Thailand's great leap sideways

On the corner of Poklang Street, in the sprawling town of Nakhon Ratchasima or Korat, there is a shabby four-storey hotel known as the Siri. Every morning, at around eight, close to a dozen retired soldiers who served in the Vietnam war meet for breakfast at the adjoining Veterans of Foreign Wars Cafeteria, there to relive the times when the Americans dropped bombs on neighbouring Vietnam, Cambodia and Laos. By midday, most of them would have drunk sufficient quantities of liquor to retire for the rest of the day.

It is a scene that fits easily with the mood of this sleepy provincial town where unwieldy tricycles outnumber taxis and one of the biggest factories makes tapioca starch. But if the Thai authorities have their way, Korat, now Thailand's second largest city, will throw off its lethargy to become a bustling regional transport and business hub. In nearby Saraburi, plans are afoot to establish a high-tech centre. In Mukdahan and Nakhon Phanom, in the far-flung north-eastern part of the country, the talk is of bridges, cross-border trading and undreamt of prosperity.

Recent statistics indicate that growth in the provinces is already outpacing Bangkok's. To sustain that growth, the government claims that 69% of the budget for the fiscal year ending next September will be allocated to the provinces. "The government's regional policy has been successful," says Boonrat Onkor, director of the Board of Investment's (BOI) regional division in Bangkok. "Already, the number of applications to the provinces has increased strongly."

Driving this growth is the idea that the provinces must be developed to lure companies and people there and thus relieve the pressures on Bangkok. After years of official indecision, short-sighted planning and ineptitude, Thailand's capital city is bursting and hardly able to cope. Its traffic jams are legendary; its skyline is a hotch potch of ill-planned and mismanaged property developments. Recent statistics suggest that Bangkok accounts for as much as 70% of the country's activity. The choking metropolis plays host to more than eight million people, whereas the second largest city has a population of less than 300,000.

For decades, it has remained a pipe dream. But as Bangkok explodes at the seams, the government is finally making regional development a priority. Will the dream come true?

BY BEN DAVIES IN BANGKOK AND KORAT

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Populous and prosperous: Nakhon Ratchasima, also called Korat, has 16 securities firms

Since Prime Minister Chuan Leekpai took power in September 1992, the coalition government has launched a regional drive aimed at closing the development gap. New BOI incentives, which encourage companies to relocate outside the city, have already been introduced. The government has also announced new infrastructure works in the provinces and a land-reform programme that aims to slow down migration to the cities, which is increasing at a rate of 10% annually. "Development of the provinces will help balance the economy in the countryside and provide a wider and more sustained economic base," says Dr Utis Khaothien, director of the National Economic and Social Development Board (NESDB).

This is not the first time the government has thrown up a regional scheme. In the mid-1980s, it instigated the Eastern Seaboard project, a vast industrial and petrochemical

complex planned to become the new powerhouse for the Thai economy. But when politicians bought land in three different areas, the government was forced to decentralize the project. Today it is spread out along the eastern seaboard, a hotch potch of petrochemical projects, industrial parks and deep-sea ports that continue to defy the ambitious claims of its architects.

The southern seaboard project, promoted as yet another answer to the country's regional woes, has also stalled. The south is the Democrats' stronghold, and political analysts claim that the project's success may be crucial to Chuan's re-election prospects.

But Chuan has backed his words with action. In April 1993, the BOI published its first incentive package aimed at encouraging regional investment. Companies setting up outside Bangkok and the metropolitan area will be exempted from corporate tax for eight years and given a 50% reduction on corporate tax in the five years following. The tax on their imports of raw materials will be reduced by 75%.

When a Taiwanese firm set up a factory at the Suranaree Industrial Zone, the owners simply recruited rice farmers and trained them

Infrastructure links aimed at making Thailand a regional hub is the centrepiece of the 8th National Economic and Social Plan. Its emphasis is on developing Chachoengsao on the eastern seaboard and Saraburi in the central region. By building infrastructure networks and industries along the borders with Laos, Burma and Cambodia, the Thai government hopes to fulfil its vision of a gateway to Indochina. Following the opening of the Friendship Bridge at Nong Khai in April 1994, the government is looking to build another bridge either at Nakhon Phanom or Mukdahan. The Economic and Social Commission for Asia and the Pacific is working to extend the Asian Highway into Myanmar and Cambodia. This is part of a network that will cover 65,000 kilometres from Singapore to the Central Asian Republics, and, ultimately, to Europe.

