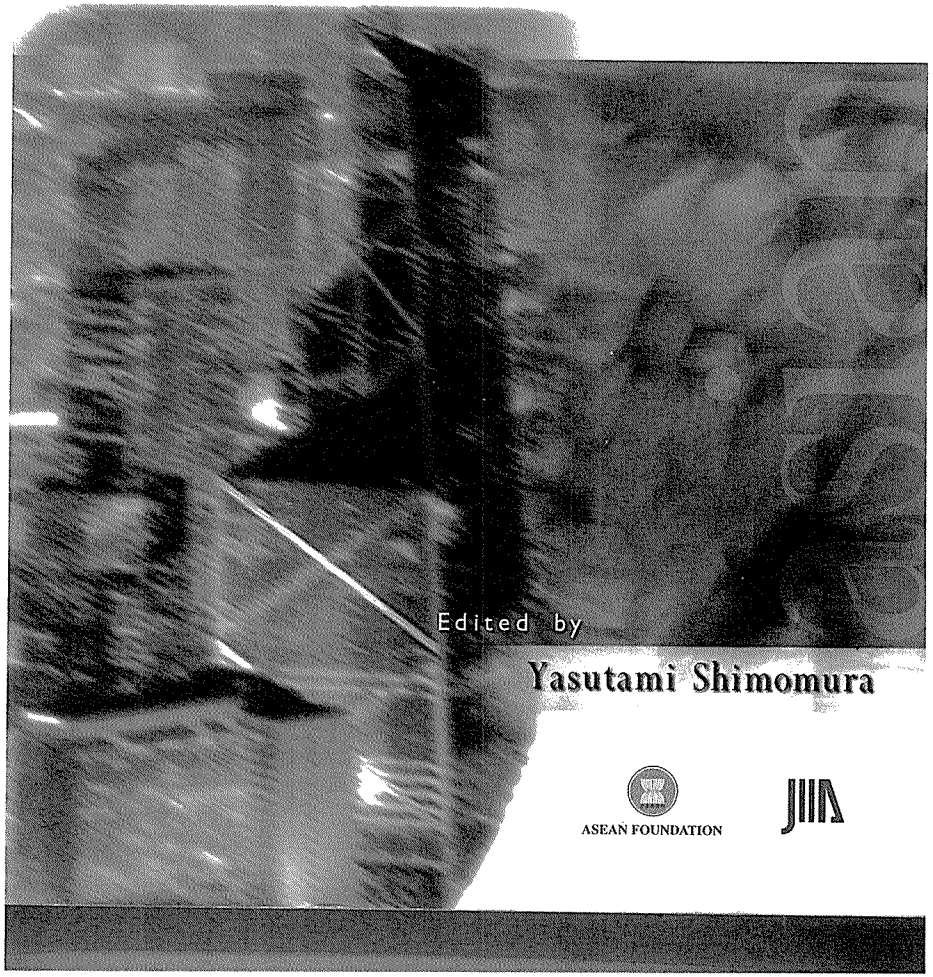
ASIAN DEVELOPMENT EXPERIENCE VOL. 2

The Role of Governance in Asia



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In Search of Endogenous Elements of Good Governance: The Case of the Eastern Seaboard Development Plan in Thailand

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Part 1: Economic Development and Good Governance Revisited — Attempt at an Alternative View

1. Introduction

The purpose of this chapter is to reconsider the relationship between economic development and good governance and cast light on various aspects that the postulates of mainstream idea have failed to take into account. A consensus is shared broadly among scholars and policymakers about the crucial role of good governance in achieving sustainable development. World leaders have repeatedly asserted in their statements that good governance is an indispensable element for economic development, together with democracy and basic human rights. World Bank President James Wolfensohn has also stressed that "good and clean government" and "an effective legal and justice system" constitute basic prerequisites for sustainable growth and poverty alleviation in his proposed Comprehensive Development Framework.

As a matter of fact, this is a rather new trend. Olav Stokke argues, "It was not until the end of the 1980s that these [political conditionality] issues were brought to the fore of the foreign aid agenda" (Stokke 1995, p. 21).

While the notion of a strong relationship between economic development and good governance is well established, how good (or bad) governance leads to the good (or bad) performance of developing economies and vice versa has not yet been fully analyzed. The aim of this chapter is to argue that the mainstream approach does not pay due attention to some crucial aspects of the relationship between governance

and development and to propose an alternative view with an analytical framework for the purpose of improving the "state of the art". In addition, in the second part, the proposed idea is to be applied to a case in Thailand as a kind of "test run".

2. Mainstream Ideas: A Critical Review

2.1 Comprehensiveness of the definition of good governance

Joan Nelson and Stephanie Eglinton point out that there are two definitions of good governance: broad and narrow (Nelson and Eglinton 1993, p. 15). The broad definition, which is adopted by the Organization for Economic Cooperation and Development, stresses democracy as an element of good governance. This is in contrast to the World Bank's narrow definition, focusing on "lack of accountability, transparency, and predictability on the part of politicians and bureaucrats, and the absence of the rule of law". The World Bank (and the International Monetary Fund to a certain extent) does not *explicitly* deal with democracy due to the "non-political vision" of the Bretton Woods system. However, according to Nelson and Eglinton, they tend to *implicitly* assume a specific political regime, namely parliamentary democracy, as a basis of good governance (Nelson and Eglinton 1993, p. 15).

Reviewing the arguments in the international aid community, this chapter adopts the following as the standard definition of good governance:

a) Pluralist democracy: The World Bank and the IMF do not *explicitly* regard this as a component of good governance.
b) Accountability, transparency, predictability, and openness in the manner of exercising power.
c) Rule of law.
d) Effective and efficient public sector management.
e) Prevention of corruption.
f) Prevention of excessive military expenditures.

Apparently this is highly comprehensive and includes everything concerned. Such an encyclopedic definition may have some strength, but it is a handicap as an analytical tool. We will deal with this point in 2.3.