Manufacturers are optimistic. "More factories will come to the provinces," predicts Thosapol Tantiwong, president of Sa-Nguan Wongse Industries, the biggest tapioca starch manufacturer in Thailand. Sa-Nguen Wongse Industries employs 450 people and exports 10% to 15% of its output. Thosapol expects the increasing costs in Bangkok to spur investment in the provinces. "Here in Korat there is a large workforce

Warubon's crusade

From her tiny ground-floor office in the centre of Korat, surrounded by posters, files and brochures, Warubon Sukasame, director of the north-east investment office, promotes the merits of the region as a centre of economic growth. It is an unenviable task. She covers 19 regions with a population of 19 million people, but has a staff of just five people and one computer.

That has not daunted Warubon. "The government's regional policy has been successful," she insists. "Many companies from Bangkok have undertaken surveys in Korat and Rayong with the idea of relocating their operations."

The statistics look good. In 1993, the BOI approved 115 investment applications for the north-east worth Bt16.9 billion (US$676 million) compared with just 28 in 1992 worth Bt11 billion. In the first nine months of 1994, the BOI had already approved 130 projects worth Bt8.6 billion.

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With five staff and one computer, Warubon's mission is to build a transportation hub and an industrial nexus

Almost 50% of all the projects went to Korat — the recipient of vast amounts of funds for infrastructure development during the tenure of prime minister Chatichai Choonhavan. Farther to the north-east, at Mukdahan, the only project to date is a Bt5.5-million plastic bottle factory. In Nong Khai, only two projects have been given the go-ahead so far this year: a Bt19-million garments factory and a Bt30-million wood products factory.

Although growth in the north-east is expected to accelerate, the Thailand Development Research Institute forecasts that the north-east's income gap with Bangkok would widen further over the next 20 years. But Warubon is optimistic the investment boom has only just started. "It has to happen," she says. "Services and industry are already growing faster than agriculture."

In the sixth Economic & Social Development Plan, Korat is being groomed as the transportation hub for Isan, as an export nexus, an industrial estate centre, and the main link to the Eastern Seaboard Development and to Bangkok. Next year, the Board of Investment plans to open a new investment office at Ubon Ratchathani to take advantage of its proximity to Cambodia and Laos. New roads are being planned to harness the anticipated boom in cross-border trade.

At some stage, the powers that be may even give Warubon new staff and another computer.

and the land cost is low," he says. Indeed. When a Taiwanese firm set up a factory at the Suranaree Industrial Zone, the owners simply recruited rice farmers and trained them.

Some 70% of the zone is occupied by about 40 factories producing metals and car components, among other things. Recently, Japanese firm World Electric set up a factory and hired over 1,000 workers to produce video machines for export. "The park offers good communications, infrastructure and electricity," explains Warubon Sukasame, director of the BOI's north-eastern regional office.

> **"We already offer maximum benefits. We can't give many more incentives"**

But though the plan for the provinces may be attractive in theory, in practice the government's implementation is fraught with problems. The regional economy is almost wholly based on agriculture, with little in the way of a skilled workforce or an English-speaking population. According to the Thailand Development Research Institute, less than 3% of the 19 million people in the north-east have had a secondary education. And the lack of zoning means that industrial developments are springing up in the same haphazard way that has turned Bangkok into a nightmare. Ironically, setting up in the provinces allows many companies to turn their noses up at even the most basic health and safety standards. At the Lamphun industrial estate in north-west Thailand, 12 workers from nine factories were said to have died from work-induced illnesses. Last year, the Royal Plaza Hotel in Korat collapsed, killing 137 people.

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Some signs of progress

"The main problem is lack of social and economic infrastructure and particularly human resources," explains Dr Chalongphob Sussangkarn, an economist in the institute. "To really develop the region you need an integrated set of policies." One businessman, who sells mobile phones in Korat, has another idea: "The big question is whether the will is there to decentralize economic power. For many politicians, it is better to preserve Bangkok's monopoly on power and wealth."

Still, the latest investment figures are encouraging. For the first eight months of the year, the number of applications for promotional privileges rose 121% to Bt352 billion (about US$14.08 billion). The majority of projects are being implemented in the Eastern Seaboard, which is increasingly seen as an extension of the Bangkok metropolis. But Korat, Chiang Mai and the Southern metropolis of Hat Yai all saw big increases.

In a bid to draw more investment, the BOI is said to have discussed plans to establish a new Zone 4 investment scheme: It would allow companies in the farthest provinces to hire foreign workers without a work permit and abolish minimum wage rates in those areas. However, Boonrat at the BOI in Bangkok denies any knowledge of such a plan. "We already offer maximum benefits," he told *Asiamoney*. "We can't give many more incentives."