2.2 Explaining high development performance by good governance: the mainstream view

2.2.1 Research testing the mainstream postulate

A lot of research has been conducted in the attempt to show the relationship between development performance and governance. Most

of them have been made through regression analysis between macroeconomic figures and governance indicators; the results are at most mixed.

There is a huge amount of literature dealing with the relationship between democracy and development. Many, such as Yi Feng (1997) and Lebrang (1997), claim a strong positive relationship between the two. There are others who do not support that conclusion.

The comprehensive literature survey conducted by Adam Prezworski and Fernando Limongi gives insights toward an overall evaluation of these research findings. According to them, many attempts have been made to find theoretical explanations of the causal relationship between political regime and economic growth. However, none of the quantitative analysis conducted so far has produced any definite conclusion on the relationship between the two variables (Prezworski and Limongi 1993, pp. 51–69; Shimomura 1999, p. 65). A recent work done by the United Nations Development Program shows that there is no automatic link between democracy and human development (UNDP 2002, p. 60).

Beatrice Weder made a comprehensive study of the relationship between five institutional performance indicators (public–private cooperation, bureaucracy, rule of law, corruption, political system and stability) and growth of per capita gross domestic product, respectively. She found that property rights and the rule of law are important for economic performance, but there is only weak support for the proposition that a high level of corruption reduces growth (Weder 1999, pp. 61–62).

A recent World Bank study claims a strong relationship between accountability and the infant mortality rate on the one hand and between rule of law and the level of per capita income on the other (Kaufman et al. 2000, p. 12). However, it is not necessarily advisable to assume that the infant mortality rate and per capita income are indicators of development performance. Unlike the economic growth rate or export growth rate, the infant mortality rate and per capita income are rather reflective of the results of past development attempts.

These empirical studies show at most mixed results. Under the current state of the art, it is not easy to find sufficient evidence of a "causal" relationship between good governance and economic development. This chapter is going to propose an alternative approach in an attempt to overcome the shortcomings of the prevailing approach.

2.2.2 Weakness of the prevailing analytical framework

In order to grasp a clear picture of the causal link between governance and development performance, we need to consider and overcome the weakness of the mainstream approach.

First of all, it is to be emphasized that most analyses deal with a large number of samples, including the United States, Sweden, Papua New Guinea, and Sierra Leone. This means that the mainstream concept of good governance assumes "universality" without paying due attention to the stage of development. In other words, they try to explain sustainable development in such emerging markets as Singapore and Korea as well as sub-Saharan Africa within a single framework. This is not realistic and inevitably limits the applicability, as our real world is highly diversified.

There is a broad consensus among investors and aid officials that getting things done in East Asia is much easier than in sub-Saharan Africa. However, various governance indices do not necessarily show distinct differences between these two regions, particularly when we compare Indonesia/China with Ghana/Kenya (Table 6.1). These indices may be biased against East Asia. If these reflect the reality correctly, it suggests that standard conditions of good governance are not able to fully explain the regional differences between East Asia and sub-Saharan Africa. Paying due attention to endogenous factors, which do not appear in the standard list of good governance, could lead to insights into understanding the reason.

Moreover, the mainstream idea primarily focuses attention on two cases: "better development performance with better governance" and "disappointing development performance with deficiency in governance" (Figure 6.1). Because of this rather simplistic approach,

Table 6.1 Governance Indicators of Selected Countries of East Asia and Sub-Saharan Africa

	Freedom*	Voice and Accountability**	Government Effectiveness***	Corruption****
Thailand	3.3	0.22	0.01	3.2
Indonesia	7.5	–1.13	–0.53	1.9
Malaysia	4.5	–0.09	0.71	4.9
China	7.7	–1.29	0.02	3.5
Ghana	3.3	–0.43	–0.29	3.9
Kenya	6.6	–0.70	–0.90	1.9
Botswana	2.2	0.78	0.22	6.4
Mauritius	1.2	1.01	0.17	4.5

* the lower the freer (1997–98), ** the higher the better (1997–98), *** the higher the better (1997–98), **** the higher the less corrupt (2002)

Sources: * Freedom House, *Freedom in the World Country Ratings 1972–73 to 2001–2002*, ** Kaufmann, D. and Kraay, A. *Growth Without Governance*, World Bank, 2002, *** ibid. **** Transparency International, *Transparency International Corruption Perceptions Index 2002*

Figure 6.1 Governance and Development: Realistic Cases

Mainstream Case High development performance with good governance	**Case 1** High development performance with deficiency in governance
Case 2 Disappointing development performance with good governance	**Mainstream Case** Disappointing development performance with deficiency in governance

two important and interesting cases in our real world have seldom been examined in detail. These are the following cases:

- Case 1: High development performance despite notable deficiency in governance
- Case 2: Disappointing development performance despite good governance

To get an insight into the causal effects between governance and development, it is essential to include these cases in the analytical framework. Without including these cases, the picture of the world we actually live in is incomplete. Case 1 is particularly important when we consider the experiences of East Asian economies, where persistent growth has been recorded for several decades, while relatively low governance scores have been given by international society (again see Table 6.1).

3. Proposal of an Alternative View: Exploring a Realistic Theory of Governance and Development

Our purpose is to propose a more realistic picture of the function of governance on development by including such variables as stages of development, endogenous elements of good governance, and the above-mentioned two cases. At least we can expect a deeper insight through this attempt.

3.1 Proposal of two hypotheses

For this purpose, we propose the following two hypotheses for further investigation:

Hypothesis 1: What is really required for a developing country to achieve high development performance is to meet a set of crucial governance conditions rather than meeting all (or most) of good governance conditions simultaneously. The crucial conditions to be met

are different from one country to another, depending on the development stage. The required conditions might be narrower and less complicated when a developing economy is to initiate its sustained growth. The required conditions are supposed to get broader and more complicated at a higher level of development stage, particularly when a country reaches the level of an emerging market.

It is supposed that a rather limited number of governance conditions were required when Thailand started on its path of sustained growth around 1960, but the requirements became much heavier and more complicated for Thailand to maintain its position as an emerging market in the late 1990s.

Hypothesis 2: While the standard list of good governance conditions proposed by the international aid community claims a universal characteristic, it is not able to explain the reality of Case 1 (or Case 2). Paying due attention to the unique social, economic, cultural, and political features of each socio-economy is expected to cast light on this issue. The purpose is to discover some elements that contribute to strengthening governance, supplementing the standard elements of good governance. These could be labelled as "endogenous good governance elements". Needless to say, these are different from one society to another.

3.2 Proposed Analytical Framework

How can these hypotheses, which are expected to be crucial for understanding the function of good governance on realizing sustainable economic development, be verified?

What is crucial is accumulating a large number of empirical studies, in particular case studies, of success stories as well as disastrous failures in order (i) to identify crucial governance conditions in a specific country in a specific period, or (ii) to identify endogenous elements that are the determinants of high development performance in a specific society in a specific time.

It is expected that we can draw policy implications from individual in-depth case studies. The accumulation of lessons and policy implications could hint at a set of new postulates or a more general picture of the relationship between governance and development.

Having proposed an alternative view and analytical framework, this chapter is going to illustrate how this approach could work. In Part 2, we are going to focus our attention on the second hypothesis, i.e., endogenous good governance elements. To test this hypothesis, the case of the Eastern Seaboard Development Plan, which was a controversial gigantic regional development plan in Thailand in the mid-1980s, is to be studied.

Part 2: The Case of the Eastern Seaboard Development Plan in Thailand

1. A Short History of the Eastern Seaboard Development Plan

1.1 The Mission of the Plan

The Eastern Seaboard Development Plan was a gigantic regional development plan in the southeast of Bangkok. It was composed of two industrial complexes and a wide variety of infrastructures, including two deep seaports. The Laem Chabang was an industrial complex for export-oriented and labour-intensive industries, and the Map Ta Put was basically a heavy and chemical industrial complex based on natural gas reserves in the Gulf of Thailand. The basic idea of the plan was formulated in the late 1970s, and a master plan was completed in 1982.

The task was to tackle two basic problems of the Thai economy. First, one of the central agenda items of the Fourth and Fifth Five-Year Plan, 1977–81 and 1982–86, respectively, was to transform the industrial structure and the composition of leading export goods from agriculture to manufacturing. This had been a long-standing issue, but it became acute with the collapse of primary goods prices in the international commodity market after the two oil crises. Faced with a sharp decline in terms of trade, the Thai government accelerated the promotion of export-oriented industries and utilization of domestic energy resources in an attempt to save foreign reserves and improve the international balance of payments. Owing to the evolution of labour-intensive light industries (garments, apparel, accessories, sport shoes, travel kits, etc.), the share of industry in GDP surpassed that of agriculture, and the share of primary goods (rice, maize, tapioca, rubber, tin, etc.) in exports as a whole persistently declined from two-thirds in 1970 to a half in 1980 and further to one-third in 1985. The Thai government was keen to further accelerate this tendency.

Second, improving the living standard in rural areas had been a central issue since the Third Five-Year Plan (1972–76). In this regard, the Thai government was concerned about the concentration of business activities in the Bangkok Metropolitan area, as this caused widening regional discrepancies and environmental degradation, such as traffic jams and air and water pollution. The discovery of natural gas reserves in the Gulf of Thailand in 1973 led to the idea to construct industrial complexes in the Eastern Seaboard as a means of achieving the decentralization of industrial production and improving the living standard in the rural area.

1.2 Evolution of the Plan

In December 1980 a committee was established under the chairmanship of General Prem Tinsulanonda, who became Prime Minister in March 1980; this committee was reorganized into the Eastern Seaboard Development Committee (ESDC) in June 1981. In March 1981, a report outlining the industrialization strategy in the region (the Anat Report) was submitted to the committee. The Eastern Seaboard Development Plan was adopted in the Fifth Five-Year Plan (1982–86) in October 1981.

Before the launch of the Eastern Seaboard Development Plan in the late 1970s, the Thai government requested the World Bank to finance the plan. The World Bank financed the master plan of Coopers & Lybrand Associates jointly with the British government. When the result was submitted to the Thai government in July 1982, however, the World Bank recommended utilization of the existing Sattahip Port, which is a naval port near the proposed location of Map Ta Put deep seaport, taking into consideration the heavy fiscal burden. According to the master plan, the estimated total investment amount was $4.5 billion (1981 prices).

On the other hand, the Japanese government, the largest donor in Thailand, was very active in its support for the plan. During his visit to Thailand, Prime Minister Zenko Suzuki expressed his willingness to support the plan in January 1981, and in May of that year, Dr. Saburo Okita, former foreign minister, who visited Thailand as the leader of a government mission, initiated a discussion on technical and financial assistance for the Eastern Seaboard Development Plan. Based on Okita's recommendation, the Japan International Cooperation Agency (JICA) of the Japanese government started a feasibility study for Map Ta Pud deep seaport, which was faced with various technical problems, such as strong waves and silting.

In November 1982, the National Fertilizer Corporation Limited (NFC) was established, with equity investment by the International Finance Corporation (IFC) of the World Bank group. The purpose was to construct an integrated fertilizer complex, located near Rayong on the Eastern Seaboard, based on natural gas supplies from the Gulf of Thailand. The Japanese government assured financial assistance to NFC. In October 1985, the Thai government signed loan agreements with the Overseas Economic Cooperation Fund of Japan (OECF) on the construction of major projects, such as Laem Chabang Industrial Complex, Map Ta Put Port, and Map Ta Put Industrial Complex.