The government's regional thrust may have had the biggest impact on the property and financial services sector. In the dealing room of Thana One Finance and Securities, less than a kilometre from the centre of Korat, a handful of silk traders and entrepreneurs bet millions of baht daily on companies that many are barely familiar with. Thana One is not the only company to have set up a computerized trading room in the north-east of Thailand. Since 1992,

Nakhon Ratchasima or Korat is now Thailand's second most populous city

The first advances

The Thai Graphiber factory in Korat's sprawling Suranaree Industrial Zone is a yellow-and-grey building that stands behind giant metal gates. Its 218 employees make squash, badminton and tennis rackets. It is the kind of factory that investment authorities want to see more of in the provinces.

Opened in November 1990, at a cost of Bt60 million, the Taiwanese-owned Thai Graphiber Products is labour-intensive and profitable. "We make a comfortable return," says general manager Yen-Chang Ho, who moved to Thailand in 1991 when the company decided to locate its regional headquarters in Korat's newly opened industrial zone. "The tax incentives are good and the costs are much lower than in Taiwan."

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Yen-Chang Ho: "We make a comfortable return"

Thai Graphiber Products is not the only Taiwanese company to have established a factory at the zone. Down the road, eight other firms manufacture products such as golf club handles, Christmas lights and steel wires. By the end of this year, Ho plans to invest Bt87 million on another factory to produce packaging tape and stickers. "Korat is a very good place to invest because there is an airport and the roads are good," says deputy manager Kim Chan.

The Suranaree Industrial Zone opened in 1990, but has yet to be filled. Though plenty of investors have surveyed the area, many cancelled plans to set up in the zone as a result of competition from neighbouring centres as well as from Vietnam, China and Indonesia.

So far, the biggest beneficiaries of the zone are Korat's merry band of tricycle drivers, who peddle businessmen from site to site, and the new luxury hotels that revive them on their return.

15 other securities houses have established operations in Korat in an attempt to mobilize resources from the most populous region in the country. Next year, 15 more finance houses are slated to set up shop, fuelling expectations of a boom in regional housing. "Many housewives and merchants come to trade shares in Korat," says Visuda Osathananda, deputy manager at Thana One. "And competition is fierce."

Even in Surin, better known for its annual elephant round-ups than for its long-term investors, CMIC has established a securities trading operation to take advantage of the people's increasing purchasing power. "There is a lot of money in the provinces," declares Niphon Viboolmeth, president of Siam City Credit Finance & Securities (SCCF) in Bangkok. "With the economic ties to Laos and Cambodia, we will see much more economic development."

In December, SCCF will begin a trading operation in Khon Kaen and a finance operation in Ubon Ratchathani. Longer term, it plans to set up in Chantaburi, the gem mining centre in the eastern part of Thailand. Under new Bangkok International Banking Facility (BIBF) rules, even foreign banks can set up a branch in the provinces, although for the time being few are taking the opportunity seriously.

Turning speculative money into productive investment may be harder. Poor infrastructure and the lack of water and electricity are likely to continue to slow industrial development. And until there is evidence of a certain critical mass in the provinces, nobody wants to be the first to move. "It's the chicken before the egg," says one foreign analyst. "For the time being it's still not fashionable to have a headquarters in Nakhon Nowhere. And if you do, where would you send your children to school?"

In Korat, however, there are signs of progress. Recently, it opened its first technical university. (The government has made secondary education a new priority nationwide as the number of children entering secondary education has risen by almost 50% over the past five years.) In the north-east and parts of the north, improvements to major highways along with a speculative rush of property developers are opening up areas that were previously ignored. "Our feeling is that we will see an acceleration of spending on infrastructure in the remaining two years of the government's term," says Roger Butterworth at WI Carr. "And that will strengthen the regional economy."

> **"There is a lot of money in the provinces. With the economic ties to Laos and Cambodia, we will see much more economic development"**

Still, it could take many years before the provinces see the results. But with Bangkok suffering from incurable indigestion, even the Thais realize that the trend towards developing the provinces is irreversible. Indeed, the big question is not so much if but when Thailand's long overlooked regions will have the social and economic infrastructure to support domestic and international investors. Though nobody believes it will happen overnight, many think even the muddled and self-interested attempts of politicians will at some stage bear fruit. Says Dr Utis at the NESDB: "It could take another 20 years to build up an integrated regional economic base. But things are happening. In future we believe the development of Bangkok's metropolitan area and of the region will go hand in hand."