1.3 Setback for the Plan and its Background

1.3.1 Movement to Review the Plan

On 13 November 1985, the Thai cabinet approved a surprise resolution to freeze all the Eastern Seaboard Development Plan for 45 days and

assigned three ministers to review the whole programme. According to *The Nation*, a Thai newspaper, this was strongly recommended by Dr. Snoh Unakl, who was Secretary-General of the National Economic and Social Development Board and one of the most prominent economists in Thailand in those days, in a note to the Prime Minister dated 1 November 1985 (*The Nation*, 21 November 1985). It was reported that he wrote this letter after being shocked by a Ministry of Finance report on the serious prospects of external debt and stressed the urgent need for regaining fiscal and monetary stability through a belt tightening policy (*The Nation*, 22 November 1985).

This movement was called a "coup by the conservative group", which had tried hard to slow down the implementation of big projects from the viewpoint of fiscal discipline. In order to understand the background further, it is necessary to review the macroeconomic situation in those days.

1.3.2 Macroeconomic Background

While the Thai economy had shown persistent growth for a long time since the late 1950s, it suffered from macroeconomic imbalances under an unfavourable international environment in the first half of 1980s (two oil shocks, stagflation in developed economies, a sharp rise in international interest rates, and a slump in primary goods prices on the international market). As Table 6.2 shows, the investments-savings gap was between 5% and 6%, and the fiscal deficit was around 4%–5% of GDP. In 1983, the current account deficit reached 7.2% of GDP. The largest concern was the rising debt service ratio (from 17% in 1980 to 26% in 1985). There were fears that Thailand could become "another Philippines".

Table 6.2 Macroeconomic Indicators of Thailand in the Early 1980s
(%)

	1980	1981	1982	1983	1984	1985
Economic growth rate	5.8	6.3	4.1	5.8	6.2	4.0
S-I gap	–4.2	–4.1	–2.1	–5.0	–5.8	–4.8
Fiscal deficit/GDP	n.a.	3.2	5.8	4.1	3.8	5.1
Current account deficit/GDP	6.2	7.1	2.7	7.2	5.0	4.0
Export growth rate	23.2	7.0	–1.0	–7.7	16.3	–4.4
Terms of trade	100	87	79	85	84	77
Debt service ratio	17.3	17.4	18.9	22.9	24.8	26.1
Change in consumer price	19.7	12.7	5.2	3.8	0.9	3.3 (Jan–Sep)

Source: World Bank (1986)
Note: 1985 figures are provisional.

In an attempt to overcome the difficulties, the Thai government received the World Bank's Structural Adjustment Loan in June 1983 and adopted austerity measures. It also introduced currency depreciation in 1981 and 1984. While Thailand was highly evaluated afterwards as one of five "top performers" of structural adjustment by the World Bank (World Bank 1990, p. 20), pessimistic views were dominant in the mid-1980s. Under this gloomy perspective, the Thai government diminished the size of external borrowing from $1.6 billion in 1984 to $1 billion in 1985. Such gloomy perspectives inevitably had adverse effects on the Eastern Seaboard Development Plan.

In those days, the potential effect of the Plaza Accord, which was signed in September 1985, was not recognized. The World Bank's country economic report of 1986 does not refer to either the possibility or symptoms of rising foreign investment due to the Plaza Accord.

1.3.3 World Bank Factor

The committee in charge of reviewing the Eastern Seaboard Development Plan comprised three ministers. Suli Mahasandana, the minister attached to the Prime Minister's Office, was Prime Minister Prem's right-hand man and main trouble-shooter. He was a classmate of Prem's around 50 years earlier at a middle school for the sons of lower-ranking public servants (Warren 1997, pp. 25–38); Prem's father was a junior prison officer in Songkla, Southern Thailand. Meechai Ruchupan, another minister attached to the Prime Minister's Office, was a lawyer, and Suthee Singhasaneh, deputy finance minister, was an economic technocrat who had been the head of the Budget Department of the Prime Minister's Office.

While they were beginning the work, it was revealed by Bangkok-based newspapers that the World Bank Bangkok Office had been behind Dr. Snoh when he took the initiative of implementing a review. According to *The Nation*, Mr. Quill Hermans, chief of the World Bank Regional Mission in Bangkok, had sent a letter dated 6 November 1985, to Dr. Snoh. In that letter, Mr. Hermans had suggested that the Thai government eliminate two deep seaport projects (Map Ta Put and Laem Chabang) from the sixth development plan (1986–90) and use Sattahip and Klong Toey (Bangkok) ports as alternatives, in an attempt to cut fiscal expenditures (*The Nation*, 28 November and 2 December 1985). The essential features of this proposal were repeated in a more moderate manner in Chapter 6 of the World Bank's *Country Economic Report*, which was published around seven months later (World Bank 1986, pp. 132–38).

The World Bank report of 1986 claimed "the combined economic rate of return of the (NFC) fertilizer plant and the port (as presently

envisaged) is expected to be very low". As the World Bank took the position that the feasibility of the NFC fertilizer plant was acceptable (World Bank 1986, p. 136), this meant that the returns of the two port projects were regarded as very low.

1.4 Outcome of the Review

The Thai cabinet approved the report of the three-minister committee on 24 December 1985. According to a press release, the main points were as follows:

a) The implementation of the National Fertilizer Project and Map Ta Put Port were approved. While there was no specific condition for NFC, it was stipulated that the implementation of Map Ta Put should be committed only after the signing of a loan agreement on NFC with the Japanese government (NFC was to be constructed in Map Ta Put Industrial Complex).
b) The implementation of the other projects, including Laem Chabang Port, was postponed for the reason that "conducting the implementation at this moment is not appropriate".

It was made clear that the basic structure of the Eastern Seaboard Development Plan was to be maintained. In other words, the World Bank's proposal to substitute the two deep seaports by existing ports was turned down. When we study the press release carefully, however, it is clear that the implementation of the whole plan was completely postponed. To recognize the intention of the cabinet, we should analyze the following point: Why was NFC, which was the most controversial project in the whole plan, approved without any condition, while implementation of Laem Chabang Port, which was quite promising because of its export-oriented feature, was postponed?

In those days, there was a broad consensus in Bangkok that the economic and political feasibility of NFC was the lowest among all the projects; we will come back to this point later. To introduce a linkage between NFC and Map Ta Put Port was to halt the implementation of the latter. On the other hand, the cabinet did not claim any major shortcomings of Laem Chabang Port and simply declared the postponement without giving any specific reason. Obviously, postponing the whole plan was the central message of the cabinet decision.

1.5 What Occurred after the Cabinet Decision?

Here we will review the fate of the three major components of the Eastern Seaboard Development Plan after the cabinet decision of December 1985.

1.5.1 Laem Chabang Port and Industrial Complex

The Plaza Accord of September 1985 caused a dramatic appreciation of the Yen and fundamental changes in the fate of Laem Chabang.

As shown in Table 6.3, the value of the Yen against the US dollar, which was \249 per dollar at the end of June 1985, rose to \154 at the end of September 1986. Under these circumstances, Japanese manufacturers began to look for alternative plant sites abroad, and they found Thailand and Malaysia to be the most suitable among developing countries. The tidal wave of direct investment from Japan became visible toward the end of 1986, when the Board of Investment of Thailand announced that direct investment from Japan in the first half had increased by around 50% (*JETRO Daily*, 7 February 1989). Stimulated by this movement, investors from Taiwan, Hong Kong, and Korea also began to increase sharply their direct investment in Thailand. Most of this direct investment from East Asia was export-oriented and basically labour-intensive.

As a result of this big wave of direct investment, a lot of new factories were constructed, inevitably leading to serious bottlenecks in infrastructure, such as port facilities, roads, power, telecommunications, and industrial estates. The shortage of port facilities at Klong Toey (Bangkok) was particularly apparent. The volume of containers handled at Klong Toey increased by 20% annually in 1986 and after and exceeded the port capacity in 1988 (*JETRO Daily*, 23 July 1988).

Faced with these serious bottlenecks, the Thai cabinet instructed the Eastern Seaboard Development Committee to resume Laem Chabang Port project on 15 October 1986 (*The Nation*, 16 October 1986).

Table 6.3 Exchange Rate Changes After the Plaza Accord

		Yen per US dollar	Baht per US dollar	Yen per Baht
1985	June	249.0	25.6	9.1
	September	217.0	27.4	8.3
	December	200.5	26.3	7.5
1986	March	179.6	26.7	6.8
	June	165.0	26.5	5.9
	September	153.6	26.3	5.9
	December	159.1	26.1	6.1
1987	March	145.8	26.1	5.6
	June	147.0	25.9	5.7
	September	146.4	25.8	5.7
	December	123.5	25.1	4.9

Source: IMF *International Financial Statistics*, various issues

1.5.2 Map Ta Put Port and Industrial Complex

In comparison with Laem Chabang, the progress at Map Ta Put was not remarkable, mainly because Thai leaders linked this port with NFC, while NFC suffered from various difficulties (see Section 1.5.3). In September 1986, Dr. Snoh of the NESDB told Dr. Okita, leader of a Japanese government delegation, that the necessity of Map Ta Put fully depended on the progress of NFC (*The Nation,* 19 September 1986).

In February 1987, however, Dr. Savit Phothivihok, who was the Secretary-General of the Eastern Seaboard Development Committee and architect of implementation, announced the resumption of international bidding for Map Ta Put Industrial Estate with the reason that the construction of National Petrochemical Corporation (NPC) was in progress (*The Nation,* 28 February 1987).

This announcement could have been a symptom of evolving changes. Finally in January 1988, three years after the cabinet decision, the government officially cancelled the freezing of Map Ta Put Port and Industrial Complex; these projects were completely revived.

1.5.3 National Fertilizer Corporation (NFC)

In the meantime, the NFC fertilizer project had been the subject of much controversy. While its background was highly complicated and sensitive, the following two elements were particularly crucial.

First, most of the leading figures of the Thai private sector were reluctant to cooperate, although the Thai private sector was expected to own more than 30% of the total share amount. It is to be noted that the Bangkok Bank group, the largest business conglomerate in Thailand in those days, had a subsidiary company dominating the business of imported fertilizer distribution. In other words, NFC could threaten the Bangkok Bank group.[1]

Second, and more importantly, the prospect of the return on equity (ROE) or investment (ROI) was quite uncertain. From the beginning, it was recognized that profitability would be highly sensitive to volatile fertilizer prices (IFC 1986, pp. 11–12). In addition, the sharp Yen appreciation after the Plaza Accord damaged the project, because an international bidding had already been made in July 1984, and the bid amounts of two successful Japanese bidders were stated in Yen. It is to be noted that the Baht remarkably depreciated against the Yen (Table 6.3), because of the de facto pegging to the US dollar; the Baht was officially pegged to a currency basket in those days.

The retirement of Finance Minister Sommai Hoontarakool, who had tried hard to realize the NFC project, turned the tide.[2] The Eastern Seaboard Development Committee announced that the NFC was not an issue of the government but of the private sector (*The Nation,* 16 October 1986). In other words, the government washed its hands of the NFC business.

In spite of persistent support by the World Bank and the Japanese government, the NFC project was postponed for a long time and faded away.

2. Assessment of the Positions of the Three Major Players: the Thai Government, World Bank, and Japanese Government

In this section, we will assess the decision made by the Thai government on the management of this gigantic development plan, which was also an important macroeconomic management issue, in comparison with the positions of the World Bank and the Japanese government. The purpose is to cast light on the institutional capacity of the Thai government in those days.

2.1 Structure of the problem

Figure 6.2 illustrates the essential features of the problem that the Thai government faced in the mid-1980s. The government had to make a decision whether (i) to drastically cut the budget for the plan; or (ii) to implement the plan in accordance with the original schedule.

We should pay due attention here to the fact that the prospects of the external environment were highly uncertain in those days. Like other

Figure 6.2 Choices the Thai Government Faced in 1985

	Economic stagnation (Probability?)	Recovery of growth (Probability?)
Execute ESDP as planned (Alternative 1)	Increase in fiscal burden and external borrowings (the second Philippines)	Realization of internationally competitive industrial area Increase in FDI Modernization of economic structure
Postpone the implementation of ESDP (Alternative 2)	Reduction in fiscal burden and external borrowing	Deteriorating bottleneck of infrastructure Deterioration of living, and environmental conditions in Bangkok Deterioration of investment environment

developing countries, Thailand was severely hit by deteriorating terms of trade, declining export volume due to stagflation in developed economies, and rising interest rates on the international capital market. In 1985 particularly, Thailand experienced a huge balance of payment deficit equivalent to 17% of GDP. In view of this disappointment, it was understandable that most Thai policymakers and businessmen were pessimistic, and the World Bank was also very cautious (World Bank 1986, Chapter 2).

Theoretically there were two possibilities regarding the external environment. In the case of an adverse environment, huge fiscal expenditure could lead to unsustainable fiscal and external conditions. The drastic postponement of the Eastern Seaboard Development Plan could be the answer to cope with such risks. On the other hand, in the scenario of an improving external environment, the conservative fiscal policy could worsen the infrastructure bottlenecks and undermine investors' confidence. Constructing modern industrial complexes with deep seaports and strengthening the competitiveness of the Thai economy could be the answer to overcome such problems.

Reflecting its cautious view on the prospects of the Thai economy, the World Bank recommended eliminating two ports from the budget

Table 6.4 Simulation on the Profitability of NFC (US$ million)

	Revenue	Profit before tax	New investment	Investment after depreciation
1987			15.8	
1988			202.3	
1989			410.0	
1990			154.8	
1991	170.6	–33.2	42.5	787.9
1992	183.6	–33.4		750.4
1993	162.7	–676.6		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		675.4

Profit before tax (average): –4.8
Investment after depreciation (average): 675.4
POI = (–4.8/675.4) × 100 = –0.71%
Notes: Start of construction: 1987
Start of commercial production: 1991
Based on the assumption of F/S except exchange rate and fertilizer price

Table 6.5 Trends of Foreign Exchange Rate and International Fertilizer Price

(US dollar)

	Yen per US dollar (average)	International price of urea fertilizer*
1987	144.6	100
1988	128.2	132
1989	138.0	88
1990	144.8	158
1991	134.7	152
1992	126.7	145
1993	111.2	115
1994	102.2	187
1995	94.1	225
1996	108.8	189
1997	121.0	106

Sources: Economic Planning Agency of Japan, *ERTECON*
* End of year, bulk, per ton

(see Section 1.3.3). On the other hand, the Japanese government stressed the importance of enhancing competitiveness from a long-term viewpoint and recommended the implementation of the Eastern Seaboard Development Plan. There were a lot of disputes in Thailand, too.

2.2 National Fertilizer Corporation

There was a distinction between the Thai government and the main donors, i.e., the World Bank and the Japanese government, on the NFC issue. As we saw, the project was never realized despite the commitment of equity investment (12% of total share capital) by the International Finance Corporation of the World Bank group and the Japanese government's financial assistance through a Yen loan by the Overseas Economic Cooperation Fund.

In order to assess the decision by the Thai government, a counterfactual analysis of the rate of return on this controversial project was made in accordance with the assumption of the feasibility study: green light in October 1986, starting construction in 1987, commercial production in 1991. The profitability of this fertilizer plant depended on two external factors, i.e., the exchange rate and world fertilizer prices. Table 6.4 above shows the results of simulation using the actual figures of the exchange rate and international price of urea fertilizer (Table 6.5 above).

If the government had given the green light in October 1986, NFC would suffer a negative rate of return on investment (ROI), due to the Yen's appreciation and volatile fertilizer prices. Although it is to be

admitted that this simulation is based on various conditions, what this result suggests is the low profitability of the NFC project. In other words, the position of the Thai government was more advisable than that of the World Bank and the Japanese government.

2.3 Construction of Two Ports

2.3.1 Laem Chabang

It had been already confirmed that Thailand suffered heavily from a shortage of port facilities in the late 1980s, especially in the Bangkok Metropolitan area. It is apparent, therefore, that if the World Bank's suggestion to utilize Klong Toey instead of Laem Chabang had been adopted, the results could have been far more disastrous. However, one could argue that this was simply due to the Plaza Accord and the following high wave of foreign investment, which was unpredictable and occurred by chance. As a matter of fact, the necessity of a new port was recognized even before the effects of the Plaza Accord became visible.

The volume of containers handled at the Klong Toey port increased persistently at a rate of 16%–17% annually during the first half of the 1980s, in spite of the stagnant economic situation. A think tank report forecast that even under the conservative estimate of 12% growth rate, the Klong Toey port could suffer from a shortage of container yard capacity (*Far Eastern Economic Review*, 30 October 1986). It is to be stressed that this forecast was made in 1985, at a time of highly pessimistic prospects for the Thai economy. Taking into account the structural deficiency of Klong Toey as a river port (lack of space and limit of depth due to siltation), the Laem Chabang port was indispensable even without the Plaza Accord effects.

2.3.2 Map Ta Put

The central issue of dispute between the World Bank and the Thai government was whether the Sattahip port could take over the function of the Map Ta Put. Utilizing Satttahip as an alternative does not seem to have been a feasible idea, considering the fundamental feature of Sattahip. As it was a naval base, access was limited, and there was not enough space for widening the route connecting it with petrochemical plants to be located around the Map Ta Put area, such as National Petrochemical Corporation (NPC) and Thai Petrochemical Industry (TPE). Accordingly, there was a broad consensus in Bangkok that Sattahip could not be a realistic alternative from a technical viewpoint.[3]

Due to the acceleration of economic growth (in 1986: 9.5%, in 1987: 13.3%) and a sharp increase in foreign direct investment, the number of plants operating at the Map Ta Put industrial estate increased from 14 in

Table 6.6 Trends of Fiscal Balance and Debt Indicator (%)

	Fiscal balance/GDP	Debt service/export
1986	–4.2	25.4
1987	–2.2	17.1
1988	0.7	13.7
1989	2.9	1.4
1990	4.6	9.8

Sources: Economic Planning Agency of Japan; Warr, P. and Bhanupong N. (1996) *Thailand's Macroeconomic Miracle: Stable Adjustment and Sustained Growth*, Kuala Lumpur, Oxford University Press

1991 to 48 in 1998; most of them were petrochemical plants. In addition, many companies constructed plants in private industrial estates in the Map Ta Put area. While the World Bank claimed "the needs of the fertilizer plant are the major justification for the port" (World Bank 1986, p. 137), there were much wider needs for an industrial estate in this region. This implies that the concept of "general cargo port" envisaged by the Thai government was more realistic than the World Bank's "port for the NFC fertilizer plant" concept.

Our conclusion is that the position taken by the Thai government was more supportable than that of the World Bank.

2.3.3 Balance Sheet of Postponement

Advocates of postponement of the Eastern Seaboard Development Plan emphasized the merits of diminishing fiscal deficit and external debt. However, the scale of these effects was exaggerated.

The World Bank (World Bank 1986, p. 135) claimed that the planned budget appropriation for Laem Chabang and Map Ta Put was 15.1 billion Baht in total in the fiscal years of 1987 and 1988, equal to 7%–8% of total public investment and 20% of external borrowing. Eliminating this fiscal expenditure could contribute to fiscal reconstruction, according to the World Bank. However, this argument did not properly reflect the actual magnitude of public expenditure.

As most of this amount was financed through official development assistance (ODA) loans, the actual fiscal burden for the Thai government could be minimized. Also, the effect on the capital account was to emerge 10 years later only when principal repayment would begin after a grace period. The arguments in those days tended to focus on the nominal figures. As a matter of fact, the fiscal deficit turned into a big surplus and the debt service ratio dramatically declined during the late 1980s (Table 6.6 above).

On the other hand, the postponement was accompanied by the huge cost of infrastructure bottlenecks, which could have been reduced if Laem Cahabang port had been completed in 1990 according to the original schedule; the actual completion was at the end of 1991. The overloaded Klong Toey, together with serious road congestion in the Bangkok Metropolitan area and sky-rocketing real estate prices, could have been reduced by the introduction of Laem Chabang facilities on time.

When this balance sheet is reviewed, the costs of postponement apparently exceeded the benefits. From this viewpoint, it is difficult to support the position of the Thai government.

However, we should take into consideration the fact that economic prospects in the mid-1980s were very uncertain, as was already reviewed. In other words, the decision maker, Prime Minister Prem, was not able to have sufficient information about probability distribution between two cases: adverse or improving. This was also a highly sensitive political issue, because of bitter disputes among policymakers, economists, businessmen, and major donors. Under the circumstances, it was advisable as well as realistic for him to adopt *minimax regret criteria*: minimizing the cost of the worst case. The result was (i) maintaining the fundamental structure of the whole blueprint; (ii) postponing the implementation; and (iii) flexible change of course in response to the change in environment. This was a course between the positions of the World Bank and the Japanese government.

3. Conclusion and Policy Implication

We have found that the Thai government showed good performance in the management of the gigantic Eastern Seaboard Development Plan through its advisable and realistic response to challenges. It is notable that its position was sometimes not in accordance with the intentions of influential donors, such as the World Bank and the Japanese government. The case of the Eastern Seaboard Development Plan is important as it casts light on ownership and institutional capacity, which could have a crucial role in the high development performance of the Thai economy. The task of this final section is to analyze what kind of elements contributed to the achievements of the Thai government in the mid-1980s, and what kind of endogenous elements are found.

Four aspects are considered to be crucial.

3.1 Checks and Balances *á la Thai*

In the mid-1980s there were five influential groups in Thailand: the army, political parties, technocrats, the business community, and the mass media. It is worthwhile pointing out that it was a multipolar system, and checks and balances among the participants functioned well. We will illustrate representative cases.

There was no doubt that the army was most powerful, but unlike in previous decades, it was not overwhelming, particularly when other actors made up their mind to work together in a coalition. For example, in 1984 the Bank of Thailand depreciated the Baht in spite of strong objections by General Arthit Kamlang-ek, Commander-in-Chief of the army, who was concerned about exchange losses. The bank was able to make this move owing to strong support from Prime Minister Prem, technocrats, and leading business figures.

Although Prime Minister Prem was a former Commander-in-Chief of the army, he did not necessary behave in line with the army's interests. As a result, the relationship between Prem and General Arthit, his successor, was strained. This was an important background factor of the abortive *coup d'etat* in September 1985 by the army, and perhaps the above-mentioned currency depreciation in 1984. After the retirement of General Arthit, the political pressure by the army appeared to decline. But Prem had to watch carefully the movements of the army, as he had already retired and could not directly control the military machine.

In Thailand, no single party acquired a majority in congress until very recently. In those days too, many small parties were in rivalry with each other, and it was not possible to choose their leaders as Prime Minister. Under such circumstances, a coalition of five parties agreed to choose Prem, who did not have a seat in the congress. While political parties were not so influential, it was recognized that any party could threaten the coalition, hinting at the end of co-operation. In order to secure the stability of his administration, Prem had to be careful about his relations with the bosses of political parties to prevent their veto. Moreover, complicated rivalry relations were found among technocrats, economists, and business leaders.

It was argued that such delicate checks and balances *a la Thai* could be a serious handicap for strong leadership to drastically modernize the socioeconomic system. Perhaps that was a correct observation. However, the case of the Eastern Seaboard Development Plan shows that the checks and balances *á la Thai* enabled a thorough scrutiny of crucial policy agenda.

Many developed countries have introduced the separation of the three powers, i.e., administration, legislation, and judiciary, for the purpose of functional checks and balances. While Thailand in the mid-1980s had not fully established such a separation, it had an alternative and endogenous system, which led to advisable responses to the challenges of the Eastern Seaboard Development Plan.

3.2 Transparency and Openness in the Policymaking Process through the Role of the Mass Media

This section refers to a lot of newspaper articles of those days. Needless to say, it is very unique to see detailed inside information on public expenditure issues in developing countries. Apparently, most of these newspaper articles were based on "leaks" from high-ranking officials. A typical case was the Hermans Note submitted to Dr. Snoh that triggered the movement to revise the Eastern Seaboard Development Plan.

It is to be admitted that many newspaper articles were not correct (certainly this is not unique to Thailand) and were used as tools of manipulation by each camp. For example, the contents of the Hermans Note were leaked to the press in an attempt to prevent the campaign of the belt-tightening policy camp. Nevertheless, many articles did contribute to transparency and openness, as details of the policymaking process were made known to the public. It is to be pointed out that leaks were usual in Thailand in those days. Despite a wide variety of negative effects, at least it effectively prevented "back-door decision making" by political bosses and barons, which are common in developing (as well as developed) countries. Richard Doner and Anek Laothamatas argue that one of the unique features of the Prem administration was that it allowed a free press (Doner and Laothamatas 1994, p. 412). We would like to emphasize this characteristic as an element of good governance under the Prem regime.

3.3. Technocrats with Certain Competence are Insulated from Pressure Groups

The World Bank report on *The East Asian Miracle* stressed the importance of "technocratic insulation" in East Asia (World Bank 1993, pp.167–174). Perhaps Thailand in the mid-1980s was a representative case of "economic technocrats with a minimum of lobbying for special favours from political and interest group".

The tradition of independent bureaucracy has a source in the pre-modern Siam court. This tradition was strengthened by Field Marshal Sarit Thanarat when he became Prime Minister through a *coup d'etat* in 1958 and delegated power over macroeconomic management to a group of young elites trained abroad; the leader of that group was Puey Ungphakorn, governor of the central bank (Siamwalla 1997, pp. 6–9). A lot of young technocrats were appointed to posts in four organizations — the Ministry of Finance, the National Economic and Social Development Board, the Bank of Thailand, and the Budget Department of the Prime Minister's Office — which have formed the core of Thai technocracy since then. Dr. Snoh Unakle and Mr. Sommai Hoontrakool, who played important roles in the policymaking on the Eastern Seaboard Development Plan, were among them. They had been promoted to leading technocrats and were regarded as experienced and well-balanced policymakers.

As shown in the case of currency depreciation in 1984, Thai technocrats were effectively insulated from pressure groups, such as the army and political parties, under Prem's "umbrella". Reflecting such insulation, the disputes on the Eastern Seaboard Development Plan were basically among technocrats, and the roles of politicians and generals were limited. This implies that disputes were made with a certain degree of rationality. This is considered to have been an important factor leading to a well- balanced policymaking process.

3.4 Role of Experienced "Balancer"

Prime Minister Prem was born in 1920. He was one year older than Soeharto, three years older than Lee Kuan Yew, and five years older than Mahathir Mohamad. Like these Southeast Asian leaders who belong to the same generation, he was a leader of a developmental state.[4]

As he stated in his farewell address of August 1988, Prem attempted to claim the legitimacy of his contribution not through political or diplomatic achievements but through economic development, more specifically poverty reduction among the rural people (Warren 1997, pp. 18–20). In order to attain this goal, he delegated the power of macroeconomic management to experienced technocrats and protected them from pressure groups. These are typical characteristics of developmental state leaders. Unlike the other three Southeast Asian leaders of the same generation, and unlike Sarit, his great mentor, however, Prem was not a man of charisma but an experienced "balancer". According to Doner and Anek, Prem skillfully played the army and political parties against each other and allowed free elections and a free press while he was outside congress (Donar and Laothamatas 1994, pp. 411–13, 427–29).

Prem functioned effectively as a balancer throughout the Eastern Seaboard Development Plan disputes. One former high-ranking official of NESDB recalled the Prime Minister's patience in listening to different opinions. In his view, such patience finally led to a well-balanced judgment and reasonable solution in the end.[5]

The experiences of the Eastern Seaboard Development Plan show the fact that various aspects that were unique to Thailand in those days played important roles in securing an advisable decision. This implies the importance of paying due attention to the endogenous elements of good governance that might be embedded in every developing society. This is the lesson we can draw from the saga of the Eastern Seaboard Development Plan.

Notes

[1] Interview with Dr. Ammar Siamwalla of Thai Development Research Institute on 10 November 1998. Also *Nihon Keizai Shimbun*, 8 September 1987.

[2] Interview with Mr. Manas Leevirapan, former director, Fiscal Policy Office, Finance Ministry, on 10 November 1998.

[3] Interview with Mr. Paisal Sricharatchanya, editor of *the Bangkok Post*, on 4 November 1998, and also Paisal Sricharatchaya "At last beginning, Bangkok finally commits to ESB Projects", *Far Eastern Economic Review*, 30 October 1986.

[4] A developmental state is a kind of authoritarian regime. Unlike ordinary authoritarian regimes, a developmental state (a) stresses economic growth and poverty reduction as the central policy agenda items and the measure of sustaining legitimacy; and (b) delegate power of macroeconomic management to technocrats.

[5] Interview with Dr. Bunyaraks Ninsananda, former director, Overall Planning Division, NESDB, on 3 November 1998.

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